

## 1. CORPORATE INFORMATION

Lippo China Resources Limited is a limited liability company incorporated in Hong Kong Special Administrative Region of the People's Republic of China. The registered office of the Company is located at Room 2301, 23rd 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, food businesses, department store operation, property management, 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 Skyscraper Realty Limited which is incorporated in the British Virgin 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.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and 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 include 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outside 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.

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

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

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

The principal changes in accounting policies are as follows:

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

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

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

#### (i) Amendment for financial guarantee contracts

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

#### (ii) Amendment for the fair value option

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

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

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

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

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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, direct or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors;
- (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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(c) Jointly controlled entities** *(Continued)*

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 loss.

**(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:

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(e) Goodwill** *(Continued)*

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

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated 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 the 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 inventories, financial assets, investment properties, properties 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.

**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	Over the remaining lease terms.
Leasehold improvements	20 per cent.
Furniture, fixtures, plant and equipment	10 per cent. to 33 $\frac{1}{3}$ per cent.
Motor vehicles	12 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(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.

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. Cost comprises the cost of land, development expenditure, other attributable costs and borrowing costs capitalised.

Properties under development which have either been pre-sold or which are intended for sale, and are expected to be completed within one year from the balance sheet date, are classified as current assets.

**(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.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(j) Investments and other financial assets** *(Continued)**Financial assets at fair value through profit or loss (Continued)*

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.

*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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(j) Investments and other financial assets** *(Continued)**Available-for-sale financial assets (Continued)*

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 asset 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.

**(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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(k) Impairment of financial assets** *(Continued)**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.

**(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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(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.

**(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) Properties held for sale**

Properties held 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.

**(q) Inventories**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(r) 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. Contingent rent, which is determined based on a factor other than just the passage of time, is recognised when the Group's entitlement to receive payment has been established in accordance with the terms of the agreements;
- (ii) income from the sale of completed properties, on the exchange of legally binding unconditional sales contracts;
- (iii) sale from food businesses, on dispatch of goods to customers;
- (iv) 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;
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial assets;
- (vi) dividend income, when the shareholders' right to receive payment has been established; and
- (vii) 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.

**(s) 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 periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(s) Income tax** *(Continued)*

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 tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**(t) 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.

**(u) 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(u) Employee benefits** *(Continued)**Post-employment benefits*

A subsidiary of the Group is required by the law of the country in which it has operations to operate a defined benefit pension plan which is based on the years of service and salaries of the employees at the time of position. These benefits are unfunded. The actuarial valuation method used to determine the present value of the defined benefit reserve, current service costs and past service costs is the Projected Unit Credit Method. Current services cost, interest cost and effect of curtailment and settlements are recognised as an expense immediately. Past service costs, which are already vested, are recognised as an expense on a straight-line basis over the current year's operation. Cumulative actuarial gains or losses in excess of 10 per cent. of the present value of the defined-benefit obligation are amortised on a straight-line basis over the expected average remaining years of service of the employees participating in the plan.

*Share-based payment transactions*

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

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

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

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 as all the share options were granted before 7th November, 2002 and vested before 1st January, 2005.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(v) 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.

**(w) 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.

**(x) 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 sheet, cash and cash equivalents comprise cash on hand, cash at banks, demand deposits and treasury bills which are not restricted as to use.

**(y) 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.



**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(z) 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.

**(aa) 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.

**3.1 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.

**3.1 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES** *(Continued)***(a) Judgements** *(Continued)**Classification between investment properties and owner-occupied properties (Continued)*

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.

**(b) Estimation uncertainty**

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2006 was HK\$57,285,000 (2005 – HK\$72,692,000). 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.

## NOTES TO THE FINANCIAL STATEMENTS

**4. SEGMENT INFORMATION** *(Continued)*

Descriptions of the business segments are as follows:

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the property investment and development segment includes letting, resale and development of properties;
- (c) the securities investment segment includes dealings in securities and disposals of investments;
- (d) the food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (f) the banking business segment engages in the provision of commercial and retail banking services; and
- (g) the "other" segment comprises principally the operating of department stores, the development of computer hardware and software, money lending and the provision of property and fund management and investment advisory services.

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

**Group**

	2006								
	Property investment		Securities investment	Food businesses	Corporate finance and securities		Banking business	Inter-segment elimination	Consolidated
	Treasury investment	and development			broking				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Other	HK\$'000	HK\$'000
Revenue									
External	29,312	244,087	964,625	138,856	95,614	28,965	50,797	–	1,552,256
Inter-segment	14,875	5,093	–	–	1,065	–	7,274	(28,307)	–
Total	44,187	249,180	964,625	138,856	96,679	28,965	58,071	(28,307)	1,552,256
Segment results	42,788	689,888	332,109	400	17,616	7,271	(36,154)	(26,729)	1,027,189
Unallocated corporate expenses									(147,209)
Finance costs									(78,717)
Share of results of associates	–	(17,679)	–	–	–	–	68,524	–	50,845
Share of results of jointly controlled entities	–	(6,991)	–	–	–	–	(2,072)	–	(9,063)
Profit before tax									843,045
Tax									(228,201)
Profit for the year									614,844

**4. SEGMENT INFORMATION** (Continued)

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

**Group**

	Property investment		Securities investment		Food businesses		Banking business		Other		Inter-segment elimination	Consolidated
	Treasury investment	and development				(Note)						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities												
Segment assets	619,748	4,678,253	1,329,249	-	786,732	541,361	42,408	-	7,997,751			
Interests in associates	-	1,847,403	-	-	814	184,025	742,918	-	2,775,160			
Interests in jointly controlled entities	-	201,961	-	-	-	-	3,657	-	205,618			
Unallocated assets									231,354			
Total assets									11,209,883			
Segment liabilities	-	1,603,101	196,023	-	767,974	308,875	359,055	(2,023,984)	1,211,044			
Unallocated liabilities									3,082,779			
Total liabilities									4,293,823			
Other segment information:												
Capital expenditure	-	998	-	1,580	460	334	1,271	-	4,643			
Depreciation	-	(3,590)	(388)	(1,555)	(432)	(1,901)	(1,860)	-	(9,726)			
Write-back of allowance/ (Allowance) for bad and doubtful debts relating to:												
Banking operation	-	-	-	-	-	4	-	-	4			
Non-banking operations	-	-	-	-	1,850	-	(35,708)	-	(33,858)			
Provisions for impairment losses on available-for-sale financial assets	-	-	(6,126)	-	-	-	-	-	(6,126)			
Net fair value gain on financial assets at fair value through profit or loss	-	-	220,846	-	-	-	-	-	220,846			
Fair value gains on investment properties	-	547,627	-	-	-	-	-	-	547,627			
Unallocated:												
Capital expenditure									3,869			
Depreciation									(5,949)			

**Note:** In the current year, food businesses segment contributed by Auric Pacific Group Limited ("APG") were deconsolidated in the financial statements, further details of which are set out in Note 20. The deconsolidation does not constitute a discontinued operation under HKFRS 5.

## 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: *(Continued)*

**Group**

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	2005 Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue									
External	37,933	198,418	1,210,517	871,016	59,395	18,076	22,982	–	2,418,337
Inter-segment	970	6,132	–	–	995	–	2,898	(10,995)	–
Total	38,903	204,550	1,210,517	871,016	60,390	18,076	25,880	(10,995)	2,418,337
Segment results	34,970	462,175	124,616	11,654	(25,646)	6,638	(1,744)	(5,806)	606,857
Unallocated corporate expenses									(135,511)
Finance costs									(44,791)
Share of results of associates	–	(6,469)	(32)	–	–	(88,220)	50,113	–	(44,608)
Share of results of jointly controlled entities	–	(313)	–	–	–	–	(110)	–	(423)
Profit before tax									381,524
Tax									(94,851)
Profit for the year									286,673

