



Hongkong Chinese Limited

香港華人有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 655)

INTERIM REPORT

For the six months ended 30th June, 2006

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Dr. Mochtar Riady (*Chairman*)
Mr. Leon Chan Nim Leung

Executive Directors

Mr. Stephen Riady (*Chief Executive Officer*)
Mr. John Lee Luen Wai, J.P.
Mr. Kor Kee Yee

Independent non-executive Directors

Mr. Albert Saychuan Cheok
Mr. Victor Yung Ha Kuk
Mr. Tsui King Fai

COMMITTEES

Audit Committee

Mr. Victor Yung Ha Kuk (*Chairman*)
Mr. Leon Chan Nim Leung
Mr. Albert Saychuan Cheok
Mr. Tsui King Fai

Nomination Committee

Mr. Leon Chan Nim Leung (*Chairman*)
Mr. Stephen Riady
Mr. Albert Saychuan Cheok
Mr. Victor Yung Ha Kuk
Mr. Tsui King Fai

Remuneration Committee

Mr. Leon Chan Nim Leung (*Chairman*)
Mr. Stephen Riady
Mr. Albert Saychuan Cheok
Mr. Victor Yung Ha Kuk
Mr. Tsui King Fai

SECRETARY

Mr. Andrew Hau Tat Kwong

QUALIFIED ACCOUNTANT

Mr. Ng Tai Chiu

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited
Fubon Bank (Hong Kong) Limited
Asia Commercial Bank Limited
Wing Hang Bank, Ltd.
Standard Chartered Bank
United Overseas Bank Limited
Bank of China Limited
The Bank of East Asia, Limited

SOLICITORS

Richards Butler

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Hamilton
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

655

WEBSITE

www.hkchinese.com.hk

The Directors of Hongkong Chinese Limited (the "Company") are pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2006.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Six months ended 30th June,	
		2006 HK\$'000	2005 HK\$'000 (restated)
Revenue	3	816,732	677,554
Cost of sales		(626,629)	(598,009)
Gross profit		190,103	79,545
Administrative expenses		(39,581)	(33,457)
Other operating expenses		(18,309)	(28,491)
Fair value gains on investment properties		5,468	46,349
Allowance for bad and doubtful debts relating to non-banking operations	4	–	(33,810)
Net fair value gain/(loss) on financial assets at fair value through profit or loss		6,588	(7,496)
Finance costs		(12,677)	(3,317)
Share of results of associates		2,200	(413)
Share of results of jointly controlled entities		(1,968)	–
Profit before tax	5	131,824	18,910
Tax	6	(3,926)	(7,429)
Profit for the period		127,898	11,481
Attributable to:			
Equity holders of the Company	19	128,766	12,313
Minority interests	19	(868)	(832)
		127,898	11,481
		HK cents	HK cents
Earnings per share attributable to equity holders of the Company			
Basic	7	9.6	0.9
Diluted		N/A	N/A
		HK\$'000	HK\$'000
Interim distribution	8	20,202	20,202

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2006	31st December, 2005
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets			
Goodwill		57,285	57,285
Fixed assets		49,474	49,593
Investment properties		905,463	421,523
Properties under development		140,736	105,096
Interests in associates	9	1,555,659	175,235
Interests in jointly controlled entities		10,684	12,615
Available-for-sale financial assets	10	108,427	175,048
Held-to-maturity financial assets	11	9,619	9,604
Financial assets at fair value through profit or loss	12	269,716	268,753
Loans and advances	13	32,020	29,975
		3,139,083	1,304,727
Current assets			
Property held for sale		16,226	12,441
Available-for-sale financial assets	10	11,000	213,896
Financial assets at fair value through profit or loss	12	484,559	617,913
Loans and advances	13	286,695	240,498
Debtors, prepayments and deposits	14	174,623	181,328
Client trust bank balances		608,143	444,460
Treasury bills		75,660	15,520
Cash and bank balances		252,093	621,740
		1,908,999	2,347,796
Current liabilities			
Bank and other borrowings	15	59,909	25,000
Creditors, accruals and deposits received	16	885,740	629,584
Current, fixed, savings and other deposits of customers	17	182,594	116,743
Tax payable		6,060	4,112
		1,134,303	775,439
Net current assets		774,696	1,572,357
Total assets less current liabilities		3,913,779	2,877,084

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		30th June, 2006	31st December, 2005
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Non-current liabilities			
Bank and other borrowings	15	997,075	–
Deferred tax liabilities		20,957	15,989
		1,018,032	15,989
Net assets		2,895,747	2,861,095
Equity			
Equity attributable to equity holders of the Company			
Share capital	18	1,346,829	1,346,829
Reserves	19	1,478,425	1,482,187
		2,825,254	2,829,016
Minority interests	19	70,493	32,079
		2,895,747	2,861,095

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

		Six months ended 30th June,	
		2006	2005
	<i>Note</i>	HK\$'000	HK\$'000
Total equity at 1st January		2,861,095	2,731,386
Changes in equity during the period:			
Exchange differences on translation of foreign operations		4,116	(3,124)
Net fair value loss on available-for-sale financial assets		(12,882)	(16,043)
Deferred tax arising from fair value gain on available-for-sale financial assets	19	(4,001)	(2,743)
Derecognition of available-for-sale financial assets	19	(79,351)	–
Net expense recognised directly in equity		(92,118)	(21,910)
Profit for the period		127,898	11,481
Total recognised income and expense for the period		35,780	(10,429)
Issue of shares by subsidiaries to minority shareholders	19	402	2,446
Advance from minority shareholders of subsidiaries	19	39,132	203
Changes in interests in a subsidiary	19	(257)	(1,772)
2004 final distribution, declared	19	–	(40,405)
2005 final distribution, declared	19	(40,405)	–
		34,652	(49,957)
Total equity at 30th June		2,895,747	2,681,429
Total recognised income and expense for the period attributable to:			
Equity holders of the Company		36,643	(9,601)
Minority interests		(863)	(828)
		35,780	(10,429)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
		(restated)
Net cash from operating activities	286,756	206,011
Net cash used in investing activities	(1,615,145)	(253,077)
Net cash from/(used in) financing activities	1,015,770	(108,375)
Net decrease in cash and cash equivalents	(312,619)	(155,441)
Cash and cash equivalents at 1st January	637,260	881,885
Exchange realignments	1,017	(127)
Cash and cash equivalents at 30th June	325,658	726,317
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	252,093	716,617
Treasury bills	75,660	9,700
Bank overdrafts	(2,095)	–
	325,658	726,317

