USI HOLDINGS LIMITED
富聯國際集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 369)

WingTai Asia

Lanson Place

* *For identification purpose only*

Annual Report 2006

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

CHENG Wai Chee, Christopher *GBS JP Chairman*
CHENG Wai Sun, Edward *JP Chief Executive*
CHENG Man Piu, Francis
NG Tak Wai, Frederick
AU Hing Lun, Dennis

Non-Executive Directors

CHENG Wai Keung
KWOK Ping Luen, Raymond
WONG Yick Kam, Michael
(also an alternate to KWOK Ping Luen, Raymond)
HONG Pak Cheung, William

Independent Non-executive Directors

Simon MURRAY *CBE*
FANG Hung, Kenneth *GBS JP*
YEUNG Kit Shing, Jackson

AUDIT COMMITTEE MEMBERS

YEUNG Kit Shing, Jackson *Chairman*
FANG Hung, Kenneth *GBS JP*
WONG Yick Kam, Michael
HONG Pak Cheung, William
(alternate to Wong Yick Kam, Michael)

REMUNERATION COMMITTEE MEMBERS

CHENG Wai Chee, Christopher *GBS JP Chairman*
CHENG Wai Sun, Edward *JP*
Simon MURRAY *CBE*
FANG Hung, Kenneth *GBS JP*
YEUNG Kit Shing, Jackson

QUALIFIED ACCOUNTANT

TAM Wai Ying, Tommy

COMPANY SECRETARY AND GROUP LEGAL COUNSEL

CHUNG Siu Wah, Henry

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS TO THE COMPANY

Slaughter and May *(as to Hong Kong Laws)*
Appleby Hunter Bailhache *(as to Bermuda Laws)*

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
Front Street, Hamilton, Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor, Unimix Industrial Centre
2 Ng Fong Street, San Po Kong
Kowloon, Hong Kong

COMPANY WEBSITE

http://www.usi.com.hk

HONG KONG STOCK EXCHANGE STOCK CODE

369

 Images on the cover (from left): The Grandville, The Giverny, Lanson Place Hotel and The Grandville

CONTENTS

USI HOLDINGS LIMITED

Invests in and operates a balanced range of businesses that provides a combination of steady cash-flow and growth and encompasses three operating areas:

PROPERTY


The Giverny

The Group develops high quality residential property projects in addition to holding investment properties. The Waterfront, atop the Airport Railway's Kowloon Station, The Hillgrove, at Siu Lam, The Bloomsville, at Kowloon Tong, The Grandville, at Shatin and The Giverny, at Sai Kung, are developed either jointly with other developers or solely under the WingTai Asia brand in recent years. The Group also provides hospitality management services through Lanson Place serviced residences in Hong Kong, Southeast Asia and China.

STRATEGIC INVESTMENTS

APPAREL

Apparel operations are comprised of well-established garment manufacturing operations in Hong Kong, China and Southeast Asia; garment trading and branded products distribution, which includes the internationally recognised label of Gieves & Hawkes.

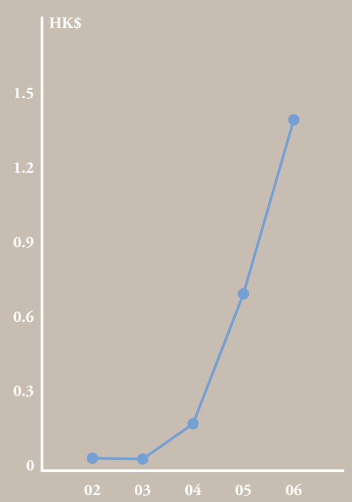
In strategic investments, the Group holds a major stake in Winsor Properties Holdings Limited. It also has investments in information technology and software companies.

USI was listed on The Stock Exchange of Hong Kong Limited in 1991. The Group employs more than 6,000 people worldwide.

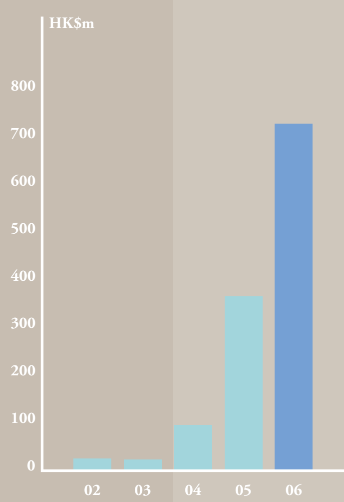
FINANCIAL HIGHLIGHTS

	The Group	
	2006	2005
For the year ended 31 December	**HK$'M**	HK$'M
Turnover	**2,699.4**	1,767.9
Profit from operations	**1,016.0**	529.3
Profit attributable to equity holders of the Company	**738.3**	368.5
Earnings per share for profit attributable to the equity holders of the Company		
– Basic	**HK$1.40**	HK$0.70
– Diluted	**HK$1.40**	HK$0.70
At 31 December		
Total assets	**4,764.4**	4,768.1
Total equity	**2,928.0**	1,984.1

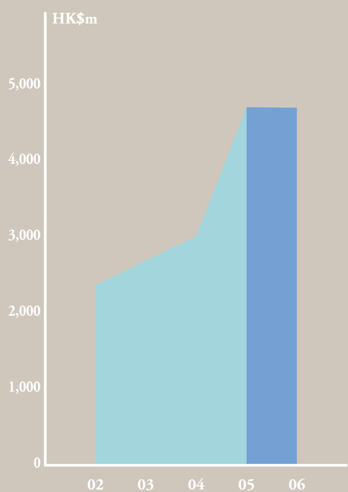
Earnings per share



Profit attributable to equity holders of the Company



Total assets



GROUP'S MAJOR INVESTMENTS

Property

Assets	*Group's Interest*
Unimix Industrial Centre	86.4%
Shui Hing Centre	100%
The Waterfront – Airport Railway Kowloon Station Package 1 at Tsim Sha Tsui	7.5%
The Hillgrove – Siu Lam	33.3%
The Bloomsville – Kowloon Tong	87.5%
The Grandville – Shatin	40%
The Giverny – Sai Kung	50%
157 Argyle Street	80%
314-324 Hennessy Road	70%
Lancaster Gate, UK	47.5%
Kovan Melody, Singapore	12%
Lanson Place Hotel, Causeway Bay	60%
Lanson Place Jin Lin Tian Di, Shanghai	23.4%
Shanghai Square, Shanghai	8%
Tai Po Town Lot No. 187, Pak Shek Kok, NT	15%
Tai Po Town Lot No. 188, Pak Shek Kok, NT	15%
Management Services	
Lanson Place Hospitality Management	100%
USI Property Management	100%

Apparel

Unimix Group	86.4%
Shui Hing Textiles Group	100%
Impact Textiles International	100%
Gieves & Hawkes	100%

Strategic Investments

Winsor Properties Holdings Limited	16.6%
Mission System Consultant Limited	42.5%

CHAIRMAN'S STATEMENT

The Grandville

The year 2006 was very fruitful for USI – indeed, we took firm steps along the path towards realising our Company's strategic goals. I could even characterise 2006 as a year when the Company really took off. We achieved record turnover and profit attributable to shareholders of the Company of HK$2,699.4 million and HK$738.3 million respectively. We established a clear direction to make our mark in the property industry as a focused and dynamic niche player.

Out of the Group's profit this year, HK$212.7 million was attributable to fair value gains on our investment properties mainly from Lanson Place Hotel. The revaluation gains reflected the Group's capability in value creation. We have the ability to unlock the true value of our properties by quality management and value enhancement initiatives.

This is indeed a new phase of development for USI. However, our core values remain intact: value creation, lasting partnership, professionalism, good timing and quality are still the hallmarks of the way USI does business.

In the market in general, property buyers saw signs of recovery and greater confidence in a price rebound during 2006, with the market pick-up being even more marked in early 2007. We therefore judge that now is the right time to extend the scale of USI's property projects. We have committed to undertaking two joint ventures to co-develop two luxury residential sites with panoramic seaview in Pak Shek Kok, the New Territories. In one project we partner with Nan Fung Development and Sino Land Limited, and in the other with Nan Fung, Sino Land and K. Wah International Holdings Limited. The projects will have a gross floor area of approximately 1.1 million square feet. We believe participation in the projects will enhance our asset portfolios and strengthen our positioning in the luxury residential property market in Hong Kong.

We have also reached agreement with the HKSAR Government on the land premium in respect of the 157 Argyle Street residential project. These initiatives, together with a number of property investment projects which will be completed in the near future, will generate sustainable income for USI and returns for our shareholders in the coming years.

Hospitality management is the other key growth driver for USI. Our award-winning Lanson Place hotels and serviced apartments concept has proved highly successful in Hong Kong and Shanghai. We achieved high occupancy and room rates throughout the year and have accumulated a loyal customer base who returns to us time and again.

Further opportunities in the Mainland hospitality industry look promising. We will remain alert to suitable projects and the right timing to expand our portfolio and extend the Lanson Place brand's presence into new locations.

On the apparel side, we have seen improvement in the second half of 2006 but still anticipate challenges in the coming year. We will negotiate the current adverse market conditions while imposing stringent cost control measures to maintain our competitiveness.

At a corporate level, we announced in April 2007 our intention to make a voluntary conditional offer to acquire the issued shares (other than those already owned by USI) of Winsor Properties Holdings Limited ("Winsor", SEHK stock code: 1036) by issuing new USI shares. This move is intended to restructure the interests of USI and Wing Tai Holding Limited ("Wing Tai"; SGX stock code: Wing Tai) in Winsor, with a view to creating enhanced value for shareholders of both USI and Winsor. Through the offer, USI will become the entity for consolidating Wing Tai Group's interest in Winsor and streamline the overall group structure.

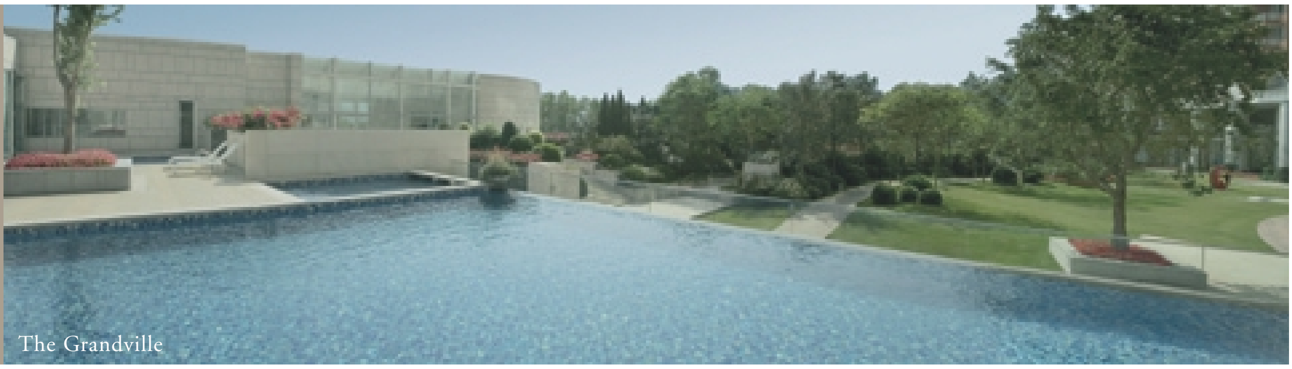
If 2006 was a year of measured growth in the property market and removal of any remaining uncertainty, 2007 will, in our opinion, be a year of full momentum. We are confident in the market as we are confident in ourselves. We will continue to strengthen the Wing Tai Asia brand as a leading high-end residential property developer while expanding into investment and retail properties. The Lanson Place brand will be our spearhead in hospitality investment and management in Greater China, as well as other Asian cities. Our continued efforts and vision will see USI develop as a comprehensive property developer with an Asian presence and China focus.

Cheng Wai Chee, Christopher
Chairman

Hong Kong, 17 April 2007

PROPERTY


The Giverny


The Grandville

BUSINESS REVIEW

For the year ended 31 December 2006, the Group reported a consolidated profit for the year attributable to the equity holders of the Company of HK$738.3 million, compared with HK$368.5 million reported in 2005. Turnover for the Group was HK$2,699.4 million for the year ended 31 December 2006, compared with HK$1,767.9 million for the year ended 31 December 2005.

Property

The Group's property division, which includes residential development projects, hospitality investment and management, and investment properties, recorded profits of HK$819.1 million, representing an increase of 129% as compared with HK$357.3 million for the same period in 2005. The substantial increase is mainly attributed to the profit for The Grandville and valuation gains on the Group's investment properties.

Residential Property Development

Under the Wing Tai Asia brand, well-respected for quality property development, we have launched a number of prestigious residential projects since 1999. We create and add value by bringing out the best in a piece of land or property and its environment, by integrating international vision, excellent design and quality with innovative marketing.

The Grandville, which was successfully pre-sold at the end of 2004, was completed and handed over to the buyers in the second half of 2006. In accordance with the Group's accounting policy, HK$1,265.6 million of turnover and HK$567.6 million of profit attributable to the Group were recognised in 2006 from The Grandville. The Group's maiden launch towards the end of 2006 of Grand 8 on the Park, a luxurious eight-house complex, received positive market response. Subsequent to the year end, all the remaining units of The Grandville have been sold.

Despite keen interest from property agents and potential purchasers, the Group's sales and marketing strategy for The Giverny, a luxurious villa development in Hebe Haven, Sai Kung, has not yet included a formal relaunch following the development's first launch in October 2005. During the year under review, the management continued to add value to the estate and closely monitor the regular maintenance of the premises to ensure that they are maintained with the highest quality and are in perfect condition on delivery.

The construction of Kovan Melody, a residential development comprising 778 apartment units in Singapore as a joint venture with Wing Tai Holdings Limited, was completed with the Temporary Occupation Permit obtained in December 2006. Approximately 77% of units were sold up to year end 2006 and a further 13% were sold by the end of March 2007.

The residential development at 157 Argyle Street (80% owned by the Group) will provide about 90,000 square feet of floor space upon its scheduled completion in 2009. After extensive negotiations with the HKSAR Government, the Group has accepted its revised offer on the land premium in respect of the lease modification in January 2007. Site planning and various building approval submissions are currently underway.

Subsequent to the year end, the Group entered into two memoranda of agreements ("MOAs") with major developers in Hong Kong to co-develop the two pieces of land situated at Tai Po Town Lot Nos. 187 and 188, Pak Shek Kok, Tai Po. The Group has 15% interest in each respective MOA and the attributable floor area is 165,000 square feet.

Hospitality Investment and Management

Lanson Place has officially opened two new properties in 2006, Lanson Place Hotel in Hong Kong and Lanson Place Jin Lin Tian Di Residences in Shanghai. In just over one full year of operation, both properties achieved occupancy of around 90%.

Lanson Place Hotel has become Hong Kong's first member of "Small Luxury Hotels of the World" and was also awarded Boutique Hotel of the Year in the SCMP/Harper's Bazaar Style Awards 2007. Small Luxury Hotels of the World is an unrivalled collection of over 400 independent hotels in more than 65 countries, offering an infinite variety of exceptional guest experiences. The SCMP/Harper's Bazaar Style Awards 2007 was established in 2006 to celebrate the individual spirit of design and innovation. Among highly competitive peers, Lanson Place Hotel is the choice of a professional steering committee as well as public voters and was awarded Boutique Hotel of the Year in early 2007.

Lanson Place Jin Lin Tian Di Residences, the Group's first foray into the China property market, is recognised as one of the leading serviced residences in Shanghai in terms of quality and service. The average monthly rental of Lanson Place Jin Lin Tian Di was around US$6,000.

Occupancy of Lanson Place Winsland in Singapore was 92%. In Kuala Lumpur, Lanson Place Ambassador Row occupancy was maintained at 75%, while Lanson Place Kondo 8 was able to sustain its leading position in the Ampang area with occupancy of 96% in 2006.


Lanson Place Hotel

In Beijing, the construction of Lanson Place Central Park is substantially completed and interior work is now being carried out. The opening date of the property is targeted to be the first half of 2008. While we are working on the opening of this serviced residence, the Group is continuing to look for new projects in different cities in China.

Lanson Place's expansion trail is not only focused on China, but we are also looking for projects in other gateway cities in South East Asia, including Singapore and Malaysia.


Lanson Place Hotel

Property Investment and Management

The Group's expansion into commercial and retail properties in Hong Kong and expansion into China provide the segmental and geographic diversification necessary to balance and enrich our property portfolio. Our portfolio now comprises commercial properties, industrial properties and investment properties in the Group's hospitality business.

Renovation of the former Bank of East Asia Building situated at 314-324 Hennessy Road, Wanchai is expected to be completed in 2007. This project represents the Group's first foray into the office and retail sectors of the Hong Kong property market. The renovated building is expected to create a new landmark in the area.

Construction and renovation of Infiniti, a joint venture retail mall on the prime Huai Hai Road area in Shanghai, has largely been completed. Ongoing marketing campaign and leasing negotiations have generated leasing contracts at satisfactory rates. The mall is expected to open soon.

USI Property Management Limited, our subsidiary, is the project manager of the development at 102 How Ming Street in Kwun Tong. The twin-tower office development will provide 1.2 million square feet of Grade-A office space. Superstructure construction work has commenced in late 2006 and the overall site is scheduled to complete in the second half year of 2008.

