# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Hongkong Chinese Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries, associates and jointly controlled entities are principally engaged in investment holding, property investment and development, fund management, underwriting, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other related financial services.

The immediate holding company of the Company is HKCL Holdings Limited which is incorporated in the Cayman Islands. In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

## 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outsider shareholders not held by the Group in the results and net assets of the Company's subsidiaries, respectively. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

## 2.1 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 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 |

# NOTES TO THE FINANCIAL STATEMENTS

## 2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

*(Continued)*

The principal changes in accounting policies are as follows:

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

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

**(b) HKAS 39 Financial Instruments: Recognition and Measurement**

*(i) Amendment for financial guarantee contracts*

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

*(ii) Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the profit and loss account. The adoption of this amendment has had no material effect on these financial statements.

*(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 profit and loss account. As the Group currently has no such transactions, the amendment has had no material effect on these financial statements.

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

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

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

The Group has not applied the following new/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 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

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

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

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures. The Group has already commenced an assessment of the impact of the other new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the results of operations and financial position.

## 2.3 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 profit and loss account to the extent of dividends received and receivable. Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

### (b) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20 per cent. of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20 per cent. of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### (c) Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities 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 jointly controlled entities is included as part of the Group's interests in jointly controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) 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 per cent. 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 profit and loss account 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

### (e) Goodwill

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

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

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. In the case of associates and jointly controlled entities, 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:

(i) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

(ii) is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

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

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Goodwill *(Continued)*

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

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

*Goodwill previously eliminated against consolidated reserves*

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated distributable reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated distributable reserves and is not recognised in the consolidated profit and loss account 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.

*Excess over the cost of business combinations*

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

The excess for associates and jointly controlled entities is included in the Group's share of the associates' and jointly controlled entities' profit or loss in the period in which the investments are acquired.

### (f) 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 financial assets, investment properties, property held for sale 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 risk specific to the asset. An impairment loss is charged to the profit and loss account in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Impairment of non-financial assets other than goodwill *(Continued)*

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

### (g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed assets and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

| | |
|---|---|
| Leasehold land and buildings | 1 per cent. |
| Leasehold improvements | Over the remaining lease terms |
| Furniture, fixtures and equipment | 10 per cent. to $33^1/_3$ per cent. |
| Motor vehicles | 20 per cent. to 25 per cent. |

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

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

An item of fixed assets 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 profit and loss account in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### (h) Investment properties

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

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Investment properties *(Continued)*

Gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the year in which they arise.

Any gains or losses on the retirement or disposal of investment properties are recognised in the profit and loss account in the year of the retirement or disposal.

### (i) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses. Costs comprise the cost of land, development expenditure, other attributable costs and borrowing costs capitalised.

### (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, held-to-maturity financial assets, 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.

*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 sale 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 investments held for trading or these financial assets are recognised in the profit and loss account.

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.

The Group's financial assets at fair value through profit or loss which are under regular way of purchases or sales are recognised on the trade date, that is, the date 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.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Investments and other financial assets *(Continued)*

*Held-to-maturity financial assets*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefined period are not included in this classification. Held-to-maturity financial assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the profit and loss account when the financial assets are derecognised or impaired, as well as through the amortisation process.

All regular way purchases or sales of held-to-maturity financial assets are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

*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. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

All regular way purchases or sales of loans and receivables are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities, debt securities, and investment funds 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 being recognised as a separate component of equity until the financial assets are derecognised or until the financial assets are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

When the fair value of unlisted equity securities and debt securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that financial asset, 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.

All regular way purchases or sales of available-for-sale financial assets are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

*Fair value*

The fair value of financial assets 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 financial assets 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 other valuation models.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of financial assets

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

*Assets carried at amortised cost*

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, 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 financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. Impairment losses on equity instruments classified as available for sale are not reversed through the profit and loss account.

Impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

## 2.3 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:

(i) the rights to receive cash flows from the asset have expired;

(ii) 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

(iii) 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 purchase 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 profit and loss account when the liabilities are derecognised as well as through the amortisation process.

### (n) Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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 profit and loss account.

### (p) Property held for sale

Property held for sale is stated at the lower of cost and net realisable value which is determined by reference to prevailing market prices, on an individual property basis.

### (q) Revenue recognition

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

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

(ii) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged or the settlement dates when the securities are delivered;

(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 instruments to the net carrying amount of the financial assets;

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

(v) commission income, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro rata basis over the relevant period; and

(vi) investment advisory, management and service fee income, when the services have been rendered.

### (r) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account 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 years 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.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Income tax *(Continued)*

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

(i) where the deferred tax liability arise from goodwill or the initial recognition of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### (s) 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 profit and loss account.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Employee benefits

*Paid leave entitlement*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

*Retirement benefits costs*

Employer's contributions made by the Group to the Mandatory Provident Funds operated for the benefits of employees of the Group as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of the schemes are held separately from those of the Group in independently administrated funds.

### (u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### (v) 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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

### (w) Cash and cash equivalents

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

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand, cash at banks, demand deposits and treasury bills which are not restricted as to use.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Foreign currencies

The 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 re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. 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.

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

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

### (y) Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under the 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;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

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

(e) the party is a close member of the family of any individual referred to in (a) to (d);

(f) 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 (d) or (e); or

(g) 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.

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) Dividends and distributions

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

Interim dividends and distributions are simultaneously proposed and declared because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividends and distributions. Consequently, interim dividends and distributions are recognised immediately as a liability when they are proposed and declared.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### (a) Judgements

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

*Operating lease commitments – Group as lessor*

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

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### (b) Estimation uncertainly

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2006 was HK$57,285,000 (2005 – HK$57,285,000). Further details are given in Note 16.

*Estimation of the fair value of investment properties*

The best evidence of fair value is the current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) the current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) the recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

## 4. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment reporting format and geographical segment as the secondary segment reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, revenue is based on the location of customers, and assets and capital expenditure are based on the location of the assets. Descriptions of the business segments are as follows:

(a) the property investment and development segment includes letting, resale and development of properties;

(b) the treasury investment segment includes investments in cash and bond markets;

(c) the securities investment segment includes dealings in securities and disposals of investments;

(d) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;

(e) the banking business segment engages in the provision of commercial and retail banking services; and

(f) the "other" segment comprises principally the development of computer hardware and software, money lending and the provision of fund management and investment advisory services.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows:

**Group**

| 2006 | Property investment and development HK$'000 | Treasury investment HK$'000 | Securities investment HK$'000 | Corporate finance and securities broking HK$'000 | Banking business HK$'000 | Other HK$'000 | Inter-segment elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| External | 35,734 | 15,825 | 903,504 | 95,614 | 28,965 | 19,386 | – | 1,099,028 |
| Inter-segment | – | 1,003 | – | 1,065 | – | 6,924 | (8,992) | – |
| Total | 35,734 | 16,828 | 903,504 | 96,679 | 28,965 | 26,310 | (8,992) | 1,099,028 |
| Segment results | 218,622 | 16,095 | 324,780 | 17,616 | 7,271 | 4,817 | (7,414) | 581,787 |
| Unallocated corporate expenses | | | | | | | | (76,122) |
| Finance costs | | | | | | | | (35,473) |
| Share of results of associates | (17,702) | – | – | – | – | 13,688 | – | (4,014) |
| Share of results of jointly controlled entities | (572) | – | – | – | – | (2,072) | – | (2,644) |
| Profit before tax | | | | | | | | 463,534 |
| Tax | | | | | | | | (46,975) |
| Profit for the year | | | | | | | | 416,559 |