**4. SEGMENT INFORMATION** *(Continued)*

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

**Group**

	Treasury investment HK\$'000	Property investment and development HK\$'000	Securities investment HK\$'000	Food businesses HK\$'000	2005 Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Assets and liabilities									
Segment assets	1,215,472	3,830,182	1,769,022	467,730	663,002	372,452	39,948	–	8,357,808
Interests in associates	–	163,125	–	–	814	–	488,036	–	651,975
Interests in jointly controlled entities	–	7,000	–	–	–	–	5,615	–	12,615
Unallocated assets									393,082
Total assets									9,415,480
Segment liabilities	–	1,561,336	184,233	207,364	625,899	120,071	302,537	(1,857,703)	1,143,737
Unallocated liabilities									1,463,256
Total liabilities									2,606,993
Other segment information:									
Capital expenditure	–	3,889	13,928	12,593	801	8,123	1,193	–	40,527
Depreciation and amortisation	–	(3,951)	(1,403)	(13,130)	(633)	(890)	(637)	–	(20,644)
Write-back of allowance/ (Allowance) for bad and doubtful debts relating to:									
Banking operation	–	–	–	–	–	2,140	–	–	2,140
Non-banking operations	–	79	–	(294)	(30,272)	–	(2,728)	–	(33,215)
Provisions for impairment losses:									
Fixed assets	–	–	–	(1,528)	–	–	–	–	(1,528)
Associates	–	(41)	–	–	–	–	(10,546)	–	(10,587)
Available-for-sale									
financial assets	–	–	(63,016)	–	–	–	–	–	(63,016)
Properties held for sale	–	(8,276)	–	–	–	–	–	–	(8,276)
Goodwill arising from acquisition of subsidiaries	–	–	–	(3,343)	–	–	(412)	–	(3,755)
Excess over cost of a business combination	–	36,854	–	–	–	–	–	–	36,854
Net fair value gain on financial assets at fair value through profit or loss	–	–	76,918	–	–	–	–	–	76,918
Fair value gains on investment properties	–	300,710	–	–	–	–	–	–	300,710
Unallocated:									
Capital expenditure									6,255
Depreciation									(7,548)

## NOTES TO THE FINANCIAL STATEMENTS

**4. SEGMENT INFORMATION** *(Continued)*

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

**Group**

	2006							
	Hong Kong	Macau	Republic of	Malaysia	Japan	Mainland	Other	Consolidated
	HK\$'000	HK\$'000	Singapore	HK\$'000	HK\$'000	China	HK\$'000	HK\$'000
Revenue	716,273	28,965	344,573	34,127	58,504	136,674	233,140	1,552,256
Segment assets	2,615,156	895,717	1,904,168	–	62,845	2,161,568	589,651	8,229,105
Interests in associates	40,465	–	2,404,217	2,258	–	111,978	216,242	2,775,160
Interests in jointly controlled entities	–	–	191,887	–	–	–	13,731	205,618
Total assets								11,209,883
Capital expenditure	3,396	350	3,268	–	–	625	873	8,512

	2005							
	Hong Kong	Macau	Republic of	Malaysia	Japan	Mainland	Other	Consolidated
	HK\$'000	HK\$'000	Singapore	HK\$'000	HK\$'000	China	HK\$'000	HK\$'000
Revenue	291,166	18,076	1,138,488	207,210	278,135	107,710	377,552	2,418,337
Segment assets	2,864,776	645,969	1,831,156	163,889	148,779	1,838,264	1,258,057	8,750,890
Interests in associates	30,450	–	152,104	2,161	–	453,454	13,806	651,975
Interests in jointly controlled entities	–	–	–	–	–	5,615	7,000	12,615
Total assets								9,415,480
Capital expenditure	2,970	8,123	21,336	1,469	–	1,487	11,397	46,782

## 5. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and debt securities, gross rental income, gross proceeds from sales of properties, 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, sales income from food businesses, gross rental income from department stores, interest and other income from money lending and other businesses, gross income from property management and gross interest income, commissions, dealing income and other revenues from a banking subsidiary, after eliminations of all significant intra-group transactions.

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Treasury investment	29,312	37,933
Property investment and development	244,087	198,418
Securities investment	964,625	1,210,517
Food businesses	138,856	871,016
Corporate finance and securities broking	95,614	59,395
Banking business	28,965	18,076
Other	50,797	22,982
	<b>1,552,256</b>	<b>2,418,337</b>

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
	<b>28,965</b>	<b>18,076</b>

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

The current year allowance includes a provision of HK\$35,125,000 made for a receivable due from a department store operator. In light of the financial circumstances of the company, it is not probable that the receivable could be recovered.

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):

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Gross rental income	<b>189,195</b>	191,445
Less: Outgoings	<b>(31,586)</b>	(20,531)
Net rental income	<b>157,609</b>	170,914
Employee benefits expense – (Note (a)):		
Wages and salaries	<b>(159,204)</b>	(196,268)
Retirement benefits costs	<b>(3,500)</b>	(12,592)
Less: Forfeited contributions	<b>20</b>	389
Net retirement benefits costs	<b>(3,480)</b>	(12,203)
Total staff costs	<b>(162,684)</b>	(208,471)
Interest income:		
Listed investments	<b>6,534</b>	20,465
Unlisted investments	<b>790</b>	4,377
Banking operation	<b>23,916</b>	15,722
Other	<b>30,405</b>	37,929
Dividend income:		
Listed investments	<b>2,614</b>	24,006
Unlisted investments	<b>2,291</b>	3,146
Provision for impairment losses on unlisted available-for-sale financial assets	<b>(6,126)</b>	(63,016)
Other unlisted investment income	<b>725</b>	1,036
Gain/(Loss) on disposal of:		
Listed financial assets at fair value through profit or loss	<b>20,509</b>	81,426
Unlisted financial assets at fair value through profit or loss	<b>7,440</b>	(3,301)
Listed available-for-sale financial assets	<b>112,923</b>	4,127
Unlisted available-for-sale financial assets	<b>(23,520)</b>	7,605
Net fair value gain/(loss) on financial assets at fair value through profit or loss:		
Listed	<b>26,174</b>	(1,446)
Unlisted	<b>194,672</b>	78,364
Depreciation	<b>(15,675)</b>	(28,033)
Amortisation of prepaid lease payments for land	<b>–</b>	(159)
Gain/(Loss) on disposal of fixed assets	<b>(69)</b>	167
Gain/(Loss) on disposal of properties	<b>423</b>	(1,017)
Loss on disposal of prepaid lease payments for land	<b>–</b>	(6,126)
Loss on disposal of interests in an associate – (Note (b))	<b>(5,575)</b>	–
Foreign exchange gains – net	<b>10,917</b>	1,542
Cost of inventories sold	<b>(101,149)</b>	(670,110)
Auditors' remuneration	<b>(3,466)</b>	(4,734)
Minimum lease payments under operating lease rentals in respect of land and buildings	<b>(27,244)</b>	(15,941)

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The loss on disposal of interests in an associate for the year is included under "Other operating expenses" on the face of the consolidated profit and loss account.

**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:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Directors' fees	<b>1,168</b>	2,009
Basic salaries, housing and other allowances and benefits in kind	<b>9,212</b>	10,869
Discretionary bonuses paid and payable	<b>3,000</b>	5,500
Retirement benefits costs	<b>12</b>	53
	<b>13,392</b>	18,431

**(a) Independent non-executive directors**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Mr. Edwin Neo	<b>120</b>	100
Mr. King Fai Tsui	<b>180</b>	222
Mr. Victor Ha Kuk Yung	<b>200</b>	222
	<b>500</b>	544

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

**8. DIRECTORS' EMOLUMENTS** *(Continued)***(b) Executive directors and non-executive directors**

	Basic salaries, housing and other allowances and benefits in kind	Discretionary bonuses paid and payable	Retirement benefits costs	Total remuneration
Fees HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2006</b>				
Executive directors:				
Mr. James Riady	–	1,776	–	1,776
Mr. Stephen Riady	–	5,482	–	5,482
Mr. John Luen Wai Lee	29	1,954	3,000	4,995
	29	9,212	3,000	12,253
Non-executive directors:				
Dr. Mochtar Riady	240	–	–	240
Mr. Ning Gaoning	120	–	–	120
Mr. Leon Nim Leung Chan	279	–	–	279
	668	9,212	3,000	12,892
<b>2005</b>				
Executive directors:				
Mr. James Riady	–	2,429	–	2,461
Mr. Stephen Riady	–	6,475	4,000	10,475
Mr. John Luen Wai Lee	239	1,965	1,500	3,725
	239	10,869	5,500	16,661
Non-executive directors:				
Dr. Mochtar Riady	–	–	–	–
Mr. Ning Gaoning	400	–	–	400
Mr. Leon Nim Leung Chan	826	–	–	826
	1,465	10,869	5,500	17,887

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

Details of share options granted to a Director are set out in Note 34 to the financial statements.

**9. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS**

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Basis salaries, housing and other allowances and benefits in kind	<b>9,715</b>	3,406
Discretionary bonuses paid and payable	<b>32,260</b>	8,600
Retirement benefits costs	<b>86</b>	130
	<b>42,061</b>	12,136

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

	<b>Group</b>	
	<b>2006</b>	2005
<b>Emoluments bands (HK\$)</b>	<b>Number of employees</b>	Number of employees
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	–	1
5,500,001 – 6,000,000	<b>1</b>	–
6,000,001 – 6,500,000	<b>1</b>	1
11,000,001 – 11,500,000	<b>1</b>	–
19,000,001 – 19,500,000	<b>1</b>	–
	<b>4</b>	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 administrative expenses, in accordance with the rules of the schemes.

