NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Lippo 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 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries, associates and jointly controlled entities are principally engaged in investment holding, property investment and development, 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 Lippo Capital Limited which is incorporated in the Cayman Islands. In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

2.1 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, directly or indirectly, controls more than half of its voting power on 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.

NOTES TO THE FINANCIAL STATEMENTS

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 dividend received and receivable. The Company's interests in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

(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 of the net fair values 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 the 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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 receivable 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 to 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 $^{1}/_{3}$ per cent.
Motor vehicles	12 per cent. to 25 per cent.

When 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 asset is derecognised upon disposal or when no future economic benefits are expected from its used 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.

NOTES TO THE FINANCIAL STATEMENTS

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 market place.

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 and 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 and 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 on 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 for modification is treated as a derecognition of the original liability and the 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) sales 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, carry forward 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 carry forward 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 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 markets for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) the recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

4. SEGMENT INFORMATION

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

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

Descriptions of the business segments are as follows:

(a) the 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.

4. SEGMENT INFORMATION *(Continued)*

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

Group

	2006								
	Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Food businesses HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue									
External	29,657	241,144	964,630	138,856	95,614	28,965	50,797	–	1,549,663
Inter-segment	23,224	8,071	–	–	1,065	–	7,274	(39,634)	–
Total	52,881	249,215	964,630	138,856	96,679	28,965	58,071	(39,634)	1,549,663
Segment results	42,668	689,563	331,186	400	17,616	7,271	(36,178)	(29,707)	1,022,819
Unallocated corporate expenses									(157,583)
Finance costs									(82,476)
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									824,542
Tax									(228,293)
Profit for the year									596,249

4. SEGMENT INFORMATION *(Continued)*

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

Group

	Treasury investment	Property investment and development	Securities investment	Food businesses *(Note)*	Corporate finance and securities broking	Banking business	Other	Inter-segment elimination	Consolidated
	2006								
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities									
Segment assets	630,060	4,695,491	1,331,357	–	786,732	541,361	42,408	–	8,027,409
Interests in associates	–	1,847,403	–	–	814	184,025	742,953	–	2,775,195
Interests in jointly controlled entities	–	201,961	–	–	–	–	3,657	–	205,618
Unallocated assets									233,978
Total assets									11,242,200
Segment liabilities	–	1,603,101	196,023	–	767,974	308,875	359,055	(2,023,984)	1,211,044
Unallocated liabilities									3,165,749
Total liabilities									4,376,793
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	–	–	219,923	–	–	–	–	–	219,923
Fair value gains on investment properties	–	547,627	–	–	–	–	–	–	547,627
Unallocated:									
Capital expenditure									3,869
Depreciation									(5,950)

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.

4. SEGMENT INFORMATION *(Continued)*

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

Group

	2005								
	Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Food businesses HK$'000	Corporate finance and securities broking HK$'000	Banking business HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue									
External	38,150	195,474	1,210,517	871,016	59,391	18,076	22,996	–	2,415,620
Inter-segment	970	9,110	–	–	999	–	2,898	(13,977)	–
Total	39,120	204,584	1,210,517	871,016	60,390	18,076	25,894	(13,977)	2,415,620
Segment results	34,845	461,883	128,333	11,654	(25,646)	6,638	(1,973)	(8,783)	606,951
Unallocated corporate expenses									(142,090)
Finance costs									(47,399)
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									372,431
Tax									(94,832)
Profit for the year									277,599

4. SEGMENT INFORMATION *(Continued)*

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

Group

	2005								
	Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Food businesses HK$'000	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	1,229,618	3,845,238	1,771,662	467,730	663,002	372,452	39,948	–	8,389,650
Interests in associates	–	163,125	–	–	814	–	488,036	–	651,975
Interests in jointly controlled entities	–	7,000	–	–	–	–	5,615	–	12,615
Unallocated assets									395,458
Total assets									9,449,698
Segment liabilities	–	1,561,336	184,233	207,364	625,899	120,071	302,537	(1,857,703)	1,143,737
Unallocated liabilities									1,549,649
Total liabilities									2,693,386
Other segment information:									
Capital expenditure	–	3,889	13,928	12,593	801	8,123	1,193	–	40,527
Depreciation and amortization	–	(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	–	–	77,108	–	–	–	–	–	77,108
Fair value gains on investment properties	–	300,710	–	–	–	–	–	–	300,710
Unallocated:									
Capital expenditure									6,255
Depreciation									(7,550)