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31st December, 2005, except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “new/revised HKFRSs”), which have become effective for accounting periods beginning on or after 1st January, 2006, that are adopted for the first time for the current period’s financial statements:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

The following new/revised HKFRSs relevant to the Group’s operations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. Descriptions of the business segments are as follows:

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

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

	Six months ended 30th June, 2006							Consolidated HK\$'000
	Property investment and development	Treasury investment	Securities investment	Corporate finance and securities broking	Banking business	Other	Inter- segment elimination	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue								
External	21,610	11,801	713,779	46,110	14,338	9,094	-	816,732
Inter-segment	-	797	-	222	-	3,494	(4,513)	-
Total	21,610	12,598	713,779	46,332	14,338	12,588	(4,513)	816,732
Segment results	9,029	11,728	125,342	6,772	5,051	3,628	(3,420)	158,130
Unallocated corporate expenses								(20,138)
Finance costs								(6,400)
Share of results of associates	(4,832)	-	-	-	-	7,032	-	2,200
Share of results of jointly controlled entities	(522)	-	-	-	-	(1,446)	-	(1,968)
Profit before tax								131,824
Tax								(3,926)
Profit for the period								127,898

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION (Continued)

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

	Six months ended 30th June, 2005 (restated)							Consolidated HK\$'000
	Property investment and development HK\$'000	Treasury investment HK\$'000	Securities investment HK\$'000	Corporate finance and securities broking HK\$'000	Banking business HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	
Revenue								
External	4,291	7,680	629,501	27,260	7,729	1,093	-	677,554
Inter-segment	-	631	-	238	-	770	(1,639)	-
Total	4,291	8,311	629,501	27,498	7,729	1,863	(1,639)	677,554
Segment results	46,850	7,624	29,554	(33,437)	1,901	(10,228)	(1,220)	41,044
Unallocated corporate expenses								(21,721)
Share of results of associates	-	-	-	-	-	(413)	-	(413)
Profit before tax								18,910
Tax								(7,429)
Profit for the period								11,481

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

3. REVENUE

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

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

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
		(restated)
Property investment and development	21,610	4,291
Treasury investment	11,801	7,680
Securities investment	713,779	629,501
Corporate finance and securities broking	46,110	27,260
Banking business	14,338	7,729
Other	9,094	1,093
	816,732	677,554

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

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
		(restated)
Interest income	12,064	6,822
Commission income	1,658	907
Other revenues	616	–
	14,338	7,729

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(Continued)*

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

The allowance for the six months ended 30th June, 2005 included an individual provision of HK\$33,810,000 made for a loan advanced to a margin client, which had been secured by certain shares in a listed company and a guarantee provided by a director of the client. Both the client and the listed company were under provisional liquidation and in the opinion of Directors, the probability for recovery of the loan was uncertain.

5. PROFIT BEFORE TAX

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

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
		(restated)
Dividend income:		
Listed investments	763	15,168
Unlisted investments	1,291	625
Interest income:		
Listed investments	3,652	9,049
Unlisted investments	758	1,328
Banking operation	12,064	6,822
Other	11,801	8,022
Net realised gain/(loss) on disposal of:		
Listed financial assets at fair value through profit or loss	13,649	27,999
Unlisted financial assets at fair value through profit or loss	267	599
Listed available-for-sale financial assets	103,338	-
Unlisted available-for-sale financial assets	(2,858)	(601)
Net fair value gain/(loss) on financial assets at fair value through profit or loss:		
Listed	92	(2,388)
Unlisted	6,496	(5,108)
Other unlisted investment income	664	760
Depreciation	(3,364)	(1,810)
Provision for impairment losses on:		
Unlisted available-for-sale financial assets	(970)	(1,418)
Associates	-	(6,987)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

6. TAX

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
<hr/>		
Hong Kong:		
Charge for the period	1,270	–
Deferred	955	2,762
	<hr/> 2,225 <hr/>	2,762
Overseas:		
Charge for the period	1,438	1,396
Underprovision in prior periods	263	–
Deferred	–	3,271
	<hr/> 1,701 <hr/>	4,667
Total charge for the period	<hr/> 3,926 <hr/>	7,429

Hong Kong profits tax has been provided for at the rate of 17.5 per cent. on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax had been provided for the six months ended 30th June, 2005 as the Group had available tax losses brought forward from prior periods to offset the estimated assessable profits generated during the six months ended 30th June, 2005. Overseas taxes have been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

Basic earnings per share is calculated based on (i) the consolidated profit for the period attributable to equity holders of the Company of HK\$128,766,000 (2005 – HK\$12,313,000); and (ii) the weighted average number of 1,346,829,000 ordinary shares (2005 – 1,346,829,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

No diluted earnings per share is presented for the periods ended 30th June, 2006 and 2005 as there were no dilutive potential ordinary shares during these periods.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

8. INTERIM DISTRIBUTION

	Six months ended 30th June, 2006	2005
	HK\$'000	HK\$'000
Interim distribution, declared, of HK1.5 cents (2005 – HK1.5 cents) per ordinary share	20,202	20,202

The interim distribution was declared after the balance sheet date and hence was not accrued on that date.

9. INTERESTS IN ASSOCIATES

The balance as at 30th June, 2006 included the Group's interest in Lippo ASM Asia Property LP ("LAAP"), a property fund which carries the objective of investing in real estates in the East Asia region, of approximately HK\$1,433 million (31st December, 2005 – HK\$151 million). In May 2006, LAAP participated in a joint venture to invest in Overseas Union Enterprise Limited, a listed company in Singapore principally engaged in property investments and hotel operations.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000
Financial assets stated at fair value:		
Equity securities listed in Hong Kong	16,583	262,666
Unlisted equity securities	11,000	43,854
	27,583	306,520
Unlisted investment funds	84,604	74,036
	112,187	380,556
Financial assets stated at cost:		
Unlisted equity securities	74,054	74,004
Unlisted debt securities	11,230	10,862
Provision for impairment losses	(78,044)	(76,478)
	7,240	8,388
	119,427	388,944
Less: Amount classified under current portion	(11,000)	(213,896)
Non-current portion	108,427	175,048

The debt securities have effective interest rates ranging from nil to 8 per cent. (31st December, 2005 – nil to 8 per cent.) per annum.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
An analysis of the issuers of available-for-sale financial assets is as follows:		
Equity securities:		
Corporate entities	101,637	380,524
Debt securities:		
Club debentures	3,165	3,165
Corporate entities	8,065	7,697
	11,230	10,862

11. HELD-TO-MATURITY FINANCIAL ASSETS

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Debt securities, at amortised cost:		
Listed overseas	9,619	9,604
Market value of listed debt securities	10,805	11,019

The debt securities have effective interest rates of 9 per cent. (31st December, 2005 – 9 per cent.) per annum.