In 2006, the Group's industrial buildings, comprising Shui Hing Centre and Unimix Industrial Centre, recorded a fair value gain of HK$95.0 million. The properties achieved high occupancy rates of around 90% throughout the year. The Group expects the industrial buildings to continue to generate stable rental income for the Group.

APPAREL

MANAGEMENT DISCUSSION AND ANALYSIS

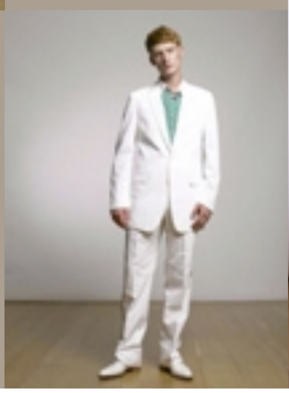
Apparel

The Group's garment manufacturing operation, comprised of Shui Hing Textiles International Limited and Unimix Holdings Limited, generated an aggregate turnover of HK$889.3 million in 2006 compared to HK$992.4 million in 2005 – roughly 10% decline. The 2006 operations resulted in an operating loss of HK$2.8 million compared to an operating profit of HK$3.5 million in the previous year.

The operating environment remained difficult in 2006. Competition remained stiff while major costs of production such as labor and fuel rose steadily. The renminbi's appreciation also impacted adversely on margin.

The Group embarked on several improvement initiatives and cost control measures. Production process reengineering has started alongside facility upgrading, including the set up of new factories in Cambodia and Mainland China. Sales and research & development have been realigned to strengthen collaboration on customer service and market expansion. All these have put USI Apparel in a stronger market position while at the same time halting spiraling production costs.

2007 will be an active year for USI Apparel putting more emphasis on sales growth, productivity and cost efficiency. The Group will continue to invest significantly in technology, design, product development and logistics so as to enhance our competitive edge and potential for growth in the near future.



Gieves & Hawkes plc

The turnover of Gieves & Hawkes plc ("G&H") for 2006 was HK$257.4 million, as compared to HK$235.6 million last year. The increase in turnover was due to the opening in 2006 of nine new retail points in the United Kingdom (one own store and eight concessions). However, also owing to the opening of these new retail points, G&H incurred one-time start-up costs in 2006. As a result, G&H's operating profit declined to HK$1.0 million in 2006 from HK$4.9 million profit in 2005.

In line with the Group's strategy, G&H will continue to invest in the Gieves & Hawkes and Gieves brands and to develop its licensing operations as well as expand the retail network in strategic locations.

STRATEGIC INVESTMENTS


13 WEEK
186.67


0141

Strategic Investments

On 11 April 2007, USI announced its intention to make a voluntary conditional offer to acquire the issued shares (other than those already owned by USI) of Winsor Properties Holdings Limited by issuing new USI shares. The offer intends to restructure the interests of USI and Wing Tai Holdings Limited ("Wing Tai") in Winsor, in order to create enhanced value for shareholders of both USI and Winsor.

As at 11 April 2007, USI held approximately 16.56% of the issued share capital of Winsor, whilst Wing Tai held a further approximately 27.65%. In addition, Wing Tai held approximately 21% of the issued share capital of USI and is a substantial shareholder of USI.

USI believes that this restructuring exercise will be instrumental to better position the Company to pursue its business. Both USI and Winsor will be able to leverage this strengthened shareholding relationship to capitalise on growth opportunities in the property development and investment sector.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's equity attributable to the equity holders of the Company totalled HK$2,712.8 million as at 31 December 2006 as compared to HK$1,856.6 million as at the end of 2005. The increase in equity attributable to the equity holders of the Company was mainly attributed to the profit for the year 2006 of HK$738.3 million and an increase in investment revaluation reserve of HK$156.8 million offset by the distribution of the 2005 final dividend in the first half of 2006.

As at 31 December 2006, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK$660.2 million (2005: HK$964.0 million), representing 22.5% of the Group's net assets, which is lower than 48.6% recorded at the end of 2005 due to the repayment of certain construction project loans in 2006. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 94%) of the Group's bank borrowings was repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK$676.0 million as at the end of 2006 (2005: HK$480.0 million).

Foreign Currencies

The Group continues to conduct its business mainly in United States Dollars, Renminbi Yuan and Hong Kong Dollars. For transactions in other foreign currencies, we have a policy to hedge most such dealings. In addition, the majority of our assets are situated in Hong Kong. Thus, our exposure to exchange rate fluctuations is minimal.

Contingent Liabilities

As at 31 December 2006, the Group's contingent liabilities were guarantees given to banks of HK$1.9 million.

Pledge of Assets

The Group's advances to associates/jointly controlled entities at 31 December 2006 include amounts of HK$148.0 million which are subordinated to the loans facilities of associates/jointly controlled entities. The associates/jointly controlled entities include amounts of HK$109.3 million which are assigned, and the shares in these associates/jointly controlled entities beneficially owned by the Group are pledged to financial institutions.

At 31 December 2006, certain of the Group's investment properties, freehold properties, leasehold land, leasehold buildings and properties under development with carrying value of HK$1,558.0 million, HK$59.5 million, HK$38.7 million, HK$92.4 million and HK$11.9 million respectively were pledged to secure credit facilities for the Group.

PROSPECTS

Since the beginning of 2007, the property market in Hong Kong showed signs of a significant increase in market activities. The increased number of applicants for government lands and the active bidders in land auctions have given buyers confidence for a sustainable revival of the property market in 2007.

The Group shares the positive outlook for the property market in Hong Kong and the Mainland China. In 2007, the Group will continue to focus on luxury residential property development, in which the Group has a proven track record and extensive experience. The encouraging market support for Grand 8 on the Park and the keen anticipation for Giverny fueled the Group's confidence for the latter's relaunch, scheduled for April 2007. A series of marketing campaigns are planned to promote the property. In addition, construction of 157 Argyle Street will commence this year as the Group has recently reached an agreement with the Government on land premium and lease modification. Upon completion, the project will add to USI's portfolio of quality luxury residential developments. The Group will also start planning the two residential development projects in Pak Shek Kok with its partners and will once again demonstrate its value creation capability.

Apart from the luxury residential property market, the Group anticipates significant growth on all fronts. For property investment, the completion of the renovation of former Bank of East Asia Building on Hennessy Road will become a new source of stable income for the Group in the coming years. The Lanson Place in Hong Kong, Shanghai, Kuala Lumpur and Singapore, which is now a leading hospitality management brand in those cities, will maintain considerable growth in line with the robust business and leisure traffic in the region and the stronger recognition of the brand.

The Group is optimistic about the market potential in the PRC and will consider suitable investment projects across the border should such opportunities arise.

The Group will actively consider suitable acquisition opportunities in order to strengthen its financial position with an aim to become a niche player in the property market and create value for its shareholders.

DIVIDENDS

The Directors recommend the payment of a final dividend of HK6.5 cents (2005: HK5.5 cents) per share for the year ended 31 December 2006. Including the interim dividend of HK5.0 cents (2005: HK1.5 cents) per share paid on 20 October 2006, the total dividends payout for the year ended 31 December 2006 shall be HK11.5 cents per share. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, final dividend will be payable on 14 June 2007 to shareholders registered as at 8 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 June 2007 to 8 June 2007, both days inclusive, during which period there will be no transfer of shares. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on 4 June 2007.

EMPLOYEES

As at 31 December 2006, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

Employees, including executive directors, are eligible under the Company's share option scheme in which the share options are generally exercisable in stages within a period of one to five years from the date of grant.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. CHENG Wai Chee, Christopher *GBS JP*, aged 58, was appointed Chairman of the Company in 1991. Mr. Cheng is Chairman of the Remuneration Committee of the Company. He is also Chairman of Winsor Properties Holdings Limited. Mr. Cheng is a director of several listed companies in Hong Kong, including NWS Holdings Limited, New World China Land Limited and PICC Property and Casualty Company Limited. He is also a director of DBS Bank (Hong Kong) Limited. Mr. Cheng graduated from the University of Notre Dame with a BBA degree, and also graduated from Columbia University with a MBA degree.

Mr. Cheng plays an active role in public service. He is the Chairman of the Standing Committee on Judicial Salaries and Conditions of Service and a member of the Exchange Fund Advisory Committee of the Government of HKSAR, a member of the Council of University of Hong Kong, a steward of The Hong Kong Jockey Club, a non-executive director of the Securities and Futures Commission and the former Chairman of the Hong Kong General Chamber of Commerce.

Mr. Cheng is brother of Mr. Cheng Wai Keung, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. CHENG Wai Sun, Edward *JP*, aged 51, was appointed Chief Executive of the Company in 1994. Mr. Cheng is a member of the Remuneration Committee of the Company. He is also a non-executive director of Winsor Properties Holdings Limited and an independent non-executive director of Television Broadcasts Limited. Mr. Cheng has a master degree from Oxford University. He was qualified as a solicitor in the United Kingdom and Hong Kong.

Mr. Cheng is active in public service, amongst them, he is the Chairman of the Urban Renewal Authority, a member of the Hong Kong SAR Government's Commission on Strategic Development, and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption.

Mr. Cheng is brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Man Piu, Francis.

Mr. CHENG Man Piu, Francis, aged 54, was appointed executive director of the Company in 1991. He is the Assistant Managing Director of Wing Tai Corporation Limited. He graduated from the University of Wisconsin with a Bachelor of Science degree in Industrial Engineering and a MBA degree. Mr. Cheng is the Chairman of Group 24 in the Federation of Hong Kong Industries, the Vice-Chairman of the Federation of Hong Kong Garment Manufacturers. He is also a director of the Chinese Manufacturers' Association of Hong Kong and the Textile Council of Hong Kong Limited and a member of Trade and Industrial Advisory Board.

Mr. Cheng is brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Wai Sun, Edward.

Mr. NG Tak Wai, Frederick, aged 49, was appointed executive director of the Company in 1995. He graduated from Georgetown University with a BSBA degree, and also graduated from Columbia University with a MBA degree. He has held senior management positions in various garment manufacturing and distribution companies affiliated with the Wing Tai Group. His background is in manufacturing operations and management information systems.

Mr. AU Hing Lun, Dennis, aged 47, was appointed executive director of the Company in 2004. He is the Managing Director of the Group's Property Division and is responsible for the Group's corporate finance function. Mr. Au holds a Master of Business Administration and a Bachelor of Science degrees. He is a fellow member of The Association of Chartered Certified Accountants.

Mr. Au is an alternate director to Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward on the board of directors of Winsor Properties Holdings Limited.

NON-EXECUTIVE DIRECTORS

Mr. CHENG Wai Keung, aged 56, was appointed non-executive director of the Company in 1991. He is the Chairman and Managing Director of Wing Tai Holdings Limited as well as non-executive Chairman of Neptune Orient Lines Ltd., which is listed on the Singapore Exchange Limited. He graduated from Indiana University with a Bachelor of Science degree and holds a MBA degree from University of Chicago.

Mr. Cheng is brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. KWOK Ping Luen, Raymond, aged 53, was appointed non-executive director of the Company in 1991. He is Vice Chairman and Managing Director of Sun Hung Kai Properties Limited. He holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong and an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong. He is Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited, a Director of Transport International Holdings Limited and an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr. Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice-Chairman of the Council of The Chinese University of Hong Kong.

Mr. WONG Yick Kam, Michael, aged 55, was appointed non-executive director of the Company in 2002. Mr. Wong is a member of the Audit Committee of the Company. He obtained his Bachelor's and Master's degrees in Business Administration from The Chinese University of Hong Kong. Mr. Wong is an executive director of Sun Hung Kai Properties Limited and SUNeVision Holdings Limited. He is Deputy Chairman of Roadshow Holdings Limited and a non-executive director of SmarTone Telecommunications Holdings Limited. In community service, Mr. Wong is Chairman of the Hong Kong Youth Hostels Association. Mr. Wong is also an alternate director to Mr. Kwok Ping Luen, Raymond.

Mr. HONG Pak Cheung, William, aged 52, was appointed non-executive director of the Company in 2002. He received a Bachelor of Science degree in Mathematics from the University of Saskatchewan in Canada and completed the Advanced Management Program at Harvard University Graduate School of Business. Mr. Hong currently holds the position of Manager at Sun Hung Kai Properties Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Simon MURRAY *CBE*, aged 67, was appointed independent non-executive director of the Company in 1994. Mr. Murray is a member of the Remuneration Committee of the Company. He is the Chairman of General Enterprise Management Services (International) Limited, a private equity fund management company. Before this, Mr. Murray had been the Executive Chairman Asia/Pacific of the Deutsche Bank Group. He is a director of a number of public companies including Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Orient Overseas (International) Limited.

Mr. FANG Hung, Kenneth *GBS JP*, aged 68, was appointed independent non-executive director of the Company in 1997. Mr. Fang is a member of the Audit Committee and the Remuneration Committee of the Company. He is the Chairman of Fang Brothers Knitting Limited. Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in 1961 with a Master's degree in Chemical Engineering. He is an Honorary Chairman of Hong Kong Textile Council, an Honorary President of Hong Kong Woollen and Synthetic Knitting Manufacturers' Association and a member of Textile Advisory Board. Mr. Fang is the Chairman of Yeebo (International Holdings) Limited. Mr. Fang is also an independent non-executive director of Jiangsu Expressway Company Limited.

Mr. YEUNG Kit Shing, Jackson, aged 57, was appointed independent non-executive director of the Company in 2004. He is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Yeung has over 25 years of experience in finance and accounting. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung holds a Master of Professional Accounting Degree from the Hong Kong Polytechnic University.

SENIOR MANAGEMENT

Mr. CHUNG Siu Wah, Henry, aged 52, is the Company Secretary and Group Legal Counsel. He joined the Group in 1993. Mr. Chung holds a Master's Degree in Electronic Commerce and Internet Computing from The University of Hong Kong, a Bachelor's Degree in Laws from University of London, a Bachelor's Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor's Degree in Laws from Tsinghua University. He is a Barrister, a Certified Accountant and a Chartered Secretary.

Mrs. LI KAN Fung Ling, Karen, aged 45, is the Executive Director of Lanson Place, the hospitality management arm of the Group. Joining the Group in 1994, she has been responsible for the hospitality projects in Asia and the marketing and sales program of the residential projects in Hong Kong. She has over 18 years of international experience in strategic planning and operations with majority relating to residential properties and hotels – Wharf Hotels Investment Limited (H.K.), Mayfair Regent Hotel (Chicago, U.S.A.) and Hilton Hotels Corporation (Beverly Hills, U.S.A.). She holds a BBA degree with distinction in Hotels and Tourism Management from University of Hawaii and an MBA degree in Finance and International Business from George Washington University, Washington, D.C.

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in garment manufacturing and trading, branded products distribution, property investment and management, property development, provision of hospitality management services and investing activities. The Company, its subsidiaries and its jointly controlled entities are hereinafter collectively referred to as the Group.

The Group's jointly controlled entities and associates are principally engaged in property development.

Details of the Company's principal subsidiaries, associates and jointly controlled entities at 31 December 2006 are set out in notes 42 to 44 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 43.

An interim dividend of HK5.0 cents (2005: HK1.5 cents) per share, amounting to a total of about HK$26.3 million, was paid to shareholders on 20 October 2006.

The Directors recommend the payment of a final dividend of HK6.5 cents per share for the year ended 31 December 2006 (2005: HK5.5 cents per share) to shareholders whose names appear on the Register of Members of the Company on 8 June 2007, which together with the interim dividend payment amounts to a total of approximately HK$60.5 million. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable to shareholders on 14 June 2007.

SHARE CAPITAL

Movements in the authorised and issued share capital of the Company are set out in note 32 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company are set out in note 34 to the financial statements.

DIRECTORS' REPORT

INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2006 on an open market value basis. Movements in the investment properties during the year are set out in note 15 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2006 is set out on page 116.

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group as at 31 December 2006 are set out on page 117. Movements in the properties under development during the year are set out in note 16 to the financial statements.

OTHER PROPERTIES, PLANT AND EQUIPMENT

Details of other properties, plant and equipment of the Group as at 31 December 2006 are set out in note 17 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling HK$0.6 million.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive directors:
Cheng Wai Chee, Christopher *GBS JP (Chairman)*
Cheng Wai Sun, Edward *JP (Chief Executive)*
Cheng Man Piu, Francis
Ng Tak Wai, Frederick
Au Hing Lun, Dennis

Non-executive directors:
Cheng Wai Keung
Kwok Ping Luen, Raymond
Wong Yick Kam, Michael
(also an alternate to Kwok Ping Luen, Raymond)
Hong Pak Cheung, William

Independent non-executive directors:
Simon Murray *CBE*
Fang Hung, Kenneth *GBS JP*
Yeung Kit Shing, Jackson

In accordance with bye-law 100 of the Company's Bye-laws, Mr. Cheng Wai Sun, Edward, Mr. Au Hing Lun, Dennis, Mr. Ng Tak Wai, Frederick and Mr. Fang Hung, Kenneth will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

PUBLIC FLOAT

The Listing Rules normally requires issuers to maintain at least 25% of their listed securities in public hands at all times. Based on information that was publicly available to the Company and within the knowledge of the Directors of the Company, as at the latest practicable date prior to the issue of this annual report, the percentage of the Company's shares in public hands was 24.6% being 0.4% below the prescribed minimum of 25%.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2006, the interests or short positions of the Directors and the Chief Executive of the Company in the Shares, underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Long positions in the shares of the Company

	Number of ordinary shares held					
Name of Directors	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Aggregate interests**	**Percentage of the Company's issued share capital**
Cheng Wai Chee, Christopher	2,225,999	–	148,439,086 (Note a)	110,595,862 (Note b)	261,260,947	49.61%
Cheng Wai Sun, Edward	2,150,000	–	–	110,595,862 (Note b)	112,745,862	21.41%
Cheng Man Piu, Francis	–	–	–	110,595,862 (Note b)	110,595,862	21.00%
Cheng Wai Keung	–	–	–	110,595,862 (Note b)	110,595,862	21.00%
Ng Tak Wai, Frederick	188,500	762,000	–	–	950,500	0.18%
Au Hing Lun, Dennis	421,500	–	–	–	421,500	0.08%

Notes:

(a) Mr. Cheng Wai Chee, Christopher was deemed to be interested in 148,439,086 ordinary shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies through Wing Tai (Cheng) Holdings Limited, Renowned Development Limited and Wing Tai Corporation Limited. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 12,992,968 ordinary shares of the Company respectively.