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

**Group**

| 2006 | Property investment and development HK$'000 | Treasury investment HK$'000 | Securities investment HK$'000 | Corporate finance and securities broking HK$'000 | Banking business HK$'000 | Other HK$'000 | Inter-segment elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 1,424,556 | 262,469 | 933,694 | 786,732 | 541,361 | 13,318 | – | 3,962,130 |
| Interests in associates | 1,835,329 | – | – | 814 | – | 125,821 | – | 1,961,964 |
| Interests in jointly controlled entities | 45,642 | – | – | – | – | 3,657 | – | 49,299 |
| Unallocated assets | | | | | | | | 12,591 |
| Total assets | | | | | | | | 5,985,984 |
| Segment liabilities | 16,405 | – | 46,968 | 767,974 | 308,875 | 2,966 | – | 1,143,188 |
| Unallocated liabilities | | | | | | | | 1,551,107 |
| Total liabilities | | | | | | | | 2,694,295 |
| Other segment information: | | | | | | | | |
| Capital expenditure | 845 | – | – | 460 | 334 | 353 | – | 1,992 |
| Depreciation | (935) | – | (388) | (432) | (1,901) | (916) | – | (4,572) |
| Write-back of allowance/(Allowance) for bad and doubtful debts relating to: | | | | | | | | |
| Banking operation | – | – | – | – | 4 | – | – | 4 |
| Non-banking operations | – | – | – | 1,850 | – | (583) | – | 1,267 |
| Provisions for impairment losses on available-for-sale financial assets | – | – | (5,797) | – | – | – | – | (5,797) |
| Net fair value gain on financial assets at fair value through profit or loss | – | – | 216,728 | – | – | – | – | 216,728 |
| Fair value gains on investment properties | 207,276 | – | – | – | – | – | – | 207,276 |
| Unallocated: | | | | | | | | |
| Capital expenditure | | | | | | | | 3,625 |
| Depreciation | | | | | | | | (2,416) |

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

**Group**

| 2005 | Property investment and development HK$'000 | Treasury investment HK$'000 | Securities investment HK$'000 | Corporate finance and securities broking HK$'000 | Banking business HK$'000 | Other HK$'000 | Inter-segment elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| External | 9,845 | 16,810 | 1,037,180 | 59,740 | 18,076 | 5,806 | – | 1,147,457 |
| Inter-segment | – | 970 | – | 650 | – | 2,898 | (4,518) | – |
| Total | 9,845 | 17,780 | 1,037,180 | 60,390 | 18,076 | 8,704 | (4,518) | 1,147,457 |
| Segment results | 76,838 | 17,084 | 127,801 | (25,646) | 6,638 | (12,593) | (2,939) | 187,183 |
| Unallocated corporate expenses | | | | | | | | (58,459) |
| Share of results of associates | (6,723) | – | (32) | – | – | 4,207 | – | (2,548) |
| Share of results of jointly controlled entities | (313) | – | – | – | – | (110) | – | (423) |
| Profit before tax | | | | | | | | 125,753 |
| Tax | | | | | | | | (15,033) |
| Profit for the year | | | | | | | | 110,720 |

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(Continued)*

**Group**

| 2005 | Property investment and development HK$'000 | Treasury investment HK$'000 | Securities investment HK$'000 | Corporate finance and securities broking HK$'000 | Banking business HK$'000 | Other HK$'000 | Inter–segment elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 570,842 | 548,513 | 1,270,414 | 663,002 | 372,452 | 24,094 | – | 3,449,317 |
| Interests in associates | 151,071 | – | – | 814 | – | 23,350 | – | 175,235 |
| Interests in jointly controlled entities | 7,000 | – | – | – | – | 5,615 | – | 12,615 |
| Unallocated assets | | | | | | | | 15,356 |
| Total assets | | | | | | | | 3,652,523 |
| Segment liabilities | 3,513 | – | 1,351 | 625,899 | 120,071 | 9,398 | – | 760,232 |
| Unallocated liabilities | | | | | | | | 31,196 |
| Total liabilities | | | | | | | | 791,428 |
| Other segment information: | | | | | | | | |
| Capital expenditure | 1,536 | – | – | 801 | 8,123 | 1,136 | – | 11,596 |
| Depreciation | (978) | – | (390) | (633) | (890) | (629) | – | (3,520) |
| Write-back of allowance/(Allowance) for bad and doubtful debts relating to: | | | | | | | | |
| Banking operation | – | – | – | – | 2,140 | – | – | 2,140 |
| Non-banking operations | (94) | – | – | (30,272) | – | (2,670) | – | (33,036) |
| Provisions for impairment losses on: | | | | | | | | |
| Associates | – | – | – | – | – | (5,859) | – | (5,859) |
| Available-for-sale financial assets | – | – | (53,757) | – | – | – | – | (53,757) |
| Goodwill | – | – | – | – | – | (412) | – | (412) |
| Net fair value gain on financial assets at fair value through profit or loss | – | – | 70,370 | – | – | – | – | 70,370 |
| Fair value gains on investment properties | 74,784 | – | – | – | – | – | – | 74,784 |
| Unallocated: | | | | | | | | |
| Capital expenditure | | | | | | | | 6,213 |
| Depreciation | | | | | | | | (1,093) |

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's segment information by geographical segment is set out as follows:

**Group**

| **2006** | **Hong Kong HK$'000** | **Macau HK$'000** | **Republic of Singapore HK$'000** | **Japan HK$'000** | **Ireland HK$'000** | **Other HK$'000** | **Consolidated HK$'000** |
|---|---|---|---|---|---|---|---|
| Revenue | **641,854** | **28,965** | **198,525** | **58,504** | **–** | **171,180** | **1,099,028** |
| Segment assets | **1,206,879** | **895,717** | **1,512,158** | **62,845** | **–** | **297,122** | **3,974,721** |
| Interests in associates | **27,450** | **–** | **1,835,329** | **–** | **–** | **99,185** | **1,961,964** |
| Interests in jointly controlled entities | **–** | **–** | **35,568** | **–** | **–** | **13,731** | **49,299** |
| Total assets | | | | | | | **5,985,984** |
| Capital expenditure | **3,125** | **350** | **1,317** | **–** | **–** | **825** | **5,617** |

| 2005 | Hong Kong HK$'000 | Macau HK$'000 | Republic of Singapore HK$'000 | Japan HK$'000 | Ireland HK$'000 | Other HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 216,978 | 18,076 | 336,375 | 264,860 | 176,168 | 135,000 | 1,147,457 |
| Segment assets | 1,546,310 | 645,969 | 548,913 | 148,779 | – | 574,702 | 3,464,673 |
| Interests in associates | 20,533 | – | 151,211 | – | – | 3,491 | 175,235 |
| Interests in jointly controlled entities | – | – | – | – | – | 12,615 | 12,615 |
| Total assets | | | | | | | 3,652,523 |
| Capital expenditure | 2,173 | 8,123 | 6,941 | – | – | 572 | 17,809 |

## 5. REVENUE

Revenue, which is also the Group's turnover, representing the aggregate of gross rental income, gross income on treasury investment which includes interest income on bank deposits and debt securities, gross income from securities investment which includes proceeds from sales of investments, dividend income and related interest income, gross income from underwriting and securities broking, interest and other income from money lending and other businesses, and gross interest income, commissions, dealing income and other revenues from a banking subsidiary, after eliminations of all significant intra-group transactions.

## 5. REVENUE *(Continued)*

An analysis of the revenue of the Group by principal activity is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Property investment and development | **35,734** | 9,845 |
| Treasury investment | **15,825** | 16,810 |
| Securities investment | **903,504** | 1,037,180 |
| Corporate finance and securities broking | **95,614** | 59,740 |
| Banking business | **28,965** | 18,076 |
| Other | **19,386** | 5,806 |
| | **1,099,028** | 1,147,457 |

Revenue attributable to banking business represents revenue generated from The Macau Chinese Bank Limited, a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China. Revenue attributable to banking business is analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest income | **23,916** | 15,722 |
| Commission income | **3,915** | 2,180 |
| Other revenues | **1,134** | 174 |
| | **28,965** | 18,076 |

## 6. ALLOWANCE FOR BAD AND DOUBTFUL DEBTS RELATING TO NON-BANKING OPERATIONS

The allowance for the year ended 31st December, 2005 included an individual provision of HK$29,883,000 made for a loan advanced to a margin client, which had been secured by certain shares of a listed company and a guarantee provided by a director of the client. Both the client and the listed company were under provisional liquidation and in the opinion of Directors, the probability for recovery of the loan was uncertain.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. PROFIT BEFORE TAX