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK\$20,000 (2005 – HK\$389,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end.

**10. RETIREMENT BENEFITS COSTS** *(Continued)*

In 2005, a subsidiary acquired by the Group operated a defined benefit retirement scheme and had provided for certain post-employment benefits to its employees in Indonesia. Details are set out in Note 32 to the financial statements. The subsidiary ceased to be a subsidiary of the Group since February 2006.

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\$3,480,000 (2005 – HK\$12,203,000).

**11. FINANCE COSTS**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest on bank and other borrowings wholly repayable within five years <i>(Note)</i>	<b>76,655</b>	41,088
Interest on bank loans wholly repayable after five years <i>(Note)</i>	<b>31,743</b>	17,403
Total interest	<b>108,398</b>	58,491
Less: Interest capitalised	<b>(16,090)</b>	(6,337)
	<b>92,308</b>	52,154

*Note:* The amounts exclude interest expense incurred by a banking subsidiary of the Group.

**12. TAX**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Hong Kong:		
Charge for the year	<b>2,348</b>	1,170
Underprovisions/(Overprovisions) in prior years	<b>2,727</b>	(851)
Deferred <i>(Note 26)</i>	<b>9,151</b>	19,909
	<b>14,226</b>	20,228
Overseas:		
Charge for the year	<b>23,343</b>	31,149
Underprovisions in prior years	<b>919</b>	1,052
Deferred <i>(Note 26)</i>	<b>189,713</b>	42,422
	<b>213,975</b>	74,623
Total charge for the year	<b>228,201</b>	94,851

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.

**12. TAX** *(Continued)*

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>843,045</b>	381,524
Tax at the statutory tax rate of 17.5 per cent. (2005 – 17.5 per cent.)	<b>147,533</b>	66,767
Effect of different tax rates in other jurisdictions	<b>37,396</b>	20,369
Adjustments in respect of current tax of previous years	<b>3,646</b>	201
Income not subject to tax	<b>(33,808)</b>	(45,580)
Expenses not deductible for tax	<b>31,051</b>	36,038
Profits and losses attributable to jointly controlled entities and associates	<b>(7,312)</b>	7,880
Tax losses utilised from previous years	<b>(19,308)</b>	(6,352)
Tax losses not recognised	<b>21,627</b>	15,528
Other	<b>47,376</b>	–
Tax charge at the Group's effective rate of 27.1 per cent. (2005 – 24.9 per cent.)	<b>228,201</b>	94,851

For the companies operated in Republic of Singapore, Mainland China and Republic of the Philippines, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 20 per cent., 33 per cent. and 32 per cent. (2005 – 20 per cent., 33 per cent. and 32 per cent.), respectively.

The share of tax charge attributable to associates amounting to HK\$1,154,000 (2005 – HK\$4,135,000) and share of tax credit attributable to a jointly controlled entity amounting to HK\$1,604,000 (2005 – Nil) are included in "Share of results of associates" and "Share of results of jointly controlled entities", respectively, 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 includes a profit of HK\$129,722,000 (2005 – HK\$23,610,000) which has been dealt with in the financial statements of the Company as set out in Note 35 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\$393,629,000 (2005 – HK\$183,442,000); and (ii) the weighted average number of 9,201,089,000 ordinary shares (2005 – 9,201,089,000 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 the share options outstanding during these years had no dilutive effect on the basic earnings per share for these years.

**15. DIVIDENDS**

	<b>Group and Company</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interim dividend, declared and paid, of HK0.2 cent (2005 – HK0.2 cent) per ordinary share	<b>18,402</b>	18,402
Final dividend, proposed, of HK0.4 cent (2005 – HK0.2 cent) per ordinary share	<b>36,804</b>	18,402
	<b>55,206</b>	36,804

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

**16. GOODWILL**

	<b>Group</b>
	HK\$'000
At 1st January, 2005:	
Cost	162,455
Accumulated impairment	(83,193)
Net carrying amount	79,262
Cost at 1st January, 2005, net of accumulated impairment	79,262
Attributable to disposal of prepaid lease payments for land and fixed assets	(2,914)
Impairment during the year	(3,755)
Exchange adjustments	99
Cost and carrying amount at 31st December, 2005	72,692
At 31st December, 2005:	
Cost	159,638
Accumulated impairment	(86,946)
Net carrying amount	72,692
Cost at 1st January, 2006, net of accumulated impairment	72,692
Disposal of subsidiaries	(15,832)
Exchange adjustments	425
Cost and carrying amount at 31st December, 2006	57,285
<b>At 31st December, 2006:</b>	
<b>Cost</b>	<b>140,891</b>
<b>Accumulated impairment</b>	<b>(83,606)</b>
<b>Net carrying amount</b>	<b>57,285</b>

**16. GOODWILL** *(Continued)***Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Banking business cash-generating unit; and
- Food wholesale and distribution cash-generating unit.

*Banking business cash-generating unit*

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.

*Food wholesale and distribution cash-generating unit*

The recoverable amount allocated to the food wholesale and distribution cash-generating unit was determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Management had considered and determined the factors applied in these financial budgets included budgeted gross margins and the target growth rates. In 2005, the discount rate was assumed to be 14.4 per cent. for the value-in-use calculation, which was the target weighted average cost of capital of the business unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	<b>Banking business</b> HK\$'000	<b>Food wholesale and distribution</b> HK\$'000	<b>Total</b> HK\$'000
<b>2006</b>			
Carrying amount of goodwill	<b>57,285</b>	–	<b>57,285</b>
<b>2005</b>			
Carrying amount of goodwill	57,285	15,407	72,692



**17. FIXED ASSETS****Group**

	<b>Leasehold land and buildings</b>	<b>Leasehold improve- ments</b>	<b>2006 Furniture, fixtures, plant and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>					
At 1st January, 2006	789,273	55,699	160,433	13,367	1,018,772
Additions during the year	–	1,423	3,494	3,595	8,512
Disposal of subsidiaries	(125,666)	(756)	(83,413)	–	(209,835)
Disposals during the year	–	(235)	(419)	(158)	(812)
Exchange adjustments	3,190	256	2,733	215	6,394
<b>At 31st December, 2006</b>	<b>666,797</b>	<b>56,387</b>	<b>82,828</b>	<b>17,019</b>	<b>823,031</b>
<b>Accumulated depreciation and impairment losses:</b>					
At 1st January, 2006	513,443	49,983	96,253	6,879	666,558
Provided for the year	5,831	1,618	6,020	2,206	15,675
Disposal of subsidiaries	(70,830)	(151)	(35,141)	–	(106,122)
Disposals during the year	–	(168)	(393)	(108)	(669)
Exchange adjustments	1,967	132	1,197	90	3,386
<b>At 31st December, 2006</b>	<b>450,411</b>	<b>51,414</b>	<b>67,936</b>	<b>9,067</b>	<b>578,828</b>
<b>Net book value:</b>					
<b>At 31st December, 2006</b>	<b>216,386</b>	<b>4,973</b>	<b>14,892</b>	<b>7,952</b>	<b>244,203</b>

**17. FIXED ASSETS** (Continued)**Group**

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	2005 Furniture, fixtures, plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1st January, 2005	789,089	50,893	139,051	10,678	989,711
Additions during the year	9,325	4,877	29,265	3,315	46,782
Acquisition of subsidiary	–	–	1,055	–	1,055
Disposal of subsidiaries	–	–	(603)	–	(603)
Disposals during the year	(7,235)	–	(6,881)	(600)	(14,716)
Exchange adjustments	(1,906)	(71)	(1,454)	(26)	(3,457)
At 31st December, 2005	789,273	55,699	160,433	13,367	1,018,772
Accumulated depreciation and impairment losses:					
At 1st January, 2005	503,343	48,912	85,416	6,010	643,681
Provided for the year	10,465	1,103	15,047	1,418	28,033
Disposal of subsidiaries	–	–	(561)	–	(561)
Disposals during the year	(480)	–	(3,212)	(545)	(4,237)
Impairment during the year	1,293	–	235	–	1,528
Exchange adjustments	(1,178)	(32)	(672)	(4)	(1,886)
At 31st December, 2005	513,443	49,983	96,253	6,879	666,558
Net book value:					
At 31st December, 2005	275,830	5,716	64,180	6,488	352,214

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

The net book value of the leasehold land and buildings comprises:

