THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in USI Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

USI HOLDINGS LIMITED
富聯國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 369)

MAJOR TRANSACTION
FORMATION OF A JOINT VENTURE
FOR DEVELOPMENT OF LAND IN HONG KONG

30th April, 2007

* *For identification purpose only*

CONTENTS

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In this circular, unless the context requires otherwise, the following expressions have the meanings set out below:

"Ace Glory"	Ace Glory Limited, a company incorporated in Hong Kong with limited liability
"Board"	the board of directors of the Company
"Company"	USI Holdings Limited
"Director"	a director of the Company
"Group"	the Company, its subsidiaries and its jointly controlled entities
"Hong Kong" and "HK$"	respectively, the Hong Kong Special Administrative Region of The People's Republic of China and Hong Kong dollars (the lawful currency of Hong Kong)
"JV Company"	Full Raise International Limited, a company incorporated in the British Virgin Islands with limited liability
"JV Group"	the JV Company and Ace Glory
"JV Partners"	collectively, Nan Fung Development, Nan Fung Resources, King Chance, Wealthy Vision and Wideway Concept, and "JV Partner" is any of them
"King Chance"	King Chance Development Limited, a company incorporated in Hong Kong with limited liability
"Land Grant"	the Agreement and Conditions of Sale in respect of the Land which Ace Glory has agreed to enter into in relation to the acquisition of the Land from the Hong Kong Government
"Land"	that piece of land registered in the Land Registry (New Territories) as Tai Po Town Lot No.188 at Pak Shek Kok Reclamation Phase I, Site C, Tai Po, New Territories, Hong Kong

"Latest Practicable Date"	25th April, 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Major Shareholders"	Brave Dragon Limited, Wing Tai Garment Manufactory (Singapore) Pte Ltd., Bestime Resources Limited, Pofung Investments Limited, Broxbourne Assets Limited, Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward
"MOA"	the memorandum of agreement entered into by Wideway Concept, the other JV Partners and the JV Company on 4th April, 2007
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Companies
"Nan Fung Development"	Nan Fung Development Limited, a company incorporated in Hong Kong with limited liability
"Nan Fung Resources"	Nan Fung Resources Limited, a company incorporated in Hong Kong with limited liability
"SFO"	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shareholder"	a shareholder of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Wealthy Vision"	Wealthy Vision Limited, a company incorporated in Hong Kong with limited liability
"Wideway Concept"	Wideway Concept Limited, a company incorporated in Hong Kong with limited liability
"USI Shares"	shares of HK$0.50 each in the share capital of the Company

USI HOLDINGS LIMITED
富聯國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 369)

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

Head office and principal place of business:
25th Floor
Unimix Industrial Centre
2 Ng Fong Street
San Po Kong
Kowloon
Hong Kong

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

30th April, 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
FORMATION OF A JOINT VENTURE
FOR DEVELOPMENT OF LAND IN HONG KONG

INTRODUCTION

The Board announced on 4th April, 2007 that Wideway Concept, a wholly-owned subsidiary of the Company, entered into the MOA with the other JV Partners and the JV Company under which it agreed to acquire a 15% interest in the JV Company, the business of which is to develop the Land. It is estimated that the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the total commitment of the Company in relation to the JV Company will exceed 25% but will be less than 100%. Accordingly, the MOA constitutes a major transaction of the Company under the Listing Rules. The Major Shareholders have approved the MOA in writing in accordance with Rule 14.44 of the Listing Rules.

* *For identification purpose only*

The purpose of this circular is to provide you with further information on the MOA and certain general information on the Group.

DETAILS OF THE MOA

The joint venture

On 4th April, 2007, Wideway Concept, a wholly-owned subsidiary of the Company, entered into the MOA with the other JV Partners and the JV Company for the purpose of a joint venture to develop the Land.

The Land

Ace Glory has agreed to enter into the Land Grant. The Land will be held under the Land Grant for a term of 50 years from 13th March, 2007 and shall only be used for private residential purposes. Ace Glory is a wholly-owned subsidiary of the JV Company.