(b) Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung were beneficiaries of a family trust which assets include indirect interests in 110,595,862 ordinary shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out in the section headed "Substantial Shareholders Interests and Short Positions in Shares" below.

Details of the share options granted under the Share Option Scheme and of the incentive shares awarded under the Share Incentive Scheme to the Directors of the Company are set out on page 29 in the sections of "Share Option Scheme" and "Share Incentive Scheme" of this annual report.

All the interests in shares and underlying shares of the Company disclosed above under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2006, none of the Directors nor the Chief Executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or the Chief Executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the Directors, the Chief Executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2006, the following persons (other than the Directors and the Chief Executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of shareholders	Long/Short position	Number of ordinary shares beneficially held	Percentage in the issued share capital of the Company
Brave Dragon Limited	Long	106,345,862	20.19% (Note 1)
Wing Tai Holdings Limited	Long	110,595,862	21.00% (Note 2)
Deutsche Bank International Trust Co. (Jersey) Limited	Long	110,595,862	21.00% (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	Long	110,595,862	21.00% (Note 2)
Wing Tai Asia Holdings Limited	Long	110,595,862	21.00% (Note 2)
Wing Sun Development Private Limited	Long	110,595,862	21.00% (Note 2)
Terebene Holdings Inc.	Long	110,595,862	21.00% (Note 2)
Winlyn Investments Pte Ltd	Long	110,595,862	21.00% (Note 2)
Bestime Resources Limited	Long	68,747,996	13.05% (Note 3)
Pofung Investments Limited	Long	66,698,122	12.66% (Note 3)
Wing Tai Corporation Limited	Long	135,446,118	25.72% (Note 3)
Renowned Development Limited	Long	135,446,118	25.72% (Note 3)
Wing Tai (Cheng) Holdings Limited	Long	148,439,086	28.18% (Note 4)
Triple Surge Limited	Long	28,260,000	5.37% (Note 5)
Fourseas Investments Limited	Long	47,413,992	9.00% (Note 5)
Wesmore Limited	Long	83,946,158	15.94% (Note 6)
Sun Hung Kai Properties Limited	Long	131,504,150	24.97% (Note 6)

Notes:

(1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 ordinary shares of the Company.

(2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% of the issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Private Limited, held 28.1% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Ltd. which in turn held 9.2% of the issued shares of Wing Tai Holdings Limited.

(3) Wing Tai Corporation Limited beneficially owned 100% of the issued share capital of Bestime Resources Limited and Pofung Investments Limited and, therefore, it was deemed to be interested in the shares they held in the Company by virtue of its corporate interest in them.

By virtue of the corporate interest of Renowned Development Limited in Wing Tai Corporation Limited, the former was deemed to be interested in the latter's interest in the shares of the Company.

(4) By virtue of the corporate interest of Wing Tai (Cheng) Holdings Limited in Renowned Development Limited and Broxbourne Assets Limited, Wing Tai (Cheng) Holdings Limited was deemed to be interested in the interest of Renowned Development Limited and Broxbourne Assets Limited in the shares of the Company. Broxbourne Assets Limited beneficially owned 12,992,968 ordinary shares of the Company.

(5) Fourseas Investments Limited beneficially owned 100% of the issued share capital of Soundworld Limited, Units Key Limited and Triple Surge Limited and, therefore, it was deemed to be interested in the shares they held in the Company by virtue of its corporate interest in them. Soundworld Limited was the beneficial owner of 15,651,992 ordinary shares of the Company, Units Key Limited was the beneficial owner of 3,502,000 ordinary shares of the Company and Triple Surge Limited was the beneficial owner of 28,260,000 ordinary shares of the Company.

(6) Sun Hung Kai Properties Limited ("SHKP") beneficially owned 100% of the issued share capital of Wesmore Limited, Fourseas Investments Limited and Junwall Holdings Ltd. which in turn owned 100% of the issued share capital of Techglory Ltd. By virtue of the corporate interest of SHKP in the aforesaid companies, SHKP was deemed to be interested in interest of Wesmore Limited, Fourseas Investments Limited and Junwall Holdings Ltd. in the shares of the Company. Techglory Ltd. was the beneficial owner of 144,000 ordinary shares of the Company.

All the interests in shares disclosed under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2006, the Company is not aware of any other person (other than the Directors and the Chief Executive of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

Details of the share options granted to an independent non-executive director under the Share Option Scheme are as follows:–

		Number of ordinary shares issuable under the options granted				
Name of director	Date of grant	As at 1 January 2006	Exercised during the year	As at 31 December 2006	Exercisable period	Exercise price per ordinary share
Simon Murray	19.4.2005	1,000,000	–	1,000,000	19.4.2006 to 18.4.2010	HK$2.125

Details of the Share Option Scheme of the Company are set out in note 33 to the financial statements.

SHARE INCENTIVE SCHEME

Details of the incentive shares awarded to executive directors under the Share Incentive Scheme are as follows:–

Name of directors	Date of award	As at 1 January 2006	Awards made during the year	Awards vested and exercised during the year	As at 31 December 2006	Vesting period
Cheng Wai Chee, Christopher	13.9.2005	600,000	–	(150,000)	450,000	13.9.2006 to 12.9.2008
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2009
Cheng Wai Sun, Edward	13.9.2005	600,000	–	(150,000)	450,000	13.9.2006 to 12.9.2008
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2009
Ng Tak Wai, Frederick	13.9.2005	90,000	–	(22,500)	67,500	13.9.2006 to 12.9.2008
	25.4.2006	–	59,000	–	59,000	12.1.2007 to 11.1.2009
Au Hing Lun, Dennis	13.9.2005	150,000	–	(37,500)	112,500	13.9.2006 to 12.9.2008
	25.4.2006	–	110,000	–	110,000	12.1.2007 to 11.1.2009

Note: Subscription price per share is the nominal value of the ordinary share of the Company. Fund for subscription of ordinary shares will be provided by the Company when the executive directors exercise the right to subscribe for ordinary shares of the Company.

Details of the Share Incentive Scheme of the Company are set out in note 33 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of Directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis are substantial shareholders of Wing Tai (Cheng) Holdings Limited and Pacific Investment Exponents Inc. (the "Group One Companies"). Mr. Cheng Wai Chee, Christopher and Mr. Cheng Man Piu, Francis are directors of Wing Tai (Cheng) Holdings Limited. Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis are directors of Pacific Investment Exponents Inc.

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Garment Industrial Holdings Limited (the "Group Two Company"). Mr. Cheng Wai Chee, Christopher and Mr. Cheng Man Piu, Francis are directors of the Group Two Company.

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Asia Holdings Limited and Terebene Holdings Inc. (the "Group Three Companies"). Mr. Cheng Wai Keung is a director of the Group Three Companies.

Certain companies controlled by the Group One Companies and the Group Two Company carry on garment business in China which may be regarded as competitive to the Group's apparel business.

Certain companies affiliated with the Group Three Companies carry on garment business in Malaysia which might be regarded as competitive to the Group's apparel business.

The Group's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Group's management team has been instructed that whatever businesses to be transacted with the Group One Companies, Group Two Company, Group Three Companies and/or any companies controlled thereby or affiliated therewith shall be transacted at arm's length. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its business independently of, and at arm's length from the aforesaid garment businesses.

Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward are non-executive directors of and interested in Winsor Properties Holdings Limited ("WPHL"). Mr. Au Hing Lun, Dennis is an alternate director to Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward in WPHL. The industrial buildings rental business and property development business of WPHL may be regarded as competitive to the Group's property rental business and property development business.

The Group's management team is separated from and independent of the management team of WPHL. The Group's management team has been instructed that whatever businesses to be transacted with WPHL and/or any companies controlled thereby or affiliated therewith shall be transacted at arm's length. The industrial buildings rented out by the Group and WPHL are targeting at different customer bases and different market segments. Furthermore, the independent non-executive directors of the Company and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid industrial property rental business and property development business of WPHL.

Mr. Kwok Ping Luen, Raymond and Mr. Wong Yick Kam, Michael are directors of Sun Hung Kai Properties Limited ("SHKP"). Businesses of SHKP consist of property development and investment. Only in this respect they are regarded to be interested in the relevant competing business with the Group.

Mr. Kwok Ping Luen, Raymond is a director of Transport International Holdings Limited ("TIH"). Businesses of TIH consist of property development and investment. Only in this respect he is regarded to be interested in the relevant competing business with the Group.

The aforesaid competing businesses, in which Mr. Kwok Ping Luen, Raymond and Mr. Wong Yick Kam, Michael are regarded to be interested, are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with the diligence of its independent non-executive directors and the Audit Committee, the Group is capable of carrying on its business independently of, and at arm's length from the said competing businesses.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had the following connected transactions, details of which are set out below:

I) Connected Transactions

(1) In November 2003, the Company, through a wholly-owned subsidiary, Kosheen Investments Limited, formed a joint venture company, namely Winwill Investment Pte Ltd ("Winwill"), together with a wholly-owned subsidiary of Wing Tai Holdings Limited ("WTH") and a wholly-owned subsidiary of Winsor Properties Holdings Limited ("WPHL") on a 20:60:20 basis.

Winwill is an investment vehicle. It holds a 60% interest in another joint venture company, namely Winhome Investment Pte Ltd ("Winhome"). Other shareholders of Winhome are independent third parties to each of the Directors, Chief Executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

Winhome undertakes the development and sale of a residential land parcel at Flower Road/Kovan Road in Singapore. Financial assistance in the form of shareholders' loan provided to Winhome in proportion to the Group's equity interest in Winhome and on normal commercial terms amounted to HK$62.5 million in 2006.

WTH is a substantial shareholder of the Company and a connected person of the Company for the purpose of the Listing Rules. WPHL is a substantial shareholder of three subsidiaries of the Company and hence a connected person of the Company.

(2) On 1 November 2004, Unimix Properties Limited, a 86.4%-owned subsidiary of the Company, entered into a 2 year tenancy agreement with Wing Tai Corporation Limited ("WTC") for the leasing of the premises situated at Unit B, 18/F and Unit A, 22/F, Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong at a total rent and management fee of HK$2,646,000 (exclusive of electricity charges for the air-conditioning system). The monthly rental is payable in advance on the first date of each month. This tenancy agreement expired on 31 October 2006. A new tenancy agreement with WTC has been entered into during the year on the same terms for one year commencing 1 November 2006. This connected transaction is exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

(3) On 3 December 2004, USI Property Management Limited ("USIPM"), a wholly-owned subsidiary of the Company, entered into a project management agreement ("PM Agreement") with Begin Land Limited ("Begin Land"), a wholly-owned subsidiary of WPHL. Pursuant to the PM Agreement, Begin Land appointed USIPM as the project manager to manage the construction and development of the property situated at 102 How Ming Street, Kwun Tong, Kowloon for a term of approximately 70 months commencing on 1 December 2004 until the date of settlement of the final account in respect of the property project which is expected to be a date not later than 30 September 2010.

The project management fee paid by Begin Land to USIPM in 2006 amounted to HK$1.8 million.

(4) On 14 March 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 80:20 joint venture for the investment and development of the property situated at No.157 Argyle street, Kowloon (the "Property"). The joint venture, Pangold Development Limited ("Pangold"), acquired the Property by way of public tender at the tender purchase price of HK$250.1 million and will spend an aggregate of HK$664 million to pay for the land premium and develop the Property. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 21 April 2005.

A shareholders agreement had been entered into on 14 July 2005 by the Company and WPHL which sets out the terms governing the management of Pangold and the obligations of the parties to the agreement.

At 31 December 2006, the Group advanced HK$210 million to Pangold. The loan is proportionate to the Group's shareholding in Pangold and interest bearing at prevailing market rates.

(5) On 30 September 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 70:30 joint venture for the refurbishment of the property situated at Nos. 314-324 Hennessy Road, Hong Kong (the "Building"). The Building was acquired by the joint venture, Winnion Limited ("Winnion"), by way of public tender at the tender purchase price of HK$529 million. The refurbishment cost of the Building is currently estimated to be approximately HK$150 million. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 9 November 2005.

A shareholders agreement had been entered into on 28 November 2005 by the Company and WPHL which sets out the terms governing the management of Winnion and obligations of the parties to the agreement.

At 31 December 2006, the Group advanced HK$137 million to Winnion. The loan is proportionate to the Group's shareholding in Winnion and interest bearing at prevailing market rates.

II) Continuing Connected Transactions

(1) On 22 June 2005, the Group formed a joint venture with Morgan Stanley Real Estate Fund IV International Funds ("MSREF IV International"), a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules, in respect of the Lanson Place Jin Lin Tian Di serviced apartment project (the "Project"). In connection with the Project:

Lanson Place Hospitality Management Limited (formerly known as Lanson Place Management Limited and hereinafter referred to "Lanson Place"), a wholly-owned subsidiary of the Company, entered into an Operating Agreement with Shanghai Jinlin Tiandi Serviced Apartment Management Co. Ltd ("WFOE") pursuant to which Lanson Place is to manage the assets of the Project on behalf of WFOE. The Operating Agreement is for a term of three years commencing from 22 June 2005.

The total management fee of HK$1,523,000 (2005: HK$3,522,000) received by Lanson Place for the year ended 31 December 2006 is within the annual cap as set out in the Company's announcement dated 23 June 2005.

(2) On 31 October 2006, the Company's indirect wholly-owned subsidiary, Gieves Limited ("Gieves"), entered into an agreement with Wensum Tailoring Company Limited ("Wensum") (the "Agreement"). Pursuant to the Agreement, Gieves may place orders with Wensum for supply of certain finished tailored menswear or their components during the period from 31 October 2006 to 31 December 2008.

Wensum Clothing Company plc (an independent third party to the Group) was a supplier of Gieves. In May 2006, Wensum acquired the business and certain trading assets and liabilities of Wensum Clothing Company plc. Wensum is an indirect wholly-owned subsidiary of Wing Tai Corporation Limited. As Wing Tai Corporation Limited is a substantial shareholder and hence a connected person of the Company, Wensum is a connected person of the Group for the purpose of the Listing Rules.

Purchases made by Gieves from Wensum during the period from May 2006 to 31 December 2006 amounted to GBP556,000 (equivalent to approximately HK$7,934,000), which is within the annual cap as set out in the Company's announcement dated 3 November 2006.

The independent non-executive directors of the Company have reviewed and confirmed that the above continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms;

(c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(d) have not exceeded the relevant maximum amount capped in accordance to the annual caps as set out in the relevant public announcements.

In accordance with paragraph 14A.38 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditor of the Company and perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings for the selected samples based on the agreed procedures to the Board of Directors stating that:

(a) the selected samples of the transactions had been approved by the Company's Directors;

(b) the selected samples of the transactions in respect of provision of goods or services by the Group, were entered into in accordance with the pricing policies of the Group;

(c) the selected samples of the transactions were entered into in accordance with the relevant agreements governing such transactions; and

(d) such transactions, when applicable, had not exceeded the annual caps as disclosed in relevant announcements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The aggregate amount of purchase attributable to the Group's five largest suppliers was less than 30% of the total value of the Group's purchases.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 31 December 2006, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounted to HK$180.2 million in aggregate which did not exceed 8% of the assets ratio as defined in Rule 14.07(1) of the Listing Rules.

A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 31 December 2006 are presented below:

	Pro-forma combined balance sheet HK$'M	**Group's attributable interest** HK$'M
Non-current assets	2,903.3	446.4
Current assets	2,858.9	1,081.2
Current liabilities	(1,149.2)	(361.8)
Non-current liabilities	(2,380.5)	(401.0)
Net assets	2,232.5	764.8

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no restriction against such rights under the laws in Bermuda.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 118 of this annual report.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
Cheng Wai Chee, Christopher
Chairman

Hong Kong, 17 April 2007

CORPORATE GOVERNANCE REPORT

1. COMPLIANCE WITH APPENDIX 14 TO THE RULES GOVERNING THE LISTING OF SECURITIES ("LISTING RULES") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company has complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that non-executive directors were not appointed for specific terms but they are subject to retirement by rotation in accordance with the Company's Bye-laws, throughout the financial year ended 31 December 2006.

2. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct for securities transactions by directors of the Company.

The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and received confirmation from all the directors that they had fully complied with the required standard set out in the Model Code throughout the year.