4. SEGMENT INFORMATION *(Continued)*

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

Group

	2006							
	Hong Kong HK$'000	Macau HK$'000	Republic of Singapore HK$'000	Malaysia HK$'000	Japan HK$'000	Mainland China HK$'000	Other HK$'000	Consolidated HK$'000
Revenue	**713,655**	**28,965**	**344,573**	**34,127**	**58,509**	**136,694**	**233,140**	**1,549,663**
Segment assets	**2,627,869**	**895,717**	**1,904,168**	**–**	**63,753**	**2,180,229**	**589,651**	**8,261,387**
Interests in associates	**40,500**	**–**	**2,404,217**	**2,258**	**–**	**111,978**	**216,242**	**2,775,195**
Interests in jointly controlled entities	**–**	**–**	**191,887**	**–**	**–**	**–**	**13,731**	**205,618**
Total assets								**11,242,200**
Capital expenditure	**3,396**	**350**	**3,268**	**–**	**–**	**625**	**873**	**8,512**

	2005							
	Hong Kong HK$'000	Macau HK$'000	Republic of Singapore HK$'000	Malaysia HK$'000	Japan HK$'000	Mainland China HK$'000	Other HK$'000	Consolidated HK$'000
Revenue	288,427	18,076	1,138,488	207,210	278,135	107,732	377,552	2,415,620
Segment assets	2,881,150	645,969	1,831,156	163,889	150,219	1,854,668	1,258,057	8,785,108
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								9,449,698
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	**29,657**	38,150
Property investment and development	**241,144**	195,474
Securities investment	**964,630**	1,210,517
Food businesses	**138,856**	871,016
Corporate finance and securities broking	**95,614**	59,391
Banking business	**28,965**	18,076
Other	**50,797**	22,996
	1,549,663	2,415,620

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

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

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

The 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.

7. PROFIT BEFORE TAX

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

	Group	
	2006	2005
	HK$'000	HK$'000
Gross rental income	**186,252**	188,503
Less: Outgoings	**(31,586)**	(20,531)
Net rental income	**154,666**	167,972
Employee benefits expense – *(Note (a))*:		
Wages and salaries	**(162,116)**	(200,126)
Retirement benefits costs	**(3,578)**	(12,670)
Less: Forfeited contributions	**20**	389
Net retirement benefits costs	**(3,558)**	(12,281)
Total staff costs	**(165,674)**	(212,407)
Interest income:		
Listed investments	**6,534**	20,465
Unlisted investments	**790**	4,377
Banking operation	**23,916**	15,722
Other	**30,750**	38,428
Dividend income:		
Listed investments	**2,619**	24,109
Unlisted investments	**2,291**	3,146
Provision for impairment losses on unlisted available-for-sale financial assets	**(6,126)**	(63,016)
Other unlisted investment income	**725**	1,036
Gain/(Loss) on disposal of:		
Listed financial assets at fair value through profit or loss	**20,509**	81,430
Unlisted financial assets at fair value through profit or loss	**7,440**	(3,301)
Listed available-for-sale financial assets	**112,923**	5,259
Unlisted available-for-sale financial assets	**(23,520)**	9,898
Net fair value gain/(loss) on financial assets at fair value through profit or loss:		
Listed	**25,251**	(1,256)
Unlisted	**194,672**	78,364
Depreciation	**(15,676)**	(28,035)
Amortisation of prepaid lease payments for land	**–**	(159)
Gain/(Loss) on disposal of fixed assets	**(69)**	167
Gain/(Loss) on disposal of properties	**423**	(1,017)
Loss on disposal of prepaid lease payments for land	**–**	(6,126)
Loss on disposal of interests in an associate – *(Note (b))*	**(5,575)**	–
Foreign exchange gains – net	**10,887**	1,532
Cost of inventories sold	**(101,149)**	(670,110)
Auditors' remuneration	**(3,984)**	(5,154)
Minimum lease payments under operating lease rentals in respect of land and buildings	**(27,244)**	(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:

	Group	
	2006	2005
	HK$'000	HK$'000
Directors' fees	**1,250**	1,969
Basic salaries, housing and other allowances and benefits in kind	**16,967**	13,598
Discretionary bonuses paid and payable	**3,000**	5,500
Retirement benefits costs	**95**	111
	21,312	21,178

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Mr. Edwin Neo	**240**	200
Mr. King Fai Tsui	**271**	302
Mr. Victor Ha Kuk Yung	**301**	302
	812	804

