

Auditor's report to the members of The Law Society of Hong Kong

(Incorporated in Hong Kong and limited by guarantee)

We have audited the accompanying accounts of The Law Society of Hong Kong ("the Society") set out on pages 90 to 104, which comprise the balance sheet as at 31 December 2006, the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Council Members' responsibility for the accounts

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

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of the Society's affairs as at 31 December 2006 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 14 April 2007

Income and expenditure account

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006	2005
Income	3	\$ 86,005,047	\$ 84,081,066
Staff costs	4(a)	(27,938,827)	(26,055,588)
Office expenses	4(b)	(3,752,069)	(3,374,499)
Depreciation	7	(2,117,626)	(2,131,429)
Members' expenses	4(c)	(1,819,437)	(935,162)
Other operating expenses	4(d)	<u>(32,056,673)</u>	<u>(35,838,956)</u>
Surplus from operations		\$ 18,320,415	\$ 15,745,432
Finance costs	4(e)	<u>-</u>	<u>(184,312)</u>
Surplus before taxation	4	\$ 18,320,415	\$ 15,561,120
Taxation	6(a)	<u>(2,622,217)</u>	<u>(2,446,126)</u>
Surplus for the year		\$ 15,698,198	\$ 13,114,994
Accumulated surpluses brought forward		<u>141,582,444</u>	<u>128,467,450</u>
Accumulated surpluses carried forward		<u>\$ 157,280,642</u>	<u>\$ 141,582,444</u>

Statement of changes in equity

for the year ended 31 December 2006

The surplus in the above income and expenditure account is the only change in equity for the current and prior years.

The notes on pages 93 to 104 form part of these accounts.

Balance sheet

at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006	2005
Non-current assets			
Fixed assets	7	\$ 101,237,074	\$ 103,225,561
Investment in a subsidiary	8	20	20
Deferred tax assets	11(a)	<u>1,234,599</u>	<u>1,274,401</u>
		<u>\$ 102,471,693</u>	<u>\$ 104,499,982</u>
Current assets			
Debtors, deposits and prepayments		2,844,780	2,477,003
Tax recoverable	6(c)	-	538,779
Cash and cash equivalents	9	<u>128,650,693</u>	<u>105,841,084</u>
		<u>\$ 131,495,473</u>	<u>\$ 108,856,866</u>
Current liabilities			
Creditors and accrued charges	10	26,869,764	23,812,256
Membership, practising certificate and other fees received in advance		49,627,350	47,962,148
Tax payable	6(c)	<u>189,410</u>	<u>-</u>
		<u>\$ 76,686,524</u>	<u>\$ 71,774,404</u>
Net current assets		<u>\$ 54,808,949</u>	<u>\$ 37,082,462</u>
Net assets		<u>\$ 157,280,642</u>	<u>\$ 141,582,444</u>
Representing:			
Accumulated surpluses		<u>\$ 157,280,642</u>	<u>\$ 141,582,444</u>

Approved and authorised for issue by the Council
on 10 April 2007

PETER C.L. LO)	
WONG KWAI HUEN)	Council Members
)	
P.R. MOSS)	Secretary General
)	

The notes on pages 93 to 104 form part of these accounts.