3. BOARD OF DIRECTORS

As at the date of this report, the Company's Board of Directors (the "Board") comprises five executive directors, four non-executive directors and three independent non-executive directors. Names and other details of the directors are given on page 24 of the Directors' Report.

Each of the independent non-executive directors had confirmed his independence with the Stock Exchange before September 2004. The Company has received annual confirmations from all independent non-executive directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Group and were independent as at 31 December 2006 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non-executive directors of the Company are independent.

Chairman and Chief Executive

Mr. Cheng Wai Chee, Christopher is the Chairman of the Board and Mr. Cheng Wai Sun, Edward is the Chief Executive of the Group. While the Chairman of the Board is responsible for providing leadership for the Board, ensuring that all Directors are properly briefed on issues arising at Board meetings and receive complete, reliable and timely information, the Chief Executive is responsible for the day-to-day management of the Group's business.

Non-executive Directors

The non-executive directors (including independent non-executive directors) were not appointed for specific terms but all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company.

Functions and responsibilities of the Board

On 12 July 2005, the Company formalised in writing the functions and responsibilities reserved to the Board and the functions and responsibilities delegated to management as follows:

i) the Board shall approve the yearly budgets of the Company and its subsidiaries;

ii) the Board shall monitor the operating and financial performance of the Company and its subsidiaries;

iii) the Board shall oversee the processes for evaluation of the adequacy of internal controls, risk management, financial reporting and compliance;

iv) the Board shall assume responsibility for corporate governance; and

v) the day-to-day operations of the Company and its subsidiaries is delegated to the management led by the Chief Executive.

Four regular board meetings had been held during the year. Attendance of each member at the board meeting is set out in the table under the section headed "Meeting Attendance" of this report on page 40.

4. REMUNERATION COMMITTEE

On 12 July 2005, the Remuneration Committee was formed and the updated terms of reference are available on the Company's website. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Simon Murray, Mr. Fang Hung, Kenneth and Mr. Yeung Kit Shing, Jackson and two executive directors, namely Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward. Mr. Cheng Wai Chee, Christopher is the Chairman of the Remuneration Committee.

The duties and functions of the Remuneration Committee are:

(i) recommendation of remuneration policy and structure for executive directors;

(ii) determination of remuneration packages of executive directors;

(iii) review and approve performance-based remuneration for executive directors; and

(iv) recommendation of remuneration packages for non-executive directors.

Remuneration Committee meeting is held once per year. Attendance of each member at the Remuneration Committee meeting held during the year is set out in the table under the section headed "Meeting Attendance" of this report.

Remuneration Policy for Executive Director

The principal elements of the executive directors' remuneration packages include base salaries and discretionary bonus which includes both cash and share incentives. The remuneration packages of the executive directors will be proposed jointly by the Chairman and the Chief Executive of the Group annually for the review and approval of the Remuneration Committee based on the following factors:

a) the executive director's responsibilities;

b) the executive director's individual performance;

c) performance of the business unit(s) headed by the executive director; and

d) performance of the Group as a whole.

Remuneration Policy for Non-executive directors

The non-executive directors' remuneration, comprising directors' fee, is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the Annual General Meetings.

Details of the remuneration of directors are set out in note 9 to the financial statements on pages 76 and 77.

5. NOMINATION OF DIRECTORS

The Board reviews its structure and composition on a regular basis to ensure that it has the expertise and independence to carry out its functions and responsibilities. Pursuant to the Bye-laws of the Company, any director newly appointed by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election at that annual general meeting.

6. AUDIT COMMITTEE

During the year and up to the date of this report, the members of the Audit Committee are:

Independent non-executive director:
Mr. Yeung Kit Shing, Jackson *(Committee Chairman)*
Mr. Fang Hung, Kenneth *GBS JP*

Non-executive director:
Mr. Wong Yick Kam, Michael
Mr. Hong Pak Cheung, William
(alternate to Mr. Wong Yick Kam, Michael)

The following matters were discussed during the three Audit Committee meetings held in 2006:

a) the Company's annual and interim reports and financial statements;

b) internal audit plans and findings;

c) external auditor's audit plan and findings; and

d) appointment and remuneration of external auditor.

On 11 November 2004, the Board adopted a new set of terms of reference for the Audit Committee having regard to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants (as it was then known) in February 2002. The terms of reference of the Audit Committee are published on the Company's website and are also available in writing upon request to the Company Secretary.

7. INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness through the Audit Committee. The Board is committed to the implementation of an effective and sound internal control system to safeguard the interest of the shareholders and the Group's assets. The system of internal control is designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure to achieve the Group's business objectives.

The Group's Internal Audit Department reviews the effectiveness of the system of internal control across the Group. The Internal Audit Department also reviews the major operational, financial and risk management controls of the Group on a continuing basis, and aims to cover all major business units and operations of the Group on a rotational basis. The annual internal audit plan is formulated based on a risk assessment approach with focus on areas with higher business risks. The annual internal audit plan is prepared at the beginning of each financial year with input from management. The annual internal audit plan is then presented to the Audit Committee for approval. The Internal Audit Department reports major findings, recommendations and progress of their work to the Audit Committee on a regular basis.

During the year ended 31 December 2006, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group.

8. MEETING ATTENDANCE

The attendance rates of individual members at Board and Committee meetings in 2006 are detailed in the following table:

Name of Directors	Board meetings	Remuneration Committee meeting	Audit Committee meetings
Mr. Cheng Wai Chee, Christopher	4/4	1/1	N/A
Mr. Cheng Wai Sun, Edward	4/4	1/1	N/A
Mr. Cheng Man Piu, Francis	2/4	N/A	N/A
Mr. Ng Tak Wai, Frederick	4/4	N/A	N/A
Mr. Au Hing Lun, Dennis	4/4	N/A	N/A
Mr. Cheng Wai Keung	0/4	N/A	N/A
Mr. Kwok Ping Luen, Raymond	3/4	N/A	N/A
Mr. Wong Yick Kam, Michael	2/4	N/A	3/3
Mr. Hong Pak Cheung, William	3/4	N/A	3/3
Mr. Simon Murray	1/4	1/1	N/A
Mr. Fang Hung, Kenneth	2/4	1/1	3/3
Mr. Yeung Kit Shing, Jackson	4/4	1/1	3/3

9. DIRECTORS' REMUNERATION

The directors' remuneration is set out in note 9 to the financial statements on pages 76 and 77 of the Annual Report.

10. AUDITOR'S REMUNERATION

PricewaterhouseCoopers ("PwC") was appointed the auditor of the Company at the last annual general meeting of the Company held on 16 June 2006. The remuneration in respect of audit and non-audit services (taxation service and a review of the interim financial information for the six months ended 30 June 2006) provided by PwC for the financial year ended 31 December 2006 are HK$2,030,000 and HK$782,000 respectively.

11. FINANCIAL REPORTING

The directors of the Company acknowledged that they are responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies have been selected and applied consistently.

12. CORPORATE COMMUNICATION

The annual general meeting provides a forum for shareholders to exchange views with the Board. The Chairman of the Board, Chairman of Audit Committee and Chairman of the Remuneration Committee will be available to answer shareholders' questions at the meeting.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders which is dispatched together with this annual report.

All the publications of the Company, including annual report, interim report, circular, notice of general meetings, results of the poll of general meetings are available on the Stock Exchange's website at www.hkex.com.hk.

The Company's website at www.usi.com.hk offers timely access to investors regarding the Company's financial, corporate and other information.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF USI HOLDINGS LIMITED
(incorporated in the Bermuda with limited liability)

We have audited the consolidated financial statements of USI Holdings Limited (the "Company"), its subsidiaries and its jointly controlled entities (together, the "Group") set out on pages 43 to 115, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
Turnover	5	**2,699.4**	1,767.9
Cost of sales		**(1,573.1)**	(1,201.3)
Gross profit		**1,126.3**	566.6
Other operating income	7	**12.0**	14.0
Distribution costs		**(154.6)**	(110.2)
Administrative expenses		**(325.2)**	(282.3)
Change in fair value of investment properties		**336.3**	276.1
Gain on disposal of strategic investments		**–**	67.1
Gain on disposal of investment properties		**18.2**	–
Reversal of/(provision for) impairment losses in respect of strategic investments and properties for sale		**3.0**	(2.0)
Profit from operations	8	**1,016.0**	529.3
Finance charges		**(41.7)**	(24.4)
Finance income		**9.4**	6.0
Net finance charges	10	**(32.3)**	(18.4)
Share of results of associates	19	**25.8**	13.1
Profit before taxation		**1,009.5**	524.0
Taxation	11	**(183.6)**	(89.6)
Profit for the year		**825.9**	434.4
Attributable to:			
Equity holders of the Company		**738.3**	368.5
Minority interests		**87.6**	65.9
		825.9	434.4
Dividends	12	**60.5**	36.8
Earnings per share for profit attributable to equity holders of the Company (expressed in HK dollar per share)	13		
– Basic		**HK$1.40**	HK$0.70
– Diluted		**HK$1.40**	HK$0.70

The notes on page 50 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights	14	**776.3**	780.4
Investment properties	15	**1,563.1**	1,311.6
Properties under development	16	**128.7**	89.5
Other properties, plant and equipment	17	**301.0**	287.2
Interests in associates	19	**163.9**	199.5
Strategic investments	20	**639.8**	418.4
Other non-current assets	21	**86.2**	0.5
		3,659.0	3,087.1
Current assets			
Inventories	22	**122.4**	123.9
Properties for sale	23	**302.7**	803.2
Trade, bills and other receivables, deposits and prepayments	24	**192.2**	487.9
Derivative financial instruments	25	**0.2**	2.7
Sales proceeds held in stakeholders' accounts		**65.8**	113.6
Amounts due from associates	19	**18.6**	9.3
Taxation recoverable		**2.9**	2.7
Cash and cash equivalents	26	**400.6**	137.7
		1,105.4	1,681.0
Current liabilities			
Trade, bills and other payables and accruals	27	**329.2**	380.7
Properties presale proceeds received		**–**	902.5
Amount due to an associate	19	**4.9**	4.8
Taxation payable		**123.4**	39.2
Bank borrowings in respect of bills receivable		**10.2**	9.3
Short-term bank borrowings	28	**1.9**	4.1
Bank loans – amounts due within one year	29	**48.7**	310.5
		518.3	1,651.1
Net current assets		**587.1**	29.9
Total assets less current liabilities		**4,246.1**	3,117.0

CONSOLIDATED BALANCE SHEET (cont'd)

At 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
Non-current liabilities			
Bank loans - amounts due after one year	29	**1,000.0**	777.8
Other long-term loans	30	**187.4**	279.5
Deferred taxation	31	**130.7**	75.6
		1,318.1	1,132.9
NET ASSETS		**2,928.0**	1,984.1
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	32	**263.3**	263.1
Reserves	34	**2,449.5**	1,593.5
		2,712.8	1,856.6
Minority interests		**215.2**	127.5
TOTAL EQUITY		**2,928.0**	1,984.1

The notes on page 50 to 115 are an integral part of these consolidated financial statements.

The financial statements on pages 43 to 115 were approved and authorised for issue by the Board of Directors on 17 April 2007 and are signed on its behalf by:

Cheng Wai Sun, Edward
DIRECTOR

Au Hing Lun, Dennis
DIRECTOR

BALANCE SHEET

At 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	18	**1,124.9**	1,182.8
Current assets			
Other receivables and prepayments		**0.3**	0.3
Cash and cash equivalents		**0.1**	0.2
		0.4	0.5
Current liabilities			
Other payables		**1.0**	1.0
Net current liabilities		**(0.6)**	(0.5)
NET ASSETS		**1,124.3**	1,182.3
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	32	**263.3**	263.1
Reserves	34	**861.0**	919.2
TOTAL EQUITY		**1,124.3**	1,182.3

The notes on page 50 to 115 are an integral part of these financial statements.

Cheng Wai Sun, Edward
DIRECTOR

Au Hing Lun, Dennis
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	NOTE	**2006**	2005
		HK$'M	HK$'M
At 1 January		**1,984.1**	1,474.1
Exchange differences arising on translation of financial statements of subsidiaries and jointly controlled entities		**15.3**	(0.2)
Surplus arising on revaluation of strategic investments		**156.8**	163.1
Investment revaluation reserve realised on disposal of strategic investments		**–**	(67.1)
(Decrease)/increase in fair value of hedging instruments		**(2.5)**	2.4
Value of employee services relating to grants of share option and incentive shares		**2.6**	0.5
Share of reserves of associates		**(0.1)**	–
Net income recognised directly in equity		**172.1**	98.7
Profit for the year		**825.9**	434.4
Total recognised income for the year (Note)		**998.0**	533.1
		2,982.1	2,007.2
Adjustment of other property revaluation reserve in respect of leasehold land		**–**	(6.0)
Issue of shares on exercise of incentive shares	32 & 33(b)	**1.1**	–
Dividends paid		**(55.2)**	(17.1)
At 31 December		**2,928.0**	1,984.1

Note:

Total recognised income for the year attributable to:		
Equity holders of the Company	**910.3**	467.4
Minority interests	**87.7**	65.7
	998.0	533.1

The notes on page 50 to 115 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
Cash flows from operating activities			
Profit from operations		**1,016.0**	529.3
Adjustments for:			
Gain on disposal of an investment property		**(18.2)**	–
Gain on disposal of strategic investments		**–**	(67.1)
Share-based payments		**2.6**	0.5
Change in fair value of investment properties		**(336.3)**	(276.1)
Impairment losses recognised in respect of strategic investments		**0.7**	2.0
Interest and investment income		**(19.3)**	(21.8)
Depreciation and amortisation			
– trademark		**0.2**	0.1
– leasehold land and land use rights	14	**4.1**	7.2
– other properties, plant and equipment	17	**26.9**	24.6
(Gain)/loss on disposal of other properties, plant and equipment		**(0.7)**	1.2
Operating cash flows before movements in working capital		**676.0**	199.9
Decrease in inventories		**7.2**	5.7
Decrease/(increase) in properties for sale		**510.9**	(147.0)
Decrease/(increase) in trade, bills and other receivables, deposits and prepayments		**299.5**	(311.4)
Decrease/(increase) in sales proceeds held in stakeholders' accounts		**47.8**	(12.4)
Increase in amounts due from associates		**(9.3)**	(0.9)
(Decrease)/increase in trade, bills, other payables and accruals		**(62.2)**	124.7
(Decrease)/increase in properties pre-sale deposits received		**(902.5)**	795.1
Increase in amount due to an associate		**0.1**	4.8
Net cash generated from operations		**567.5**	658.5
Interest and dividend income received		**12.2**	13.6
Interest paid on bank and other borrowings		**(65.8)**	(46.1)
Hong Kong profits tax (paid)/refunded		**(44.6)**	0.2
Tax refunded/(paid) in other jurisdictions		**0.1**	(0.4)
Net cash generated from operating activities		**469.4**	625.8

CONSOLIDATED CASH FLOW STATEMENT (cont'd)

For the year ended 31 December 2006

	NOTE	2006 HK$'M	2005 HK$'M
Cash flows from investing activities			
Purchase of investment properties	15	**(1.2)**	–
Purchase of leasehold land and land use rights	14	**–**	(735.0)
Purchase of properties under development		**(16.4)**	(239.8)
Purchase of other properties, plant and equipment		**(33.0)**	(42.5)
Purchase of strategic investments		**(60.2)**	(8.7)
Purchase of trademark		**(0.1)**	(0.2)
Deposit paid for acquisition of investment properties	21	**(85.8)**	–
Net repayment of amounts due from associates		**75.1**	31.5
Increase in investments the underlying business of which is property development		**(5.1)**	(36.8)
Proceeds from redemption of debt securities		**–**	1.8
Other interest received	10	**9.4**	6.0
Repayment of mortgage loans receivable		**–**	1.2
Investments in associates		**(0.4)**	(42.7)
Proceeds from disposal of strategic investments		**–**	266.6
Proceeds from disposal of other properties, plant and equipment		**0.8**	–
Net proceeds from disposal of an investment property		**104.2**	–
Net cash used in investing activities		**(12.7)**	(798.6)
Cash flows from financing activities			
Issue of shares	32 & 34	**1.1**	–
Bank and other loans raised		**925.9**	1,782.4
Repayment of bank and other loans		**(1,069.3)**	(1,591.8)
(Decrease)/increase in trust receipts and import loans		**(2.2)**	1.3
Dividends paid by the Company		**(55.2)**	(17.1)
Net cash (used in)/generated from financing activities		**(199.7)**	174.8
Effect of foreign exchange rate changes		**5.9**	(3.6)
Increase/(decrease) in cash and cash equivalents		**262.9**	(1.6)
Cash and cash equivalents at the beginning of the year		**137.7**	139.3
Cash and cash equivalents at the end of the year	26	**400.6**	137.7

The notes on page 50 to 115 are an integral part of these financial statements.

1. GENERAL

USI Holdings Limited ("Company") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company, its subsidiaries and its jointly controlled entities (collectively herein the "Group") are engaged in garment manufacturing and trading, branded products distribution, property investment and management, property development, provision of hospitality management service and other investing activities.