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Gross rental income | **22,667** | 9,845 |
| *Less:* Outgoings | **(6,230)** | (2,328) |
| Net rental income | **16,437** | 7,517 |
| Employee benefits expense *(Note)*: | | |
| Wages and salaries | **(88,288)** | (53,211) |
| Retirement benefits costs | **(2,746)** | (2,803) |
| *Less:* Forfeited contributions | **–** | 369 |
| Net retirement benefit costs | **(2,746)** | (2,434) |
| Total staff costs | **(91,034)** | (55,645) |
| Interest income: | | |
| Listed investments | **6,534** | 18,112 |
| Unlisted investments | **758** | 2,028 |
| Banking operation | **23,916** | 15,722 |
| Other | **16,918** | 16,810 |
| Dividend income: | | |
| Listed investments | **771** | 20,165 |
| Unlisted investments | **2,291** | 1,465 |
| Gain/(Loss) on disposal of financial assets at fair value through profit or loss: | | |
| Listed | **11,217** | 68,978 |
| Unlisted | **10,322** | (1,117) |
| Gain/(Loss) on disposal of available-for-sale financial assets: | | |
| Listed | **112,923** | 1,006 |
| Unlisted | **(26,685)** | 7,341 |
| Net fair value gain/(loss) on financial assets at fair value through profit or loss: | | |
| Listed | **25,188** | (2,621) |
| Unlisted | **191,540** | 72,991 |
| Other unlisted investment income | **664** | 681 |
| Provisions for impairment losses on unlisted available-for-sale financial assets | **(5,797)** | (53,757) |
| Depreciation | **(6,988)** | (4,613) |
| Loss on disposal of fixed assets | **(67)** | (48) |
| Foreign exchange gains/(losses) – net | **1,371** | (6,006) |
| Fair value gains on investment properties | **207,276** | 74,784 |
| Auditors' remuneration | **(2,025)** | (1,626) |
| Minimum lease payments under operating lease rentals in respect of land and buildings | **(13,940)** | (12,158) |

*Note:* The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.

## 8. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Directors' fees | **627** | 517 |
| Basic salaries, housing and other allowances and benefits in kind | **3,680** | 4,784 |
| Discretionary bonuses paid and payable | **3,000** | – |
| Retirement benefits costs | **24** | 29 |
| | **7,331** | 5,330 |

The emoluments paid to each of the individual directors during the year are as follows:

| **2006** | **Fees** | **Basic salaries, housing and other allowances and benefits in kind** | **Discretionary bonuses paid and payable** | **Retirement benefits costs** | **Total** |
|---|---|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Executive directors: | | | | | |
| Mr. Stephen Riady | – | – | – | – | – |
| Mr. John Lee Luen Wai | **29** | **1,954** | **3,000** | **12** | **4,995** |
| Mr. Kor Kee Yee | – | **1,726** | – | **12** | **1,738** |
| | **29** | **3,680** | **3,000** | **24** | **6,733** |
| Non-executive directors: | | | | | |
| Dr. Mochtar Riady | **120** | – | – | – | **120** |
| Mr. Leon Chan Nim Leung | **149** | – | – | – | **149** |
| | **269** | – | – | – | **269** |
| Independent non-executive directors: | | | | | |
| Mr. Albert Saychuan Cheok | **139** | – | – | – | **139** |
| Mr. Victor Yung Ha Kuk | **100** | – | – | – | **100** |
| Mr. Tsui King Fai | **90** | – | – | – | **90** |
| | **329** | – | – | – | **329** |
| | **627** | **3,680** | **3,000** | **24** | **7,331** |

## 8. DIRECTORS' EMOLUMENTS *(Continued)*

| 2005 | Fees HK$'000 | Basic salaries, housing and other allowances and benefits in kind HK$'000 | Retirement benefits costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Executive directors: | | | | |
| Mr. Stephen Riady | – | – | – | – |
| Mr. John Lee Luen Wai | 29 | 1,742 | 12 | 1,783 |
| Mr. Kor Kee Yee | – | 1,731 | 12 | 1,743 |
| Mr. Jesse Leung Nai Chau | 19 | 1,311 | 5 | 1,335 |
| | 48 | 4,784 | 29 | 4,861 |
| Non-executive directors: | | | | |
| Dr. Mochtar Riady | – | – | – | – |
| Mr. Leon Chan Nim Leung | 169 | – | – | 169 |
| | 169 | – | – | 169 |
| Independent non-executive directors: | | | | |
| Mr. Albert Saychuan Cheok | 140 | – | – | 140 |
| Mr. Victor Yung Ha Kuk | 80 | – | – | 80 |
| Mr. Tsui King Fai | 80 | – | – | 80 |
| | 300 | – | – | 300 |
| | 517 | 4,784 | 29 | 5,330 |

There were no arrangements under which a director waived or agreed to waive any emoluments during the years.

## 9. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included two directors (2005 – two), details of whose emoluments are set out in Note 8 to the financial statements. Details of the emoluments of the remaining three (2005 – three) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 |
| Basic salaries, housing and other allowances and benefits in kind | **3,282** | 3,912 |
| Bonuses paid and payable | **31,860** | 7,142 |
| Retirement benefits costs | **81** | 81 |
| | **35,223** | 11,135 |

## 9. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS *(Continued)*

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **Number of** | Number of |
| **Emoluments bands** (HK$): | **employees** | employees |
| 1,500,001 – 2,000,000 | **–** | 1 |
| 3,000,001 – 3,500,000 | **–** | 1 |
| 5,000,001 – 5,500,000 | **1** | – |
| 6,000,001 – 6,500,000 | **–** | 1 |
| 11,000,001 – 11,500,000 | **1** | – |
| 19,000,001 – 19,500,000 | **1** | – |
| | **3** | 3 |

## 10. RETIREMENT BENEFITS COSTS

The Group previously operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses, in accordance with the rules of the schemes.

During the year, there were no forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses (2005 – HK$369,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end. The retirement benefits scheme costs charged to the consolidated profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK$2,746,000 (2005 – HK$2,434,000).

## 11. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest on bank and other borrowings wholly repayable within five years | **53,486** | 7,363 |
| *Less:* Interest capitalised | **(4,422)** | – |
| | **49,064** | 7,363 |

The amount excludes interest expense incurred by a banking subsidiary of the Group.

## 12. TAX

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Hong Kong: | | |
| Charge for the year | **1,435** | 639 |
| Underprovision/(Overprovision) in prior years | **2,269** | (11) |
| Deferred *(Note 30)* | **1,179** | 2,137 |
| | **4,883** | 2,765 |
| Overseas: | | |
| Charge for the year | **4,207** | 6,446 |
| Underprovision/(Overprovision) in prior years | **919** | (232) |
| Deferred *(Note 30)* | **36,966** | 6,054 |
| | **42,092** | 12,268 |
| Total charge for the year | **46,975** | 15,033 |

Hong Kong profits tax has been provided at the rate of 17.5 per cent. (2005 – 17.5 per cent.) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries/jurisdictions in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax charge applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Profit before tax | **463,534** | 125,753 |
| Tax at the statutory tax rate of 17.5 per cent. (2005 – 17.5 per cent.) | **81,118** | 22,007 |
| Effect of different tax rates in other jurisdictions | **(20,037)** | (5,694) |
| Adjustments in respect of current tax of previous years | **3,188** | (243) |
| Profits and losses attributable to jointly controlled entities and associates | **1,165** | 520 |
| Income not subject to tax | **(16,489)** | (16,585) |
| Expenses not deductible for tax | **2,257** | 5,335 |
| Tax losses utilised from previous years | **(17,183)** | – |
| Tax losses not recognised | **12,956** | 9,693 |
| Tax charge at the Group's effective rate of 10 per cent. (2005 – 12 per cent.) | **46,975** | 15,033 |

For the companies operated in Republic of Singapore and Macau, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 20 per cent. and 12 per cent. (2005 – 20 per cent. and 12 per cent.), respectively.

The share of tax credit attributable to associates amounting to HK$19,159,000 (2005 – tax charge of HK$1,037,000) is included in "Share of results of associates" on the face of the consolidated profit and loss account.

## 13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year included a loss of HK$34,676,000 (2005 – profit of HK$4,715,000) which has been dealt with in the financial statements of the Company as set out in Note 32 to the financial statements.

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

### (a) Basic earnings per share

Basic earnings per share is calculated based on (i) the consolidated profit for the year attributable to equity holders of the Company of HK$391,472,000 (2005 – HK$111,761,000); and (ii) the weighted average number of 1,346,829,000 ordinary shares (2005 – 1,346,829,000 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

No diluted earnings per share is presented for the years ended 31st December, 2006 and 2005 as there were no dilutive potential ordinary shares during these years.