An analysis of the issuers of held-to-maturity financial assets is as follows:

Banks and other financial institutions	9,619	9,604
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NOTES TO THE INTERIM FINANCIAL STATEMENTS *(Continued)*

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Held for trading:		
Equity securities:		
Listed in Hong Kong	67,035	64,425
Listed overseas	4,269	68,275
	71,304	132,700
Debt securities:		
Listed in Hong Kong	–	1,967
Listed overseas	8,824	162,143
Unlisted	–	84,808
	8,824	248,918
Investment funds:		
Listed in Hong Kong	–	25
Listed overseas	43,628	50,913
Unlisted	347,456	131,708
	391,084	182,646
Other:		
Unlisted	13,347	53,649
	484,559	617,913
Designated as financial assets at fair value through profit or loss:		
Unlisted investment funds	269,716	268,753
	754,275	886,666
Less: Amount classified under current portion	(484,559)	(617,913)
Non-current portion	269,716	268,753

The debt securities have effective interest rates ranging from 6.5 per cent. to 8 per cent. (31st December, 2005 – 4.3 per cent. to 14.8 per cent.) per annum.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
An analysis of the issuers of financial assets at fair value through profit or loss is as follows:		
Equity securities:		
Banks and other financial institutions	-	13,266
Corporate entities	71,304	119,434
	71,304	132,700
Debt securities:		
Central governments and central banks	-	9,289
Public sector entities	-	4,397
Banks and other financial institutions	-	93,431
Corporate entities	8,824	141,801
	8,824	248,918

13. LOANS AND ADVANCES

The loans and advances to customers of the Group have effective interest rates ranging from 8.3 per cent. to 18 per cent. (31st December, 2005 – 3.5 per cent. to 18 per cent.) per annum. The carrying amounts of loans and advances are approximate to their fair values.

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

	Six months ended 30th June, 2006 HK\$'000	2005 HK\$'000
Balance at beginning of period	3,000	5,140
Allowance for bad and doubtful debts	24	-
Impairment allowance released	(12)	(485)
Balance at end of period	3,012	4,655

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(Continued)*

14. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Outstanding balances with ages:		
Repayable on demand	43,236	55,282
Within 30 days	72,291	78,903
Between 31 and 60 days	–	295
Between 61 and 90 days	38	157
	115,565	134,637

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, a credit period is allowed according to relevant business practice. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Except for receivables from certain securities brokers which are interest-bearing, the balances of trade debtors are non-interest bearing. The carrying amounts of debtors and deposits are approximate to their fair values.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

15. BANK AND OTHER BORROWINGS

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Bank overdrafts:		
Secured (Note (a))	2,095	–
Bank loans:		
Secured (Note (a))	437,853	25,000
Unsecured	5,000	–
	444,948	25,000
Other borrowings:		
Unsecured (Note (b))	612,036	–
	1,056,984	25,000
Repayable within one year	(59,909)	(25,000)
Non-current portion	997,075	–
Bank loans and overdrafts repayable:		
Within one year	59,909	25,000
In the second year	64,876	–
In the third to fifth years, inclusive	320,163	–
	444,948	25,000
Other borrowings repayable:		
In the second year	612,036	–

The carrying amounts of the Group's bank and other borrowings are approximate to their fair values and bear interest at rates ranging from 4.5 per cent. to 6.1 per cent. (31st December, 2005 – 5.3 per cent. to 5.5 per cent.) per annum.

Note:

- (a) The bank loans and overdrafts as at 30th June, 2006 were secured by first legal mortgages over certain investment properties and certain securities of the Group and certain securities owned by margin clients of the Group. The bank loans as at 31st December, 2005 were secured by certain securities owned by margin clients of the Group.
- (b) The Group's other borrowings comprise of loans advanced from Lippo Limited and Lippo China Resources Limited, intermediate holding companies of the Company, of HK\$250,000,000 and HK\$362,036,000 respectively, which are repayable on or before 31st December, 2007.

NOTES TO THE INTERIM FINANCIAL STATEMENTS *(Continued)*

16. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Outstanding balances with ages:		
Repayable on demand	651,717	495,639
Within 30 days	86,625	91,427
	738,342	587,066

The outstanding balances that are repayable on demand include client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business. As at 30th June, 2006, total client trust bank balances amounted to HK\$608,143,000 (31st December, 2005 – HK\$444,460,000).

Except for certain client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business are interest-bearing, the balances of trade creditors are non-interest bearing.

17. CURRENT, FIXED, SAVINGS AND OTHER DEPOSITS OF CUSTOMERS

The current, fixed, savings and other deposits of customers attributable to banking operation have effective interest rates ranging from 1.75 per cent. to 5 per cent. (31st December, 2005 – 0.25 per cent. to 4.18 per cent.) per annum.

18. SHARE CAPITAL

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Authorised:		
2,000,000,000 (31st December, 2005 – 2,000,000,000) ordinary shares of HK\$1.00 each	2,000,000	2,000,000
Issued and fully paid:		
1,346,829,094 (31st December, 2005 – 1,346,829,094) ordinary shares of HK\$1.00 each	1,346,829	1,346,829

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

19. RESERVES

	Share premium account HK\$'000	Capital redemption reserve (Note (c)) HK\$'000	Legal reserve (Note (d)) HK\$'000	Regulatory reserve (Note (e)) HK\$'000	Investment revaluation reserve HK\$'000	Distributable reserves (Note (b)) HK\$'000	Exchange equalisation reserve HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1st January, 2006	50,988	11,760	3,034	1,169	81,876	1,348,813	(15,453)	1,482,187	32,079
Net fair value loss on available-for-sale financial assets	-	-	-	-	(12,859)	-	-	(12,859)	(23)
Deferred tax arising from fair value gain on available-for-sale financial assets	-	-	-	-	(4,001)	-	-	(4,001)	-
Derecognition of available-for-sale financial assets	-	-	-	-	(79,351)	-	-	(79,351)	-
Transfer of reserve	-	-	926	-	-	(926)	-	-	-
Exchange realignment	-	-	-	-	-	-	4,088	4,088	28
Issue of shares by subsidiaries to minority shareholders	-	-	-	-	-	-	-	-	402
Advance from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	39,132
Changes in interests in a subsidiary	-	-	-	-	-	-	-	-	(257)
Profit/(Loss) for the period	-	-	-	-	-	128,766	-	128,766	(868)
2005 final distribution, declared and paid	-	-	-	-	-	(40,405)	-	(40,405)	-
At 30th June, 2006	50,988	11,760	3,960	1,169	(14,335)	1,436,248	(11,365)	1,478,425	70,493