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 a non-executive director

	Fees HK$'000	Basic salaries, housing and other allowances and benefits in kind HK$'000	Discretionary bonuses paid and payable HK$'000	Retirement benefits costs HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Stephen Riady	**–**	**7,454**	**–**	**–**	**7,454**
Mr. John Luen Wai Lee	**29**	**1,954**	**3,000**	**12**	**4,995**
Mr. Jark Pui Lee	**–**	**1,201**	**–**	**78**	**1,279**
Mr. David T. Yeh	**–**	**6,358**	**–**	**5**	**6,363**
	29	**16,967**	**3,000**	**95**	**20,091**
Non-executive director:					
Mr. Leon Nim Leung Chan	**409**	**–**	**–**	**–**	**409**
	438	**16,967**	**3,000**	**95**	**20,500**
2005					
Executive directors:					
Mr. Stephen Riady	–	8,446	4,000	–	12,446
Mr. John Luen Wai Lee	239	1,965	1,500	21	3,725
Mr. Jark Pui Lee	–	1,041	–	78	1,119
Mr. David T. Yeh	–	2,146	–	12	2,158
	239	13,598	5,500	111	19,448
Non-executive director:					
Mr. Leon Nim Leung Chan	926	–	–	–	926
	1,165	13,598	5,500	111	20,374

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

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

NOTES TO THE FINANCIAL STATEMENTS

9. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

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

	Group	
	2006	2005
	HK$'000	HK$'000
Basic salaries, housing and other allowances and benefits in kind	**3,357**	3,406
Discretionary bonuses paid and payable	**32,260**	8,600
Retirement benefits costs	**81**	130
	35,698	12,136

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

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

10. RETIREMENT BENEFITS COSTS

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

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future 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$3,558,000 (2005 – HK$12,281,000).

11. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years *(Note)*	**80,414**	43,696
Interest on bank loans wholly repayable after five years *(Note)*	**31,743**	17,403
Total interest	**112,157**	61,099
Less: Interest capitalised	**(16,090)**	(6,337)
	96,067	54,762

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

12. TAX

	Group	
	2006	2005
	HK$'000	HK$'000
Hong Kong:		
Charge for the year	**2,351**	1,170
Underprovisions/(Overprovisions) in prior years	**2,727**	(851)
Deferred *(Note 26)*	**9,240**	19,890
	14,318	20,209
Overseas:		
Charge for the year	**23,343**	31,149
Underprovisions in prior years	**919**	1,052
Deferred *(Note 26)*	**189,713**	42,422
	213,975	74,623
Total charge for the year	**228,293**	94,832

Hong Kong profits tax has been provided for 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:

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**824,542**	372,431
Tax at the statutory tax rate of 17.5 per cent. (2005 – 17.5 per cent.)	**144,295**	65,175
Effect of different tax rates in other jurisdictions	**41,832**	20,644
Adjustments in respect of current tax of previous years	**3,646**	201
Income not subject to tax	**(45,423)**	(46,407)
Expenses not deductible for tax	**42,708**	36,066
Profits and losses attributable to jointly controlled entities and associates	**(7,312)**	7,880
Tax losses utilised from previous years	**(21,759)**	(6,352)
Tax losses not recognised	**22,930**	17,625
Other	**47,376**	–
Tax charge at the Group's effective rate of 27.7 per cent. (2005 – 25.5 per cent.)	**228,293**	94,832

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$4,779,000 (2005 – loss of HK$7,740,000) 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$261,414,000 (2005 – HK$121,403,000); and (ii) the weighted average number of 433,735,000 ordinary shares (2005 – 433,735,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

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

15. DIVIDEND

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Final dividend, proposed, of HK 4 cents (2005 – HK2 cents) per ordinary share	**17,349**	8,675

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

	Group
	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**
At 31st December, 2006:	
Cost	**140,891**
Accumulated impairment	**(83,606)**
Net carrying amount	**57,285**

NOTES TO THE FINANCIAL STATEMENTS

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:

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

17. FIXED ASSETS

Group

	Leasehold land and buildings	2006 Leasehold improvements, furniture, fixtures, plant and equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000
Cost:			
At 1st January, 2006	478,339	231,516	709,855
Additions during the year	–	8,512	8,512
Disposal of subsidiaries	(125,666)	(84,169)	(209,835)
Disposals during the year	–	(812)	(812)
Exchange adjustments	3,190	3,213	6,403
At 31st December, 2006	**355,863**	**158,260**	**514,123**
Accumulated depreciation and impairment losses:			
At 1st January, 2006	202,509	155,057	357,566
Provided for the year	5,831	9,845	15,676
Disposal of subsidiaries	(70,830)	(35,292)	(106,122)
Disposals during the year	–	(669)	(669)
Exchange adjustments	1,967	1,427	3,394
At 31st December, 2006	**139,477**	**130,368**	**269,845**
Net book value:			
At 31st December, 2006	**216,386**	**27,892**	**244,278**