## 15. DISTRIBUTIONS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interim, declared and paid, of HK1.5 cents (2005 – HK1.5 cents) per ordinary share | **20,202** | 20,202 |
| Final, proposed, of HK5 cents (2005 – HK3 cents, paid) per ordinary share | **67,341** | 40,405 |
| | **87,543** | 60,607 |

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

## 16. GOODWILL

**Group**

| | **HK$'000** |
|---|---|
| At 1st January, 2005: | |
| Cost | 61,027 |
| Accumulated impairment | (3,330) |
| Net carrying amount | 57,697 |
| Cost at 1st January, 2005, net of accumulated impairment | 57,697 |
| Impairment during the year | (412) |
| At 31st December, 2005 | 57,285 |
| At 1st January, 2006 and 31st December, 2006: | |
| Cost | 61,027 |
| Accumulated impairment | (3,742) |
| Net carrying amount | **57,285** |

### Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the banking business cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the banking business cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection is 5 per cent. (2005 – 4.4 per cent.). The growth rate used to extrapolate the cash flows of the banking business beyond the five-year period is assumed to be nil.

The carrying amount of goodwill allocated to the banking business cash-generating unit is as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount of goodwill | **57,285** | 57,285 |

## 17. FIXED ASSETS

**Group**

| 2006 | Leasehold land and buildings HK$'000 | Leasehold improvements, furniture, fixtures, equipment and motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1st January, 2006 | 25,047 | 75,024 | 100,071 |
| Additions during the year | – | 5,617 | 5,617 |
| Disposals during the year | – | (236) | (236) |
| Disposal of subsidiaries | – | (1,772) | (1,772) |
| Exchange adjustments | – | 944 | 944 |
| **At 31st December, 2006** | **25,047** | **79,577** | **104,624** |
| **Accumulated depreciation:** | | | |
| At 1st January, 2006 | 522 | 49,956 | 50,478 |
| Provided for the year | 250 | 6,738 | 6,988 |
| Disposals during the year | – | (169) | (169) |
| Disposal of subsidiaries | – | (540) | (540) |
| Exchange adjustments | – | 424 | 424 |
| **At 31st December, 2006** | **772** | **56,409** | **57,181** |
| **Net book value:** | | | |
| **At 31st December, 2006** | **24,275** | **23,168** | **47,443** |
| 2005 | | | |
| Cost: | | | |
| At 1st January, 2005 | 25,047 | 57,952 | 82,999 |
| Additions during the year | – | 17,809 | 17,809 |
| Disposals during the year | – | (48) | (48) |
| Exchange adjustments | – | (689) | (689) |
| At 31st December, 2005 | 25,047 | 75,024 | 100,071 |
| Accumulated depreciation: | | | |
| At 1st January, 2005 | 271 | 45,752 | 46,023 |
| Provided for the year | 251 | 4,362 | 4,613 |
| Exchange adjustments | – | (158) | (158) |
| At 31st December, 2005 | 522 | 49,956 | 50,478 |
| Net book value: | | | |
| At 31st December, 2005 | 24,525 | 25,068 | 49,593 |

The leasehold land and buildings situated outside Hong Kong are held under medium term leases.

## 17. FIXED ASSETS *(Continued)*

**Company**

| **2006** | **Furniture, fixtures, equipment and motor vehicles HK$'000** |
|---|---|
| **Cost:** | |
| At 1st January, 2006 | 4,571 |
| Additions during the year | 2,544 |
| **At 31st December, 2006** | **7,115** |
| **Accumulated depreciation:** | |
| At 1st January, 2006 | 1,882 |
| Provided for the year | 1,263 |
| **At 31st December, 2006** | **3,145** |
| **Net book value:** | |
| **At 31st December, 2006** | **3,970** |
| 2005 | |
| Cost: | |
| At 1st January, 2005 | 3,300 |
| Additions during the year | 1,271 |
| At 31st December, 2005 | 4,571 |
| Accumulated depreciation: | |
| At 1st January, 2005 | 1,165 |
| Provided for the year | 717 |
| At 31st December, 2005 | 1,882 |
| Net book value: | |
| At 31st December, 2005 | 2,689 |

## 18. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Medium term leasehold land and buildings situated in Hong Kong: | | |
| Balance at beginning of year | **16,800** | 14,800 |
| Fair value adjustments | **370** | 2,000 |
| Balance at end of year | **17,170** | 16,800 |
| Long term leasehold land and buildings situated in Hong Kong: | | |
| Balance at beginning of year | **84,118** | 73,843 |
| Fair value adjustments | **6,405** | 10,275 |
| Balance at end of year | **90,523** | 84,118 |
| Medium term leasehold land and buildings situated outside Hong Kong: | | |
| Balance at beginning of year | **312,000** | – |
| Additions during the year | **4,422** | 250,172 |
| Fair value adjustments | **37,578** | 61,828 |
| Balance at end of year | **354,000** | 312,000 |
| Freehold land and buildings situated outside Hong Kong: | | |
| Balance at beginning of year | **8,605** | 7,501 |
| Additions during the year | **469,221** | – |
| Fair value adjustments | **162,923** | 681 |
| Exchange adjustments | **33,814** | 423 |
| Balance at end of year | **674,563** | 8,605 |
| Total | **1,136,256** | 421,523 |

Based on professional valuations as at 31st December, 2006 made by Mr. Jonathan Miles Foxall, a chartered surveyor and a director of certain subsidiaries of the Company, the investment properties in Hong Kong were revalued on an open market, existing use basis at HK$107,693,000 (2005 – HK$100,918,000).

Based on professional valuations as at 31st December, 2006 made by Professional Asset Valuers, Incorporated, Savills (Macau) Limited and Savills (Singapore) Pte Limited, the investment properties situated outside Hong Kong were revalued on an open market, existing use basis at HK$1,028,563,000 (2005 – HK$320,605,000).

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in note 27 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. PROPERTIES UNDER DEVELOPMENT

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Land and buildings situated outside Hong Kong, at cost: | | |
| Balance at beginning of year | **105,096** | 99,767 |
| Additions during the year | **47,384** | 9,514 |
| Exchange adjustments | **7,635** | (4,185) |
| Balance at end of year | **160,115** | 105,096 |
| Land and buildings held under the following lease terms: | | |
| Leasehold *(Note)* | **98,121** | 69,795 |
| Freehold | **61,994** | 35,301 |
| | **160,115** | 105,096 |

*Note:* The lease terms of the properties under development situated outside Hong Kong are 99 years.

## 20. INTERESTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Share of net assets in unlisted investments | **1,700,144** | 184,804 |
| Goodwill on acquisition less impairment | **1,759** | 1,759 |
| Due from associates | **298,624** | 5,060 |
| Due to associates | **(22,175)** | – |
| | **1,978,352** | 191,623 |
| Provisions for impairment losses | **(16,388)** | (16,388) |
| | **1,961,964** | 175,235 |

The amount of goodwill arising from the acquisition of associates is as follows:

| | 2006 | 2005 |
|---|---|---|
| Cost: | | |
| Balance at beginning of year and at end of year | **9,195** | 9,195 |
| Accumulated impairment: | | |
| Balance at beginning of year | **7,436** | 6,890 |
| Impairment provided for the year | **–** | 546 |
| Balance at end of year | **7,436** | 7,436 |
| Net carrying amount at end of year | **1,759** | 1,759 |

## 20. INTERESTS IN ASSOCIATES *(Continued)*

The balance as at 31st December, 2006 included the Group's interest in Lippo ASM Asia Property LP ("LAAP"), a property fund which carries the objective of investing in real estates in the East Asia region, of approximately HK$1,639 million (2005 – HK$151 million). In May 2006, LAAP participated in a joint venture to invest in Overseas Union Enterprise Limited, a listed company in Singapore principally engaged in property investments and hotel operations.

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances are approximate to their fair values.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Assets | **11,495,246** | 308,190 |
| Liabilities | **(5,603,360)** | 74,972 |
| Revenues | **1,222,846** | 251,846 |
| Profit/(Loss) | **165,614** | (1,676) |

Details of the principal associates are set out on page 96.