Cash flow statement

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006	2005
Operating activities			
Surplus before taxation		\$ 18,320,415	\$ 15,561,120
Bank interest income		(3,648,476)	(1,668,758)
Bank interest expenses		-	184,312
Depreciation		<u>2,117,626</u>	<u>2,131,429</u>
Operating surplus before changes in working capital		\$ 16,789,565	\$ 16,208,103
Increase in debtors, deposits and prepayments		(367,777)	(643,814)
Increase in creditors and accrued charges		3,057,508	7,793,135
Increase/(decrease) in membership, practising certificate and other fees received in advance		<u>1,665,202</u>	<u>(1,372,492)</u>
Cash generated from operations		\$ 21,144,498	\$ 21,984,932
Hong Kong Profits Tax paid		<u>(1,854,226)</u>	<u>(4,277,505)</u>
Net cash generated from operating activities		\$ 19,290,272	\$ 17,707,427
Investing activities			
Maturity of debt security		-	9,019,510
Interest received		3,648,476	1,668,758
Purchase of fixed assets		<u>(129,139)</u>	<u>(862,553)</u>
Net cash generated from investing activities		\$ 3,519,337	\$ 9,825,715
Financing activities			
Interest paid		\$ -	\$ (184,312)
Repayment of bank loan		<u>-</u>	<u>(11,946,009)</u>
Net cash used in financing activities		\$ -	\$ (12,130,321)
Net increase in cash and cash equivalents		\$ 22,809,609	\$ 15,402,821
Cash and cash equivalents at 1 January		<u>105,841,084</u>	<u>90,438,263</u>
Cash and cash equivalent at 31 December	9	<u>\$ 128,650,693</u>	<u>\$ 105,841,084</u>

The notes on pages 93 to 104 form part of these accounts.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

1 Status of the Society

The Society is a company limited by guarantee with no share capital. The liability of each member is limited to an amount not exceeding \$50. As at 31 December 2006, the Society had 6,300 members (2005:6,109).

2 Significant accounting policies

(a) Basis of preparation of the accounts

The Society has not prepared consolidated accounts as the Society's wholly-own subsidiary is immaterial and the Council Members consider that such consolidated accounts would be of no real value to the members of the Society in view of the insignificant amounts involved.

For the purposes of compliance with sections 122 and 123 of the Hong Kong Companies Ordinance, these accounts have been prepared to present a true and fair view of the state of affairs and profit or loss of the Society only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance which apply to the preparation of separate unconsolidated accounts.

The measurement basis used in the preparation of the accounts is historical cost. A summary of the significant accounting policies adopted by the Society is set out below.

The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future periods.

(b) New and revised HKFRSs

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Society. The adoption of the new and revised HKFRSs has no significant impact on the accounts of the Society for the accounting periods presented.

The Society has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2 Significant accounting policies (*continued*)

(c) Investment in a subsidiary

Investment in a subsidiary in the Society's balance sheet is stated at cost less any impairment losses.

(d) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- leasehold land held for own use is amortised on a straight-line basis over the remaining terms of the respective leases;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 25 years from the date of purchase, and the unexpired terms of the respective leases;
- other fixed assets are depreciated on a straight-line basis over their estimated lives as follows:

Furniture, fixtures and equipment	3 - 5 years
Leasehold improvements	5 years

The carrying amounts of fixed assets are reviewed for indications of impairment at each balance sheet date. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure account on the date of retirement or disposal.

(e) Disciplinary proceedings and ancillary costs

Disciplinary proceedings and ancillary costs are recognised in the income and expenditure account in the year in which they are incurred. Whilst every effort is made by the Society to secure reimbursement of such amounts, due to the uncertainty as to whether such costs will be recovered by reference to the provisions of section 25(1) of the Legal Practitioners Ordinance, reimbursements are recognised in the income and expenditure account only to the extent that they have been received. Also included in the account under this heading are the costs incurred in respect of interventions within solicitors' practices. Such costs are only recoverable from the solicitors concerned and, in view of their nature, such costs are unlikely to be recovered in full.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2 Significant accounting policies (*continued*)

(f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material.

(g) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at mortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Society's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income and expenditure account.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2 Significant accounting policies (*continued*)

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Society has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Annual membership subscriptions, practising certificate fees, registration fees and other fees are recognised on a time-apportioned basis over the period to which they relate.

Tuition fees for continuing professional development are recognised over the period of instruction.