17. FIXED ASSETS *(Continued)*

Group *(Continued)*

	Leasehold land and buildings HK$'000	2005 Leasehold improvements, furniture, fixtures, plant and equipment and motor vehicles HK$'000	Total HK$'000
Cost:			
At 1st January, 2005	478,155	202,639	680,794
Additions during the year	9,325	37,457	46,782
Acquisition of subsidiary	–	1,055	1,055
Disposal of subsidiaries	–	(603)	(603)
Disposals during the year	(7,235)	(7,481)	(14,716)
Exchange adjustments	(1,906)	(1,551)	(3,457)
At 31st December, 2005	478,339	231,516	709,855
Accumulated depreciation and impairment losses:			
At 1st January, 2005	192,409	142,280	334,689
Provided for the year	10,465	17,570	28,035
Disposal of subsidiaries	–	(561)	(561)
Disposals during the year	(480)	(3,757)	(4,237)
Impairment during the year	1,293	235	1,528
Exchange adjustments	(1,178)	(710)	(1,888)
At 31st December, 2005	202,509	155,057	357,566
Net book value:			
At 31st December, 2005	275,830	76,459	352,289

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.

17. FIXED ASSETS *(Continued)*

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

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

Company

	Leasehold improvements, furniture, fixtures, equipment and motor vehicles	
	2006	2005
	HK$'000	HK$'000
Cost:		
At 1st January and 31st December	**1,625**	1,625
Accumulated depreciation:		
At 1st January	**1,622**	1,620
Provided for the year	**1**	2
At 31st December	**1,623**	1,622
Net book value:		
At 31st December	**2**	3

18. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Medium term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**16,800**	14,800
Fair value adjustments	**370**	2,000
Balance at end of year	**17,170**	16,800
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**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
Disposals 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咨詢有限公司, 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

	Group	
	2006	2005
	HK$'000	HK$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of year	**541,933**	288,137
Additions during the year	**113,723**	310,548
Interest capitalised during the year	**–**	6,337
Reclassification to properties held for sale	**–**	(58,920)
Exchange adjustments	**39,319**	(4,169)
Balance at end of year	**694,975**	541,933
Provisions for impairment losses:		
Balance at beginning of year and at end of year	**(107,563)**	(107,563)
	587,412	434,370
Less: Amount classified under current portion	**(369,865)**	–
Non-current portion	**217,547**	434,370
Land and buildings held under the following lease terms:		
Leasehold *(Note)*	**155,553**	119,273
Freehold	**431,859**	315,097
	587,412	434,370

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$38,243,000 (2005 – HK$32,284,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

20. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'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	**357,755**	52,916
Due to associates	**(24,401)**	(2,213)
	2,826,193	702,937
Provisions for impairment losses	**(50,998)**	(50,962)
	2,775,195	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:

	Group
	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**
At 31st December, 2006:	
Cost	**193,220**
Accumulated impairment	**(7,436)**
Net carrying amount	**185,784**

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:

	Banking business HK$'000	**Other business** HK$'000	**Total** HK$'000
2006			
Carrying amount of goodwill	**184,025**	**1,759**	**185,784**
2005			
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:

	Group	
	2006 **HK$'000**	2005 HK$'000
Assets	**17,095,958**	5,800,748
Liabilities	**(10,639,631)**	(3,838,936)
Revenues	**1,268,385**	1,745,531
Profit	**171,216**	143,863

	Company	
	2006 **HK$'000**	2005 HK$'000
Unlisted shares, at cost	**1**	1

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

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2006	2005
	HK$'000	HK$'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
	205,618	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	2005
	HK$'000	HK$'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.

NOTES TO THE FINANCIAL STATEMENTS

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets stated at fair value:				
Equity securities listed in Hong Kong	**–**	262,666	**–**	–
Equity securities listed overseas	**240,298**	182,796	**–**	–
Unlisted equity securities	**–**	43,854	**–**	–
	240,298	489,316	**–**	–
Unlisted debt securities	**12,122**	18,205	**–**	–
Unlisted investment funds	**94,442**	85,963	**–**	–
	346,862	593,484	**–**	–
Financial assets stated at cost:				
Unlisted equity securities	**113,698**	160,995	**8,920**	8,920
Unlisted debt securities	**40,293**	39,619	**1,200**	1,200
Unlisted investment funds	**15,461**	15,461	**–**	–
	169,452	216,075	**10,120**	10,120
Provisions for impairment losses	**(129,496)**	(154,286)	**(8,920)**	(8,920)
	39,956	61,789	**1,200**	1,200
	386,818	655,273	**1,200**	1,200
Less: Amount classified under current portion	**–**	(217,019)	**–**	–
Non-current portion	**386,818**	438,254	**1,200**	1,200

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	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
An analysis of the issuers of available-for-sale financial assets is as follows:				
Equity securities:				
Corporate entities	**353,996**	650,311	**8,920**	8,920
Debt securities:				
Club debentures	**12,175**	12,175	**1,200**	1,200
Corporate entities	**40,240**	45,649	**–**	–
	52,415	57,824	**1,200**	1,200