## 21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Share of net assets in unlisted investments | **1,243** | 3,974 |
| Goodwill on acquisition | **1,324** | 1,324 |
| Due from jointly controlled entities | **46,732** | 7,317 |
| | **49,299** | 12,615 |

As at 31st December, 2006, the balances with the jointly controlled entities included a loan of HK$3,988,000, which is secured by certain shares of a jointly controlled entity, bears interest at US dollar prime rate plus 2 per cent. per annum and has no fixed terms of repayment. The remaining balances with the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. As at 31st December, 2005, the balances with the jointly controlled entities were unsecured, interest-free and had no fixed terms of repayment. The carrying amounts of the balances are approximate to their fair values.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following table illustrates the summarised financial information of the Group's jointly controlled entities extracted from their management accounts:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Share of the jointly controlled entities' assets and liabilities: | | |
| Current assets | **9,671** | 5,043 |
| Non-current assets | **47,330** | 8,654 |
| Current liabilities | **(9,522)** | (1,111) |
| Non-current liabilities | **–** | (1,936) |
| Net assets | **47,479** | 10,650 |
| Share of the jointly controlled entities' results: | | |
| Turnover | **912** | – |
| Total expenses | **(3,556)** | (423) |
| Loss after tax | **(2,644)** | (423) |
| Share of the jointly controlled entities' capital commitments | **307,713** | 2,042 |

Details of the principal jointly controlled entities are set out on page 97.

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Financial assets stated at fair value: | | | | |
| Equity securities listed in Hong Kong | **–** | 262,666 | **–** | 48,770 |
| Unlisted equity securities | **–** | 43,854 | **–** | – |
| | **–** | 306,520 | **–** | 48,770 |
| Unlisted investment funds | **94,442** | 74,036 | **–** | – |
| | **94,442** | 380,556 | **–** | 48,770 |
| Financial assets stated at cost: | | | | |
| Unlisted equity securities | **79,166** | 74,004 | **–** | – |
| Unlisted debt securities | **11,536** | 10,862 | **3,165** | 3,165 |
| Provision for impairment losses | **(82,275)** | (76,478) | **–** | – |
| | **8,427** | 8,388 | **3,165** | 3,165 |
| | **102,869** | 388,944 | **3,165** | 51,935 |
| *Less:* Amount classified under current portion | **–** | (213,896) | **–** | – |
| Non-current portion | **102,869** | 175,048 | **3,165** | 51,935 |

The debt securities have effective interest rates ranging from nil to 8 per cent. (2005 – nil to 8 per cent.) per annum.

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| An analysis of the issuers of available-for-sale financial assets is as follows: | | | | |
| Equity securities: | | | | |
| Corporate entities | **79,166** | 380,524 | **–** | 48,770 |
| Debt securities: | | | | |
| Club debenture | **3,165** | 3,165 | **3,165** | 3,165 |
| Corporate entities | **8,371** | 7,697 | **–** | – |
| | **11,536** | 10,862 | **3,165** | 3,165 |

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$26,672,000 (2005 – HK$85,636,000), of which HK$87,288,000 (2005 – Nil) was removed from equity and recognised in the consolidated profit and loss account during the year.

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

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

Apart from the above, certain unlisted equity securities and debt securities issued by private entities are measured at cost less impairment at each balance sheet date. The Directors consider that information to be applied in the valuation techniques cannot be reliably obtained on a continuous basis. The fair values of these unlisted equity securities and debt securities cannot be reliably measured.

During the year, the Directors reviewed the carrying amount of certain unlisted available-for-sale financial assets with reference to their business performances and the profit projections prepared by the investees' management. An impairment loss of HK$5,797,000 (2005 – HK$53,757,000) has been charged to the consolidated profit and loss accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. HELD-TO-MATURITY FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Debt securities, at amortised cost: | | |
| Listed overseas | **9,582** | 9,604 |
| Market value of listed debt securities | **10,444** | 11,019 |

The debt securities have effective interest rates of 9 per cent. (2005 – 9 per cent.) per annum.

An analysis of the issuers of held-to-maturity financial assets is as follows:

| | | |
|---|---|---|
| Banks and other financial institutions | **9,582** | 9,604 |

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Held for trading: | | | | |
| Equity securities: | | | | |
| Listed in Hong Kong | **56,293** | 64,425 | **14,200** | 38,605 |
| Listed overseas | **6,731** | 68,275 | **4,245** | 6,523 |
| | **63,024** | 132,700 | **18,445** | 45,128 |
| Debt securities: | | | | |
| Listed in Hong Kong | **–** | 1,967 | **–** | – |
| Listed overseas | **9,056** | 162,143 | **–** | 4,454 |
| Unlisted | **–** | 84,808 | **–** | 54,308 |
| | **9,056** | 248,918 | **–** | 58,762 |
| Investment funds: | | | | |
| Listed in Hong Kong | **–** | 25 | **–** | – |
| Listed overseas | **46,030** | 50,913 | **–** | 4,258 |
| Unlisted | **230,731** | 131,708 | **–** | – |
| | **276,761** | 182,646 | **–** | 4,258 |
| Other: | | | | |
| Unlisted | **5,813** | 53,649 | **–** | – |
| | **354,654** | 617,913 | **18,445** | 108,148 |
| Designated as financial assets at fair value through profit or loss *(Note)*: | | | | |
| Unlisted investment funds | **466,371** | 268,753 | **–** | – |
| | **821,025** | 886,666 | **18,445** | 108,148 |
| *Less:* Amount classified under current portion | **(821,025)** | (617,913) | **(18,445)** | (108,148) |
| Non-current portion | **–** | 268,753 | **–** | – |

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

*Note*: The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or recognising the gains or losses on different bases.

The debt securities have effective interest rates ranging from 6.5 per cent. to 8 per cent. (2005 – 4.3 per cent. to 14.8 per cent.) per annum.

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| An analysis of the issuers of financial assets at fair value through profit or loss is as follows: | | | | |
| Equity securities: | | | | |
| Banks and other financial institutions | **–** | 13,266 | **–** | – |
| Corporate entities | **63,024** | 119,434 | **18,445** | 45,128 |
| | **63,024** | 132,700 | **18,445** | 45,128 |
| Debt securities: | | | | |
| Central governments and central banks | **–** | 9,289 | **–** | – |
| Public sector entities | **–** | 4,397 | **–** | – |
| Banks and other financial institutions | **–** | 93,431 | **–** | 22,504 |
| Corporate entities | **9,056** | 141,801 | **–** | 36,258 |
| | **9,056** | 248,918 | **–** | 58,762 |

## 25. LOANS AND ADVANCES

The loans and advances to customers of the Group have effective interest rates ranging from 3 per cent. to 18 per cent. (2005 – 3.5 per cent. to 18 per cent.) per annum. The carrying amounts of loans and advances are approximate to their fair values.

Movements of allowance for bad and doubtful debts relating to banking operation during the year are as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Balance at beginning of year | **3,000** | 5,140 |
| Allowance for bad and doubtful debts | **85** | 2,910 |
| Impairment allowance released | **(89)** | (5,050) |
| Balance at end of year | **2,996** | 3,000 |

## 26. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with an aged analysis as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Outstanding balances with ages: | | |
| Repayable on demand | **45,809** | 55,282 |
| Within 30 days | **39,602** | 78,903 |
| Between 31 and 60 days | **969** | 295 |
| Between 61 and 90 days | **184** | 157 |
| | **86,564** | 134,637 |

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, a credit period is allowed according to relevant business practice. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Except for receivables from certain securities brokers which are interest-bearing, the balances of trade debtors are non-interest-bearing. The carrying amounts of debtors and deposits are approximate to their fair values.