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

19. RESERVES (Continued)

	Share premium account HK\$'000	Capital redemption reserve (Note (c)) HK\$'000	Legal reserve (Note (d)) HK\$'000	Regulatory reserve (Note (e)) HK\$'000	Investment revaluation reserve HK\$'000	Distributable reserves (Note (b)) HK\$'000	Exchange equalisation reserve HK\$'000	Total HK\$'000	Minority interests HK\$'000
At 1st January, 2005	50,988	11,760	2,053	-	-	1,299,809	(10,257)	1,354,353	30,204
Net fair value loss on available-for-sale financial assets	-	-	-	-	(16,043)	-	-	(16,043)	-
Deferred tax arising from fair value gain on available-for-sale financial assets	-	-	-	-	(2,743)	-	-	(2,743)	-
Transfer of reserve	-	-	1,154	-	-	(1,154)	-	-	-
Exchange realignment	-	-	-	-	-	-	(3,128)	(3,128)	4
Issue of shares by a subsidiary to minority shareholders	-	-	-	-	-	-	-	-	2,446
Advance from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	203
Changes in interests in a subsidiary	-	-	-	-	-	-	-	-	(1,772)
Profit/(Loss) for the period	-	-	-	-	-	12,313	-	12,313	(832)
2004 final distribution, declared and paid	-	-	-	-	-	(40,405)	-	(40,405)	-
At 30th June, 2005	50,988	11,760	3,207	-	(18,786)	1,270,563	(13,385)	1,304,347	30,253

Note:

- (a) Cancellation of share premium account and transfer to distributable reserves:

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December, 1997, the entire amount standing to the credit of the share premium account of HK\$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, or for making distributions to shareholders of the Company.

- (b) Distributable reserves of the Group at 30th June, 2006 comprise retained profits of HK\$169,988,000 (31st December, 2005 – HK\$42,148,000) and the remaining balance arising from the Cancellation of HK\$1,266,260,000 (31st December, 2005 – HK\$1,306,665,000).
- (c) The capital redemption reserve is not available for distribution to shareholders.
- (d) The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates.
- (e) The regulatory reserve made under HKAS 30 represents the part of reserve generated by a banking subsidiary of the Company arising from the difference between the impairment allowance made under HKAS 39 and for regulatory purpose.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

20. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 30th June, 2006							
Assets							
Debt securities:							
Held-to-maturity financial assets	-	-	-	-	9,619	-	9,619
Available-for-sale financial assets	-	-	-	8,065	-	3,165	11,230
Financial assets at fair value through profit or loss	-	-	-	-	885	7,939	8,824
Loans and advances	193,551	48,033	45,111	14,516	17,504	-	318,715
Client trust bank balances	43,227	564,916	-	-	-	-	608,143
Treasury bills	-	75,660	-	-	-	-	75,660
Cash and bank balances	125,928	126,165	-	-	-	-	252,093
	362,706	814,774	45,111	22,581	28,008	11,104	1,284,284
Liabilities							
Bank and other borrowings	2,095	57,814	-	997,075	-	-	1,056,984
Current, fixed, savings and other deposits of customers	32,335	145,341	4,918	-	-	-	182,594
	34,430	203,155	4,918	997,075	-	-	1,239,578

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

20. MATURITY PROFILE OF ASSETS AND LIABILITIES (Continued)

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2005							
Assets							
Debt securities:							
Held-to-maturity financial assets	-	-	-	-	9,604	-	9,604
Available-for-sale financial assets	-	-	-	7,697	-	3,165	10,862
Financial assets at fair value through profit or loss	-	-	10,177	159,103	71,496	8,142	248,918
Loans and advances	133,983	62,255	44,260	12,642	17,333	-	270,473
Client trust bank balances	21,150	423,310	-	-	-	-	444,460
Treasury bills	-	15,520	-	-	-	-	15,520
Cash and bank balances	98,303	523,437	-	-	-	-	621,740
	253,436	1,024,522	54,437	179,442	98,433	11,307	1,621,577
Liabilities							
Bank and other borrowings	-	25,000	-	-	-	-	25,000
Current, fixed, savings and other deposits of customers	43,601	71,643	1,499	-	-	-	116,743
	43,601	96,643	1,499	-	-	-	141,743

21. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities relating to its banking subsidiary:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Guarantees and other endorsements	7,070	11,785
Liabilities under letters of credit on behalf of customers	15,324	18,168
	22,394	29,953

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

22. CAPITAL COMMITMENTS

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Capital commitment in respect of property, plant and equipments:		
Contracted, but not provided for	31,904	59,988
Other capital commitments:		
Contracted, but not provided for (Note)	248,206	1,471,472
	280,110	1,531,460

Note: The balance as at 30th June, 2006 included the Group's capital commitment in respect of the formation of a joint venture for a property project in the People's Republic of China of approximately HK\$149 million (31st December, 2005 – HK\$149 million).

The balance as at 31st December, 2005 included the Group's capital commitment in a property fund of approximately HK\$1,292 million, which had been paid during the period. Details of the property fund are described in Note 9 to the interim financial statements.