Parties to the MOA

1. Nan Fung Development

2. Nan Fung Resources

3. King Chance

4. Wealthy Vision

5. Wideway Concept

6. JV Company

To the best of the Directors' information, knowledge and belief having made all reasonable enquiry, each of the JV Partners (other than Wideway Concept, a wholly-owned subsidiary of the Company) and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Ownership of the JV Company

Pursuant to the MOA, Nan Fung Development, which was on the date of the MOA the sole legal and beneficial owner of all the shares in the JV Company, transferred a proportion of those shares to the other JV Partners on 10th April, 2007 at a price equal to the par value of those shares such that the JV Company is now owned by the JV Partners as follows:

JV Partner	Number of issued shares held	Percentage shareholding
Nan Fung Development	300	30%
Nan Fung Resources	50	5%
King Chance	250	25%
Wealthy Vision	250	25%
Wideway Concept	150	15%
Total	1,000	100%

Management of the JV Company and Ace Glory

The board of directors of each of the JV Company and Ace Glory comprises 8 directors. Nan Fung Development is entitled to appoint 3 directors, each of King Chance and Wealthy Vision is entitled to appoint 2, and Wideway Concept is entitled to appoint 1.

Under the MOA, the directors of Ace Glory are to establish an executive committee responsible for overseeing and monitoring the development of the Land, including the day-to-day administration and management of such development. This executive committee shall comprise 4 members. Nan Fung Development and Nan Fung Resources will be entitled jointly to appoint 1 member and each of King Chance, Wealthy Vision and Wideway Concept will be entitled to appoint 1 member.

Consideration

Pursuant to the MOA, Wideway Concept:

(a) has paid to Nan Fung Development in cash a sum of US$150, being the par value of the shares in the JV Company transferred by Nan Fung Development to Wideway Concept; and

(b) has advanced to the JV Group a shareholder loan of HK$7,500,000, which represents 15% of the amount of the deposit paid by Ace Glory in respect of the Land, and a further shareholder loan of HK$517,500,000, which represents 15% of the balance of the premium. The other JV Partners have advanced shareholder loans to the JV Group in proportion to their shareholdings in the JV Company in the same way. Ace Glory has used the shareholder loans which have been so advanced to pay to the Hong Kong Government HK$50,000,000 as part payment of the premium in respect of the Land and to pay to the Hong Kong Government the balance of the premium in respect of the Land.

Under the terms of the MOA, the development of the Land shall be financed by external financing on reasonable commercial terms from banks and any other financial institutions and, if and to the extent that such external financing is not available or is not sufficient, by shareholder loans. If any such banks or other financial institutions require, the JV Partners are required under the terms of the MOA to provide, or procure their respective holding companies or, subject to the consent of the relevant JV Partner, such other persons as may be acceptable to such banks or other financial institutions to provide, guarantees and any other forms of collateral on a several basis in proportion to their shareholdings in the JV Company as security for any such external financing. (For the purpose of the immediately preceding sentence, Nan Fung Development and Nan Fung Resources shall be deemed to be a single JV Partner whose shareholding in the JV Company shall be the aggregate of the shareholdings of Nan Fung Development and Nan Fung Resources in the JV Company.) The JV Company intends to re-finance the shareholder loans which have been advanced to fund the payment of the premium in respect of the Land by bank borrowings.

The premium in respect of the Land is HK$3,500,000,000. Construction and development costs of the Land are presently estimated at HK$1,350,000,000. The total commitment of Wideway Concept in relation to the JV Group is therefore estimated to be HK$727,500,000. The Company intends to fund such commitment from its internal resources and/or bank borrowings.

About the other JV Partners

Nan Fung Development is a wholly-owned subsidiary of Chen's Holdings Limited and is ultimately wholly beneficially owned by Mr. Chen Din Hwa. Nan Fung Development is principally engaged in property development and investment in Hong Kong. Nan Fung Resources is wholly owned by Crosby Investment Holdings Inc. and is an investment holding company. Nan Fung Resources is ultimately wholly beneficially owned by Ms Chen Wai Wai Vivien (the daughter of Mr. Chen Din Hwa).