## 27. BANK AND OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank loans: | | | | |
| Secured *(Note (a))* | **594,078** | 25,000 | **60,000** | – |
| Unsecured | **10,000** | – | **–** | – |
| | **604,078** | 25,000 | **60,000** | – |
| Other borrowings: | | | | |
| Unsecured *(Note (b))* | **885,495** | – | **885,495** | – |
| | **1,489,573** | 25,000 | **945,495** | – |
| *Less:* Amount classified under current portion | **(942,205)** | (25,000) | **(885,495)** | – |
| Non-current portion | **547,368** | – | **60,000** | – |
| Bank loans and other borrowings by currency: | | | | |
| Hong Kong dollar | **1,105,495** | 25,000 | **945,495** | – |
| Singapore dollar | **337,368** | – | **–** | – |
| United States dollar | **46,710** | – | **–** | – |
| | **1,489,573** | 25,000 | **945,495** | – |
| Bank loans repayable: | | | | |
| Within one year | **56,710** | 25,000 | **–** | – |
| In the second year | **220,965** | – | **60,000** | – |
| In the third to fifth years, inclusive | **326,403** | – | **–** | – |
| | **604,078** | 25,000 | **60,000** | – |
| Other borrowings repayable: | | | | |
| Within one year | **885,495** | – | **885,495** | – |

The carrying amounts of the Group's bank and other borrowings are approximate to their fair values and bear interest at floating rates ranging from 4.7 per cent. to 6.1 per cent. (2005 – 5.3 per cent. to 5.5 per cent.) per annum.

## 27. BANK AND OTHER BORROWINGS *(Continued)*

*Note:*

(a) The bank loans as at 31st December, 2006 were secured by first legal mortgages over certain investment properties and certain securities of the Group with carrying amounts of HK$1,109,112,000 and HK$46,710,000, respectively. The bank loans as at 31st December, 2005 were secured by certain securities owned by the margin clients of the Group.

(b) The Group's other borrowings comprise of loans advanced from Lippo Limited and Lippo China Resources Limited, intermediate holding companies of the Company, of HK$248,126,000 and HK$637,369,000 respectively, which are repayable on or before 31st December, 2007.

## 28. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with an aged analysis as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Outstanding balances with ages: | | |
| Repayable on demand | **637,860** | 495,639 |
| Within 30 days | **108,336** | 91,427 |
| | **746,196** | 587,066 |

The outstanding balances that are repayable on demand include client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 31st December, 2006, total client trust bank balances amounted to HK$582,905,000 (2005 – HK$444,460,000).

Except for certain client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business are interest-bearing, the balances of trade creditors are non-interest-bearing.

## 29. CURRENT, FIXED, SAVINGS AND OTHER DEPOSITS OF CUSTOMERS

The current, fixed, savings and other deposits of customers attributable to banking operation have effective interest rates ranging from 2.5 per cent. to 5.2 per cent. (2005 – 0.3 per cent. to 4.2 per cent.) per annum.

## 30. DEFERRED TAX

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

**Deferred tax liabilities**

**Group**

| **2006** | **Depreciation allowance in excess of related depreciation HK$000** | **Revaluation of properties HK$000** | **Fair value gains on available-for-sale financial assets HK$000** | **Total HK$000** |
|---|---|---|---|---|
| At 1st January, 2006 | 193 | 10,770 | 5,026 | 15,989 |
| Deferred tax charged/(credited) to the profit and loss account during the year *(Note 12)* | (10) | 38,155 | – | 38,145 |
| Deferred tax debited to equity during the year *(Note 32)* | – | – | 2,921 | 2,921 |
| Exchange adjustments | 5 | 1,137 | 10 | 1,152 |
| **At 31st December, 2006** | **188** | **50,062** | **7,957** | **58,207** |
| 2005 | | | | |
| At 1st January, 2005 | – | 1,234 | 2,898 | 4,132 |
| Deferred tax charged/(credited) to the profit and loss account during the year *(Note 12)* | 193 | 9,536 | (1,538) | 8,191 |
| Deferred tax debited to equity during the year *(Note 32)* | – | – | 3,670 | 3,670 |
| Exchange adjustments | – | – | (4) | (4) |
| At 31st December, 2005 | 193 | 10,770 | 5,026 | 15,989 |

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

### Deferred tax assets

The Group has tax losses arising in Hong Kong of HK$128,619,000 (2005 – HK$178,468,000) 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 losses at the balance sheet date due to the unpredictability of future profit streams.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 31. SHARE CAPITAL

| | **Group and Company** | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| **Authorised:** | | |
| 2,000,000,000 (2005 – 2,000,000,000) ordinary shares of HK$1.00 each | **2,000,000** | 2,000,000 |
| **Issued and fully paid:** | | |
| 1,346,829,094 (2005 – 1,346,829,094) ordinary shares of HK$1.00 each | **1,346,829** | 1,346,829 |

## 32. RESERVES

### Group

| | Share premium account HK$'000 | Capital redemption reserve *(Note (c))* HK$'000 | Legal reserve *(Note (d))* HK$'000 | Regulatory reserve *(Note (e))* HK$'000 | Investment revaluation reserve HK$'000 | Distributable reserves *(Note (b))* HK$'000 | Exchange equalisation reserve HK$'000 | Total HK$'000 | Minority interests HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1st January, 2005 | 50,988 | 11,760 | 2,053 | – | – | 1,299,809 | (10,257) | 1,354,353 | 30,204 |
| Net fair value gain on available-for-sale financial assets | – | – | – | – | 85,546 | – | – | 85,546 | 90 |
| Deferred tax arising from net fair value gain on available-for-sale financial assets *(Note 30)* | – | – | – | – | (3,670) | – | – | (3,670) | – |
| Transfer of reserves | – | – | 981 | 1,169 | – | (2,150) | – | – | – |
| Exchange realignments | – | – | – | – | – | – | (5,196) | (5,196) | 44 |
| Issue of shares by subsidiaries to minority shareholders | – | – | – | – | – | – | – | – | 6,128 |
| Advances from minority shareholders of a subsidiary | – | – | – | – | – | – | – | – | 870 |
| Changes in interests in subsidiaries | – | – | – | – | – | – | – | – | (4,216) |
| Profit/(Loss) for the year | – | – | – | – | – | 111,761 | – | 111,761 | (1,041) |
| 2004 final distribution, declared and paid | – | – | – | – | – | (40,405) | – | (40,405) | – |
| 2005 interim distribution, declared and paid | – | – | – | – | – | (20,202) | – | (20,202) | – |
| At 31st December, 2005 and 1st January, 2006 | 50,988 | 11,760 | 3,034 | 1,169 | 81,876 | 1,348,813 | (15,453) | 1,482,187 | 32,079 |
| Net fair value gain on available-for-sale financial assets | – | – | – | – | 26,669 | – | – | 26,669 | 3 |
| Deferred tax arising from net fair value gain on available-for-sale financial assets *(Note 30)* | – | – | – | – | (2,921) | – | – | (2,921) | – |
| Derecognition of available-for-sale financial assets | – | – | – | – | (87,288) | – | – | (87,288) | – |
| Share of reserves of associates and jointly controlled entities | – | – | – | – | 18,624 | – | 54,344 | 72,968 | – |
| Transfer of reserves | – | – | 926 | 95 | – | (1,021) | – | – | – |
| Exchange realignments | – | – | – | – | – | – | 23,095 | 23,095 | 891 |
| Issue of shares by subsidiaries to minority shareholders | – | – | – | – | – | – | – | – | 402 |
| Advances from minority shareholders of subsidiaries | – | – | – | – | – | – | – | – | 41,384 |
| Acquisition of shares in a subsidiary from a minority shareholder | – | – | – | – | – | – | – | – | (258) |
| Changes in interests in subsidiaries | – | – | – | – | – | – | – | – | (303) |
| Profit for the year | – | – | – | – | – | 391,472 | – | 391,472 | 25,087 |
| 2005 final distribution, declared and paid | – | – | – | – | – | (40,405) | – | (40,405) | – |
| 2006 interim distribution, declared and paid | – | – | – | – | – | (20,202) | – | (20,202) | – |
| **At 31st December, 2006** | **50,988** | **11,760** | **3,960** | **1,264** | **36,960** | **1,678,657** | **61,986** | **1,845,575** | **99,285** |

## 32. RESERVES *(Continued)*

**Company**

| | Share premium account HK$'000 | Capital redemption reserve *(Note (c))* HK$'000 | Investment revaluation reserve HK$'000 | Distributable reserves *(Note (b))* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st January, 2005 | 50,988 | 11,760 | – | 1,261,984 | 1,324,732 |
| Net fair value gain on available-for-sale financial assets | – | – | 6,604 | – | 6,604 |
| Profit for the year *(Note 13)* | – | – | – | 4,715 | 4,715 |
| 2004 final distribution, declared and paid | – | – | – | (40,405) | (40,405) |
| 2005 interim distribution, declared and paid | – | – | – | (20,202) | (20,202) |
| At 31st December, 2005 and 1st January 2006 | 50,988 | 11,760 | 6,604 | 1,206,092 | 1,275,444 |
| Derecognition of available-for-sale financial assets | – | – | (6,604) | – | (6,604) |
| Loss for the year *(Note 13)* | – | – | – | (34,676) | (34,676) |
| 2005 final distribution, declared and paid | – | – | – | (40,405) | (40,405) |
| 2006 interim distribution, declared and paid | – | – | – | (20,202) | (20,202) |
| **At 31st December, 2006** | **50,988** | **11,760** | **–** | **1,110,809** | **1,173,557** |

*Note:*

(a) Cancellation of the share premium account and transfer to distributable reserves:

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December, 1997, the entire amount standing to the credit of the share premium account of HK$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, or for making distributions to shareholders of the Company.