	<b>Group</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Long term leasehold land and buildings situated in Hong Kong	<b>188,611</b>	193,211
Leasehold land and buildings situated outside Hong Kong under:		
Short term lease	–	13,234
Medium term leases	<b>26,267</b>	51,515
Long term leases	<b>1,508</b>	17,870
	<b>27,775</b>	82,619
Total	<b>216,386</b>	275,830

## NOTES TO THE FINANCIAL STATEMENTS

**17. FIXED ASSETS** (Continued)**Company**

	<b>2006</b>			
	<b>Leasehold improvements</b>	<b>Furniture, fixtures, plant and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>				
At 1st January, 2006	2,219	4,979	4,445	11,643
Additions during the year	25	163	–	188
<b>At 31st December, 2006</b>	<b>2,244</b>	<b>5,142</b>	<b>4,445</b>	<b>11,831</b>
<b>Accumulated depreciation:</b>				
At 1st January, 2006	2,219	4,812	3,989	11,020
Provided for the year	2	80	136	218
<b>At 31st December, 2006</b>	<b>2,221</b>	<b>4,892</b>	<b>4,125</b>	<b>11,238</b>
<b>Net book value:</b>				
<b>At 31st December, 2006</b>	<b>23</b>	<b>250</b>	<b>320</b>	<b>593</b>

  

	<b>2005</b>			
	<b>Leasehold improvements</b>	<b>Furniture, fixtures, plant and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>				
At 1st January, 2005	2,219	4,927	4,495	11,641
Additions during the year	–	52	–	52
Disposals during the year	–	–	(50)	(50)
<b>At 31st December, 2005</b>	<b>2,219</b>	<b>4,979</b>	<b>4,445</b>	<b>11,643</b>
<b>Accumulated depreciation:</b>				
At 1st January, 2005	2,219	4,748	3,904	10,871
Provided for the year	–	64	135	199
Disposals during the year	–	–	(50)	(50)
<b>At 31st December, 2005</b>	<b>2,219</b>	<b>4,812</b>	<b>3,989</b>	<b>11,020</b>
<b>Net book value:</b>				
<b>At 31st December, 2005</b>	<b>–</b>	<b>167</b>	<b>456</b>	<b>623</b>

## 18. INVESTMENT PROPERTIES

	Group	
	2006 HK\$'000	2005 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	1,045,994	924,192
Disposals during the year	(38,000)	–
Fair value adjustments	61,827	121,802
Balance at end of year	1,069,821	1,045,994
Long term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	40,000	–
Additions during the year	–	36,109
Fair value adjustments	–	3,891
Balance at end of year	40,000	40,000
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	2,153,862	1,416,284
Additions during the year	4,422	250,172
Acquisition of a subsidiary	–	336,182
Disposal of subsidiaries	(345,117)	–
Fair value adjustments	322,507	172,336
Exchange adjustments	34,673	(21,112)
Balance at end of year	2,170,347	2,153,862
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	3,971,901	3,265,261

**18. INVESTMENT PROPERTIES** *(Continued)*

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\$1,086,991,000 (2005 – HK\$1,062,794,000).

Based on professional valuations as at 31st December, 2006 made by 深圳市國眾聯資產評估土地房地產估價諮詢有限公司, 廈門同建土地房地產評估諮詢有限公司, Jones Lang LaSalle Limited, RHL Appraisal Ltd., Savills (Macau) Limited, Savills (Singapore) Pte Ltd and Professional Asset Valuers, Incorporated, the investment properties situated outside Hong Kong were revalued on an open market, existing use basis at HK\$2,884,910,000 (2005 – HK\$2,202,467,000).

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

**19. PROPERTIES UNDER DEVELOPMENT**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of year	<b>509,179</b>	256,634
Additions during the year	<b>113,723</b>	310,548
Interest capitalised during the year	–	6,337
Reclassification to properties held for sale	–	(58,920)
Exchange adjustments	<b>37,137</b>	(5,420)
Balance at end of year	<b>660,039</b>	509,179
Provisions for impairment losses:		
Balance at beginning of year and at end of year	<b>(89,000)</b>	(89,000)
	<b>571,039</b>	420,179
Less: Amount classified under current portion	<b>(369,865)</b>	–
Non-current portion	<b>201,174</b>	420,179
Land and buildings held under the following lease terms:		
Leasehold ( <i>Note</i> )	<b>139,180</b>	105,082
Freehold	<b>431,859</b>	315,097
	<b>571,039</b>	420,179

*Note:* The lease terms of the properties under development situated outside Hong Kong of HK\$117,310,000 (2005 – HK\$86,989,000) are 99 years and those of HK\$21,870,000 (2005 – HK\$18,093,000) are determined by their final intended use upon completion and vary from 40 to 70 years.

Certain properties under development have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

## 20. INTERESTS IN ASSOCIATES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets in listed companies	595,668	12,004
Share of net assets in unlisted companies	1,711,387	636,116
Goodwill arising from acquisition less impairment	185,784	4,114
Due from associates	357,720	52,916
Due to associates	(24,401)	(2,213)
	2,826,158	702,937
Provisions for impairment losses	(50,998)	(50,962)
	2,775,160	651,975
Market value of listed companies at 31st December	361,414	19,805

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment except for the balance of HK\$4,500,000 due from Maxipo International Limited which bears interest at HK\$ prime rate per annum quoted by The Hongkong and Shanghai Banking Corporation Limited. The carrying amounts of the balances are approximate to their fair values.

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.

During the year, the Group disposed of its 26.3 per cent. equity interest in Fujian Electric (Hong Kong) LDC, the principal underlying asset of which is a power plant located at Putian City in the People's Republic of China (the "PRC"), to realise a minority non-core investment for a consideration of US\$55.3 million (equivalent to approximately HK\$429.1 million).

In February 2006, the Company donated 2,380,000 shares in APG, a then subsidiary of the Company, to a PRC university (the "Donation"), resulted in an expense of approximately HK\$21 million charged to profit and loss account which represented the then book value of the donated shares. As a result of the Donation, the Group's indirect interest in APG reduced from 51.2 per cent. to 49.3 per cent. and the Group ceased control over the board of APG. Accordingly, APG ceased to be a subsidiary but became an associate of the Group.

Prior to the Donation, the assets and liabilities of APG and its subsidiaries ("APG Group") were consolidated to the Group's balance sheet on a line by line basis. Subsequent to the Donation, the Group equity accounted for the net assets of the APG Group which resulted in various reduction in the assets and liabilities of the Group. The Company continued to share the results of APG Group. Therefore, the Donation would not significantly affect APG Group's contribution to the Group. At the date of the Donation, the market value of the donated shares was approximately S\$2.6 million (equivalent to approximately HK\$12.3 million).

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

The amounts of goodwill arising from the acquisition of associates are as follows:

	<b>Group</b> HK\$'000
At 1st January, 2005:	
Cost	11,550
Accumulated impairment	(6,890)
Net carrying amount	4,660
Cost at 1st January, 2005, net of accumulated impairment	4,660
Impairment during the year	(546)
Cost and carrying amount at 31st December, 2005	4,114
At 31st December, 2005:	
Cost	11,550
Accumulated impairment	(7,436)
Net carrying amount	4,114
Cost at 1st January, 2006, net of accumulated impairment	4,114
Goodwill arising from acquisition	184,025
Disposal of an associate	(2,355)
Cost and carrying amount at 31st December, 2006	185,784
<b>At 31st December, 2006:</b>	
<b>Cost</b>	<b>193,220</b>
<b>Accumulated impairment</b>	<b>(7,436)</b>
<b>Net carrying amount</b>	<b>185,784</b>

**20. INTERESTS IN ASSOCIATES** *(Continued)***Impairment testing of goodwill arising from the acquisition of associates**

Goodwill arising from the acquisition of associates has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Banking business cash-generating unit; and
- Other business cash-generating unit.

*Banking business cash-generating unit*

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 ten-year period. The discount rate applied to the cash flow projection is 8 per cent.. The growth rate used to extrapolate the cash flows of the banking business beyond the ten-year period is assumed to be nil.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	<b>Banking business</b> HK\$'000	<b>Other business</b> HK\$'000	<b>Total</b> HK\$'000
<b>2006</b>			
Carrying amount of goodwill	<b>184,025</b>	<b>1,759</b>	<b>185,784</b>
<b>2005</b>			
Carrying amount of goodwill	–	4,114	4,114

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

	<b>Group</b>	
	<b>2006</b> HK\$'000	2005 HK\$'000
Assets	<b>17,095,958</b>	5,800,748
Liabilities	<b>(10,639,631)</b>	(3,838,936)
Revenues	<b>1,268,385</b>	1,745,531
Profit	<b>171,216</b>	143,863
	<b>Company</b>	
	<b>2006</b> HK\$'000	2005 HK\$'000
Unlisted shares, at cost	<b>1</b>	1

Details of the principal associates are set out on pages 121 to 122.