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		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held for trading:				
Equity securities:				
Listed in Hong Kong	**56,293**	78,480	**–**	–
Listed overseas	**8,254**	128,604	**909**	1,440
	64,547	207,084	**909**	1,440
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	**–**	–
Others:				
Unlisted	**5,813**	53,649	**–**	–
	468,369	907,885	**909**	1,440
Designated as financial assets at fair value through profit or loss: *(Note)*				
Unlisted investment funds	**466,371**	268,753	**–**	–
	934,740	1,176,638	**909**	1,440
Less: Amount classified under current portion	**(934,740)**	(802,442)	**(909)**	(1,440)
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.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
An analysis of the issuers of financial assets at fair value through profit or loss is as follows:				
Equity securities:				
Banks and other financial institutions	**–**	47,417	**–**	–
Corporate entities	**64,547**	159,667	**909**	1,440
	64,547	207,084	**909**	1,440
Debt securities:				
Central governments and central banks	**–**	9,289	**–**	–
Public sector entities	**–**	4,397	**–**	–
Banks and other financial institutions	**–**	97,308	**–**	–
Corporate entities	**9,056**	197,401	**–**	–
	9,056	308,395	**–**	–

24. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

An analysis of the issuers of the held-to-maturity financial asset is as follows:		
Banks and other financial institutions	**9,582**	9,604

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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

26. DEFERRED TAX

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

Deferred tax assets

	Group	
	2006	2005
	HK$'000	HK$'000
At 1st January	**1,120**	4,115
Credited to the profit and loss account during the year	**–**	397
Disposal of subsidiaries	**(1,120)**	(3,396)
Exchange adjustments	**–**	4
At 31st December	**–**	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	**6,788**	**325,308**	**5,026**	**(5,978)**	**23,752**	**354,896**
Deferred tax charged/(credited) to the profit and loss account during the year	**672**	**197,892**	**–**	**(983)**	**1,372**	**198,953**
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	**7,465**	**524,337**	**7,957**	**(6,961)**	**–**	**532,798**

	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	5,886	261,028	2,898	(5,324)	2,385	266,873
Deferred tax charged/(credited) to the profit and loss account during the year	902	64,280	(1,538)	(654)	(281)	62,709
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	6,788	325,308	5,026	(5,978)	23,752	354,896

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$534,245,000 (2005 – HK$673,103,000), 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

	Group	
	2006	2005
	HK$'000	HK$'000
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:

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured *(Note)*	**2,295,100**	1,172,720	**328,000**	78,000
Unsecured	**10,000**	40,700	**–**	–
	2,305,100	1,213,420	**328,000**	78,000
Less: Amount classified under current portion	**(454,150)**	(251,233)	**(328,000)**	(78,000)
Non-current portion	**1,850,950**	962,187	**–**	–
Bank loans by currency:				
Hong Kong dollar	**1,688,000**	923,000	**328,000**	78,000
Singapore dollar	**550,950**	101,693	**–**	–
United States dollar	**66,150**	124,057	**–**	–
Australian dollar	**–**	23,970	**–**	–
Malaysian ringgit	**–**	40,700	**–**	–
	2,305,100	1,213,420	**328,000**	78,000
Bank loans repayable:				
Within one year	**454,150**	251,233	**328,000**	78,000
In the second year	**270,965**	100,494	**–**	–
In the third to fifth years, inclusive	**959,985**	341,693	**–**	–
After five years	**620,000**	520,000	**–**	–
	2,305,100	1,213,420	**328,000**	78,000

The carrying amounts of the Group's and Company's bank loans 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:

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$2,169,453,000 (2005 – HK$1,190,911,000);

(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.

NOTES TO THE FINANCIAL STATEMENTS

30. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current service cost	**(38)**	(1,177)
Interest cost on benefit obligation	**(29)**	(518)
Effect of curtailment	**–**	4,613
Net actuarial gain recognised	**–**	943
	(67)	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:

	Group	
	2006	2005
	HK$'000	HK$'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:

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

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

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

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

(2) 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.