King Chance is an investment holding company and a wholly-owned subsidiary of Sino Land Company Limited, which is principally engaged in the property development and investment in Hong Kong and whose shares are listed on the Stock Exchange.

Wealthy Vision is an investment holding company and a wholly-owned subsidiary of K. Wah International Holdings Limited. The principal subsidiaries of K. Wah International Holdings Limited are mainly engaged in property development and investment in The People's Republic of China, Hong Kong and South East Asia.

Reasons for entering into the MOA

Wideway Concept is a wholly-owned subsidiary of the Company, which is an investment holding company. The principal subsidiaries of the Company are engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development, property development management, provision of hospitality services and investing activities.

The Directors are optimistic about the property market in Hong Kong, especially the luxury residential sector. The Board believes that the acquisition of the interest in the Land through the JV Company will not only enhance the Company's assets portfolio but also strengthen the edge of the Company in luxury residential market in Hong Kong. The Directors consider that the MOA has been made on normal commercial terms, which are fair and reasonable so far as the Company and the Shareholders are concerned, and that the MOA is in the interests of the Company and the Shareholders as a whole.

Financial effects of the MOA

The commitment of the Group in relation to the JV Group will be funded by internal resources and/or bank borrowings. As a result, the transaction will increase the total assets of the Group, but will not have any effect on the net assets of the Group. The Land is in development stage and therefore will not bring in positive contribution for the earnings of the Group for the financial year ending 31st December, 2007.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's profit attributable to equity holders of the Company for the year ended 31st December, 2006 was HK$738.3 million compared with HK$368.5 million in 2005. Turnover for the year 2006 increased to HK$2,699.4 million from HK$1,767.9 million in 2005 and profit before tax increased to HK$1,009.5 million from HK$524.0 million in 2005. The Group is organised into three divisions: Property Division, which includes residential development projects, hospitality investment and management, and investment properties; Apparel Division, which includes garment manufacturing and branded products distribution; and Strategic Investments Division. The Group shares the positive outlook of the market in Hong Kong and the PRC. In 2007, the Group intends to continue to focus on luxury residential property development, in which the Group has a proven track record and extensive experience. The Group also anticipates growth on all other fronts.

OTHER ACQUISITIONS

On 10th April, 2007, the Company announced that Cazenove Asia Limited would, on behalf of the Company, make a voluntary conditional securities exchange offer to acquire all the issued shares in the share capital of Winsor Properties Holdings Limited ("**Winsor**") (other than those already held by USI or its subsidiaries) (the "**Offer**"). Winsor is an investment holding company incorporated in the Cayman Islands with limited liability and is listed on the Stock Exchange. Its principal subsidiaries are engaged in property investment, development and management, warehousing and investment holding. The consideration for the Offer will be 2.825 new USI Shares for each share in Winsor ("**Winsor Share**"). Based on an exchange ratio of 2.825 USI Share per Winsor Share and 216,693,901 Winsor Shares in issue as at the Latest Practicable Date (excluding those held by the Company or its subsidiaries), the maximum number of new USI Shares that the Company will issue as consideration under the Offer is 612,160,270. On the basis of the consideration of HK$13.73 per Winsor Share under the Offer (comprising the value of 2.825 USI Shares based on the closing price of HK$4.86 per USI Share as quoted on the Stock Exchange on the Latest Practicable Date), the entire issued share capital of Winsor of 259,685,288 Winsor Shares is valued at approximately HK$3,565 million. There is currently no plan to vary the remuneration payable to and the benefits in kind receivable by the Directors as a result of the acquisition. For details of the Offer, please refer to the Company's announcement dated 10th April, 2007.

GENERAL

It is estimated that the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the total commitment of the Company in relation to the JV Company will exceed 25% but will be less than 100%. Accordingly, the MOA constitutes a major transaction of the Company under the Listing Rules.