## 21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets/(liabilities) in unlisted companies	(7,883)	3,974
Goodwill arising from acquisition	1,324	1,324
Due from jointly controlled entities	212,177	7,317
	<b>205,618</b>	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 except for the balance of HK\$165,445,000 due from Tanglin Residential Pte. Ltd. which bears interest at 4.35 per cent. per annum. The carrying amounts of the balances are approximate to their fair values.

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of the jointly controlled entities' assets and liabilities:		
Current assets	521,212	5,043
Non-current assets	48,991	8,654
Current liabilities	(25,416)	(1,111)
Non-current liabilities	(552,339)	(1,936)
Net assets/(liabilities)	(7,552)	10,650
Share of the jointly controlled entities' results:		
Turnover	912	–
Total expenses	(9,975)	(423)
Loss after tax	(9,063)	(423)
Share of the jointly controlled entities' capital commitments	495,579	2,042

Details of the principal jointly controlled entities are set out on page 123.

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Financial assets stated at fair value:				
Equity securities listed in Hong Kong	–	262,666	–	–
Equity securities listed overseas	240,298	182,796	–	–
Unlisted equity securities	–	43,854	–	–
	240,298	489,316	–	–
Unlisted debt securities	12,122	18,205	12,122	11,634
Unlisted investment funds	94,442	85,963	–	–
	346,862	593,484	12,122	11,634
Financial assets stated at cost:				
Unlisted equity securities	104,778	152,075	–	–
Unlisted debt securities	39,093	38,419	7,810	7,810
Unlisted investment funds	15,461	15,461	–	–
	159,332	205,955	7,810	7,810
Provisions for impairment losses	(120,576)	(145,366)	–	–
	38,756	60,589	7,810	7,810
	385,618	654,073	19,932	19,444
Less: Amount classified under current portion	–	(217,019)	–	–
Non-current portion	385,618	437,054	19,932	19,444

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
An analysis of the issuers of available-for-sale financial assets is as follows:				
Equity securities:				
Corporate entities	345,076	641,391	–	–
Debt securities:				
Club debentures	10,975	10,975	7,810	7,810
Corporate entities	40,240	45,649	12,122	11,634
	51,215	56,624	19,932	19,444

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

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK\$84,444,000 (2005 – HK\$105,626,000) of which HK\$91,312,000 (2005 – Nil) was removed from equity and recognised in the consolidated profit and loss account for 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 technique 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 projection prepared by the investees' management. An impairment loss of HK\$6,126,000 (2005 – HK\$63,016,000) has been charged to the consolidated profit and loss account.

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Held for trading:		
Equity securities:		
Listed in Hong Kong	56,293	78,480
Listed overseas	7,345	127,164
	63,638	205,644
Debt securities:		
Listed in Hong Kong	–	1,967
Listed overseas	9,056	173,758
Unlisted	–	132,670
	9,056	308,395
Investment funds:		
Listed in Hong Kong	–	25
Listed overseas	46,030	50,913
Unlisted	342,923	287,819
	388,953	338,757
Other:		
Unlisted	5,813	53,649
	467,460	906,445
Designated as financial assets at fair value through profit or loss: (Note)		
Unlisted investment funds	466,371	268,753
	933,831	1,175,198
Less: Amount classified under current portion	(933,831)	(801,002)
Non-current portion	–	374,196

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 – nil to 14.8 per cent.) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	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	–	47,417
Corporate entities	<b>63,638</b>	158,227
	<b>63,638</b>	205,644
Debt securities:		
Central governments and central banks	–	9,289
Public sector entities	–	4,397
Banks and other financial institutions	–	97,308
Corporate entities	<b>9,056</b>	197,401
	<b>9,056</b>	308,395

**24. HELD-TO-MATURITY FINANCIAL ASSETS**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Debt securities, at amortised cost:		
Listed overseas	<b>9,582</b>	9,604
Market value of listed debt securities	<b>10,444</b>	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 the held-to-maturity financial asset is as follows:		
Banks and other financial institutions	<b>9,582</b>	9,604

**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 per cent. to 18 per cent.) per annum. The carrying amounts of loans and advances are approximate to their fair values.

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

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

**26. DEFERRED TAX**

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

**Deferred tax assets**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>1,120</b>	4,115
Credited to the profit and loss account during the year	<b>–</b>	397
Disposal of subsidiaries	<b>(1,120)</b>	(3,396)
Exchange adjustments	<b>–</b>	4
At 31st December	<b>–</b>	1,120

**26. DEFERRED TAX** *(Continued)***Deferred tax liabilities****Group**

	2006					
	Depreciation allowance in excess of related depreciation	Revaluation of properties	Fair value gains on available-for-sale financial assets	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006	7,275	324,177	5,026	(5,978)	23,752	354,252
Deferred tax charged/(credited) to the profit and loss account during the year	491	197,984	–	(983)	1,372	198,864
Deferred tax debited to equity during the year	–	–	2,921	–	–	2,921
Disposal of subsidiaries	–	–	–	–	(25,788)	(25,788)
Exchange adjustments	5	1,137	10	–	664	1,816
At 31st December, 2006	7,771	523,298	7,957	(6,961)	–	532,065

	2005					
	Depreciation allowance in excess of related depreciation	Revaluation of properties	Fair value gains on available-for-sale financial assets	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005	6,373	259,878	2,898	(5,324)	2,385	266,210
Deferred tax charged/(credited) to the profit and loss account during the year	902	64,299	(1,538)	(654)	(281)	62,728
Deferred tax debited to equity during the year	–	–	3,670	–	–	3,670
Acquisition of subsidiaries	–	–	–	–	24,224	24,224
Disposal of a subsidiary	–	–	–	–	(825)	(825)
Exchange adjustments	–	–	(4)	–	(1,751)	(1,755)
At 31st December, 2005	7,275	324,177	5,026	(5,978)	23,752	354,252

**26. DEFERRED TAX** *(Continued)*

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, associates or jointly controlled entities as the Group had no liability to additional tax should such amounts be remitted.

The Group has deductible temporary differences and tax losses of HK\$20,012,000 (2005 – HK\$26,818,000) and HK\$486,166,000 (2005 – HK\$620,246,000), respectively, 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 deductible temporary differences and tax 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.

**27. INVENTORIES**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	–	3,317
Finished goods and goods held for resale	–	136,231
	–	139,548

As at 31st December, 2005, inventories which were carried at net realisable value at the balance sheet date amounted to HK\$7,034,000.

**28. DEBTORS, PREPAYMENTS AND DEPOSITS**

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<b>HK\$'000</b>
Outstanding balances with ages:		
Repayable on demand	<b>45,809</b>	55,282
Within 30 days	<b>42,088</b>	160,921
Between 31 and 60 days	<b>1,166</b>	56,016
Between 61 and 90 days	<b>279</b>	42,269
Between 91 and 180 days	<b>155</b>	16,710
Over 180 days	<b>60</b>	2,280
	<b>89,557</b>	333,478

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 balance 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.



## 29. BANK AND OTHER BORROWINGS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loans:				
Secured (Note (a))	1,967,100	1,094,720	1,140,000	820,000
Unsecured	10,000	40,700	–	–
	1,977,100	1,135,420	1,140,000	820,000
Other borrowing:				
Unsecured (Note (b))	248,126	–	–	–
	2,225,226	1,135,420	1,140,000	820,000
Less: Amount classified under current portion	(374,276)	(173,233)	(50,000)	(30,000)
Non-current portion	1,850,950	962,187	1,090,000	790,000
Bank and other borrowings by currency:				
Hong Kong dollar	1,608,126	845,000	1,140,000	820,000
Singapore dollar	550,950	101,693	–	–
United States dollar	66,150	124,057	–	–
Australian dollar	–	23,970	–	–
Malaysian ringgit	–	40,700	–	–
	2,225,226	1,135,420	1,140,000	820,000
Bank loans repayable:				
Within one year	126,150	173,233	50,000	30,000
In the second year	270,965	100,494	50,000	30,000
In the third to fifth years, inclusive	959,985	341,693	420,000	240,000
After five years	620,000	520,000	620,000	520,000
	1,977,100	1,135,420	1,140,000	820,000
Other borrowing repayable:				
Within one year	248,126	–	–	–

The carrying amounts of the Group's and Company's bank and other borrowings are approximate to their fair values and bear interest at floating rates ranging from 4.4 per cent. to 7.3 per cent. (2005 – 3.1 per cent. to 7.6 per cent.) per annum.