(b) Distributable reserves of the Group at 31st December, 2006 comprise retained profits of HK$432,599,000 (2005 – HK$42,148,000) and the remaining balance arising from the Cancellation of HK$1,246,058,000 (2005 – HK$1,306,665,000). Included in the distributable reserves of the Group at 31st December, 2006 was an amount of proposed final distribution for the year then ended of HK$67,341,000 (2005 – HK$40,405,000) declared after the balance sheet date.

Distributable reserves of the Company at 31st December, 2006 comprise contributed surplus of HK$134,329,000 (2005 – HK$134,329,000), accumulated losses of HK$269,578,000 (2005 – HK$234,902,000) and the remaining balance arising from the Cancellation of HK$1,246,058,000 (2005 – HK$1,306,665,000). Included in the distributable reserves of the Company at 31st December, 2006 was an amount of proposed final distribution for the year then ended of HK$67,341,000 (2005 – HK$40,405,000) declared after the balance sheet date.

(c) The capital redemption reserve is not available for distribution to shareholders.

(d) The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.

(e) The regulatory reserve made under HKAS 30 represents the part of reserve generated by a banking subsidiary of the Company arising from the difference between the impairment allowance made under HKAS 39 and for regulatory purpose.

## 33. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **44,953** | 44,953 |
| Due from subsidiaries | **3,756,546** | 2,497,693 |
| Due to subsidiaries | **(285,986)** | (181,537) |
| | **3,515,513** | 2,361,109 |
| Provisions for impairment losses | **(103,569)** | (103,569) |
| | **3,411,944** | 2,257,540 |

The balances with subsidiaries are unsecured, have no fixed terms of repayment and are approximate to their fair values. Certain balances bear interest at rates reflecting the respective costs of funds within the Group.

Details of the principal subsidiaries are set out on pages 90 to 95.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before tax to cash generated from operations

| | | Group | |
|---|---|---|---|
| | | **2006** | 2005 |
| | *Note* | **HK$'000** | HK$'000 |
| Profit before tax | | **463,534** | 125,753 |
| Adjustments for: | | | |
| Share of results of associates | | **4,014** | 2,548 |
| Share of results of jointly controlled entities | | **2,644** | 423 |
| Loss/(Gain) on disposal of: | | | |
| Items of fixed assets | *7* | **67** | 48 |
| Available-for-sale financial assets | | **(86,238)** | (8,347) |
| Subsidiaries | | **(848)** | 295 |
| Gain on changes in interests in subsidiaries | | **(303)** | (4,216) |
| Allowance/(Write-back of allowance) for bad and doubtful debts | | **(1,271)** | 30,896 |
| Provisions for impairment losses on: | | | |
| Available-for-sale financial assets | *7* | **5,797** | 53,757 |
| Associates | | **–** | 5,859 |
| Goodwill | | **–** | 412 |
| Net fair value gain on financial assets at fair value through profit or loss | | **(216,728)** | (70,370) |
| Fair value gains on investment properties | | **(207,276)** | (74,784) |
| Interest expenses | *11* | **49,064** | 7,363 |
| Interest income | | **(48,126)** | (52,672) |
| Dividend income | | **(3,062)** | (21,630) |
| Depreciation | *7* | **6,988** | 4,613 |
| | | **(31,744)** | (52) |
| Decrease in financial assets at fair value through profit or loss | | **282,656** | 314,974 |
| Decrease in held-to-maturity financial assets | | **22** | 39 |
| Increase in property held for sale | | **(6,782)** | (2,301) |
| Decrease/(Increase) in loans and advances | | **(28,419)** | 22,643 |
| Decrease/(Increase) in debtors, prepayments and deposits | | **1,056** | (19,003) |
| Increase in creditors, accruals and deposits received | | **30,424** | 89,254 |
| Increase/(Decrease) in current, fixed, savings and other deposits of customers | | **188,778** | (898) |
| Increase in client trust bank balances | | **(138,445)** | (55,337) |
| Cash generated from operations | | **297,546** | 349,319 |

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Disposal of subsidiaries

| | Group 2006 HK$'000 | Group 2005 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Fixed assets | **1,232** | – |
| Cash and bank balances | **54,634** | – |
| Debtors, prepayments and deposits | **349** | 11,393 |
| Creditors and accruals | **(1,077)** | – |
| Tax payable | **(39)** | – |
| | **55,099** | 11,393 |
| Gain/(Loss) on disposal of subsidiaries | **848** | (295) |
| | **55,947** | 11,098 |
| Satisfied by: | | |
| Cash | **55,660** | 11,098 |
| Financial assets at fair value through profit or loss | **287** | – |
| | **55,947** | 11,098 |

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follow:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Cash consideration | **55,660** | 11,098 |
| Cash and bank balances disposed of | **(54,634)** | – |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | **1,026** | 11,098 |

## 35. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

| | Repayable on demand HK$'000 | 3 months or less HK$'000 | 1 year or less but over 3 months HK$'000 | 5 years or less but over 1 year HK$'000 | After 5 years HK$'000 | Undated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31st December, 2006** | | | | | | | |
| **Assets** | | | | | | | |
| Debt securities: | | | | | | | |
| Held-to-maturity financial assets | **–** | **–** | **–** | **–** | **9,582** | **–** | **9,582** |
| Available-for-sale financial assets | **–** | **–** | **–** | **8,371** | **–** | **3,165** | **11,536** |
| Financial assets at fair value through profit or loss | **–** | **–** | **–** | **–** | **976** | **8,080** | **9,056** |
| Loans and advances | **110,599** | **116,151** | **46,574** | **10,740** | **16,326** | **–** | **300,390** |
| Client trust bank balances | **52,417** | **530,488** | **–** | **–** | **–** | **–** | **582,905** |
| Treasury bills | **–** | **194,970** | **–** | **–** | **–** | **–** | **194,970** |
| Cash and bank balances | **126,173** | **237,314** | **–** | **–** | **–** | **–** | **363,487** |
| | **289,189** | **1,078,923** | **46,574** | **19,111** | **26,884** | **11,245** | **1,471,926** |
| **Liabilities** | | | | | | | |
| Bank and other borrowings | **–** | **56,710** | **885,495** | **547,368** | **–** | **–** | **1,489,573** |
| Current, fixed, savings and other deposits of customers | **107,747** | **194,458** | **3,316** | **–** | **–** | **–** | **305,521** |
| | **107,747** | **251,168** | **888,811** | **547,368** | **–** | **–** | **1,795,094** |
| At 31st December, 2005 | | | | | | | |
| Assets | | | | | | | |
| Debt securities: | | | | | | | |
| Held-to-maturity financial assets | – | – | – | – | 9,604 | – | 9,604 |
| Available-for-sale financial assets | – | – | – | 7,697 | – | 3,165 | 10,862 |
| Financial assets at fair value through profit or loss | – | – | 10,177 | 159,103 | 71,496 | 8,142 | 248,918 |
| Loans and advances | 133,983 | 62,255 | 44,260 | 12,642 | 17,333 | – | 270,473 |
| Client trust bank balances | 21,150 | 423,310 | – | – | – | – | 444,460 |
| Treasury bills | – | 15,520 | – | – | – | – | 15,520 |
| Cash and bank balances | 98,303 | 523,437 | – | – | – | – | 621,740 |
| | 253,436 | 1,024,522 | 54,437 | 179,442 | 98,433 | 11,307 | 1,621,577 |
| Liabilities | | | | | | | |
| Bank and other borrowings | – | 25,000 | – | – | – | – | 25,000 |
| Current, fixed, savings and other deposits of customers | 43,601 | 71,643 | 1,499 | – | – | – | 116,743 |
| | 43,601 | 96,643 | 1,499 | – | – | – | 141,743 |

## 36. CONTINGENT LIABILITIES

**Group**

As at 31st December, 2006, the Group had contingent liabilities relating to its banking subsidiary of HK$29,564,000 (2005 – HK$29,953,000) comprising guarantees and other endorsements of HK$17,172,000 (2005 – HK$11,785,000) and liabilities under letters of credit on behalf of customers of HK$12,392,000 (2005 – HK$18,168,000).