23. RELATED PARTY TRANSACTIONS

- (a) During the period, Lippo Securities Holdings Limited ("LSHL"), being a wholly-owned subsidiary of the Company, paid rental expenses of HK\$1,582,000 (2005 – HK\$1,543,000) to Prime Power Investment Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by LSHL. The rental was determined by reference to open market rentals.
- (b) During the period, the Company paid rental expenses of HK\$717,000 (2005 – HK\$717,000) to Porbandar Limited, being a fellow subsidiary of the Company, in respect of office premises occupied by the Company. The rental was determined by reference to open market rentals.
- (c) During the period, Impac Asset Management (HK) Limited, being a wholly-owned subsidiary of the Company, received investment advisory income from Lippo ASM Investment Management Limited, being an associate of the Group, amounting to HK\$5,638,000 (2005 – Nil).
- (d) During the period, the Company paid finance costs to Lippo Limited and Lippo China Resources Limited of HK\$1,373,000 (2005 – Nil) and HK\$1,660,000 (2005 – Nil) respectively, in respect of the loans advanced to the Company. The balances of which are set out in Note 15 to the interim financial statements.
- (e) During the period, a wholly-owned subsidiary of the Company, acquired certain financial assets at fair value through profit or loss from LAAP, being an associate of the Group, amounting to HK\$219,951,000 (2005 – Nil). The acquisition price was determined by reference to fair market value.
- (f) As at 30th June, 2006, the Group had amounts due from associates in a total of HK\$101,285,000 (31st December, 2005 – HK\$5,060,000) and amounts due from jointly controlled entities of HK\$7,317,000 (31st December, 2005 – HK\$7,317,000). The balances with the associates and the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

24. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period's presentation. The reclassifications and restatements had no impact on the Group's earnings for the six months ended 30th June, 2005.

SUPPLEMENTARY FINANCIAL INFORMATION

MANAGEMENT OF RISKS

The Group had established policies and procedures for risk management which were reviewed regularly by the Executive Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The risk management function was carried out by individual business units and regularly overseen by the Group's senior management with all the risk limits approved by the Directors of the Group.

(a) Credit risk

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, treasury, investment and other activities undertaken by the Group.

The credit policies for banking and margin lending businesses set out in details the credit approval and monitoring mechanism, the loan classification criteria and provision policy. Credit approval was conducted in accordance with the credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the Group's total assets. Day-to-day credit management was performed by management of individual business units.

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account the credit rating requirements, the maximum exposure limit to a single corporate or issuer; etc. All relevant departments within the Group were involved to ensure that appropriate processes, systems and controls were set in place before and after the investments were acquired.

(b) Liquidity risk

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio whenever applicable.

Management comprising Executive Directors and senior managers monitored the liquidity position of the Group on an on-going basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources.

SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

MANAGEMENT OF RISKS *(Continued)*

(c) Interest rate risk

Interest rate risk primarily resulted from timing differences in the repricing of interest bearing assets, liabilities and commitments. The Group's interest rate positions arose mainly from treasury, banking and other investment activities undertaken.

The Group monitors its interest-sensitive products and investments and net repricing gap and limits interest rate exposure through management of maturity profile, currency mix and choice of fixed or floating interest rates. The interest rate risk was managed and monitored regularly by senior managers of the Group.

(d) Foreign exchange risk

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arose from currency exposures originating from its banking activities, foreign exchange dealings and other investment activities.

The Group monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure. The foreign exchange risk was managed and monitored on an on-going basis by senior managers of the Group.

SUPPLEMENTARY FINANCIAL INFORMATION *(Continued)*

MANAGEMENT OF RISKS *(Continued)*

(e) Market risk

Market risk was the risk that changes in interest rates, foreign exchange rates, equity or commodity prices would affect the prices of financial instruments taken or held by the Group. Financial instruments included foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits were approved by the Directors of the Group. Actual positions were compared with approved limits and monitored regularly by the Executive Directors and senior managers of the Group. Exposures were measured and monitored on the basis of principal and notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions were subject to periodic mark-to-market valuation, which was monitored and managed by senior managers of the Group. With respect to the investment accounts, the Group had established evaluation procedures for the selection of investments and fund managers and the Executive Directors and senior managers of the Group perform regular reviews of the operation and performance of these investment accounts and ensure compliance with the market risk limits and guidelines adopted by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The global economy sustained a steady growth in the first half of 2006, especially in the Asia region. Entering 2006, the Group took advantage of the improving global and local market conditions and realised a substantial part of its investment portfolio at profit. Corporate finance and securities brokerage business also achieved an impressive growth as a result of heavy trading on the local stock market. Property investment and development sector continued to perform well and generated stable returns and revenues to the Group. Meanwhile, the Group continued to strengthen its core businesses and take positive steps to explore the overseas investment markets.

For the six months ended 30th June, 2006, the Group's profit attributable to shareholders increased markedly to HK\$129 million (2005 – HK\$12 million).

RESULTS FOR THE PERIOD

The Group reported substantial growth in all its core businesses in the first half of 2006. Turnover for the six months ended 30th June, 2006 totalled HK\$817 million, which was 21 per cent. higher than the HK\$678 million (restated) recorded in the same period of 2005.

Profit for the period amounted to HK\$128 million (2005 – HK\$11 million). Property, treasury and securities investments were the main contributors.

Property investment and development

With the regional property markets looking promising, especially in relation to long term capital appreciation, the Group has been actively seeking strategic property investments. In April 2006, the Group acquired a freehold commercial property with total lettable area of 111,245 square feet within the central business district of Singapore for an aggregate consideration of approximately HK\$448 million. The property started to generate recurrent rental income to the Group in the current period. On the other hand, the investment properties in Hong Kong continued to provide stable and recurrent rental income source to the Group during the period. With the growth in Hong Kong property market became moderate in the first half of year 2006, the Group recorded a revaluation gain on investment properties of HK\$5.5 million (2005 – HK\$46.3 million) during the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Property investment and development *(Continued)*

In 2005, the Group entered into an agreement under which it would be committed to invest in a property fund (the "Property Fund"), carrying the objective of investing in real estates in the East Asia region. During the current period, the Group has contributed HK\$1.3 billion to the Property Fund. In May 2006, the Property Fund participated in a joint venture to invest in Overseas Union Enterprise Limited ("OUE"), a listed company in Singapore principally engaged in property investments and hotel operations. OUE held a number of prime office buildings and hotels located in major financial and business districts and prime shopping areas of Singapore as well as other Asia regions. Amidst the backup of a sustained pick up in tourism sector and the economy with a limited supply of prime office buildings and hotels in Singapore and some Asia regions, it is expected that these assets have future value appreciation potential.

Additionally, the Group has participated in other well-located development projects in Macau, Singapore, Thailand and Japan.

Treasury and securities investments

Entering 2006, the Group took advantage of the improving market conditions and actively realised a substantial part of its investment portfolio at profit. This resulted in an increase in securities investment activities. Turnover and profit attributable to treasury and securities investments for the period amounted to HK\$726 million (2005 – HK\$637 million (restated)) and HK\$137 million (2005 – HK\$37 million) respectively.

Looking ahead, the investment market would still be challenging and full of uncertainty. Foreseeing the global investment markets continued to be volatile with interest rate and oil price persisted to rise in the second half of 2006, the Group took necessary steps to restructure and refine its investment portfolio in the securities investment segment.