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(m) Operating lease charges

Where the Society has the use of assets under operating leases, payments made under the leases are charged to the income and expenditure account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(n) Related parties

For the purposes of these accounts, a party is considered to be related to the Society if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Society or exercise significant influence over the Society in making financial and operating decisions, or has joint control over the Society;
- (ii) the Society and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Society or a joint venture in which the Society is a venturer;
- (iv) the party is a member of the Council or key management personnel of the Society, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

2 Significant accounting policies (*continued*)

(n) Related parties (*continued*)

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Society or of any entity that is a related party of the Society.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 Income

The principal activities of the Society are to act as the professional and regulatory body for solicitors in Hong Kong.

Income consists of:

	2006	2005
Annual membership fees	\$ 7,529,810	\$ 7,304,340
Practising certificate fees	38,732,200	40,914,600
Foreign lawyer registration fees	9,365,000	8,175,000
Foreign law firm registration fees	823,000	641,000
Other fees (note 3(a))	5,810,782	4,768,728
Disciplinary proceedings and ancillary costs reimbursed (note 2(e))	8,560,027	9,537,228
Continuing professional development	7,306,875	7,237,769
Miscellaneous income (note 3(b))	4,228,877	3,833,643
Bank interest	3,648,476	1,668,758
	<u>\$ 86,005,047</u>	<u>\$ 84,081,066</u>

(a) Other fees include fees received for applications for waivers of guidelines for drafting Deeds of Mutual Covenant and consent fees and service charges for checking wills for solicitors on behalf of the deceased's representatives.

(b) Miscellaneous income comprises principally income from advertisements in the Society's circulars and recharges to the Professional Indemnity Scheme for the Society's salaries and overheads incurred during the year in administering the Scheme.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

4 Surplus before taxation

Surplus before taxation is arrived at after charging:

	2006	2005
(a) Staff costs:		
Salaries and allowances	\$ 24,893,070	\$ 23,042,751
Provident fund contributions	2,747,573	2,615,473
Recruitment and training	<u>298,184</u>	<u>397,364</u>
	<u>\$ 27,938,827</u>	<u>\$ 26,055,588</u>
(b) Office expenses:		
Operating lease charges on properties	\$ 483,322	\$ 439,883
Rates and service charges	968,326	950,508
Electricity and telephone	406,873	397,576
Postage	340,564	242,310
Printing and stationery	1,300,756	1,181,023
Repairs and maintenance	<u>252,228</u>	<u>163,199</u>
	<u>\$ 3,752,069</u>	<u>\$ 3,374,499</u>
(c) Members' expenses:		
Issue of membership cards	\$ 8,790	\$ 11,300
Functions	1,213,335	426,158
Meetings	<u>597,312</u>	<u>497,704</u>
	<u>\$ 1,819,437</u>	<u>\$ 935,162</u>
(d) Other operating expenses:		
Conferences and overseas visits	\$ 431,977	\$ 819,448
Disciplinary proceedings and ancillary costs (note 2(e)) *	14,124,911	15,667,445
Professional education	3,883,424	6,947,874
Professional and consultancy fees	1,718,665	1,243,247
Professional development	1,702,726	2,815,133
Auditors' remuneration	105,310	81,570
Annual subscriptions	51,008	31,718
Donations	6,146,337	4,558,114
Insurance and medical	987,099	920,905
Sundry	<u>2,905,216</u>	<u>2,753,502</u>
	<u>\$ 32,056,673</u>	<u>\$ 35,838,956</u>

*A sum of \$744,384 (2005: \$1,957,124) was incurred in respect of interventions within solicitors' practices.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

4 Surplus before taxation (continued)

Surplus before taxation is arrived at after charging: (continued)

	2006	2005
(e) Finance costs:		
Secured bank loan interest	\$ <u>-</u>	\$ <u>184,312</u>

5 Remuneration of Council Members

None of the Council Members received or was due any remuneration for services rendered to the Society during the year (2005: \$Nil).