**Company**

As at 31st December, 2006, guarantees provided by the Company in respect of banking facilities granted to its subsidiaries amounted to HK$727,394,000 (2005 – HK$257,500,000), which were utilised to an extent of HK$429,894,000 (2005 – HK$25,000,000).

## 37. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms of one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market condition. At 31st December, 2006, 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 | **26,225** | 7,058 |
| In the second to fifth years, inclusive | **24,100** | 2,868 |
| | **50,325** | 9,926 |

### (b) As lessee

The Group leases certain properties under lease agreements which are non-cancellable. The leases expire on various dates until 30th November, 2008 and the leases for properties contain provision for rental adjustments. As at 31st December, 2006, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **9,261** | 12,258 | **1,961** | 1,016 |
| In the second to fifth years, inclusive | **3,914** | 6,172 | **1,389** | – |
| | **13,175** | 18,430 | **3,350** | 1,016 |

## 38. CAPITAL COMMITMENTS

The Group had the following commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Capital commitments in respect of property, plant and equipment: | | |
| Contracted, but not provided for | **41,623** | 59,988 |
| Other capital commitments: | | |
| Contracted, but not provided for *(Note)* | **527,024** | 1,471,472 |
| | **568,647** | 1,531,460 |

*Note:* The balance as at 31st December, 2006 included the Group's capital commitments in respect of the formation of joint ventures for certain property projects in Republic of Singapore and the People's Republic of China ("PRC") of approximately HK$390 million (2005 – HK$149 million).

The balance as at 31st December, 2005 included the Group's capital commitments in a property fund of approximately HK$1,292 million, which had been paid during the year. Details of the property fund are described in Note 20 to the financial statements.

The Company did not have any material commitments at the balance sheet date (2005 – Nil).

## 39. RELATED PARTY TRANSACTIONS

Listed below are related party transactions disclosed in accordance with the HKAS 24 "Related party disclosures".

(a) During the year, Lippo Securities Holdings Limited ("LSHL"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK$3,163,000 (2005 – HK$3,005,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL, and the Company paid rental expenses of HK$1,588,000 (2005 – HK$1,434,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company. The above rentals were determined by reference to open market rentals.

(b) During the year, LSHL and its subsidiaries (the "LSHL Group") received commission income for dealing in listed securities in the market from Lippo China Resources Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to HK$27,000 (2005 – HK$181,000), Lippo Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to Nil (2005 – HK$4,000) and Lippo Cayman Limited, being an indirect controlling shareholder of the Company, for itself and its subsidiaries, amounted to Nil (2005 – HK$14,000). The commissions were in line with those offered by the LSHL Group to its customers.

(c) During the year, Impac Asset Management (HK) Limited, being a wholly-owned subsidiary of the Company, received investment advisory income from Lippo ASM Investment Management Limited, being an associate of the Group, amounting to HK$11,287,000 (2005 – HK$4,112,000).

## 39. RELATED PARTY TRANSACTIONS *(Continued)*

(d) During the year, the Company paid finance costs to Lippo Limited and Lippo China Resources Limited of HK$8,348,000 (2005 – Nil) and HK$13,872,000 (2005 – Nil), respectively, in respect of the loans advanced to the Company. The balances of which are set out in Note 27 to the financial statements.

(e) During the year, a wholly-owned subsidiary of the Company acquired certain financial assets at fair value through profit or loss from LAAP, being an associate of the Group, amounting to HK$277,695,000 (2005 – Nil). The acquisition price was determined by reference to fair market value.

(f) As at 31st December, 2006, the Group had balances with its associates and jointly controlled entities as set out in Note 20 and Note 21, respectively, to the financial statements.

The transactions in respect of items (a) & (b) above are continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of the transactions are disclosed in the section headed "Directors' and controlling shareholders' interests in contracts" in the Report of the Directors.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group had established policies and procedures for risk management which were reviewed regularly by the Executive Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The risk management function was carried out by individual business units and regularly overseen by the Group's senior management with all the risk limits approved by the Directors of the Group.

### (a) Credit risk

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, treasury, investment and other activities undertaken by the Group.

The credit policies for banking and margin lending businesses set out in details the credit approval and monitoring mechanism, the loan classification criteria and provision policy. Credit approval was conducted in accordance with the credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the Group's total assets. Day-to-day credit management was performed by management of individual business units.

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account the credit rating requirements, the maximum exposure limit to a single corporate or issuer; etc. All relevant departments within the Group were involved to ensure that appropriate processes, systems and controls were set in place before and after the investments were acquired.

### (b) Liquidity risk

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio whenever applicable.

Management comprising Executive Directors and senior managers monitored the liquidity position of the Group on an on-going basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### (c) Interest rate risk

Interest rate risk primarily resulted from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Group's interest rate positions arose mainly from treasury, banking and other investment activities undertaken.

The Group monitors its interest-sensitive products and investments and net repricing gap and limits interest rate exposure through management of maturity profile, currency mix and choice of fixed or floating interest rates. The interest rate risk was managed and monitored regularly by senior managers of the Group.

### (d) Foreign exchange risk

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arose from currency exposures originating from its banking activities, foreign exchange dealings and other investment activities.

The Group monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure. The foreign exchange risk was managed and monitored on an on-going basis by senior managers of the Group.

### (e) Market risk

Market risk was the risk that changes in interest rates, foreign exchange rates, equity or commodity prices would affect the prices of financial instruments taken or held by the Group. Financial instruments included foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits were approved by the Directors of the Group. Actual positions were compared with approved limits and monitored regularly by the Executive Directors and senior managers of the Group. Exposures were measured and monitored on the basis of principal and notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions were subject to periodic mark-to-market valuation, which was monitored and managed by senior managers of the Group. With respect to the investment accounts, the Group had established evaluation procedures for the selection of investments and fund managers and the Executive Directors and senior managers of the Group perform regular reviews of the operation and performance of these investment accounts and ensure compliance with the market risk limits and guidelines adopted by the Group.

## 41. POST BALANCE SHEET EVENTS

(a) On 8th February, 2007, the Group gave notice to Ferrell Asset Management Limited ("Ferrell Management"), a discretionary investment manager of the Group in respect of a real estate fund, to terminate the discretionary management arrangement made between Ferrell Management and the Group. Due to the termination, Ferrell Management effected the redemption of the real estate fund. In March 2007, net proceed of the redemption of approximately HK$470 million was returned to the Group.

## 41. POST BALANCE SHEET EVENTS *(Continued)*

(b) On 17th March, 2006 and 27th March, 2006, the Group entered into a subscription agreement and a shareholders' agreement, respectively, in respect of an investment in and formation of a joint venture (the "Joint Venture"). Pursuant to the subscription agreement, the Group had subscribed for 45 per cent. of the issued share capital of the Joint Venture for a consideration of US$4,500. Pursuant to the shareholders' agreement, the Joint Venture would acquire and hold an 86.25 per cent. equity interest in Tongren Healthcare Management Group Co., Ltd. and its subsidiaries, which are engaged in medical and healthcare related business in the PRC. The funding for acquisition would be met by shareholders' loans in proportion to the respective equity interests of the shareholders in the Joint Venture.

As certain conditions as set out in the shareholders' agreement were not fulfilled nor waived by the shareholders, notices were served by the Group on 20th March, 2007 to the Joint Venture that the shareholders' agreement was terminated and to demand repayment of the shareholder's loan. Up to the date of the notice, a shareholder's loan of HK$99 million has been made by the Group to the Joint Venture.

## 42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with current year's presentation. The reclassifications had no impact on the Group's earnings for the year ended 31st December, 2005.

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23rd April, 2007.