Corporate finance and securities broking

Activities in the Hong Kong capital markets were buoyant during the first half of 2006, with significant growth in daily market turnover registered by the stock market and in total funds raised through initial public offerings. The corporate finance and securities broking business has benefited from this favourable environment, registering a remarkable increase in turnover of HK\$46 million (2005 – HK\$27 million), although challenges of varying degrees were also experienced in terms of increasing competition and narrowing profit margins. Profit derived from this segment improved substantially to HK\$6.8 million (2005 – loss of HK\$33.4 million).

Banking business

Benefiting from strong economic growth in Macau and the rising interest rates, interest income derived from the banking subsidiary rose sharply by 77 per cent. as compared with the last corresponding period. Management continued to lend conservatively and strived to improve asset quality. During the period, the banking subsidiary registered a loan growth of 3 per cent. Profit derived from the banking segment was higher, amounting to HK\$ 5.1 million (2005 – HK\$1.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL POSITION

With the aforesaid new property investments, the Group's total assets as at 30th June, 2006 increased significantly to HK\$5.0 billion (31st December, 2005 – HK\$3.7 billion). As a result, the asset mix of the Group has been changed. Property-related assets increased significantly to HK\$2.5 billion (31st December, 2005 – HK\$0.7 billion), representing 50 per cent. (31st December, 2005 – 20 per cent.) of the total assets. On the other hand, investment portfolio of the Group reduced to HK\$0.9 billion (31st December, 2005 – HK\$1.2 billion), comprising debt securities of HK\$ 0.1 billion (31st December, 2005 – HK\$0.3 billion), equity securities of HK\$ 0.1 billion (31st December, 2005 – HK\$0.4 billion) and investment funds of HK\$0.7 billion (31st December, 2005 – HK\$0.5 billion). The investment portfolio represented 17 per cent. (31st December, 2005 – 35 per cent.) of the Group's total assets.

The new property investments have been financed by proceeds derived from sales of certain investments, new bank loans and other borrowings. Hence, total liabilities increased correspondingly to HK\$2.2 billion (31st December, 2005 – HK\$0.8 billion). Nevertheless, the Group's financial position remained strong and current ratio (measured as current assets to current liabilities) remained healthy at 1.7 to 1 (31st December, 2005 – 3.0 to 1).

During the current period, the bank and other borrowings of the Group (other than those attributable to banking operation) increased by HK\$1,032 million to HK\$1,057 million (31st December, 2005 – HK\$25 million), which was in-line with the expansion of the Group.

As at 30th June, 2006, total bank loans and overdrafts outstanding amounted to HK\$445 million, comprising secured bank loans and overdrafts of HK\$440 million and unsecured bank loans of HK\$5 million, which were denominated in Hong Kong dollars or Singapore dollars (31st December, 2005 – secured bank loans denominated in Hong Kong dollars of HK\$25 million). The bank loans and overdrafts were secured by first legal mortgages over certain investment properties and certain securities of the Group and certain securities owned by its margin clients. All the bank loans and overdrafts carried interest at floating rates and 13 per cent. of the bank loans and overdrafts (31st December, 2005 – 100 per cent.) were repayable within one year. During the current period, Lippo Limited and Lippo China Resources Limited, intermediate holding companies of the Company, provided advances to the Group of HK\$250 million and HK\$362 million, respectively. Such advances were unsecured, carried interest at floating rates and would be repayable on or before 31st December, 2007. At the end of the period, gearing ratio (measured as total borrowings, net of minority interests, to shareholders' funds) increased to 35.1 per cent. (31st December, 2005 – 0.9 per cent.).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL POSITION *(Continued)*

During the period, the Company made the 2005 final distribution of HK\$0.03 per share to its shareholders, amounting in a total of HK\$40 million. Despite the distribution, the net asset value of the Group remained similar at HK\$2.8 billion (31st December, 2005 – HK\$2.8 billion). This was equivalent to HK\$2.1 per share (31st December, 2005 – HK\$2.1 per share).

The Group monitors the relative foreign exchange position of its assets and liabilities to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure.

Apart from the abovementioned, there were no charges on the Group's assets at the end of the period (31st December, 2005 – Nil). Aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding (31st December, 2005 – Nil).

As at 30th June, 2006, the Group's total capital commitment reduced to HK\$0.3 billion (31st December, 2005 – HK\$1.5 billion) after the Group had injected HK\$1.3 billion to the Property Fund in the current period.

STAFF AND REMUNERATION

The Group had approximately 189 employees as at 30th June, 2006 (2005 – 168 employees). Total staff costs (including directors' emoluments) during the period amounted to HK\$27 million (2005 – HK\$24 million). The Group ensures that its employees are offered competitive remuneration packages. Currently, there are no share option schemes for its employees.

OUTLOOK

Despite turbulence of oil price and uncertainty in interest rate hikes in the United States, the Group is cautiously optimistic about the global and regional economic prospects. The growth prospects will continue to be centered on developments in the Asia Pacific Region. The operating environment of the Group remains challenging. While striving to continue to improve internal operational efficiencies, the Group will keep on refining its existing core businesses and seeking new investment opportunities with long-term growth potential. Given its own strong financial position, the Group is confident that it would be able to take advantage of new business opportunities in its pursuit of enhancing shareholders' value.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The Hong Kong economy continued to improve in the first half of 2006. Continuing strong domestic consumption and rising business and consumer confidence provided strong momentum to local economic growth. The local economy also benefited much from the Mainland Individual Traveler Scheme, which brought more mainland tourists into Hong Kong, and the Closer Economic Partnership Arrangements, which increased business activities. The strong economic conditions in the surrounding Asian region also improved business and investment opportunities. However, the continuing uncertain outlook on interest rate, political instability in the Middle East and high oil prices dampened global economic growth. In China, the macro-economic tightening measures appear to have only a slight dampening effect on an overheated economy.

The Group performed well in the first half of 2006 and recorded an unaudited consolidated profit attributable to shareholders of HK\$129 million for the six months ended 30th June, 2006 compared to a profit of HK\$12 million in the first six months of 2005.

The Group continues to explore new market opportunities and income sources and seek potential acquisition and alliance opportunities which are compatible with its long term growth strategy. To enhance its asset portfolio, the Group continued with its quest to acquire quality property interests in Hong Kong and Singapore and elsewhere in Asia. The Singapore market, in particular, has been performing very well in the past year.