These consolidated financial statements are presented in millions of units of HK dollars (HK$'M), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets ("strategic investments"), financial assets and financial liabilities (included derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting principles. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Adoption of Standards, Amendments to Standards and Interpretation of HKFRSs

The following Amendments to Standards and Interpretation, which are relevant to the Group's operations are mandatory for accounting periods beginning on or after 1 January 2006 and were adopted by the Group:

HKAS 19 (Amendment)	Employee benefits – actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intra-group transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendment)	Financial guarantee contracts
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease

The adoption of the above Amendments to Standards and Interpretations did not have any significant impacts to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Adoption of Standards, Amendments to Standards and Interpretation of HKFRSs (cont'd)

The following Amendments to Standards and Interpretations mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market: waste electrical and electronic equipment
HKAS 1 (Amendment)	Capital disclosures

The Group has not early adopted the following Standards, Amendments to Standards or Interpretations that have been issued but are not yet effective. The directors anticipate that the adoption of these Standards. Amendments to Standards or Interpretations will not result in substantial changes to the Group's accounting policies:

HKAS 1 (Amendment)	Capital disclosures	(Effective from 1 January 2007)
HKFRS 7	Financial instruments – disclosures	(Effective from 1 January 2007)
HKFRS 8	Operating segments	(Effective from 1 January 2009)
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies	(Effective from 1 March 2006)
HK(IFRIC) – Int 8	Scope of HKFRS 2	(Effective from 1 May 2006)
HK(IFRIC) – Int 9	Reassessment of embedded derivatives	(Effective from 1 June 2006)
HK(IFRIC) – Int 10	Interim financial reporting and impairment	(Effective from 1 November 2006)
HK(IFRIC) – Int 11	Group and treasury share transactions	(Effective from 1 March 2007)
HK(IFRIC) – Int 12	Service concession arrangements	(Effective from 1 January 2008)

(c) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the proportionate share of its jointly controlled entities made up to 31 December each year.

(i) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Consolidation (cont'd)

(i) Subsidiaries (cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Jointly controlled entities

Jointly controlled entities are joint venture in which the group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interest in jointly controlled entities are accounted for using proportionate consolidation. The Group consolidates its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the jointly controlled entities the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Consolidation (cont'd)

(iii) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Foreign currency translation (cont'd)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Other properties, plant and equipment

Properties, plant and equipment (other than construction in progress) are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is stated at cost. Cost includes all development expenditure and other direct costs attributable to such projects. It is not depreciated until completion of construction. Cost on completed construction works is transferred to the appropriate categories of other properties, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Freehold land with unlimited useful life is not depreciated. Depreciation of other properties, plant and equipment, other than construction in progress is calculated using the straight-line method to allocate the cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Buildings	2% – 4%
Furniture, fixtures and equipment	10% – $33^1/_3$%
Motor vehicles	20% – 30%
Plant and machinery	$7^1/_2$% – 35%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Leasehold land and land use rights

Leasehold interests in the land and land use rights for own use are classified as "leasehold land and land use rights" and amortised over the period of the lease on a straight-line basis. Prepaid land lease is included in properties under development and properties under development for sale, of which the amortisation of prepaid land lease is capitalised as part of the building costs during the development period but charged to the income statement for completed properties.

(h) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are carried at fair value and are valued at least annually by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value. Changes in fair values are recognised in the income statement continues to be measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If any investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purpose. Property that is being constructed or developed for future use as investment property is classified as construction in progress or properties under development and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost includes the amortised cost of land, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the property development.

(j) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Financial assets (cont'd)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are classified as strategic investments under the Group's consolidated balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale financial assets are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation difference on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Financial assets (cont'd)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, marking maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(p) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as expenses in the year in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(t) Retirement benefits cost

Payments to the Group's defined contribution retirement schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due. The Group has no legal or constructive obligations to pay further contributions for post-retirement benefits beyond its fixed contributions.

For the Group's defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Share-based payment

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options or incentive shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or incentive shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(v) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Revenue recognition

Turnover represents revenue from sales of garment, sales of properties, rental and property management income and income from investing activities. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when the goods are delivered and title has been passed.

(ii) Income from properties developed for sale is recognised when the significant risks and rewards of the properties are transferred to the buyers and the collectability of related receivables is reasonably assured. Payments received from purchasers prior to this stage are recorded as deposits received, which are included in current liabilities.

(iii) Service revenue is recognised when the services are rendered.

(iv) Rental income, including rental invoiced in advance under operating leases, is recognised on a straight-line basis over the period of the leases.

(v) Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

(vi) Income from investments is recognised when the Group's right to receive payment has been established.

(x) Operating leases (as the lessee to operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(y) Leases by lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(z) Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions or recognised assets or liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group use forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group manages its' net position in each foreign currency by using external forward currency contracts.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in the United Kingdom is managed primarily through borrowings denominated in the relevant foreign currencies.

3. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Financial risk factors (cont'd)

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(iv) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history and use of letter of credit as appropriate.

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Accounting for derivative financial instruments and hedging activities (cont'd)

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 25. Movements on the hedging reserve are shown in Note 34.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are taken to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

3. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

(a) Critical accounting estimates and assumptions (cont'd)

Estimated fair value of investment properties

Savills Valuation and Professional Services Limited ("Savills") were engaged to carry out an independent valuation of the Group's investment property portfolio as at 31 December 2006. This valuation was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgably, prudently and without compulsion".

Savills has derived the valuation of the Group's investment property portfolio by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential and determined using discounted cash flow valuation technique. The assumptions are based on market conditions existing at the balance sheet date.

Management has reviewed the Savills valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the Savills Valuation of the Group's investment property portfolio is reasonable.

(b) Critical judgements in applying the entity's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

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 can be sold separately (or leased out separately under a finance lease), the Group financial statements account for the portions separately. If the portions cannot be sold separately, the property is accounted for as 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 applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

5. TURNOVER

Turnover represents the net amounts received and receivable from third parties in connection with the following activities:

	2006	2005
	HK$'M	HK$'M
Sale of goods	**1,202.1**	1,301.7
Sale of properties	**1,358.7**	375.4
Rental and property management income	**119.3**	67.8
Income from investing activities (Note)	**19.3**	23.0
	2,699.4	1,767.9

Note:

Income from investing activities comprises:

	2006	2005
	HK$'M	HK$'M
Dividend income from strategic investments	**12.2**	10.1
Interest income		
– loans to associates	**7.1**	8.2
– loans to minority shareholders	**–**	3.5
Others	**–**	1.2
	19.3	23.0

6. SEGMENT INFORMATION

(a) Primary reporting format – business segment

The Group is currently organised into six operating divisions – garment manufacturing and trading, branded products distribution, property investment and management, property development, hospitality management and investing activities. These divisions form the basis on which the Group reports its primary segment information.

6. SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – business segment (cont'd)

Principal activities are as follows:

Garment manufacturing and trading	–	Manufacturing of garments for export to overseas markets, and source apparel, as buying and marketing agents
Branded products distribution	–	Retailing, wholesaling and licensing of branded apparel
Property investment and management	–	Investment in rental properties and project management
Property development	–	Development of properties for sale
Hospitality management	–	Provision of hospitality management services to service apartment and hotel owners
Investing activities	–	Investment in securities, the underlying businesses of which are property investment and development and others

	Garment manufacturing and trading HK$'M	Branded products distribution HK$'M	Property investment and management HK$'M	Property development HK$'M	Hospitality management HK$'M	Investing activities HK$'M	Elimination HK$'M	Consolidated HK$'M
For the year ended 31 December 2006								
TURNOVER								
External sales	946.6	255.5	114.1	1,358.7	5.2	19.3	–	2,699.4
Inter-segment sales	–	–	6.6	–	–	–	(6.6)	–
Total	946.6	255.5	120.7	1,358.7	5.2	19.3	(6.6)	2,699.4
RESULTS								
Segment results before change in fair value of investment properties	(28.3)	(1.8)	53.6	651.2	0.8	50.2	–	725.7
Change in fair value of investment properties	–	–	336.3	–	–	–	–	336.3
Segment results	(28.3)	(1.8)	389.9	651.2	0.8	50.2	–	1,062.0
Unallocated corporate expenses								(46.0)
Profit from operations								1,016.0
Finance charges								(41.7)
Finance income								9.4
Share of results of associates				32.6		(6.8)		25.8
Profit before taxation								1,009.5
Taxation								(183.6)
Profit for the year								825.9

6. SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – business segment (cont'd)

	Garment manufacturing and trading HK$'M	Branded products distribution HK$'M	Property investment and management HK$'M	Property development HK$'M	Hospitality management HK$'M	Investing activities HK$'M	Elimination HK$'M	Consolidated HK$'M
For the year ended 31 December 2005								
TURNOVER								
External sales	1,066.1	235.6	62.5	375.4	5.3	23.0	–	1,767.9
Inter-segment sales	–	–	13.3	–	–	–	(13.3)	–
Total	1,066.1	235.6	75.8	375.4	5.3	23.0	(13.3)	1,767.9
RESULTS								
Segment results before change in fair value of investment properties	(21.0)	4.1	20.3	209.0	0.5	19.1	–	232.0
Change in fair value of investment properties	–	–	276.1	–	–	–	–	276.1
Gain on disposal of strategic investments	–	–	–	–	–	67.1	–	67.1
Segment results	(21.0)	4.1	296.4	209.0	0.5	86.2	–	575.2
Unallocated corporate expenses								(45.9)
Profit from operations								529.3
Finance charges								(24.4)
Finance income								6.0
Share of results of associates				14.5		(1.4)		13.1
Profit before taxation								524.0
Taxation								(89.6)
Profit for the year								434.4

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions mutually agreed among group companies.

6. SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – business segment (cont'd)

	Garment manufacturing and trading HK$'M	Branded products distribution HK$'M	Property investment and management HK$'M	Property development HK$'M	Hospitality management HK$'M	Investing activities HK$'M	Consolidated HK$'M
The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended							
ASSETS							
Segment assets	**362.1**	**185.9**	**1,686.6**	**1,509.3**	**4.0**	**793.4**	**4,541.3**
Interests in associates	**–**	**–**	**–**	**175.7**	**–**	**(11.8)**	**163.9**
Unallocated assets							**59.2**
Consolidated total assets							**4,764.4**
LIABILITIES							
Segment liabilities	**119.6**	**63.5**	**37.9**	**76.9**	**3.2**	**28.1**	**329.2**
Unallocated liabilities							**1,507.2**
Consolidated total liabilities							**1,836.4**
Capital expenditure	**16.2**	**11.5**	**35.6**	**7.4**	**0.1**	**3.5**	**74.3**
Other segment items included in the income statement are as follows:							
Depreciation and amortisation	**11.3**	**7.0**	**8.0**	**3.1**	**0.2**	**1.6**	**31.2**
Gain on disposal of other properties, plant and equipment	**(0.1)**	**–**	**(0.6)**	**–**	**–**	**–**	**(0.7)**
Write off of receivables in respect of defaulted properties sales	**–**	**–**	**–**	**33.1**	**–**	**–**	**33.1**
Provision for trade receivables	**1.8**	**(0.5)**	**–**	**–**	**–**	**–**	**1.3**
Provision for impairment of other properties, plant and equipment	**1.0**	**–**	**–**	**–**	**–**	**–**	**1.0**
The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended							
ASSETS							
Segment assets	412.8	157.0	1,994.8	1,507.1	2.3	442.1	4,516.1
Interests in associates	–	–	–	204.5	–	(5.0)	199.5
Unallocated assets							52.5
Consolidated total assets							4,768.1
LIABILITIES							
Segment liabilities	130.5	61.6	65.8	1,012.0	2.5	10.8	1,283.2
Unallocated liabilities							1,500.8
Consolidated total liabilities							2,784.0
Capital expenditure	29.5	7.1	734.3	266.5	0.2	1.6	1,039.2
Other segment items included in the income statement are as follows:							
Depreciation and amortisation	10.6	6.7	10.5	2.6	0.1	1.4	31.9
Impairment losses recognised in respect of strategic investments	–	–	–	–	–	2.0	2.0
Loss on disposal of other properties, plant and equipment	1.2	–	–	–	–	–	1.2
Provision for trade receivables	4.1	0.7	–	–	–	–	4.8

6. SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – business segment (cont'd)

Segment assets consist primarily of other properties, plant and equipment, intangible assets, interests in associates, inventories, trade, bills and other receivables, deposits and prepayments and cash and cash equivalents. Unallocated assets comprise mainly cash and cash equivalents held for corporate uses, derivative financial instrument and amounts due from associates.

Segment liabilities comprise operating liabilities and exclude taxation payables and borrowings. Unallocated liabilities comprise mainly long-term and short-term bank borrowings, other loans and deferred taxation.

Capital expenditure comprises additions to other properties, plant and equipment.

(b) Secondary reporting format – geographical segments

The Group's operations are principally located in Hong Kong, the People's Republic of China other than Hong Kong (the "PRC") and the United Kingdom.

The following is an analysis of the Group's turnover and profit from operations for the year ended 31 December 2006 by geographical areas in which the customer is located, irrespective of the origin of the goods/ services:

	Turnover Year ended 31 December		**Profit from operations Year ended 31 December**	
	2006 HK$'M	2005 HK$'M	**2006 HK$'M**	2005 HK$'M
Hong Kong	**1,449.0**	423.8	**1.035.8**	522.0
North America	**669.0**	746.2	**(5.3)**	3.3
United Kingdom	**390.4**	310.0	**(4.4)**	2.5
Other European countries	**111.3**	143.1	**(5.7)**	0.8
Others	**79.7**	144.8	**(4.4)**	0.7
	2.699.4	1,767.9	**1,016.0**	529.3

6. SEGMENT INFORMATION (cont'd)

(b) Secondary reporting format – geographical segments (cont'd)

The following is an analysis of the Group's total assets and capital expenditure by geographical areas in which the assets are located.

	Total assets At 31 December		Capital expenditure For the year ended 31 December	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Hong Kong	**4,178.9**	4,248.7	**50.1**	1,005.3
PRC	**261.5**	189.8	**9.0**	26.3
United Kingdom	**223.6**	240.9	**11.5**	7.1
Others	**97.5**	86.0	**3.7**	0.5
	4,761.5	4,765.4	**74.3**	1,039.2
Unallocated assets	**2.9**	2.7	**–**	–
	4,764.4	4,768.1	**74.3**	1,039.2

7. OTHER OPERATING INCOME

	2006	2005
	HK$'M	HK$'M
Discounts, claims and commission received from suppliers	**2.2**	7.0
Forfeiture of sale deposits	**3.4**	2.0
Sale of scrap materials	**1.5**	–
Others	**4.9**	5.0
	12.0	14.0

8. PROFIT FROM OPERATIONS

	2006 HK$'M	2005 HK$'M
Staff costs including directors' remuneration (Note 9)	**239.7**	222.7
Retirement benefits costs, net of negligible forfeited contributions	**5.6**	3.3
Total staff costs (Note)	**245.3**	226.0
Share-based compensation expense (Note)	**3.2**	0.5
Auditors' remuneration		
– current year	**3.2**	3.1
– underprovision in prior year	**0.2**	0.3
Cost of temporary textile quota entitlements written off on purchase	**1.1**	1.1
Cost of inventories included in cost of sales	**874.7**	972.7
Cost of sale of properties included in cost of sales	**613.6**	142.2
Depreciation and amortisation		
– trademark (Note 21)	**0.2**	0.1
– leasehold land and land use rights (Note 14)	**4.1**	7.2
– other properties, plant and equipment (Note 17)	**26.9**	24.6
(Gain)/loss on disposal of other properties, plant and equipment	**(0.7)**	1.2
Direct operating expenses arising from investment properties generating rental income	**1.7**	1.8
Provision for trade receivables	**1.3**	4.8
Provision for impairment of other properties, plant and equipment (Note 17)	**1.0**	–
Write off of receivables in respect of defaulted properties sales	**33.1**	–
Selling and marketing expenses for branded products distribution	**75.7**	65.1
Other expenses	**168.3**	143.1
Total cost of sales, distribution costs and administrative expenses	**2,052.9**	1,593.8

Note:

Compensation expenses recognised in the consolidated income statement in respect of share options and incentive shares granted to certain directors and employees are not included in the total staff costs above.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2006 HK$'M	2005 HK$'M
Directors' fees	**0.8**	0.7
Other directors' emoluments (Note)		
– Salaries and allowances	**11.3**	10.6
– Discretionary bonus	**2.5**	2.9
– Retirement benefits costs-defined contribution plan	**0.5**	0.6
	15.1	14.8

Note:

Details of the remuneration of directors for the year ended 31 December 2006 are as follows:–

Name	**Directors' fees HK$'000**	**Salaries and allowances HK$'000**	**Discretionary bonus HK$'000**	**Retirement benefit costs-defined contribution plan HK$'000**	**Total HK$'000**
Executive directors					
CHENG Wai Chee, Christopher	25	2,020	–	101	2,146
CHENG Wai Sun, Edward	25	5,296	1,765	244	7,330
CHENG Man Piu, Francis	25	–	–	–	25
NG Tak Wai, Frederick	25	1,766	133	79	2,003
AU Hing Lun, Dennis	25	2,251	600	104	2,980
Non-executive directors					
CHENG Wai Keung	25	–	–	–	25
KWOK Ping Luen, Raymond	25	–	–	–	25
WONG Yick Kam, Michael	25	–	–	–	25
HONG Pak Cheung, William	25	–	–	–	25
Independent Non-executive directors					
Simon MURRAY	175	–	–	–	175
FANG Hung, Kenneth	175	–	–	–	175
YEUNG Kit Shing, Jackson	175	–	–	–	175
Total	**750**	**11,333**	**2,498**	**528**	**15,109**

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

Details of the remuneration of directors for the year ended 31 December 2005 are as follows:–

Name	Directors' fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Retirement benefit costs-defined contribution plan HK$'000	Total HK$'000
Executive directors					
CHENG Wai Chee, Christopher	25	1,980	–	99	2,104
CHENG Wai Sun, Edward	25	4,429	1,700	204	6,358
CHENG Man Piu, Francis	25	–	–	–	25
NG Tak Wai, Frederick	25	2,272	240	209	2,746
AU Hing Lun, Dennis	25	1,957	900	90	2,972
Non-executive directors					
CHENG Wai Keung	25	–	–	–	25
KWOK Ping Luen, Raymond	25	–	–	–	25
WONG Yick Kam, Michael	25	–	–	–	25
HONG Pak Cheung, William	25	–	–	–	25
Independent Non-executive directors					
Simon MURRAY	160	–	–	–	160
FANG Hung, Kenneth	160	–	–	–	160
YEUNG Kit Shing, Jackson	160	–	–	–	160
Total	705	10,638	2,840	602	14,785

Share options and incentive shares have also been granted and awarded to certain Directors. The fair values of these share options and incentive shares recognised in the consolidated income statement for the year are set out in Note 33.