NOTES TO THE FINANCIAL STATEMENTS

33. SHARE CAPITAL

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Authorised:		
30,000,000,000 (2005 – 30,000,000,000) ordinary shares of HK$0.10 each	**3,000,000**	3,000,000
Issued and fully paid:		
433,735,010 (2005 – 433,735,010) ordinary shares of HK$0.10 each	**43,373**	43,373

34. SHARE OPTIONS

Pursuant to the Share Option Scheme for Employees (the "LCR Share Option Scheme") of Lippo China Resources Limited ("LCR"), a listed subsidiary of the Company, approved and adopted by the shareholders of LCR on 2nd May, 1994 (the "LCR Adoption Date"), the directors of the LCR might, at their discretion, grant to any employees (including directors) of LCR and its subsidiaries options to subscribe for shares in LCR. The purpose of the adoption of the LCR Share Option Scheme was to provide an incentive scheme to the employees of LCR and its subsidiaries. Under the rules of the LCR Share Option Scheme, no more options could be granted from the tenth anniversary of the LCR Adoption Date. Accordingly, no more options can be granted under the LCR Share Option Scheme since 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 LCR Share Option Scheme should not exceed 10 per cent. of the number of issued shares of LCR 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 LCR Share Option Scheme in any one financial year should not exceed 5 per cent. of the total number of issued shares of LCR from time to time. In addition, the maximum number of shares in respect of which options might be granted under the LCR Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares subject to the LCR Share Option Scheme at the time of grant. The exercise price for the shares under the LCR Share Option Scheme would be determined by the directors of LCR 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 LCR 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 LCR, whichever was the greater. The consideration for the grant was HK$1.00 per grantee which must be paid on acceptance to LCR 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 LCR during the year:

Date of grant	Exercise price per share	Exercise period of share options	Quantity of share options outstanding at 1st January, 2006	Quantity of share options exercised/lapsed during the year	Quantity of share options outstanding at 31st December, 2006
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 LCR in cash at the above exercise price per share which is subject to adjustment.

During the year, 1,500,000 outstanding share options of LCR granted to Mr. David Yeh, a former Director of the Company, lapsed with effect from 1st December, 2006, being six months after his resignation, pursuant to the rules of the LCR 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 LCR. The remaining 2,800,000 share options of LCR are held by directors of LCR's subsidiaries or employees of LCR or its subsidiaries.

As at the date of this report, the total number of shares available for issue under the LCR 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 LCR 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 LCR and cash proceeds, before expenses, of HK$22,781,000.

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

NOTES TO THE FINANCIAL STATEMENTS

35. RESERVES

Group

	Share premium account	Special capital reserve	Capital redemption reserve	Legal reserve	Investment reserve	Exchange equalisation reserve	Regulatory reserve	Retained profits	Total	Minority interests
		(Note (a))		*(Note (b))*			*(Note (c))*			
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2006	517,794	1,709,202	17,861	1,530	56,302	(71,911)	601	1,094,790	3,326,169	3,386,770
Net fair value gain on available-for-sale financial assets	–	–	–	–	54,801	–	–	–	54,801	29,643
Deferred tax arising from net fair value gain on available-for-sale financial assets	–	–	–	–	(1,502)	–	–	–	(1,502)	(1,419)
Derecognition of available-for-sale financial assets	–	–	–	–	(47,728)	–	–	–	(47,728)	(43,584)
Transfer of reserve	–	–	–	477	–	–	48	(525)	–	–
Share of reserves of associates and jointly controlled entities	–	–	–	–	19,948	27,320	–	–	47,268	40,476
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	–	–	–	–	–	911	–	–	911	(707,761)
Exchange realignment	–	–	–	–	–	64,400	–	–	64,400	71,580
Profit for the year	–	–	–	–	–	–	–	261,414	261,414	334,835
2005 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	–	(8,675)	(8,675)	–
2005 final dividend and distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(16,521)
2006 interim dividend and distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(10,917)
At 31st December, 2006	517,794	1,709,202	17,861	2,007	81,821	20,720	649	1,347,004	3,697,058	3,124,976

35. RESERVES *(Continued)*

Group

	Share premium account	Special capital reserve *(Note (a))*	Capital redemption reserve	Legal reserve *(Note (b))*	Investment reserve	Exchange equalisation reserve	Regulatory reserve *(Note (c))*	Retained profits	Total	Minority interests
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	517,794	1,709,202	17,861	1,027	–	(92,511)	–	983,166	3,136,539	3,187,985
Net fair value gain on available-for-sale financial assets	–	–	–	–	58,188	–	–	–	58,188	47,438
Deferred tax arising from net fair value gain on available-for-sale financial assets	–	–	–	–	(1,886)	–	–	–	(1,886)	(1,784)
Transfer of reserve	–	–	–	503	–	–	601	(1,104)	–	–
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	–	–	–	–	–	21,426	–	–	21,426	(64,612)
Exchange realignment	–	–	–	–	–	(826)	–	–	(826)	(23,379)
Profit for the year	–	–	–	–	–	–	–	121,403	121,403	156,196
2004 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	–	(8,675)	(8,675)	–
2004 final dividend and distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(30,869)
2005 interim dividend and distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(10,917)
At 31st December, 2005	517,794	1,709,202	17,861	1,530	56,302	(71,911)	601	1,094,790	3,326,169	3,386,770

35. RESERVES *(Continued)*

Note:

(a) Special capital reserve

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 entire amount standing to the credit of the share capital account of the Company of approximately HK$1,709,202,000 was cancelled on 27th January, 1999 (the "Cancellation").