As (a) no shareholder of the Company would be required to abstain from voting if the Company were to hold a general meeting to approve the MOA and (b) the Major Shareholders, a closely allied group of shareholders who together beneficially own more than 50 per cent. in nominal value of the shares in the capital of the Company giving the right to attend and vote at its general meetings, have approved the MOA in writing in accordance with Rule 14.44 of the Listing Rules, such written approval is acceptable under the Listing Rules in lieu of a general meeting to approve the MOA. No general meeting will be held to approve the MOA.

The Major Shareholders beneficially own the following shares in the Company:

Name of Major Shareholder	Number of shares directly held	Direct percentage shareholding
Brave Dragon Limited	106,345,862	20.19%
Wing Tai Garment Manufactory (Singapore) Pte Ltd. ("**Wing Tai**")	4,250,000	0.81%
Bestime Resources Limited	68,747,996	13.05%
Pofung Investments Limited	66,698,122	12.66%
Broxbourne Assets Limited	12,992,968	2.47%
Mr. Cheng Wai Chee, Christopher ("**Mr. Christopher Cheng**")	2,225,999	0.42%
Mr. Cheng Wai Sun, Edward ("**Mr. Edward Cheng**")	2,150,000	0.41%

Mr. Christopher Cheng is interested in more than one-third of the issued share capital of Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited. He is also a beneficiary of a trust the assets of which include indirect interests in shares in Brave Dragon Limited and Wing Tai. (The other beneficiaries of this trust include Messrs. Edward Cheng, Cheng Man Piu, Francis and Cheng Wai Keung, who are members of Mr. Christopher Cheng's family.)

The JV Partners will negotiate a shareholders' agreement, which shall contain detailed provisions for the matters covered in the MOA. The MOA will terminate upon the signing of such shareholders' agreement. In the event that the terms of such shareholders' agreement materially differ from the terms of the MOA described in this circular, the Company will issue a further announcement in compliance with the Listing Rules.

In the event that there is any increase in the total commitment of the Company in relation to the JV Company which will cause any of the applicable percentage ratios to reach or exceed 100%, the Company will re-classify the transaction and comply with the relevant requirements of Chapter 14 of the Listing Rules.

FURTHER INFORMATION

Your attention is drawn to the financial and general information set out in the Appendices to this circular.

Yours faithfully
For and on behalf of the Board
Cheng Wai Chee, Christopher
Chairman

1. SUMMARY OF FINANCIAL RESULTS AND FINANCIAL POSITION OF THE GROUP

The following is a summary of the financial results and financial position of the Group for the three years ended 31 December 2006 extracted from the annual report of the Company. For the accounting period commencing on 1 January 2005, the Group has adopted the new Hong Kong Financial Reporting Standards and the comparatives for the year ended 31 December 2004 have been restated as required in the Group's financial statements for the year ended 31 December 2005. These restated figures have been adopted for the purpose of this summary.

RESULTS

	Year ended 31 December		
	2006	**2005**	**2004**
			(As restated)
	HK$'M	*HK$'M*	*HK$'M*
Turnover	2,699.4	1,767.9	1,455.8
Profit before tax	1,009.5	524.0	107.8
Tax	(183.6)	(89.6)	(10.0)
Profit for the year	825.9	434.4	97.8
Attributable to:			
Equity holders of the Company	738.3	368.5	92.1
Minority interests	87.6	65.9	5.7
	825.9	434.4	97.8
Earnings per share for profit attributable to equity holders of the Company			
– Basic	HK$1.40	HK$0.70	HK$0.18
– Diluted	HK$1.40	HK$0.70	HK$0.18

FINANCIAL POSITION

	At 31 December		
	2006	**2005**	**2004**
			(As restated)
	HK$'M	*HK$'M*	*HK$'M*
Total assets	4,764.4	4,768.1	3,036.4
Total liabilities	1,836.4	2,784.0	1,610.7
Minority interests	215.2	127.5	61.8
Shareholder's funds	2,712.8	1,856.6	1,363.9

2. AUDITED FINANCIAL STATEMENTS

The following are audited financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2006

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

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	NOTE	2006	2005
		HK$'M	HK$'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

	NOTE	2006	2005
		HK$'M	HK$'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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	NOTE	**2006** *HK$'M*	**2005** *HK$'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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	NOTE	**2006**	**2005**
		HK$'M	*HK$'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

	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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

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.