Note:

- (a) At the balance sheet date, the bank loans were secured by:
- (i) shares in certain listed subsidiaries of the Group with market value of HK\$999,453,000 (2005 – HK\$864,911,000);
  - (ii) first legal mortgages over certain investment properties, leasehold land and buildings and properties under development with carrying amounts of HK\$3,641,729,000 (2005 – HK\$2,239,409,000), HK\$188,609,000 (2005 – HK\$193,210,000) and HK\$369,865,000 (2005 – HK\$218,441,000); and
  - (iii) certain securities of the Group with carrying amounts of HK\$46,710,000 (2005 – Nil), respectively.

The bank loans as at 31st December, 2005 were also secured by properties held for sale with carrying amount of HK\$55,718,000 and certain securities owned by margin clients of the Group.

- (b) The Group's other borrowing was advanced from Lippo Limited ("Lippo"), an intermediate holding company of the Company, which is repayable on or before 31st December, 2007.

**30. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED**

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Outstanding balances with ages:		
Repayable on demand	<b>637,965</b>	495,639
Within 30 days	<b>114,178</b>	149,047
Between 31 and 60 days	<b>195</b>	21,603
Between 61 and 90 days	<b>–</b>	4,544
Between 91 and 180 days	<b>50</b>	6,744
Over 180 days	<b>–</b>	1,178
	<b>752,388</b>	678,755

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.

**31. 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.

**32. DEFINED-BENEFIT PENSION OBLIGATION**

A subsidiary acquired by the Group in 2005 has provided for certain post-employment benefits to its employees in Indonesia. These benefits are unfunded and are determined based on years of service and salaries of employees at the time of pension.

The following tables summarise the components of the amount recognised in the profit and loss account and in the balance sheet for the defined-benefit pension obligation.

The amounts recognised in the consolidated profit and loss account were as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current service cost	<b>(38)</b>	(1,177)
Interest cost on benefit obligation	<b>(29)</b>	(518)
Effect of curtailment	<b>–</b>	4,613
Net actuarial gain recognised	<b>–</b>	943
	<b>(67)</b>	3,861

**32. DEFINED-BENEFIT PENSION OBLIGATION** *(Continued)*

The effect of curtailment for the financial year ended 31st December, 2005 was the result of a reduction in the defined-benefit pension obligation due to the reduction in the number of employees and changes in the employees covered by the plan.

A reconciliation of the amount of defined-benefit pension obligation presented in the balance sheet is as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Present value of unfunded defined-benefit pension obligation	–	1,427
Unrecognised net actuarial gain	–	635
Defined-benefit pension obligation	–	2,062

Movement of the defined-benefit liability in the balance sheet are as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Balance at 1st January	<b>2,062</b>	–
Arising from acquisition of a subsidiary company	–	6,570
Reduction in defined-benefit pension obligation	<b>67</b>	(3,861)
Benefits paid during the year	–	(210)
Exchange adjustments	<b>14</b>	(437)
Disposal of subsidiaries	<b>(2,143)</b>	–
Balance at 31st December	–	2,062

The principal actuarial assumptions used in valuation of the defined-benefit pension obligation are as follows:

	<b>Group</b>	
	<b>2006</b>	2005
Discount rate	<b>10.5 per cent.</b>	12.5 per cent.
Future salary increases	<b>10.0 per cent.</b>	10.0 per cent.
Turnover rate per annum <sup>(1)</sup>	<b>4 – 5 per cent.</b>	4 – 5 per cent.
Mortality table <sup>(2)</sup>	<b>100 per cent.</b>	100 per cent.
Mortality rate <sup>(2)</sup>	<b>5 per cent.</b>	5 per cent.

<sup>(1)</sup> Based on 5 per cent. until age 30 then 4 per cent. for age 31 onwards.

<sup>(2)</sup> Based on 1999 Indonesian Mortality table.

The normal pension age is assumed to be 55 years for non-staff members and 60 years for staff members.

**33. SHARE CAPITAL**

	<b>Group and Company</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
28,000,000,000 (2005 – 28,000,000,000) ordinary shares of HK\$0.10 each	<b>2,800,000</b>	2,800,000
<i>Issued and fully paid:</i>		
9,201,088,716 (2005 – 9,201,088,716) ordinary shares of HK\$0.10 each	<b>920,109</b>	920,109

**34. SHARE OPTIONS**

Pursuant to the Share Option Scheme for Employees of the Company (the "Share Option Scheme") approved and adopted by its shareholders on 2nd May, 1994 (the "Adoption Date"), the Directors of the Company might, at their discretion, grant to any employees (including Directors) of the Company and its subsidiaries options to subscribe for shares in the Company. The purpose of the adoption of the Share Option Scheme was to provide an incentive scheme to the employees of the Company and its subsidiaries. Under the rules of the Share Option Scheme, no more options could be granted from the tenth anniversary of the Adoption Date. Accordingly, no more options can be granted under the Share Option Scheme from May 2004. The options can be exercisable after two months from the date on which the options were deemed to be granted and accepted and prior to the expiry of ten years from that date.

The maximum number of shares in respect of which options might be granted under the Share Option Scheme should not exceed 10 per cent. of the number of issued shares of the Company from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options might be granted under the Share Option Scheme in any one financial year should not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options might be granted under the Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares subject to the Share Option Scheme at the time of grant. The exercise price for the shares under the Share Option Scheme would be determined by the Directors of the Company at their absolute discretion but in any event should not be less than 80 per cent. of the average of the closing price of the shares of the Company as stated on daily quotation sheets of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever was the greater. The consideration for the grant was HK\$1.00 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

**34. SHARE OPTIONS** *(Continued)*

The following is a summary of movement in share options of the Company during the year:

<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Exercise period of share options</b>	<b>Quantity of share options outstanding at 1st January, 2006</b>	<b>Quantity of share options exercised/lapsed during the year</b>	<b>Quantity of share options outstanding at 31st December, 2006</b>
23rd June, 1997	HK\$0.883	August 1997 to June 2007	5,800,000	1,500,000	4,300,000

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each share option is entitled to subscribe for six ordinary shares of HK\$0.10 each in the Company in cash at the above exercise price per share which is subject to adjustment.

During the year, 1,500,000 outstanding share options granted to a former director of certain subsidiaries of the Company lapsed with effect from 1st December, 2006, being six months after his resignation, pursuant to the rules of the Share Option Scheme. As at 31st December, 2006, save for Mr. John Luen Wai Lee, a Director of the Company, held 1,500,000 options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any options to subscribe for shares of the Company. The remaining 2,800,000 share options are held by directors of the Company's subsidiaries or employees of the Company or its subsidiaries.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 920,108,871 shares of HK\$0.10 each, representing approximately 10 per cent. of the issued share capital of the Company. The exercise in full of 4,300,000 share options would, under the capital structure of the Company as at 31st December, 2006, result in the issue of 25,800,000 shares of HK\$0.10 each, representing approximately 0.28 per cent. of the issued share capital of the Company and cash proceeds, before expenses, of HK\$22,781,000.

Since no share options were granted under the Share Option Scheme during the year, no value of the share options granted has been disclosed.

**35. RESERVES****Group**

	Share premium account HK\$'000	Special capital reserve (Note (a)) HK\$'000	Legal reserve (Note (b)) HK\$'000	Investment reserve HK\$'000	Exchange equalisation reserve HK\$'000	Regulatory reserve (Note (c)) HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1st January, 2006	785,257	2,075,948	2,192	79,154	(135,010)	845	1,255,120	4,063,506	1,824,872
Net fair value gain on available-for-sale financial assets	-	-	-	77,043	-	-	-	77,043	7,401
Deferred tax arising from net fair value gain on available-for-sale financial assets	-	-	-	(2,111)	-	-	-	(2,111)	(810)
Derecognition of available-for-sale financial assets	-	-	-	(67,099)	-	-	-	(67,099)	(24,213)
Transfer of reserve	-	-	669	-	-	68	(737)	-	-
Share of reserves of associates and jointly controlled entities	-	-	-	28,043	38,408	-	-	66,451	21,293
Advances from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	41,384
Changes in interests in subsidiaries	-	-	-	-	-	-	-	-	(303)
Issue of shares by subsidiaries to minority shareholders	-	-	-	-	-	-	-	-	1,051
Acquisition of shares in a subsidiary from a minority shareholder	-	-	-	-	-	-	-	-	(258)
Deconsolidation of subsidiaries	-	-	-	-	1,281	-	-	1,281	(708,131)
Exchange realignment	-	-	-	-	86,864	-	-	86,864	46,502
Profit for the year	-	-	-	-	-	-	393,629	393,629	221,215
2005 final dividend, declared and paid to shareholders of the Company	-	-	-	-	-	-	(18,402)	(18,402)	-
2005 final distribution, declared and paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(11,208)
2006 interim dividend, declared and paid to shareholders of the Company	-	-	-	-	-	-	(18,402)	(18,402)	-
2006 interim distribution, declared and paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(5,604)
<b>At 31st December, 2006</b>	<b>785,257</b>	<b>2,075,948</b>	<b>2,861</b>	<b>115,030</b>	<b>(8,457)</b>	<b>913</b>	<b>1,611,208</b>	<b>4,582,760</b>	<b>1,413,191</b>