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

(b) Five highest paid individuals

The aggregate emoluments of the five highest paid individuals of the Group in 2006 included four (2005: four) executive Directors of the Company whose emoluments are included above. The emolument of the remaining one (2005: one) highest paid individual is as follows:

	2006 HK$'M	2005 HK$'M
Salaries and allowances	**1.9**	1.1
Discretionary bonus	**0.4**	0.4
Retirement benefits costs-defined contribution plan	**0.1**	0.1
	2.4	1.6

10. NET FINANCE CHARGES

	2006 HK$'M	2005 HK$'M
Finance charges		
Interest on:		
– bank and other borrowings wholly repayable within five years	**43.4**	37.0
– bank and other borrowings not wholly repayable within five years	**21.1**	9.1
Total borrowing costs	**64.5**	46.1
Less: Interest capitalised in properties under development (Note)	**(22.8)**	(21.7)
	41.7	24.4
Finance income – bank interest income	**(9.4)**	(6.0)
Net finance charges	**32.3**	18.4

Note:

The borrowing costs have been capitalised at rates ranging from 4.18% to 5.25% per annum (2005: from 3.87% to 4.81% per annum)

11. TAXATION

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amounts of taxation charged to the consolidated income statement represent:

	2006	2005
	HK$'M	HK$'M
Current taxation		
– Hong Kong profits tax	**128.4**	39.7
– Taxation in other jurisdictions	**0.1**	0.2
	128.5	39.9
Deferred taxation (Note 31)	**55.1**	49.7
	183.6	89.6

The tax on the Group's profit before taxation differs from the theoretical amount would arise using the weighted average tax rate applicable to profits of the group companies as follows:

	2006	2005
	HK$'M	HK$'M
Profit before taxation	**1,009.5**	524.0
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	**176.7**	91.7
Tax effect of expenses not deductible in determining taxable profit	**4.2**	3.8
Tax effect of income not taxable in determining taxable profit	**(22.7)**	(16.3)
Tax effect of tax losses not recognised	**17.2**	10.2
Tax effect of utilisation of tax losses not previously recognised	**(20.7)**	(3.7)
Tax effect of unrecognised deductible temporary differences	**27.9**	7.5
Effect of different tax rates of subsidiaries operating on other jurisdictions	**(0.6)**	(1.6)
Under provision in prior years	**1.4**	–
Tax effect of share of results of associates	**(4.5)**	(2.3)
Others	**4.7**	0.3
Taxation for the year	**183.6**	89.6

12. DIVIDENDS

	2006 HK$'M	2005 HK$'M
Interim dividend paid on 20 October 2006 of HK5.0 cents (2005: HK1.5 cents) per share	**26.3**	7.9
Proposed final dividend of HK6.5 cents (2005: HK5.5 cents) per share	**34.2**	28.9
	60.5	36.8

The final dividend is not accounted for until it has been approved at the forthcoming annual general meeting of the Company. The amount will be accounted for as an appropriation of the reserves for the year ending 31 December 2007.

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The calculation of the basic earnings per share for profit attributable to the equity holders of the Company is based on the following data:

	2006 HK$'M	2005 HK$'M
Profit attributable to the equity holders of the Company for the purposes of calculating basic and diluted earnings per share	**738.3**	368.5
Number of shares		
Weighted average number of shares for the purposes of calculating basic earnings per share	**526,357,976**	526,255,339
Basic earnings per share	**HK$1.40**	HK$0.70

13. EARNINGS PER SHARE (cont'd)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options and incentive shares. For the share options and incentive shares, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and incentive shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and incentive shares.

	2006	2005
	HK$'M	HK$'M
Profit attributable to the equity holders of the Company for the purposes of calculating basic and diluted earnings per share	**738.3**	368.5
Number of shares		
Weighted average number of shares for the purposes of calculating basic earnings per share	**526,357,976**	526,255,339
Effect of dilutive potential shares issuable under the Company's share options and share incentive schemes	**2,583,865**	631,451
Weighted average number of shares for the purposes of calculating diluted earnings per share	**528,941,841**	526,886,790
Diluted earnings per share	**HK$1.40**	HK$0.70

The Group's profit for the year ended 31 December 2006 attributable to the equity holders of the Company is HK$738.3 million (2005: HK$368.5 million), which includes change in fair value of investment properties (net of minority interests and deferred taxation) of HK$212.7 million (2005: HK$153.1 million). The Group's profit for the year ended 31 December 2006 attributable to the equity holders of the Company after exclusion of the net revaluation gain mentioned above is HK$525.6 million (2005: HK$215.4 million), which is equivalent to HK$1.00 (2005: HK$0.41) per share on a basic basis and HK$0.99 (2005: HK$0.41) per share on a fully diluted basis.

14. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
At 1 January	**780.4**	235.9
Adjustment of other property revaluation reserve in respect of leasehold land	**–**	(6.0)
Additions	**–**	735.0
Transfer to investment properties (Note 15)	**–**	(177.3)
Amortisation	**(4.1)**	(7.2)
At 31 December	**776.3**	780.4

The Group's interests in leasehold land and land use rights represent prepaid lease payments and their net book value are analysed as follows:

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
In Hong Kong, held on:		
Leases of over 50 years	**757.1**	760.8
Leases of between 10 to 50 years	**10.1**	10.3
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**9.1**	9.3
	776.3	780.4

15. INVESTMENT PROPERTIES

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
At 1 January	**1,311.6**	541.6
Gain arising from changes in fair value	**336.3**	276.1
Additions	**1.2**	–
Disposal	**(86.0)**	–
Transfer from leasehold land and land use rights (Note 14)	**–**	177.3
Transfer from properties under development (Note 16)	**–**	316.6
At 31 December	**1,563.1**	1,311.6

Investment properties represent properties in Hong Kong held on leases of between 10 to 50 years.

The Group's investment properties were valued on an open market value basis as at 31 December 2006 by Savills Valuation and Professional Services Limited, a firm of independent professional property valuers. Valuations were based on current prices in an active market for all properties.

16. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
At 1 January	**89.5**	144.6
Additions	**39.2**	261.5
Transfer to investment properties (Note 15)	**–**	(316.6)
At 31 December	**128.7**	89.5

Properties under development comprise:

Properties in Hong Kong, held on:		
Leases of over 50 years	**128.7**	89.5

Included in properties under development is net interest capitalised of HK$33.2 million (2005: HK$21.7 million).

17. OTHER PROPERTIES, PLANT AND EQUIPMENT

	Freehold properties HK$'M (Note a)	Leasehold buildings HK$'M (Note b)	Furniture, fixtures and equipment HK$'M	Motor vehicles HK$'M	Plant and machinery HK$'M	Total HK$'M
THE GROUP						
COST						
At 1 January 2006	59.5	200.1	170.1	9.3	87.5	526.5
Currency realignment	7.4	2.3	9.7	–	–	19.4
Additions	–	3.4	21.4	2.1	6.1	33.0
Disposals	–	–	(2.5)	(1.9)	(1.4)	(5.8)
At 31 December 2006	**66.9**	**205.8**	**198.7**	**9.5**	**92.2**	**573.1**
Comprising:						
At cost	66.9	148.9	198.7	9.5	92.2	516.2
At 1994 valuation (Note c)	–	56.9	–	–	–	56.9
	66.9	205.8	198.7	9.5	92.2	573.1
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2006	–	36.8	127.6	5.6	69.3	239.3
Currency realignment	–	1.1	8.3	–	–	9.4
Impairment	–	1.0	–	–	–	1.0
Provided for the year	–	6.9	15.0	1.4	3.6	26.9
Disposals	–	–	(1.7)	(1.4)	(1.4)	(4.5)
At 31 December 2006	**–**	**45.8**	**149.2**	**5.6**	**71.5**	**272.1**
NET BOOK VALUE						
At 31 December 2006	**66.9**	**160.0**	**49.5**	**3.9**	**20.7**	**301.0**

17. OTHER PROPERTIES, PLANT AND EQUIPMENT (cont'd)

	Freehold properties HK$'M (Note a)	Leasehold buildings HK$'M (Note b)	Construction in progress HK$'M	Furniture, fixtures and equipment HK$'M	Motor vehicles HK$'M	Plant and machinery HK$'M	Total HK$'M
THE GROUP							
COST							
At 1 January 2005	65.8	172.8	20.4	169.6	8.0	77.5	514.1
Currency realignment	(6.3)	(1.9)	–	(8.8)	–	(0.1)	(17.1)
Transfer	–	19.0	(23.5)	1.7	0.1	2.7	–
Additions	–	10.2	3.1	17.4	3.3	8.5	42.5
Disposals	–	–	–	(9.8)	(2.1)	(1.1)	(13.0)
At 31 December 2005	59.5	200.1	–	170.1	9.3	87.5	526.5
Comprising:							
At cost	59.5	143.2	–	170.1	9.3	87.5	469.6
At 1994 valuation (Note c)	–	56.9	–	–	–	–	56.9
	59.5	200.1	–	170.1	9.3	87.5	526.5
ACCUMULATED DEPRECIATION							
At 1 January 2005	–	33.3	–	130.7	6.1	65.8	235.9
Currency realignment	–	(1.7)	–	(7.6)	–	(0.1)	(9.4)
Provided for the year	–	5.2	–	13.6	1.6	4.2	24.6
Disposals	–	–	–	(9.1)	(2.1)	(0.6)	(11.8)
At 31 December 2005	–	36.8	–	127.6	5.6	69.3	239.3
NET BOOK VALUE							
At 31 December 2005	59.5	163.3	–	42.5	3.7	18.2	287.2

Notes

(a) The Group's freehold properties (including land and buildings) represent properties outside Hong Kong.

(b) The net book value of the Group's leasehold buildings comprises:

	THE GROUP **2006 HK$'M**	2005 HK$'M
Properties held on leases of over 50 years in Hong Kong	**8.8**	9.0
Properties held on leases of between 10 to 50 years		
– in Hong Kong	**83.6**	87.2
– outside Hong Kong	**66.1**	65.6
Properties held on leases of less than 10 years outside Hong Kong	**1.5**	1.5
	160.0	163.3

(c) The Group applies the transitional provision under Paragraph 80A of HKAS 16 "Property, plant and equipment", of which leasehold buildings stated at 1994 valuation are not required to make regular revaluations.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'M	HK$'M
Unlisted shares, at cost	**590.8**	590.8
Less: provision for impairment	**(66.1)**	(66.1)
	524.7	524.7
Amounts due from subsidiaries (Note)	**600.2**	658.1
	1,124.9	1,182.8

Note:

Amounts due from subsidiaries represent equity funding by the Company to the respective subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries.

Details of the principal subsidiaries at 31 December 2006 are set out in Note 42.

19. ASSOCIATES

(a) Interests in associates

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Share of net assets	**64.0**	62.7
Advances to associates	**99.9**	136.8
	163.9	199.5

Details of the principal associates at 31 December 2006 are set out in Note 43.

19. ASSOCIATES (cont'd)

(a) Interests in associates (cont'd)

Notes:

(i) The movements of interests in associates are as follows:–

	2006 HK$'M	2005 HK$'M
At 1 January	**199.5**	165.8
Exchange difference	**4.9**	1.2
Share of results	**25.8**	13.1
Interest income on advances receivable from associates	**7.1**	8.2
Acquisition of interests in associates	**0.4**	42.7
Repayment of advances to associates	**(73.8)**	(31.5)
At 31 December	**163.9**	199.5

(ii) The summary of financial information of the Group's share of the principal associates is as follows:

	2006 HK$'M	2005 HK$'M
Results for the year ended 31 December:		
Turnover	**278.6**	154.5
Net profit for the year	**25.8**	13.1
Financial position at 31 December:		
Non-current assets	**446.4**	312.5
Current assets	**62.8**	86.0
Current liabilities	**(124.9)**	(32.8)
Non-current liabilities	**(320.3)**	(303.0)
Net assets	**64.0**	62.7

(iii) The advances are unsecured and have no fixed repayment terms. Other than an aggregate amount of HK$99.9 million (2005: HK$136.8 million) which carries interest at market rates, the remaining balance is interest free.

(b) The amounts due from associates which are repayable on demand are analysed as follows:

	2006 HK$'M	2005 HK$'M
Interest-bearing amounts	**13.2**	5.6
Interest-free amounts	**5.4**	3.7
Total	**18.6**	9.3

The interest rates range from 8.75% to 9% per annum (2005: from 8.75% to 9% per annum).

(c) The amount due to an associate is unsecured, interest-free and repayable on demand.

20. STRATEGIC INVESTMENTS

Strategic investments represent available-for-sale financial assets as follows:

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Listed equity securities (Note a)		
– Hong Kong	**541.7**	323.4
– United Kingdom	**5.8**	7.9
– Singapore	**0.4**	0.3
	547.9	331.6
Other investments (Note b)	**91.9**	86.8
	639.8	418.4

Notes:

(a) At 31 December 2006, the listed shares mainly comprise the Group's investments in Winsor Properties Holdings Limited ("Winsor") and UBC Media Group Plc ("UBC").

Winsor is engaged in property investments and its shares are listed on the Stock Exchange. Subsequent to the year end, the Company announced that it would make a voluntary conditional general offer to acquire all the issued shares of Winsor (other than those already held up the company or its subsidiary) by issuing new shares of the Company. Details of the offer are set out in Note 41.

UBC is engaged in programme production and radio broadcasting and its shares are listed on the Alternative Investment Market of London Stock Exchange Plc.

(b) Other investments comprise principally the Group's investments in various property development projects. During the year, the Directors conducted a review of the carrying amounts of investments and determined that no reversal of impairment losses (2005: HK$0.8 million) should be made in the financial statements by reference to the recoverable amounts of these property development projects.

21. OTHER NON-CURRENT ASSETS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Deposit for acquisition of investment properties (Note a)	**85.8**	–
Trademark (Note b)	**0.4**	0.5
	86.2	0.5

Notes:

(a) During the year ended 31 December 2006, the Group entered into an agreement to acquire certain investment properties located in Beijing, the PRC, for approximately HK$168 million. As at 31 December 2006, total deposit paid amounted to HK$85.8 million. The Group anticipates to complete the acquisition will be completed in 2007.

(b) The trademark is related to the Group's hospitality operations and is amortised over an estimated useful life of ten years.

22. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Raw materials	**21.1**	28.4
Work in progress	**52.2**	57.9
Finished goods	**49.1**	37.6
	122.4	123.9

The cost of inventories recognised as expense and included in cost of sales amounted to HK$749.5 million (2005: HK$837.5 million).

23. PROPERTIES FOR SALE

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Completed properties for sale	**302.7**	269.3
Properties under development for sale	**–**	533.9
	302.7	803.2
Properties for sale comprise:		
Held on leases of between 10 to 50 years in Hong Kong:		
Net book value of leasehold land	**77.0**	293.4
Development costs	**201.5**	435.0
Freehold land and buildings outside Hong Kong	**24.2**	74.8
	302.7	803.2

All the properties under development for sale are stated at cost (2005: cost) at the balance sheet date.

24. TRADE, BILLS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Trade and bills receivable	**157.7**	426.9
Less: provision for impairment	**(17.6)**	(16.3)
Trade and bills receivable (net of provision)	**140.1**	410.6
Other receivables, deposits and prepayments	**52.1**	77.3
	192.2	487.9

The Group allows different credit periods to its trade customers. Credit periods vary from 30 to 90 days in accordance with the industry practice. The following is an ageing analysis of the Group's trade and bills receivable (net of provision) at 31 December:

	2006	2005
	HK$'M	HK$'M
0 – 30 days	**101.9**	92.2
31 – 90 days	**23.2**	295.8
Over 90 days	**15.0**	22.6
	140.1	410.6

The carrying values of trade and bills receivable (net of provision) approximate their fair values and are denominated in the following currencies:

	2006	2005
	HK$'M	HK$'M
HK Dollar	**24.2**	298.5
US Dollar	**87.1**	85.1
UK Pound	**19.4**	9.6
Other currencies	**9.4**	17.4
	140.1	410.6

25. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Interest-rate swaps	**0.9**	2.6
Forward foreign exchange contracts	**(0.7)**	0.1
	0.2	2.7

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the cash flow statement include the following:

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Bank balances and cash	**403.6**	137.9
Bank overdrafts	**(3.0)**	(0.2)
	400.6	137.7

The Group's cash and cash equivalents are denominated in the following currencies:

	2006	2005
	HK$'M	HK$'M
HK Dollar	**338.5**	55.2
US Dollar	**23.0**	41.0
UK Pound	**26.4**	30.2
Other currencies	**12.7**	11.3
	400.6	137.7

The effective interest rate on cash and cash equivalent was 3% per annum (2005: 2.7% per annum).

27. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Trade and bills payable	**81.3**	115.8
Other payables and accruals	**247.9**	264.9
	329.2	380.7

The following is an ageing analysis of the Group's trade and bills payable at 31 December:

	2006	2005
	HK$'M	HK$'M
0 – 30 days	**53.0**	81.3
31 – 90 days	**16.4**	22.4
Over 90 days	**11.9**	12.1
	81.3	115.8

The carrying values of the Group's trade and bills payable approximate their fair values and are denominated in the following currencies:

	2006	2005
	HK$'M	HK$'M
HK Dollar	**48.6**	72.0
US Dollar	**15.3**	11.3
UK Pound	**15.4**	20.1
Other currencies	**2.0**	12.4
	81.3	115.8

28. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Trust receipts and import loans	**1.9**	4.1

Trust receipts and import loans are secured by related inventories. The bank interest rates range from 7.75% to 8% per annum (2005: from 7.75% to 8% per annum).

The Group's short-term bank borrowings are denominated in the following currencies:

	2006	2005
	HK$'M	HK$'M
HK Dollar	**0.9**	–
US Dollar	**1.0**	4.1
	1.9	4.1

29. BANK LOANS

The bank loans carry interest at the prevailing market rates and are repayable as follows:

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Within one year	**48.7**	310.5
Between one to two years	**157.9**	333.9
Between two to five years	**480.0**	410.5
After five years	**362.1**	33.4
	1,048.7	1,088.3
Less: Amounts due within one year shown under current liabilities	**(48.7)**	(310.5)
Amounts due after one year	**1,000.0**	777.8

29. BANK LOANS (cont'd)

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Analysed as		
– secured	**923.8**	787.4
– unsecured	**124.9**	300.9
	1,048.7	1,088.3

The carrying values of bank loans approximate their fair values and are denominated in the following currencies:

	2006	2005
	HK$'M	HK$'M
HK Dollar	**979.4**	1,000.1
UK Pound	**69.3**	88.2
	1048.7	1,088.3

30. OTHER LONG-TERM LOANS

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Interest bearing loans	**175.1**	267.9
Interest free loans	**12.3**	11.6
	187.4	279.5

The loans are from minority shareholders of certain subsidiaries. The interest bearing loans carry interest at prevailing market rates. All the loans are unsecured and have no fixed repayment terms. The loans above include amounts of HK$183.7 million (2005: HK$275.8 million) which are extended to the Group to finance property development projects. In the opinion of the Directors, demand for repayment of these loans will not be made within one year from the balance sheet date. The loans are therefore shown in the consolidated balance sheet as non-current liabilities.

The carrying values of other long-term loans approximate their fair values and denominated in HK dollars.

31. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current liabilities and where the deferred taxation relate to the same fiscal authority. The offset amounts are as follows:

	2006 HK$'M	2005 HK$'M
Deferred tax liabilities	**146.9**	80.3
Deferred tax assets	**(16.2)**	(4.7)
	130.7	75.6

The gross movements of the deferred tax assets and liabilities recognised are as follow:

	Tax depreciation HK$'M	**Revaluation of properties HK$'M**	**Tax losses HK$'M**	**Total HK$'M**
At 1 January 2005	25.4	3.8	(3.3)	25.9
Charged/(credited) to income statement for the year (Note 11)	52.8	(1.7)	(1.4)	49.7
At 31 December 2005 and 1 January 2006	78.2	2.1	(4.7)	75.6
Charged/(credited) to income statement for the year (Note 11)	66.6	–	(11.5)	55.1
At 31 December 2006	144.8	2.1	(16.2)	130.7

At 31 December 2006, the Group has unused tax losses of approximately HK$472.1 million (2005: HK$393.8 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$16.3 million (2005: HK$26.9 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$455.8 million (2005: HK$366.9 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$26.8 million that will expire until 2011. Other losses may be carried forward indefinitely.

32. SHARE CAPITAL

	Number of shares	Amount HK$'M
Ordinary shares of HK$0.50 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	1,320,000,000	660.0
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	526,255,339	263.1
Issue of incentive shares (Note 33(b))	416,250	0.2
At 31 December 2006	526,671,589	263.3

33. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME

(a) Share Option Scheme

Under the Share Option Scheme of the Company adopted on 10 June 2003 ("Share Option Scheme"), the Board of the Company, may in its absolute discretion, grant options to Directors and employees of the Group to subscribe for shares of the Company, subject to a maximum of 51,762,534 representing 10% of the issued share capital of the Company as at 10 June 2003. The maximum number of options granted to any one individual in any 12-month period shall not exceed 1% of the issued share capital of the Company. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives for their contributions to the Group. A consideration of HK$1 is payable on acceptance of the grant of options. Options granted must be taken up within 28 days from the date of grant. The exercise price for an option to subscribe for a share is determined by the Directors of the Company, and shall be at least the highest of: i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant; ii) the average closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and iii) the nominal value of a share of the Company. The Share Option Scheme will end on 9 June 2013.

Details of the share options granted under the Share Option Scheme during the year are as follows:

			Number of share options				
Director	Date of grant	Exercise price per ordinary share HK$	As at 1.1.2006	Granted during the year	Exercised during the year	As at 31.12.2006	Fair value of share options amortised in 2006 HK$
Simon MURRAY	19.4.2005	2.125	1,000,000	–	–	1,000,000	187,000

33. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(a) Share Option Scheme (cont'd)

The share options granted are exercisable during the period from 19 April 2006 to 18 April 2010 and subject to a vesting scale in tranches of 25% per annum starting from the first anniversary of the date of grant. No options were exercised during the year.

The closing price of the shares of the Company quoted on the Stock Exchange on 18 April 2005, being the date immediately before the date on which share options were granted, was HK$2.125 per share.

(b) Share Incentive Scheme

Under a Share Incentive Scheme approved by shareholders of the Company on 17 June 2005 ("Share Incentive Scheme"), the Board of Directors of the Company or a duly authorised committee thereof may in its absolute discretion make offer of awards to selected employees (including executive Directors) of the Group ("Eligible Employees") to subscribe in cash at par for shares of the Company. The maximum number of shares of the Company which may be issued in response to the awards and any other incentive and option schemes of the Company (excluding lapsed awards and options) shall not in aggregate exceed 52,625,533 representing 10% of the issued share capital of the Company as at 17 June 2005.

The Share Incentive Scheme is a long-term incentive arrangement for the Eligible Employees, the purpose of which is to recognise, motivate and provide incentives to those who make contribution to the Group, to help the Group retain its existing employees and recruit additional employees who will be valuable to the Group to provide existing and future employees with direct economic interests in the long-term development and growth of the Group.

Offer of awards must be accepted within 28 days from the date of offer. The subscription price for each share which is the subject of an award shall be an amount equal to its nominal value. Each subscription under the Share Incentive Scheme shall be in cash at the subscription price. The Company will provide to the Eligible Employees the funds required to subscribe for the shares issued under the Share Incentive Scheme. The Share Incentive Scheme will end on 16 June 2015.

33. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(b) Share Incentive Scheme (cont'd)

Details of the incentive shares awarded pursuant to the Share Incentive Scheme during the year are as follows:

	Date of award	Number of incentive shares: As at 1.1.2006	Awarded made during the year	Awards vested and exercised during the year	As at 31.12.2006	Fair value of incentive shares amortised in 2006 HK$
Directors						
CHENG Wai Chee, Christopher	13.9.2005	600,000	–	(150,000)	450,000	513,000
	25.4.2006	–	546,000	–	546,000	681,000
CHENG Wai Sun, Edward	13.9.2005	600,000	–	(150,000)	450,000	513,000
	25.4.2006	–	546,000	–	546,000	681,000
NG Tak Wai, Frederick	13.9.2005	90,000	–	(22,500)	67,500	77,000
	25.4.2006	–	59,000	–	59,000	74,000
AU Hing Lun, Dennis	13.9.2005	150,000	–	(37,500)	112,500	128,000
	25.4.2006	–	110,000	–	110,000	137,000
		1,440,000	1,261,000	(360,000)	2,341,000	2,804,000
Employees	13.9.2005	225,000	–	(56,250)	168,750	184,000
	25.4.2006	–	213,000	–	213,000	266,000
	29.6.2006	–	20,000	–	20,000	14,000
		225,000	233,000	(56,250)	401,750	464,000
		1,665,000	1,494,000	(416,250)	2,742,750	3,268,000

The incentive shares awarded are subject to a vesting scale of 25%, 25% and 50% starting respectively from the first anniversary, the second anniversary and the third anniversary of the provisional date of award. All the incentive shares awarded shall be valid for ten years until the day before the tenth anniversary of the provisional date of award. During the year ended 31 December 2006, 416,250 incentive share were vested and exercised.

33. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(b) Share Incentive Scheme (cont'd)

The subscription price per incentive share shall be the nominal value of the shares of the Company. Fund for subscription of incentive shares will be provided by the Company at the time of the exercise of right to subscribe for shares of the Company.

At the dates of awards, 13 September 2005, 25 April 2006 and 29 June 2006, the closing prices of the shares of the Company as quoted on the Stock Exchange were HK$2.725, HK$3.275 and HK$3.075 per share respectively.

(c) Fair values for incentive shares awarded

The fair values of incentive shares awarded during the year ended 31 December 2006 are determined using the Binominal Option Pricing Model (the "Model"). Key assumptions of the Model are:

	Share Incentive Scheme
Risk-free rate:	4.5%
Expected dividend yield:	2.1%
Expected volatility of the market price of the Company's shares:	47.6%
Expected life (in years):	10 years from the date of grant

The Model requires the input of subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of incentive shares.

The fair values of the share options granted and incentive shares awarded during the years ended 31 December 2006 and 2005 were as follows:

	2006 **HK$'M**	2005 HK$'M
Share options granted to a director	–	0.6
Incentive shares awarded to directors and employees	**4.0**	3.4
	4.0	4.0

34. RESERVES

	Share premium HK$'M	Hedging reserve HK$'M	Investment revaluation reserve HK$'M	Employee share based compensation reserve HK$'M	Other property revaluation reserve HK$'M	Translation reserve HK$'M	Contributed surplus HK$'M	Other distributable reserve HK$'M	Total HK$'M
THE GROUP									
At 1 January 2005	441.0	0.3	–	–	18.1	(10.3)	626.6	73.5	1,149.2
Transfer	–	–	48.1	–	–	–	–	(48.1)	–
Realised on disposal of strategic investments	–	–	(67.1)	–	–	–	–	–	(67.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	(0.2)	–	–	(0.2)
Surplus arising on revaluation of strategic investments	–	–	163.1	–	–	–	–	–	163.1
Increase in hedging reserve	–	2.4	–	–	–	–	–	–	2.4
Adjustment of other property revaluation reserve in respect of leasehold land	–	–	–	–	(6.0)	–	–	–	(6.0)
Share of reserves by minority shareholders	–	–	–	–	–	0.2	–	–	0.2
Share options and incentive shares granted (Note 33)	–	–	–	0.5	–	–	–	–	0.5
2004 final dividend paid	–	–	–	–	–	–	(9.2)	–	(9.2)
2005 interim dividend paid	–	–	–	–	–	–	(7.9)	–	(7.9)
Net profit for the year	–	–	–	–	–	–	–	368.5	368.5
At 31 December 2005	441.0	2.7	144.1	0.5	12.1	(10.3)	609.5	393.9	1,593.5
At 1 January 2006	441.0	2.7	144.1	0.5	12.1	(10.3)	609.5	393.9	1,593.5
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	15.3	–	–	15.3
Surplus arising on revaluation of strategic investments	–	–	156.8	–	–	–	–	–	156.8
Decrease in hedging reserve	–	(2.5)	–	–	–	–	–	–	(2.5)
Share of reserves of the associates	–	–	–	–	–	(0.1)	–	–	(0.1)
Shares issued under share incentive scheme	0.9	–	–	–	–	–	–	–	0.9
Incentive shares granted (Note 33 (b))	–	–	–	3.2	–	–	–	–	3.2
Incentive shares exercised (Note 33 (b))	–	–	–	(0.6)	–	–	–	–	(0.6)
Share of reserves by minority shareholders	–	(0.1)	–	–	–	–	–	–	(0.1)
2005 final dividend paid	–	–	–	–	–	–	(28.9)	–	(28.9)
2006 interim dividend paid	–	–	–	–	–	–	(26.3)	–	(26.3)
Net profit for the year	–	–	–	–	–	–	–	738.3	738.3
At 31 December 2006	**441.9**	**0.1**	**300.9**	**3.1**	**12.1**	**4.9**	**554.3**	**1,132.2**	**2,449.5**
Attributable to associates:									
At 31 December 2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45.2**	**45.2**
At 31 December 2005	–	–	–	–	–	–	–	19.4	19.4

34. RESERVES (cont'd)

	Share premium HK$'M	Employee share based compensation reserve HK$'M	Contributed surplus HK$'M	Accumulated losses HK$'M	Total HK$'M
THE COMPANY					
At 1 January 2005	441.0	–	611.7	(112.1)	940.6
2004 final dividend paid	–	–	(9.2)	–	(9.2)
2005 interim dividend paid	–	–	(7.9)	–	(7.9)
Net loss for the year	–	–	–	(4.3)	(4.3)
At 31 December 2005 and 1 January 2006	441.0	–	594.6	(116.4)	919.2
Share issued under share incentive scheme	0.9	–	–	–	0.9
Incentive shares granted and exercised	–	3.1	–	–	3.1
2005 final dividend paid	–	–	(28.9)	–	(28.9)
2006 interim dividend paid	–	–	(26.3)	–	(26.3)
Net loss for the year	–	–	–	(7.0)	(7.0)
At 31 December 2006	**441.9**	**3.1**	**539.4**	**(123.4)**	**861.0**

The balance of contributed surplus of the Group and the Company arose as a result of the group reorganisation in 1991 and the Company's capital reduction in 1996 less distribution made.

Under The Companies Act 1981 of Bermuda (as amended), contributed surplus of a company is available for distribution to shareholders in addition to accumulated profits. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

35. OPERATING LEASE

THE GROUP AS LESSEE

	2006	2005
	HK$'M	HK$'M
Minimum lease payments charged to the income statement during the year:		
– land and buildings	**21.1**	20.4
– equipment and motor vehicles	**0.9**	0.7
	22.0	21.1

Under the leases entered into by the Group, the lease payments are fixed and predetermined. At 31 December 2006, the future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2006	2005
	HK$'M	HK$'M
For buildings		
– Within one year	**21.2**	20.0
– After one year and not later than five years	**64.5**	53.3
– Over five years	**32.7**	24.0
	118.4	97.3
For equipment and motor vehicles		
– Within one year	**0.5**	0.4
– After one year and not later than five years	**0.5**	0.2
	1.0	0.6
Total	**119.4**	97.9

The Company had no significant operating lease commitments at the balance sheet date (2005: Nil).

35. OPERATING LEASE (cont'd)

THE GROUP AS LESSOR

	2006 HK$'M	2005 HK$'M
Gross rental income credited to the income statement during the year	**43.7**	43.8
Less: Outgoings	**(1.8)**	(1.8)
	41.9	42.0

The Group's investment properties are held for rental purposes. Rental income is fixed and predetermined. The properties held have committed tenants for the next two to three years. At the balance sheet date, the amount of future rental receivable by the Group is analysed as follows:

	2006 HK$'M	2005 HK$'M
Within one year	**24.1**	29.5
After one year and not later than five years	**10.7**	11.7
	34.8	41.2

36. CAPITAL COMMITMENTS

	THE GROUP	
	2006 HK$'M	2005 HK$'M
Capital expenditure in respect of properties under development/investment properties		
– contracted for but not provided for in the financial statements	**6.6**	48.1
– authorised but not contracted for	**20.7**	0.6
Capital expenditure in respect of acquisition of other properties, plant and equipment		
– contracted for but not provided for in the financial statements	**86.1**	9.3
– authorised but not contracted	**–**	1.1
	113.4	59.1

The Company had no capital commitment at the balance sheet date.

37. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'M	HK$'M	**HK$'M**	HK$'M
Guarantees given to banks in respect of utilised credit facilities extended to				
– subsidiaries	**–**	–	**715.7**	582.1
– jointly controlled entities	**–**	–	**–**	176.7
	–	–	**715.7**	758.8
Other guarantees given to banks	**1.9**	1.6	**–**	–
	1.9	1.6	**715.7**	758.8

38. PLEDGE OF ASSETS

The Group's advances to associates/jointly controlled entities at 31 December 2006 include amounts of HK$148.0 million (2005: HK$162.3 million) which are subordinated to the loans facilities of associates/jointly controlled entities. The associates/jointly controlled entities are engaged in property development. The Group's advances to the associates/jointly controlled entities include amounts of HK$109.3 million (2005: HK$128.7 million) which are assigned, and the shares in these associates/jointly controlled entities beneficially owned by the Group are pledged to the financial institutions.