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.

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.

(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.

(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.

(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.

(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.

(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.

(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.

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.

(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.

(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.

(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.

(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.

(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.

(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.

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.

(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.

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.

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

	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.

	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

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	**2005**	**2006**	**2005**
	HK$'M	*HK$'M*	*HK$'M*	*HK$'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

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	2005
	HK$'M	*HK$'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	2005
	HK$'M	*HK$'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	Salaries and allowances	Discretionary bonus	Retirement benefit costs-defined contribution plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

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

Name	Directors' fees	Salaries and allowances	Discretionary bonus	Retirement benefit costs-defined contribution plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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.

(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	**2005**
	HK$'M	*HK$'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	**2005**
	HK$'M	*HK$'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	**2005**
	HK$'M	*HK$'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	**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
Basic earnings per share	HK$1.40	HK$0.70

(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

	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	**2005**
	HK$'M	*HK$'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.

Notes:

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

	2006	**2005**
	HK$'M	*HK$'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 HK$'M	2005 HK$'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 HK$'M	2005 HK$'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

	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
	1,048.7	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	**2005**
	HK$'M	*HK$'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	**Revaluation of properties**	**Tax losses**	**Total**
	HK$'M	*HK$'M*	*HK$'M*	*HK$'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

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.

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

		Number of incentive shares				
	Date of award	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,	13.9.2005	600,000	–	(150,000)	450,000	513,000
Christopher	25.4.2006	–	546,000	–	546,000	681,000
CHENG Wai Sun,	13.9.2005	600,000	–	(150,000)	450,000	513,000
Edward	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.

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

	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).

The group as lessor

	2006	2005
	HK$'M	*HK$'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	2005
	HK$'M	*HK$'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	2005
	HK$'M	*HK$'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	**2005**
	HK$'M	*HK$'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).

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

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
Datas Industries Limited	Hong Kong	HK$2	86.4%	Garment manufacturing and trading
Delimont Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
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 and Fashion Limited *	People's Republic of China	HK$4,000,000	86.4%	Property holding 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

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
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
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

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
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
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

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 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

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

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
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
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	2005
	HK$'M	*HK$'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

3. INDEBTEDNESS

Borrowings

As at the close of business on 31st March, 2007 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had total outstanding borrowings of approximately HK$1,406.40 million, comprising secured bank loans, unsecured bank loans, unsecured import and trust receipt loans, unsecured bank overdrafts and other long-term loans of approximately HK$991.5 million, HK$186.2 million, HK$33.1 million, HK$3.6 million and HK$192.0 million respectively.

Contingent liabilities

As at 31st March, 2007, the Group had contingent liabilities in respect of guarantees given to banks of approximately HK$1.9 million.

As at 31st March, 2007, certain of the Group's leasehold land, investment properties, properties under development and properties for own use with carrying value of approximately HK$510.8 million, HK$1,558.0 million HK$137.0 million and HK$160.9 million respectively were pledged to secure loans and credit facilities for the Group.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31st March, 2007 any bank overdrafts, loans or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

Subsequent to 31st March, 2007, the Group utilised its banking facilities to pay for its share of the land premium in respect of the Land and other property development projects amounting to an aggregate of HK$1,140 million. The Directors have confirmed that, save as disclosed above, there has not been any other material change in the indebtedness and contingent liabilities of the Group since 31st March, 2007.

4. WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

Set out below are details of the authorised and issued share capital of the Company as at the Latest Practicable Date:

Authorised:		*HK$*
1,320,000,000	shares	660,000,000.00
Issued and fully paid:		
526,767,089	shares	263,383,545

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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, were as follows:

1. Interests in shares

	Number of shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**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	49.60%

Name of Director	Number of shares held: Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of the Company's issued share capital
Cheng Wai Sun, Edward	2,150,000	–	–	110,595,862 *Note (b)*	112,745,862	21.40%
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	113,250	762,000	–	–	875,250	0.17%
Au Hing Lun, Dennis	449,000	–	–	–	449,000	0.08%

Notes:

(a) Mr. Cheng Wai Chee, Christopher was deemed to be interested in 148,439,086 USI Shares beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies. 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 USI Shares respectively.

(b) Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung were beneficiaries of a trust which assets include indirect interests in 110,595,862 USI Shares beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under "Substantial Shareholders" below.

2. Interests in underlying shares of the Company

(a) Share options

Details of the share options granted to an independent non-executive Director under the share option scheme of the Company and outstanding as at the Latest Practicable Date are as follows:–

Name of Director	Date of grant	Number of share options as at the Latest Practicable Date	Exercisable period	Exercise price per ordinary share
Simon Murray	19.4.2005	1,000,000	19.4.2006 to 18.4.2010	HK$2.125

Note: 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 cent per annum starting from the first anniversary of the date of grant. The options were granted under the share option scheme of the Company adopted on 10 June 2003.

(b) Incentive shares

Details of the incentive shares awarded to certain executive Directors under the share incentive scheme of the Company are as follows:–

Name of Director	Date of award	Number of incentive shares as at the Latest Practicable Date	Vesting period
Cheng Wai Chee, Christopher	13.9.2005	450,000	13.9.2007 to 12.9.2008
	25.4.2006	546,000	12.1.2007 to 11.1.2009
Cheng Wai Sun, Edward	13.9.2005	450,000	13.9.2007 to 12.9.2008
	25.4.2006	546,000	12.1.2007 to 11.1.2009

Name of Director	Date of award	Number of incentive shares as at the Latest Practicable Date	Vesting period
Ng Tak Wai, Frederick	13.9.2005	67,500	13.9.2007 to 12.9.2008
	25.4.2006	44,250	12.1.2008 to 11.1.2009
Au Hing Lun, Dennis	13.9.2005	112,500	13.9.2007 to 12.9.2008
	25.4.2006	82,500	12.1.2008 to 11.1.2009

Notes:

(a) The incentive shares are rights given to selected employees (including executive directors) to subscribe in cash for USI Shares under the share incentive scheme approved by shareholders of the Company on 17 June 2005.

(b) Subscription price per share is the nominal value of one USI Share. Funds for subscription of shares will be provided by the Company when the right to subscribe for USI Shares is exercised.

All the interests in shares disclosed above under this section represent long position in the shares of the Company. Save as disclosed above, as at the Latest Practicable Date, 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.

Save as disclosed in this circular, none of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant to the business of the Group taken as a whole.

Save as disclosed in this circular, none of the Directors has or has had any direct or indirect interest in any assets acquired or disposed of by or leased to, or proposed to be acquired, disposed of by or leased to, the Company or its subsidiaries since 31st December, 2006, the date to which the latest published audited consolidated accounts of the Company were made up.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions 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 Shareholder	Number of shares beneficially held	Percentage of shareholding
Brave Dragon Limited	106,345,862	20.19
Wing Tai Holdings Limited	110,595,862	21.00 *(Note 1)*
Deutsche Bank International Trust Co. (Jersey) Limited	110,595,862	21.00 *(Note 2)*
Deutsche Bank International Trust Co. (Cayman) Limited	110,595,862	21.00 *(Note 2)*
Wing Tai Asia Holdings Limited	110,595,862	21.00 *(Note 2)*
Wing Sun Development Private Limited	110,595,862	21.00 *(Note 2)*
Terebene Holdings Inc.	110,595,862	21.00 *(Note 2)*
Winlyn Investment Pte Ltd.	110,595,862	21.00 *(Note 2)*
Bestime Resources Limited	68,747,996	13.05 *(Note 3)*
Pofung Investments Limited	66,698,122	12.66 *(Note 3)*
Wing Tai Corporation Limited	135,446,118	25.71 *(Note 3)*
Renowned Development Limited	135,446,118	25.71 *(Note 3)*