**35. RESERVES** (Continued)**Group**

	Share premium account  HK\$'000	Special Capital reserve (Note (a)) HK\$'000	Legal reserve (Note (b)) HK\$'000	Investment reserve HK\$'000	Exchange equalisation reserve HK\$'000	Regulatory reserve (Note (c)) HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1st January, 2005	785,257	2,075,948	1,485	–	(161,716)	–	1,110,034	3,811,008	1,698,989
Net fair value gain on available-for-sale financial assets	–	–	–	81,806	–	–	–	81,806	23,820
Deferred tax arising from net fair value gain on available-for-sale financial assets	–	–	–	(2,652)	–	–	–	(2,652)	(1,018)
Transfer of reserve	–	–	707	–	–	845	(1,552)	–	–
Advances from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	47,612
Changes in interests in subsidiaries	–	–	–	–	–	–	–	–	(4,216)
Issue of shares by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	6,128
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	77,188
Deconsolidation of subsidiaries	–	–	–	–	30,123	–	–	30,123	(73,309)
Exchange realignment	–	–	–	–	(3,417)	–	–	(3,417)	(22,392)
Profit for the year	–	–	–	–	–	–	183,442	183,442	103,231
2004 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	(18,402)	(18,402)	–
2004 final dividend and distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(25,557)
2005 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	(18,402)	(18,402)	–
2005 interim distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(5,604)
At 31st December, 2005	785,257	2,075,948	2,192	79,154	(135,010)	845	1,255,120	4,063,506	1,824,872

**35. RESERVES** (Continued)

Note:

**(a) Special capital reserve**

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the subsequent confirmation by the court on 22nd December, 1997, the then entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation"). The credit arising from the Cancellation was transferred to a special capital reserve account.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the subsequent confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to approximately HK\$306,699,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,226,799,000 was cancelled and transferred to a special capital reserve account.

**(b) Legal reserve**

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.

**(c) Regulatory reserve**

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.

**Company**

	Share premium account HK\$'000	Special capital reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2006	783,382	2,075,948	705	2,689	595,588	3,458,312
Net fair value gain on available-for-sale financial assets	–	–	–	487	–	487
Profit for the year (Note 13)	–	–	–	–	129,722	129,722
2005 final dividend, declared and paid to shareholders of the Company	–	–	–	–	(18,402)	(18,402)
2006 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	(18,402)	(18,402)
<b>At 31st December, 2006</b>	<b>783,382</b>	<b>2,075,948</b>	<b>705</b>	<b>3,176</b>	<b>688,506</b>	<b>3,551,717</b>
At 1st January, 2005	783,382	2,075,948	705	–	608,782	3,468,817
Net fair value gain on available-for-sale financial assets	–	–	–	2,689	–	2,689
Profit for the year (Note 13)	–	–	–	–	23,610	23,610
2004 final dividend, declared and paid to shareholders of the Company	–	–	–	–	(18,402)	(18,402)
2005 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	(18,402)	(18,402)
At 31st December, 2005	783,382	2,075,948	705	2,689	595,588	3,458,312

At 31st December, 2006, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$688,506,000 (2005 – HK\$595,588,000). As at 31st December, 2006, other distributable reserves amounted to HK\$2,075,948,000 (2005 – HK\$2,075,948,000).

Included in the retained profits of the Group and the Company at 31st December, 2006 was an amount of a proposed final dividend for the year then ended of HK\$36,804,000 (2005 – HK\$18,402,000) declared after the balance sheet date.



**36. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Investments at cost:		
Unlisted shares	<b>178,383</b>	178,383
Shares listed in Hong Kong	<b>242,754</b>	242,754
	<b>421,137</b>	421,137
Due from subsidiaries	<b>7,556,266</b>	7,291,442
Due to subsidiaries	<b>(1,208,296)</b>	(1,339,681)
	<b>6,769,107</b>	6,372,898
Provisions for impairment losses	<b>(1,367,931)</b>	(1,367,782)
	<b>5,401,176</b>	5,005,116
Market value of listed shares at 31st December	<b>173,247</b>	149,926

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

The listed shares have been mortgaged to secure banking facilities made available to the Company.

Details of the principal subsidiaries are set out on pages 111 to 120.

During the year, the Group commenced its department store businesses under a domestic limited liability company incorporated in the PRC. Through a series of contractual arrangements, the Group is the primary beneficiary of the domestic company to operate and manage the department stores in the PRC.

**37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before tax to cash from operations**

		<b>Group</b>	
	<i>Note</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Profit before tax		<b>843,045</b>	381,524
Adjustments for:			
Share of results of associates		<b>(50,845)</b>	44,608
Share of results of jointly controlled entities		<b>9,063</b>	423
Loss/(Gain) on disposal of:			
Fixed assets	7	<b>69</b>	(167)
Investment properties		<b>281</b>	–
Prepaid lease payments for land		–	6,126
Interests in subsidiaries	38	<b>(848)</b>	9,234
Interests in an associate	7	<b>5,575</b>	–
Available-for-sale financial assets		<b>(89,403)</b>	(11,732)
Provisions for impairment losses:			
Associates		–	10,587
Properties held for sale		–	8,276
Fixed assets		–	1,528
Available-for-sale financial assets	7	<b>6,126</b>	63,016
Goodwill		–	3,755
Fair value gains on investment properties		<b>(547,627)</b>	(300,710)
Net fair value gain on financial assets at fair value through profit or loss		<b>(220,846)</b>	(76,918)
Amortisation of prepaid lease payments for land	7	–	159
Changes in interests in subsidiaries		<b>(303)</b>	(4,216)
Allowance for bad and doubtful debts		<b>33,854</b>	31,075
Provision for inventories		–	6,775
Interest expenses	11	<b>92,308</b>	52,154
Interest income		<b>(61,645)</b>	(78,493)
Dividend income		<b>(4,905)</b>	(27,152)
Depreciation	7	<b>15,675</b>	28,033
Net loss/(gain) on defined-benefit pension obligation		<b>67</b>	(3,861)
Excess over cost of business combination		–	(36,854)
Effect of the Donation	38	<b>21,005</b>	–
Operating profit before working capital changes		<b>50,646</b>	107,170

## NOTES TO THE FINANCIAL STATEMENTS

**37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)***(a) Reconciliation of profit before tax to cash from operations** *(Continued)*

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Decrease in properties held for sale	<b>33,604</b>	5,524
Decrease/(Increase) in inventories	<b>11,028</b>	(42,672)
Decrease in held-to-maturity financial assets	<b>22</b>	39
Decrease in financial assets at fair value through profit or loss	<b>244,221</b>	353,109
Decrease/(Increase) in loans and advances	<b>(31,124)</b>	20,878
Increase in debtors, prepayments and deposits	<b>(70,259)</b>	(35,049)
Increase in client trust bank balances	<b>(138,445)</b>	(55,337)
Increase in creditors, accruals and deposits received	<b>238,897</b>	52,053
Decrease in defined-benefit pension obligation	–	(210)
Increase/(Decrease) in current, fixed, savings and other deposits of customers	<b>188,778</b>	(898)
Cash generated from operations	<b>527,368</b>	404,607

**38. DISPOSAL OF SUBSIDIARIES**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Goodwill	<b>15,832</b>	–
Fixed assets	<b>103,713</b>	42
Investment properties	<b>345,117</b>	–
Interests in associates	<b>120,197</b>	–
Available-for-sale financial assets	<b>15,505</b>	4,575
Financial asset at fair value through profit or loss	<b>218,279</b>	42,431
Loans and advances	–	1,525
Deferred tax assets	<b>1,120</b>	3,396
Inventories	<b>132,377</b>	–
Cash and bank balances	<b>339,112</b>	224,116
Debtors, prepayments and deposits	<b>254,324</b>	768
Bank loans	<b>(28,113)</b>	–
Creditors, accruals and deposits received	<b>(181,238)</b>	(12,670)
Tax payable	<b>(12,808)</b>	–
Defined-benefit pension obligation	<b>(2,143)</b>	–
Deferred tax liabilities	<b>(25,788)</b>	(825)
Release of exchange equalisation reserve	<b>1,281</b>	30,123
Minority interests	<b>(708,131)</b>	(73,309)
	<b>588,636</b>	220,172
Gain/(Loss) on disposal	<b>848</b>	(9,234)
Effect of the Donation (Note 20)	<b>(21,005)</b>	–
	<b>568,479</b>	210,938
Satisfied by:		
Cash consideration received	<b>55,660</b>	191,158
Increase in interests in associates	<b>512,532</b>	12,004
Increase in available-for-sale financial assets	–	7,776
Increase in financial assets at fair value through profit or loss	<b>287</b>	–
	<b>568,479</b>	210,938