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

(1) The reserve shall not be treated as realised profits; and

(2) The reserve shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which was in existence on the date of the Cancellation provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking.

As at 31st December, 2006, no special capital reserve remained subject to the Undertaking (2005 – Nil).

(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 redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2006	**515,637**	**1,709,202**	**17,860**	**240,540**	**2,483,239**
2005 final dividend, declared	**–**	**–**	**–**	**(8,675)**	**(8,675)**
Profit for the year *(Note 13)*	**–**	**–**	**–**	**4,779**	**4,779**
At 31st December, 2006	**515,637**	**1,709,202**	**17,860**	**236,644**	**2,479,343**
At 1st January, 2005	515,637	1,709,202	17,860	256,955	2,499,654
2004 final dividend, declared	–	–	–	(8,675)	(8,675)
Loss for the year *(Note 13)*	–	–	–	(7,740)	(7,740)
At 31st December, 2005	515,637	1,709,202	17,860	240,540	2,483,239

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$236,644,000 (2005 – HK$240,540,000). As at 31st December, 2006, other distributable reserve amounted to HK$1,709,202,000 (2005 – HK$1,709,202,000).

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$17,349,000 (2005 – HK$8,675,000) declared after the balance sheet date.

36. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**5,000**	5,000
Due from subsidiaries	**3,572,679**	3,112,752
Due to subsidiaries	**(544,890)**	(335,548)
	3,032,789	2,782,204
Provisions for impairment losses	**(192,074)**	(192,074)
	2,840,715	2,590,130

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.

Details of the principal subsidiaries are set out on pages 110 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.

NOTES TO THE FINANCIAL STATEMENTS

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
Profit before tax		**824,542**	372,431
Adjustments for:			
Share of results of associates		**(50,845)**	44,608
Share of results of jointly controlled entities		**9,063**	423
Loss/(Gain) on disposal of:			
Fixed assets	*7*	**69**	(167)
Investment properties		**281**	–
Prepaid lease payments for land		**–**	6,126
Interests in subsidiaries	*38*	**(848)**	9,234
Interests in an associate	*7*	**5,575**	–
Available-for-sale financial assets		**(89,403)**	(15,157)
Provisions for impairment losses:			
Associates		**–**	10,587
Properties held for sale		**–**	8,276
Fixed assets		**–**	1,528
Available-for-sale financial assets	*7*	**6,126**	63,016
Goodwill		**–**	3,755
Fair value gains on investment properties		**(547,627)**	(300,710)
Net fair value gain on financial assets at fair value through profit or loss		**(219,923)**	(77,108)
Amortisation of prepaid lease payments for land	*7*	**–**	159
Changes in interests in subsidiaries		**(303)**	(4,216)
Allowance for bad and doubtful debts		**33,854**	31,075
Provision for inventories		**–**	6,775
Interest expenses	*11*	**96,067**	54,762
Interest income		**(61,990)**	(78,992)
Dividend income		**(4,910)**	(27,255)
Depreciation	*7*	**15,676**	28,035
Net loss/(gain) on defined-benefit pension obligation		**67**	(3,861)
Excess over cost of a business combination		**–**	(36,854)
Effect of the Donation	*38*	**21,005**	–
Operating profit before working capital changes		**36,476**	96,470

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

(a) Reconciliation of profit before tax to cash from operations *(Continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
Decrease in properties held for sale	**33,604**	5,524
Decrease/(Increase) in inventories	**11,028**	(42,672)
Decrease in held-to-maturity financial assets	**22**	39
Decrease in financial assets at fair value through profit or loss	**243,829**	353,292
Decrease/(Increase) in loans and advances	**(31,124)**	20,878
Increase in debtors, prepayments and deposits	**(70,507)**	(35,088)
Increase in client trust bank balances	**(138,445)**	(55,337)
Increase in creditors, accruals and deposits received	**238,993**	50,231
Decrease in defined-benefit pension obligation	**–**	(210)
Increase/(Decrease) in current, fixed, savings and other deposits of customers	**188,778**	(898)
Cash generated from operations	**512,654**	392,229