Name of Shareholder	Number of shares beneficially held	Percentage of shareholding
Wing Tai (Cheng) Holdings Limited	148,439,086	28.18 *(Note 4)*
Triple Surge Limited	28,260,000	5.36 *(Note 5)*
Fourseas Investments Limited	47,413,992	9.00 *(Note 5)*
Wesmore Limited	83,946,158	15.94 *(Note 6)*
Sun Hung Kai Properties Limited	131,504,150	24.96 *(Note 6)*

Notes:

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

(2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (of which Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung were beneficiaries) 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 28.09% 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 9.19% 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 USI Shares they held 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 USI Shares.

(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 USI Shares. Broxbourne Assets Limited beneficially owned 12,992,968 USI Shares.

(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 USI Shares, Units Key Limited was the beneficial owner of 3,502,000 USI Shares and Triple Surge Limited was the beneficial owner of 28,260,000 USI Shares.

(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 Limited. By virtue of the corporate interest of SHKP in the aforesaid companies, SHKP was deemed to be interested in the interest of Wesmore Limited, Fourseas Investments Limited and Junwall Holdings Ltd. in USI Shares, Techglory Limited was the beneficial owner of 144,000 USI Shares.

All the interests in shares disclosed under this section represent long position in the shares of the Company. Save as disclosed above, as at the Latest Practicable Date, 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.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2006, being the date of the latest published audited financial statements of the Company.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts in the ordinary course of business of the Company) have been entered into by members of the Group within two years immediately preceding the date of this circular:

(a) a sale and purchase agreement dated 12th April, 2006 entered into by Mezereum Limited (a wholly-owned subsidiary of the Company) in relation to the disposal of No. 81 Hung To Road, Kwun Tung, Kowloon, Hong Kong;

(b) a memorandum of agreement dated 30th September, 2005 entered into by the Company with Winsor Properties Holdings Limited to participate in a joint venture in relation to the acquisition of No.314-324 Hennessy Road, Wanchai, Hong Kong for investment purpose;

(c) a share purchase agreement dated 22nd June, 2005 entered into by Flourish City Limited (a wholly-owned subsidiary of the Company) with MSR Capital Two Limited to acquire 23.4% of the issued shares in the share capital of the Jin Lin Tiandi Holding Company (the "JV"). The JV owns a wholly foreign owned enterprise in mainland China which has entered into agreements to purchase a tower of apartments at Lu Wan District, Shanghai; and

(d) a share disposal agreement dated 14th June, 2005 entered into by Townhill Enterprises Limited (a wholly-owned subsidiary of the Company) with PCCW Limited to sell shares representing 13.72% of the issued share capital of SUNDAY Communications Limited to PCCW Limited.

9. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of the Directors in competing businesses 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 Pui, 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 might 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.

10. MISCELLANEOUS

Registered office	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
Head office and principal place of business in Hong Kong	25th Floor, Unimix Industrial Centre 2 Ng Fong Street San Po Kong Kowloon Hong Kong
Company secretary	Chung Siu Wah, Henry, an associate of the Hong Kong Institute of Chartered Secretaries
Qualified accountant	Tam Wai Ying, Tommy, an associate of the Hong Kong Institute of Certified Public Accountants
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

The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection from the date of this circular at the head office of the Company at 25th Floor, Unimix Industrial Centre, No. 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong during normal business hours on any business day up to and including 14th May, 2007 (being not less than 14 days from the date of this circular):

(a) the memorandum of association and bye-laws of the Company;

(b) the MOA;

(c) the audited consolidated accounts of the Company and its subsidiaries for the financial years ended 31st December, 2005 and 2006;

(d) the written approval of the MOA by the Major Shareholders dated 4th April, 2007;

(e) the material contracts referred to in this Appendix; and

(f) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company.