The Group has participated in a joint venture to purchase a total of eleven floors of a commercial building located at 79 Anson Road in Singapore (the "Property") for S\$95 million. The Property is situated within the Central Business District and comprises a total lettable area of approximately 111,245 square feet. Completion of the acquisition of the Property took place on 12th April, 2006. The rental income from the Property will provide additional recurrent and stable income source for the Group. Reflecting limited supply but increasing demand for commercial buildings in Singapore, there will be high potential for value appreciation of the Property.

Lippo ASM Asia Property LP ("LAAP"), a limited partnership of which a wholly-owned subsidiary of the Company is the founding limited partner, carries the investment objective of investing in real estate in the East Asia region, in particular in Singapore, Malaysia, Thailand, Indonesia, China (including Hong Kong and Macau) and Japan. It is intended that LAAP will seek long-term capital growth through a well-diversified portfolio of investments in income producing property projects. The Directors consider that participation in LAAP will provide an effective medium for the Group to exploit investment opportunities in the Asian property markets.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

BUSINESS REVIEW *(Continued)*

Recently, LAAP has participated in a joint venture to acquire a controlling stake in Overseas Union Enterprise Limited (“OUE”), a listed company in Singapore principally engaged in the businesses of property investments and hotel operations. OUE has interests in prime office buildings in the Central Business District in Singapore and hotels such as Meritus Mandarin which is located at Orchard Road, a prime shopping area in Singapore. These high quality properties will generate stable recurrent income to OUE.

The Group has formed a joint venture for the purpose of acquiring and holding an 86.25 per cent. equity interest in 同仁醫療管理集團有限公司 (Tongren Healthcare Management Group Co., Ltd.) which is principally engaged in, inter alia, investing in, operating, managing and providing consultation services relating to the medical and healthcare related business and organisations; management of healthcare centres, rehabilitation centres and nursing homes; construction and operation of hospitals; and real estate development and investment in China. It is believed that the above transaction will offer the Group an opportunity to tap into the real estate and hospital and healthcare business in China.

The Macau Chinese Bank Limited (“MCB”), an 85 per cent. subsidiary of the Company, continues to be a net income contributor to the Group. The Macau economy continued to grow firmly in the first half of 2006. The improving economy has helped to increase MCB’s business activity and further improve the quality of its loan book. The opening of its self-owned head office at The Macau Chinese Bank Building is expected to broaden its customer base and create new business opportunities for MCB.

The Group has a 34.34 per cent. interest in the Convoy Group which is one of the largest independent financial planning service groups in Hong Kong. The improving local economy has helped to improve the business performance and profitability of the Convoy Group in the first half of 2006.

The local stock market was very active in the first half of 2006 which benefited the performance of Lippo Securities Holdings Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (“LSL Group”), which are principally engaged in underwriting, securities brokerage, corporate finance, investment advisory and other related financial services. Through more involvement in the initial public offering margin financing business, the LSL Group has managed to enhance its income base in the first half of 2006. The securities brokerage business in Hong Kong remains competitive and the LSL Group will continue to explore new income sources in the local securities market.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

PROSPECTS

The general prospect for the Hong Kong economy for the remainder of 2006 looks promising. A continuing pick up in consumer spending and investor confidence will support continuing local economic growth. The broad expectation that the trend of rising interest rate in the United States will come to an end soon should help to improve the market sentiment in Hong Kong. There is also broad optimism about the economic and business prospects, including for property markets in the surrounding Asian countries. However, there continue to be some uncertainties on the global economic front, including concerns of the likely pace of economic growth in the United States, high oil prices and implications of an economic slow down in the Mainland economy.

Overall, we see an optimistic outlook for the Group's business. The Group is in an excellent position to benefit from the economic growth in Asia. The Group will continue to explore suitable investment opportunities, particularly investment in the property markets in the Asian region. However, Management will continue to adopt a cautious and prudent approach when assessing new investment opportunities.

ADDITIONAL INFORMATION

INTERIM DISTRIBUTION

The Directors have resolved to declare the payment of an interim distribution of HK1.5 cents (2005 – HK1.5 cents) per share, amounting to approximately HK\$20,202,000 for the six months ended 30th June, 2006, which will be paid on Friday, 20th October, 2006 to the shareholders whose names appear on the Company's Register of Members on Friday, 13th October, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 6th October, 2006 to Friday, 13th October, 2006 (both dates inclusive) during which period no transfers of shares will be registered. In order to qualify for the interim distribution for the six months ended 30th June, 2006, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with Tengis Limited, the Company's Branch Share Registrars in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 5th October, 2006. Warrants in respect of the interim distribution will be dispatched to the shareholders on or about Friday, 20th October, 2006.

ADDITIONAL INFORMATION *(Continued)*

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

As at 30th June, 2006, the interests or short positions of the Directors and 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 Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code") were as follows:

(a) Interests in shares of the Company and associated corporations

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK\$1.00 each in the Company					
Mochtar Riady	-	-	973,240,440 (Note 1)	973,240,440	72.26
Stephen Riady	-	-	973,240,440 (Note 1)	973,240,440	72.26
John Lee Luen Wai	200	200	-	400	0.00
Tsui King Fai	-	50,000	-	50,000	0.00
Number of ordinary shares of HK\$0.10 each in Lippo Limited ("Lippo")					
Mochtar Riady	-	-	248,697,776 (Notes 1 & 2)	248,697,776	57.34
Stephen Riady	-	-	248,697,776 (Notes 1 & 2)	248,697,776	57.34
John Lee Luen Wai	825,000	-	-	825,000	0.19
Number of ordinary shares of HK\$0.10 each in Lippo China Resources Limited ("LCR")					
Mochtar Riady	-	-	6,544,696,389 (Notes 1, 2 & 3)	6,544,696,389	71.13
Stephen Riady	-	-	6,544,696,389 (Notes 1, 2 & 3)	6,544,696,389	71.13

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

(a) Interests in shares of the Company and associated corporations *(Continued)*

Note:

1. As at 30th June, 2006, Lippo Cayman Limited ("Lippo Cayman"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, was indirectly interested in 973,240,440 ordinary shares of HK\$1.00 each in, representing approximately 72.26 per cent. of, the issued share capital of the Company. Lanius Limited ("Lanius"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. Dr. Mochtar Riady did not have any interests in the share capital of Lanius. The beneficiaries of the trust include Dr. Mochtar Riady, Mr. Stephen Riady and their respective family members including, inter alia, the minor children of Mr. Stephen Riady. Dr. Mochtar Riady as the founder and beneficiary of the trust and Mr. Stephen Riady (together with his minor children) as beneficiaries of the trust were taken to be interested in Lippo Cayman under the SFO.
2. As at 30th June, 2006, Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited, J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,697,776 ordinary shares of HK\$0.10 each in, representing approximately 57.34 per cent. of, the issued share capital of Lippo.
3. As at 30th June, 2006, Lippo was indirectly interested in 6,544,696,389 ordinary shares of HK\$0.10 each in, representing approximately 71.13 per cent. of, the issued share capital of LCR.