NOTES TO THE FINANCIAL STATEMENTS

38. DISPOSAL OF SUBSIDIARIES

	Group	
	2006	2005
	HK$'000	HK$'000
Net assets disposed of:		
Goodwill	**15,832**	–
Fixed assets	**103,713**	42
Investment properties	**345,117**	–
Interests in associates	**120,197**	–
Available-for-sale financial assets	**15,505**	4,575
Financial asset at fair value through profit or loss	**218,279**	42,431
Loans and advances	**–**	1,525
Deferred tax assets	**1,120**	3,396
Inventories	**132,377**	–
Cash and bank balances	**339,112**	224,116
Debtors, prepayments and deposits	**254,324**	768
Bank loans	**(28,113)**	–
Creditors, accruals and deposits received	**(181,238)**	(12,670)
Tax payable	**(12,808)**	–
Defined-benefit pension obligation	**(2,143)**	–
Deferred tax liabilities	**(25,788)**	(825)
Release of exchange equalisation reserve	**911**	21,426
Minority interests	**(707,761)**	(64,612)
	588,636	220,172
Gain/(Loss) on disposal	**848**	(9,234)
Effect of the Donation *(Note 20)*	**(21,005)**	–
	568,479	210,938
Satisfied by:		
Cash consideration received	**55,660**	191,158
Increase in interests in associates	**512,532**	12,004
Increase in available-for-sale financial assets	**–**	7,776
Increase in financial assets at fair value through profit or loss	**287**	–
	568,479	210,938

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

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

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
At 31st December, 2006							
Assets							
Debt securities:							
Held-to-maturity financial assets	**–**	**–**	**–**	**–**	**9,582**	**–**	**9,582**
Available-for-sale financial assets	**–**	**–**	**–**	**8,371**	**12,122**	**31,922**	**52,415**
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	**225,767**	**505,311**	**–**	**–**	**–**	**–**	**731,078**
	388,783	**1,346,920**	**54,737**	**19,111**	**39,006**	**40,002**	**1,888,559**
Liabilities							
Bank loans	**–**	**76,150**	**378,000**	**1,230,950**	**620,000**	**–**	**2,305,100**
Current, fixed, savings and other deposits of customers	**107,747**	**194,458**	**3,316**	**–**	**–**	**–**	**305,521**
	107,747	**270,608**	**381,316**	**1,230,950**	**620,000**	**–**	**2,610,621**

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2005							
Assets							
Debt securities:							
Held-to-maturity financial assets	–	–	–	–	9,604	–	9,604
Available-for-sale financial assets	–	3,123	–	7,697	15,082	31,922	57,824
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	529,828	773,017	–	–	–	–	1,302,845
	689,461	1,281,890	83,653	201,162	117,391	46,793	2,420,350
Liabilities							
Bank loans	–	65,700	185,533	442,187	520,000	–	1,213,420
Current, fixed, savings and other deposits of customers	43,601	71,643	1,499	–	–	–	116,743
	43,601	137,343	187,032	442,187	520,000	–	1,330,163

NOTES TO THE FINANCIAL STATEMENTS

40. CONTINGENT LIABILITIES

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

(a) Guarantees in respect of banking facilities

	Group	
	2006	2005
	HK$'000	HK$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	**402**	977
An investee company	**746**	914
	1,148	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).

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

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:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**151,246**	155,091
In the second to fifth years, inclusive	**83,127**	119,428
After five years	**–**	61,499
	234,373	336,018

(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 and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**28,747**	19,931	**–**	2,977
In the second to fifth years, inclusive	**152,332**	29,248	**–**	–
After five years	**500,916**	43,415	**–**	–
	681,995	92,594	**–**	2,977

NOTES TO THE FINANCIAL STATEMENTS

42. CAPITAL COMMITMENTS

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments in respect of property, plant and equipment:				
Contracted, but not provided for	**310,888**	61,168	**–**	–
Other capital commitments:				
Contracted, but not provided for *(Note)*	**829,835**	1,944,869	**287,584**	–
	1,140,723	2,006,037	**287,584**	–

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.

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, ImPac Asset Management (HK) Limited, a wholly-owned subsidiary of Hongkong Chinese Limited ("HCL") which in turn is 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).

(c) 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.

(d) 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 item (d) above 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.

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.

(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.

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

(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 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 non-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.

45. POST BALANCE SHEET EVENTS *(Continued)*

(e) The Company entered into a joint venture agreement in November 2006 with Incheon Urban Development Corporation, a government-invested corporation, and other renowned business partners to establish a joint venture company, in which the Company would be interested in approximately 47.9 per cent. upon completion of all subscriptions by the joint venture partners, to acquire a tract of land located at 326 Woonbook-dong, Jung-gu, Incheon, Korea (the "Project") with an area of approximately 1,040,734 square metres. The Project involves the development of a self-contained community with residential properties, shopping mall, hospital, college, hotel and a business town. In March 2007, the Company fully subscribed for its shares in the joint venture company for a total subscription price of approximately HK$287 million.

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.