6 Taxation

(a) Taxation in the income and expenditure account represents:

	2006	2005
Current tax		
Provision for Hong Kong profits tax for the year at 17.5% (2005: 17.5%)	\$ <u>2,582,415</u>	\$ <u>2,393,010</u>
Deferred tax		
Reversal of temporary differences	\$ <u>39,802</u>	\$ <u>53,116</u>
Total income tax expense	\$ <u>2,622,217</u>	\$ <u>2,446,126</u>

(b) Reconciliation between income tax expense and accounting surplus at applicable tax rates:

	2006	2005
Surplus before taxation	\$ <u>18,320,415</u>	\$ <u>15,561,120</u>
Notional tax on surplus before taxation, calculated at 17.5%	\$ <u>3,206,073</u>	\$ <u>2,723,196</u>
Tax effect of non-deductible expenses	<u>54,627</u>	<u>14,963</u>
Tax effect of non-taxable income	<u>(638,483)</u>	<u>(292,033)</u>
Actual income tax expense	\$ <u>2,622,217</u>	\$ <u>2,446,126</u>

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

6 Taxation (continued)

(c) Taxation in the balance sheet represents:

	2006	2005
Provision for Hong Kong profits tax for the year	\$ 2,582,415	\$ 2,393,010
Provisional profits tax paid	<u>(2,393,005)</u>	<u>(2,931,789)</u>
Tax payable/(recoverable)	\$ <u>189,410</u>	\$ <u>(538,779)</u>

7 Fixed assets

	Interest in leasehold land held for own use under operating lease	Building held for own use	Leasehold improvement	Furniture, fixtures and equipment	Total
Cost:					
At 1 January 2006	\$ 76,666,667	\$ 38,333,333	\$ 11,047,033	\$ 9,476,254	\$ 135,523,287
Additions	<u>-</u>	<u>-</u>	<u>16,200</u>	<u>112,939</u>	<u>129,139</u>
At 31 December 2006	<u>\$ 76,666,667</u>	<u>\$ 38,333,333</u>	<u>\$ 11,063,233</u>	<u>\$ 9,589,193</u>	<u>\$ 135,652,426</u>
Accumulated depreciation:					
At 1 January 2006	\$ 677,720	\$ 12,266,665	\$ 10,189,108	\$ 9,164,233	\$ 32,297,726
Charge for the year	<u>\$ 84,715</u>	<u>\$ 1,533,333</u>	<u>\$ 259,083</u>	<u>\$ 240,495</u>	<u>\$ 2,117,626</u>
At 31 December 2006	<u>\$ 762,435</u>	<u>\$ 13,799,998</u>	<u>\$ 10,448,191</u>	<u>\$ 9,404,728</u>	<u>\$ 34,415,352</u>
Net book value:					
At 31 December 2006	<u>\$ 75,904,232</u>	<u>\$ 24,533,335</u>	<u>\$ 615,042</u>	<u>\$ 184,465</u>	<u>\$ 101,237,074</u>

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

7 Fixed assets (continued)

	Interest in leasehold land held for own use under operating lease	Building held for own use	Leasehold improvement	Furniture, fixtures and equipment	Total
Cost:					
At 1 January 2005	\$ 76,666,667	\$ 38,333,333	\$ 10,358,849	\$ 9,301,885	\$ 134,660,734
Additions	<u>–</u>	<u>–</u>	<u>688,184</u>	<u>174,369</u>	<u>862,553</u>
At 31 December 2005	<u>\$ 76,666,667</u>	<u>\$ 38,333,333</u>	<u>\$ 11,047,033</u>	<u>\$ 9,476,254</u>	<u>\$ 135,523,287</u>
Accumulated depreciation:					
At 1 January 2005	\$ 593,005	\$ 10,733,332	\$ 9,933,265	\$ 8,906,695	\$ 30,166,297
Charge for the year	<u>\$ 84,715</u>	<u>\$ 1,533,333</u>	<u>\$ 255,843</u>	<u>\$ 257,538</u>	<u>\$ 2,131,429</u>
At 31 December 2005	<u>\$ 677,720</u>	<u>\$ 12,266,665</u>	<u>\$ 10,189,108</u>	<u>\$ 9,164,233</u>	<u>\$ 32,297,726</u>
Net book value:					
At 31 December 2005	<u>\$ 75,988,947</u>	<u>\$ 26,066,668</u>	<u>\$ 857,925</u>	<u>\$ 312,021</u>	<u>\$ 103,225,561</u>

The leasehold land and building are held in Hong Kong under a long lease.