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Cash consideration received	<b>55,660</b>	191,158
Cash and bank balances disposed of	<b>(339,112)</b>	(224,116)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>(283,452)</b>	(32,958)

## NOTES TO THE FINANCIAL STATEMENTS

**39. 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
<b>At 31st December, 2006</b>							
<b>Assets</b>							
Debt securities:							
Held-to-maturity financial assets	-	-	-	-	9,582	-	9,582
Available-for-sale financial assets	-	-	-	8,371	12,122	30,722	51,215
Financial assets at fair value through profit or loss	-	-	-	-	976	8,080	9,056
Loans and advances	110,599	116,151	54,737	10,740	16,326	-	308,553
Client trust bank balances	52,417	530,488	-	-	-	-	582,905
Treasury bills	-	194,970	-	-	-	-	194,970
Cash and bank balances	223,903	496,864	-	-	-	-	720,767
	<b>386,919</b>	<b>1,338,473</b>	<b>54,737</b>	<b>19,111</b>	<b>39,006</b>	<b>38,802</b>	<b>1,877,048</b>
<b>Liabilities</b>							
Bank and other borrowings	-	76,150	298,126	1,230,950	620,000	-	2,225,226
Current, fixed, savings and other deposits of customers	107,747	194,458	3,316	-	-	-	305,521
	<b>107,747</b>	<b>270,608</b>	<b>301,442</b>	<b>1,230,950</b>	<b>620,000</b>	<b>-</b>	<b>2,530,747</b>
<b>At 31st December, 2005</b>							
<b>Assets</b>							
Debt securities:							
Held-to-maturity financial assets	-	-	-	-	9,604	-	9,604
Available-for-sale financial assets	-	3,123	-	7,697	15,082	30,722	56,624
Financial assets at fair value through profit or loss	-	4,665	39,393	180,823	75,372	8,142	308,395
Loans and advances	138,483	62,255	44,260	12,642	17,333	6,729	281,702
Client trust bank balances	21,150	423,310	-	-	-	-	444,460
Treasury bills	-	15,520	-	-	-	-	15,520
Cash and bank balances	525,725	762,975	-	-	-	-	1,288,700
	<b>685,358</b>	<b>1,271,848</b>	<b>83,653</b>	<b>201,162</b>	<b>117,391</b>	<b>45,593</b>	<b>2,405,005</b>
<b>Liabilities</b>							
Bank and other borrowings	-	65,700	107,533	442,187	520,000	-	1,135,420
Current, fixed, savings and other deposits of customers	43,601	71,643	1,499	-	-	-	116,743
	<b>43,601</b>	<b>137,343</b>	<b>109,032</b>	<b>442,187</b>	<b>520,000</b>	<b>-</b>	<b>1,252,163</b>

**40. CONTINGENT LIABILITIES**

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

**(a) Guarantees in respect of banking facilities**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Guarantees provided in respect of banking facilities granted to:				
An associate	<b>402</b>	977	<b>402</b>	977
An investee company	<b>746</b>	914	<b>746</b>	914
	<b>1,148</b>	1,891	<b>1,148</b>	1,891

**(b) Details of the off-balance sheet exposures relating to banking operation**

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).

**41. OPERATING LEASE ARRANGEMENTS****(a) As lessor**

The Group leases its investment properties and properties held for sale under operating lease arrangements with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the 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:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>151,243</b>	158,034
In the second to fifth years, inclusive	<b>83,127</b>	119,425
After five years	<b>–</b>	61,499
	<b>234,370</b>	338,958

**41. OPERATING LEASE ARRANGEMENTS** *(Continued)***(b) As lessee**

The Group leases certain properties under operating lease agreements which are non-cancellable. The leases expire on various dates until 31st December, 2027 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 falling due as follows:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>28,747</b>	19,931
In the second to fifth years, inclusive	<b>152,332</b>	29,248
After five years	<b>500,916</b>	43,415
	<b>681,995</b>	92,594

**42. CAPITAL COMMITMENTS**

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	<b>310,888</b>	61,168
Other capital commitments:		
Contracted, but not provided for <i>(Note)</i>	<b>542,251</b>	1,944,869
	<b>853,139</b>	2,006,037

*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 the Republic of Singapore and the PRC of approximately HK\$402 million (2005 – HK\$464 million).

The balance as at 31st December, 2005 included the Group's capital commitment 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).

**43. RELATED PARTY TRANSACTIONS**

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

- (a) As at 31st December, 2006, the Group had balances with its associates and jointly controlled entities, further details of which are set out in Notes 20 and 21 to the financial statements, respectively.
- (b) During the year, the Group received rental income from Lippo Limited (“Lippo”), an intermediate holding company of the Company, of HK\$2,977,000 (2005 – HK\$2,977,000). The rental was determined by reference to open market rentals.
- (c) During the year, ImPac Asset Management (HK) Limited, a non-wholly owned subsidiary of the Company, received investment advisory income from Lippo ASM Investment Management Limited, being an associate of the Group, amounted to HK\$11,287,000 (2005 – HK\$4,112,000).
- (d) During the year, Hongkong Chinese Limited (“HCL”), a non-wholly owned subsidiary of the Company, paid finance costs to Lippo of HK\$8,348,000 (2005 – Nil) in respect of the loans advanced to HCL. The balances of which are set out in Note 29 to the financial statements.
- (e) During the year, a wholly-owned subsidiary of HCL 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) During the period up to the date when APG ceased to be a subsidiary of the Company, PT Duta Wisata Loka, a subsidiary of APG and the then non-wholly owned subsidiary of the Company, received rental, service charges and outgoings from PT Matahari Putra Prima Tbk and PT Matahari Graha Fantasi, indirect non-wholly owned subsidiaries of Lippo Cayman Limited (“Lippo Cayman”), amounted to HK\$2,211,000 (2005 – HK\$6,573,000) and HK\$218,000 (2005 – HK\$635,000) respectively. Lippo Cayman is the ultimate holding company of the Company and the Directors’ interest therein are separately reported.

The transactions referred to items (b) and (f) above are/were 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 “Connected Transactions and Continuing Connected Transactions” in the Report of the Directors.

In respect of the above transactions, the relationships between the Company and Lippo, both are publicly listed companies in Hong Kong, and the ultimate holding company of which is Lippo Cayman, are defined, and the Directors’ interests therein are separately reported.



**44. 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.

**(i) 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 a number of factors, including but not limiting to, the credit rating requirements, the maximum exposure limit to a single corporate or issuers; 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.

**(ii) 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.

**44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(Continued)***(iii) 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.

**(iv) 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, swaps 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.

**(v) 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.

**45. POST BALANCE SHEET EVENTS**

- (a) On 8th February, 2007, the Group gave notice to Ferrell Asset Management Limited (“Ferrell Management”), a discretionary investment manager, to terminate the discretionary management arrangement made between Ferrell Management and the Group. Due to the termination, Ferrell Management effected the redemption of a real estate fund. In March 2007, net proceed of the redemption of approximately HK\$470 million was returned to the Group.
- (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 86.25 per cent. equity interest in 同仁醫療管理集團有限公司 (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 stating that the shareholders’ agreement was terminated and to demand repayment of the shareholder’s loan. Up to the date of the notices, a shareholder’s loan of HK\$99 million has been made by the Group to the Joint Venture.

- (c) On 9th April, 2007, a wholly-owned subsidiary of the Company entered into an agreement to lease a commercial property at 128 Nanjing Road, He Ping District, Tianjin City, the PRC with a gross floor area of approximately 97,613 square metres. The leased premises would be used to operate a shopping and entertainment centre and a department store.
- (d) During the 5th Session of the 10th National People’s Congress, which was concluded on 16th March, 2007, the PRC Corporate Income Tax Law (the “New Corporate Income Tax Law”) was approved and will become effective on 1st January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25 per cent. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

**46. 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.

**47. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 24th April, 2007.