At 31 December 2006, certain of the Group's investment properties, freehold properties, leasehold land, leasehold building and properties under development with carrying value of HK$1,558 million (2005: HK$1,308 million), HK$59.5 million (2005: HK$59.5 million), HK$38.7 million (2005: HK$298.4 million), HK$92.4 million (2005: HK$96.2 million) and HK$11.9 million (2005: HK$4.5 million) respectively were pledged to secure credit facilities for the Group.

39. RETIREMENT BENEFITS AND PENSION SCHEMES

The Group also operates a defined benefit pension scheme for certain qualifying employees of its overseas subsidiaries. Under the scheme, the employees are entitled to a pension of 1.25% of final salary for each year of pensionable service at the normal retirement age of 65. No other post-retirement benefits are provided. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out at 1 May 2005 by Mr. Nigel P. Hacking, Fellow of the Institute of Actuaries, of Barnett Waddingham LLP and was updated to 31 December 2006 for the accounting reporting purpose. The present value of the defined obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2006	2005
Discount rate	**5.20%**	5.00%
Expected return on plan assets	**6.40%**	6.40%
Expected rate of salary increases	**4.00%**	3.75%
Future pension increases in respect of service:		
From April 1997 to April 2005	**2.75%**	2.50%
From May 2005	**2.35%**	2.25%

The actuarial valuation updated to 31 December 2006 showed that the market value of scheme assets was approximately HK$85.8 million (2005: HK$69.2 million) and that the actuarial value of these assets represented 91% (2005: 91%) of the benefits that had accrued to members, equivalent to a shortfall of approximately HK$8.1 million (2005: HK$7.2 million).

Amounts recognised in the income statement in respect of the defined benefit pension scheme are as follows:

	2006 **HK$'M**	2005 HK$'M
Current service cost	**2.2**	2.1
Interest cost	**4.1**	3.8
Expected return on plan assets	**(4.7)**	(3.9)
Net actuarial loss recognised in the year	**–**	0.2
	1.6	2.2

The charge for the year has been included in administrative expenses.

The actual gain on plan assets was approximately HK$6.5 million (2005: HK$12.0 million).

39. RETIREMENT BENEFITS AND PENSION SCHEMES (cont'd)

The unrecognised defined benefit asset arising from the Group's obligations in respect of its defined benefit pension scheme is as follows:

	2006	2005
	HK$'M	HK$'M
Fair value of scheme assets	**85.8**	69.2
Present value of funded obligations	**(93.9)**	(76.4)
	(8.1)	(7.2)
Unrecognised actuarial losses	**10.0**	8.2
Recognised defined benefit asset	**1.9**	1.0

Movement in the net asset during the year was as follows:

	2006	2005
	HK$'M	HK$'M
At 1 January	**1.0**	1.4
Exchange differences	**0.2**	(0.2)
Charged to the income statement	**(1.6)**	(2.2)
Contributions	**2.3**	2.0
At 31 December	**1.9**	1.0

40. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group has made advances and other credit arrangements provided by the Group to its associates. Details of these arrangements at the balance sheet date are set out in notes 19, 37 and 38. In addition, the Group has the following significant transactions with related parties during the year.

	THE GROUP	
	2006	2005
	HK$'M	HK$'M
Interest income from associates	**7.1**	8.2
Project management fee income from associates	**6.3**	11.6
Project management fee income from a subsidiary of the Group's investee company	**1.8**	1.8
Property rental income from an equity holder of the Company	**1.5**	0.9

These transactions were carried out on terms mutually agreed between parties involved.

41. POST BALANCE SHEET EVENTS

On 4 April 2007, the Group entered into two memoranda of agreements with joint venture partners and joint venture companies for the development and management of two new residential projects situated at Tai Po Lot No. 187 and Lot No. 188. The aggregate commitment of the Group in these two new projects amounts to HK$1,141.5 million approximately.

On 11 April 2007, the Company announced that it would make a voluntary conditional general offer to acquire all the issued shares of Winsor Properties Holdings Limited ("Winsor") (other than those already held by the Company or its subsidiaries) by issuing new shares of the Company. The consideration is 2.825 new shares of the Company for each share of Winsor. Based on 216,693,901 shares of Winsor in issue as at 11 April 2007 (excluding those held by the Company and its subsidiaries), the maximum number of new shares of the Company that may be issued as consideration is 612,160,270. Based on the closing price of the Company as of 23 March 2007, consideration for the offer amounts to HK$2,773 million approximately.

42. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
Accuway Investments Limited	British Virgin Islands	US$1	100%	Investment holding
Aldburg Assets Limited	British Virgin Islands	US$1	100%	Investment holding
Aptex Europe B.V.	Netherlands	DFL40,000	100%	Garment trading
Bostar Limited	Hong Kong	HK$100	87.5%	Property development
Caringbah Limited	British Virgin Islands	US$1	100%	Investment holding
Certitech Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
Charmax Trading Limited	Hong Kong	HK$100	91%	Garment trading
Charter Star Trading Limited	Hong Kong	HK$100,000	70%	Garment trading
Cheong Ka Limited	British Virgin Islands/People's Republic of China	US$1	78%	Property holding
Chung Fook Limited	British Virgin Islands/People's Republic of China	US$1	100%	Property holding
Churrasco Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
Datas Industries Limited	Hong Kong	HK$2	86.4%	Garment manufacturing and trading
Delimont Holdings Limited	British Virgin Islands	US$1	100%	Investment holding

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
Dongguan Fude Garment Manufacturing Company Limited *	People's Republic of China	HK$6,000,000	86.4%	Garment manufacturing
Dongguan Fumei Garment Manufacturing Company Limited *	People's Republic of China	HK$7,000,000	86.4%	Garment manufacturing
Dongguan Grandnice Fashion Limited *	People's Republic of China	HK$4,000,000	86.4%	Property holding and garment manufacturing
Dongguan Xianjie Knitwear Co., Ltd. *	People's Republic of China	HK$9,000,000	78%	Garment manufacturing
Eternal Way (Cambodia) Limited	Kingdom of Cambodia	US$250,000	77.8%	Garment manufacturing
Eternal Way Holdings Limited	Hong Kong	HK$2	86.4%	Investment holding
Flourish City Limited	British Virgin Islands	US$1	100%	Investment holding
Fore Prosper Limited	Hong Kong	HK$100	60%	Property investment
Gentful Limited	Hong Kong	HK$2	100%	Investment holding
Gieves & Hawkes International Limited	United Kingdom	£250,000	100%	Licensors
Gieves & Hawkes plc	United Kingdom	£3,111,097	100%	Investment holding
Gieves Limited	United Kingdom	£10,100	100%	Retailers
Glory Charm Development Limited	Hong Kong	HK$2	100%	Property holding
Grandeur Investments Limited	British Virgin Islands/ Hong Kong	US$1	100%	Property investment

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
Grandnice Fashion Limited	Hong Kong	HK$2	86.4%	Garment manufacturing
Grandslam Limited	British Virgin Islands	US$1	100%	Investment holding
Impact Textiles B.V.	Netherlands	DFL30,000	100%	Garment trading
Impact Textiles Company Limited	Hong Kong	Ordinary shares HK$4,450,000 Non-voting deferred shares HK$12,310,000	100% 100%	Investment holding and garment trading
Impact Textiles International Limited	British Virgin Islands	US$1	100%	Investment holding
Joy Alliance Limited	Hong Kong	HK$100	87.5%	Property development
Kih-Oskh Holding N.V.	Netherlands Antilles	US$6,000	100%	Investment holding
Kosheen Investments Limited	British Virgin Islands	US$1	100%	Investment holding
Kowloon Station Development Company Limited	Cayman Islands	US$1	100%	Investment holding
Lanson Place Hospitality Management (Malaysia) Limited	British Virgin Islands	US$1	100%	Investment holding, hospitality and property management
Lanson Place Hospitality Management (Jakarta) Limited	British Virgin Islands/Indonesia	US$1	100%	Hospitality and property management
Lanson Place Hospitality Management (Singapore) Pte Limited	Singapore	S$100	100%	Hospitality and property management
Lanson Place Hotels & Residences (Bermuda) Limited	Bermuda	US$12,000	100%	Investment holding and licensing

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
Lanson Place Hotels & Residences (Holdings) Limited	British Virgin Islands	US$1	100%	Investment holding
Lanson Place Hotels & Residences (Netherlands) B.V.	Netherlands	DFL40,000	100%	Licensing, hospitality and property management
Lanson Place Hospitality Management Limited	Hong Kong	HK$2	100%	Hospitality and property management
Marvinbond Limited	British Virgin Islands	US$1	100%	Investment holding
Mezereum Limited	British Virgin Islands/ Hong Kong	US$1	100%	Property investment
Pangold Development Limited	Hong Kong	HK$100	80%	Property Development
Potter Enterprises Limited	British Virgin Islands	US$1	100%	Investment holding
Ruyuan Grandnice Garment Manufacturing Company Limited *	People's Republic of China	HK$20,000,000	86.4%	Garment manufacturing
Ruyuan Polly Garment Manufacturing Company Limited *	People's Republic of China	HK$15,000,000	70%	Garment manufacturing
Shao Guan Ruyuan Global Best Knitwear Co. Ltd. *	People's Republic of China	HK$7,800,000	78%	Garment manufacturing
Shui Hing Textiles International Limited	Hong Kong	HK$75,000,000	100%	Investment holding and garment trading
Shui Hung Knitting and Garment Factory Limited	Hong Kong	HK$20,000,000	100%	Investment holding and garment manufacturing

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
Shui Pang Garment & Knitting Factory Limited	Hong Kong	HK$2,000,000	70%	Investment holding and garment manufacturing
Success First Development Limited	Hong Kong	HK$2	100%	Property investment
Technic Enterprises Limited	Hong Kong	HK$2	86.4%	Garment trading
Telwin Industrial Limited	Hong Kong	HK$2	86.4%	Garment manufacturing and trading
Twin Dragon Investments Limited	British Virgin Islands/ Hong Kong	US$1	100%	Investment holding
Unimix Exporters Limited	Hong Kong	HK$300,000	86.4%	Garment trading
Unimix Holdings Limited	Hong Kong	HK$1,100,000	86.4%	Investment holding
Unimix International (HK) Limited	Hong Kong	HK$10,000	86.4%	Garment trading
Unimix Limited	Hong Kong	HK$10,000,000	86.4%	Garment manufacturing and trading
Unimix Properties Limited	Hong Kong	HK$200	86.4%	Property investment
United Success International Investment B.V.	Netherlands	DFL40,000	100%	Investment holding
United Success International Limited	Hong Kong	HK$227,750,062	100%	Investment holding
Universal Glory (Cambodia) Limited	Kingdom of Cambodia	US$1,000,000	86.4%	Garment manufacturing
Universal Glory Holdings (HK) Limited	Hong Kong	HK$10,000	86.4%	Investment holding
Universal Team Industrial Limited	Hong Kong	HK$2	100%	Investment holding

42. PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company	Principal activities
USI Holdings (B.V.I.) Limited	British Virgin Islands	US$50,000	100%	Investment holding
USI Properties International Limited	British Virgin Islands	US$1	100%	Investment holding
USI Property Management Limited	Hong Kong	HK$2	100%	Property development and project management
Winnion Limited	Hong Kong	HK$100	70%	Property investment

* These subsidiaries are wholly foreign owned enterprises established in the People's Republic of China.

Only USI Holdings (B.V.I.) Limited is directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting as at 31 December 2006 or at any time during the year.

43. PRINCIPAL ASSOCIATES

Details of the principal associates at 31 December 2006 are as follows:

Name of company	Place of incorporation	Attributable proportion of nominal value of issued capital held by the Company indirectly	Principal activities
Mission System Consultant Limited	Hong Kong	42.5%	Computer software consultancy
Shanghai Jinlin Tiandi Serviced Apartment Management Co., Ltd.	People's Republic of China	23.4%	Serviced apartment
Smart Gainful Limited	Hong Kong	33.3%	Provision of second mortgage financing
Union Charm Development Limited *	Hong Kong	7.5%	Property development
Winhome Investment Pte Ltd. *	Singapore	12%	Property development
Winner Max Enterprises Limited	Hong Kong	33.3%	Property development

* The Group has the ability to exercise significant influence over these associates. Accordingly, they are regarded as associates of the Group.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

44. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Details of the principal jointly controlled entities at 31 December 2006 are as follows:

Name of company	**Place of incorporation**	**Attributable proportion of nominal value of issued capital held by the Company indirectly**	**Principal activities**
Lancaster Partnership Limited	United Kingdom	47.5%	Property development
Landyork Investment Limited	Hong Kong	40%	Property development
Mancas Investment Limited	Hong Kong	50%	Property development

The following amounts represent the Group's respective share of the assets and liabilities, and sales and results of the jointly controlled entities and are included in the consolidated balance sheet and income statement:

	2006 HK$'M	2005 HK$'M
Assets:		
Current assets	**625.6**	1,228.8
Liabilities:		
Current liabilities	**(197.5)**	(1,269.2)
Net assets/(liabilities)	**428.1**	(40.4)
Turnover	**1,372.6**	365.7
Expenses	**(723.1)**	(158.1)
Taxation	**(119.8)**	(35.8)
Profit after taxation	**529.7**	171.8

PROPERTIES HELD FOR INVESTMENT PURPOSES

At 31 December 2006

Address	Gross floor area	Lease term	Effective percentage holding	Particulars of occupancy as at 31 December 2006
Shui Hing Centre, 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong (New Kowloon Inland Lot No. 5890)	186,827 sq.ft. (17,357 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	100%	Let to outside parties as workshops, canteen or godowns.
Unit B, 21st Floor, Prince Industrial Building, 706 Prince Edward Road East and 106 King Fuk Street, San Po Kong, Kowloon, Hong Kong (21/1170th shares of and in New Kowloon Inland Lot No. 4793)	6,183 sq.ft. (574 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	100%	Let to outside parties as workshops.
Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (New Kowloon Inland Lot No. 4899)	393,842 sq.ft. (36,589 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance.	86%	About 27% of the properties was occupied by members of the Group as workshops and offices. The remaining 73% was let to outside parties as workshops, canteen or godowns.
Unit H, 1st Floor, Wong King Industrial Building, 192-198 Choi Hung Road and 2-4 Tai Yau Street, San Po Kong, Kowloon, Hong Kong (2/501th shares of and in New Kowloon Inland Lot No.4448)	2,424 sq.ft. (225 sq.m.)	Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance	100%	Let to an outside party as workshop
133 Leighton Road, Causeway Bay, Hong Kong (Inland Lot No. 8774)	114,097 sq.ft. (10,600 sq.m.)	Leased under Conditions of Exchange No. 12159 for a term from 2 September 1991 to 30 June 2047	60%	Service apartment

PROPERTIES UNDER DEVELOPMENT

At 31 December 2006

Address	Nature of property	Gross floor area	Effective percentage holding	Project status	Expected completion date
No. 157 Argyle Street, Kowloon, Hong Kong (Inland Lot No. 4022)	Residential	90,000 sq.ft	80%	Demolition completed	2009
BEA Building 314-324 Hennessy Road, Wanchai, Hong Kong (Inland Lot No. 122)	Commercial	114,000 sq.ft	70%	Renovation in progress	2007

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the results and of the assets and liabilities of the Group for each of the five years ended 31 December 2006:

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
		(Note a)	(Note b)		
RESULTS					
Turnover	**2,699.4**	1,767.9	1,455.8	1,470.6	1,465.9
Profit before taxation	**1,009.5**	524.0	107.8	29.1	33.1
Taxation	**(183.6)**	(89.6)	(10.0)	(6.3)	(9.1)
Profit for the year	**825.9**	434.4	97.8	22.8	24.0
Attributable to:					
Equity holders of the Company	**738.3**	368.5	92.1	18.5	20.5
Minority interests	**87.6**	65.9	5.7	4.3	3.5
	825.9	434.4	97.8	22.8	24.0

	At 31 December				
	2006	2005	2004	2003	2002
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
		(Note a)	(Note b)		
ASSETS AND LIABILITIES					
Total assets	**4,764.4**	4,768.1	3,036.4	2,711.5	2,380.5
Total liabilities	**(1,836.4)**	(2,784.0)	(1,610.7)	(1,395.9)	(1,065.7)
Minority interests	**(215.2)**	(127.5)	(61.8)	(57.1)	(56.2)
Equity attributable to the equity holders of the Company	**2,712.8**	1,856.6	1,363.9	1,258.5	1,258.6

Notes:

(a) The effect of adoption of HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement" was adjusted to the opening balance of reserves for the year ended 31 December 2005 in accordance with the transitional provisions of HKAS 32 and HKAS 39. The figures prior to 2005 have not been restated to reflect this change.

(b) The effect of early adoption of HKAS 40 "Investment property" was adjusted to the opening balance of reserves for the year ended 31 December 2004 in accordance with the transitional provisions of HKAS 40. The figures prior to 2004 have not been restated to reflect this change.