8 Investment in a subsidiary

This represents unlisted shares at cost.
Details of the subsidiary are as follows:

Name of company	Place of incorporation	Percentage of ordinary shares held directly	Nature of business
The Law Society of Hong Kong Publications Limited	Hong Kong	100%	Publishing the journal of the Society

The loss of the subsidiary for the year ended 31 December 2006 amounting to \$21,480 (2005: \$19,405) and prior years' accumulated losses of \$97,761 (2005: accumulated losses of \$78,356) have not been dealt with in the accounts of the Society.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

9 Cash and cash equivalents

	2006	2005
Deposits with banks mature within three months at acquisition	\$ 121,843,675	\$ 74,102,333
Cash at bank and in hand	<u>6,807,018</u>	<u>31,738,751</u>
	<u>\$ 128,650,693</u>	<u>\$ 105,841,084</u>

Included in cash and cash equivalents, \$19,126,760 (2005: \$13,061,171) represents cash committed to The Law Society of Hong Kong Educational Trust Fund.

10 Creditors and accrued charges

	2006	2005
Creditors and accrued charges	\$ 7,743,004	\$ 10,751,085
Amount committed to The Law Society of Hong Kong Educational Trust Fund	<u>19,126,760</u>	<u>13,061,171</u>
	<u>\$ 26,869,764</u>	<u>\$ 23,812,256</u>

11 Deferred taxation

(a) Deferred tax assets recognised

The components of deferred tax assets recognized in the balance sheet and the movements during the year are as follows:

	Depreciation in excess of depreciation allowances
Deferred tax arising from:	
At 1 January 2005	\$ 1,327,517
Charged to income and expenditure account	<u>(53,116)</u>
At 31 December 2005 and 1 January 2006	\$ 1,274,401
Charged to income and expenditure account	<u>(39,802)</u>
At 31 December 2006	<u>\$ 1,234,599</u>

(b) Deferred tax assets and liabilities unrecognised

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2005 and 2006.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

12 Financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Society's operation. These risks are limited by the Society's financial management policies and practices described below.

(a) Credit risk

The Society does not have any significant credit risk with respect to receivables.

The maximum exposure to credit risk is represented by the carrying amount of bank deposits. The Society's policy is to place their cash with financial institutions with good credit rating.

(b) Liquidity risk

The Society's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Society does not have any significant interest rate risk with respect to bank deposits, which have an effective interest rate of 3.71% (2005:2.16%). The Society also repaid its bank loan prior to maturity with surplus cash to reduce its exposure to interest rate risk.

(d) Fair values

All financial instruments are carried at amount not materially different from their fair value as at the balance sheet date.

13 Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	2006	2005
Within one year	\$ 600,000	\$ 226,800
After one year but within five years	<u>1,276,000</u>	<u>-</u>
	<u>\$ 1,876,000</u>	<u>\$ 226,800</u>

The Society leases a number of properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases upon expiry when all terms are renegotiated.

Notes to the accounts

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

14 Professional Indemnity Insurance Scheme

It is the opinion of the Council that the assets and liabilities of the Professional Indemnity Insurance Scheme are not those of the Society and, accordingly, these assets and liabilities have not been included in these accounts.

15 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the accounts, the Society entered into the following material related party transactions.

Firms of solicitors in which the Council Members have interests carry out intervention work and disciplinary proceedings for the Society and charge the Society on an agreed basis. Charges for the work performed by such firms of solicitors to the Society for the year totalled \$2.2 million (2005:\$2.9 million).

Amounts due to these firms of solicitors at 31 December 2006 totalled \$0.90 million (2005:\$1.0 million) which are included in creditors and accrued charges.

16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these accounts.

The Society is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Society's results of operations and financial position.