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

(a) Interests in shares of the Company and associated corporations *(Continued)*

As at 30th June, 2006, Dr. Mochtar Riady, as founder and beneficiary of the aforesaid discretionary trust, and Mr. Stephen Riady (together with his minor children), as beneficiaries of the aforesaid discretionary trust, through their interests in Lippo Cayman as mentioned in Note 1 above, were also taken to be interested in the share capital of the following associated corporations (within the meaning of Part XV of the SFO) of the Company:

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interest in the issued share capital
Abital Trading Pte. Limited	Ordinary shares	2	100
AcrossAsia Limited	Ordinary shares	3,669,576,788	72.45
		<i>(Note a)</i>	
Actfield Limited	Ordinary shares	1	100
Boudry Limited	Ordinary shares	1,000	100
Congrad Holdings Limited	Ordinary shares	1	100
CRC China Limited	Ordinary shares	1	100
Cyport Limited	Ordinary shares	1	100
East Winds Food Pte Ltd.	Ordinary shares	400,000	88.88
		<i>(Note b)</i>	
First Bond Holdings Limited	Ordinary shares	1	100
First Tower Corporation	Ordinary shares	1	100
		<i>(Note c)</i>	
Glory Power Worldwide Limited	Ordinary shares	1	100
Grand Peak Investment Limited	Ordinary shares	2	100
Grandhill Asia Limited	Ordinary shares	1	100
Greenroot Limited	Ordinary shares	1	100
		<i>(Note d)</i>	
HKCL Holdings Limited	Ordinary shares	50,000	100
		<i>(Note e)</i>	

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

(a) Interests in shares of the Company and associated corporations *(Continued)*

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interest in the issued share capital
Honix Holdings Limited	Ordinary shares	1	100
Huge Returns Limited	Ordinary shares	1	100
J & S Company Limited	Ordinary shares	1	100
Lippo Assets (International) Limited	Ordinary shares	1,000,000	100
	Non-voting deferred shares	15,000,000	100
Lippo Capital Limited	Ordinary shares	705,690,000	100
Lippo Energy Company N.V.	Ordinary shares	6,000	100
Lippo Energy Holding Limited	Ordinary shares	1	100
Lippo Finance Limited	Ordinary shares	6,176,470	82.35
Lippo Global Assets Limited	Ordinary shares	1	100
Lippo Holding America Inc.	Ordinary shares	1	100
Lippo Holding Company Limited	Ordinary shares	2,500,000	100
	Non-voting deferred shares	7,500,000	100
Lippo Investments Limited	Ordinary shares	2	100
Lippo Realty Limited	Ordinary shares	2	100
Multi-World Builders & Development Corporation	Ordinary shares	4,080	51
Nelton Limited	Ordinary shares	10,000	100
Pointbest Limited	Ordinary shares	1	100
SCR Ltd.	Ordinary shares	1	100
Sinotrend Global Holdings Limited	Ordinary shares	1	100
Skyscraper Realty Limited	Ordinary shares	10	100
		<i>(Note f)</i>	
The HCB General Investment (Singapore) Pte Ltd. ("HCB General")	Ordinary shares	70,000	70
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting deferred shares	200,000	100
Welux Limited	Ordinary shares	1	100

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

(a) Interests in shares of the Company and associated corporations *(Continued)*

Note:

- a. The interests included 219,600,000 ordinary shares held by Mideast Pacific Strategic Holdings Limited in which Lippo Cayman controlled a 30 per cent. interest.
- b. The interests were held by HCB General, a 70 per cent. owned subsidiary of Lippo Cayman.
- c. The interest was held by Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.
- d. The interest was held by LCR, a 71.13 per cent. owned subsidiary of Lippo which in turn was a 57.34 per cent. owned subsidiary of Lippo Cayman.
- e. The interests were held through LCR, a 71.13 per cent. owned subsidiary of Lippo which in turn was a 57.34 per cent. owned subsidiary of Lippo Cayman.
- f. The interests were held through Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.

As at 30th June, 2006, Mr. Stephen Riady, as beneficial owner and through his nominee, was interested in 5 ordinary shares of HK\$1.00 each in, representing 25 per cent. of, the issued share capital of Lanius which was the registered shareholder of 10,000,000 ordinary shares of US\$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and beneficiary. The beneficiaries of the trust also include, inter alia, Mr. Stephen Riady and his minor children. Dr. Mochtar Riady did not have any interests in the share capital of Lanius but the shareholders of Lanius were accustomed to act in accordance with his instructions.

As at 30th June, 2006, Mr. John Lee Luen Wai, as beneficial owner, was also interested in 230,000 ordinary shares of HK\$0.10 each in, representing approximately 0.0045 per cent. of, the issued share capital of AcrossAsia Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

As at 30th June, 2006, Mr. Kor Kee Yee, through the interest of his spouse, was taken to be interested in 2,444,000 ordinary shares of HK\$1.00 each in, representing approximately 9.29 per cent. of, the issued share capital of TechnoSolve Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

(b) Interests in underlying shares of the Company's associated corporation

As at 30th June, 2006, Mr. John Lee Luen Wai, as beneficial owner, held 1,500,000 options granted to him on 23rd June, 1997 at a consideration of HK\$1.00 under the Share Option Scheme for Employees adopted by LCR (the "LCR Share Option Scheme"). Such options vested after two months from the date when the options were deemed to be granted and accepted and are exercisable from 23rd August, 1997 to 23rd June, 2007 in accordance with the rules of the LCR Share Option Scheme to subscribe for ordinary shares in LCR at an initial exercise price of HK\$5.30 per share (subject to adjustment). Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each option is entitled to subscribe for six ordinary shares of HK\$0.10 each in LCR at an exercise price of HK\$0.883 per share (subject to adjustment). Accordingly, Mr. John Lee Luen Wai is entitled to subscribe for 9,000,000 ordinary shares in, representing approximately 0.09 per cent. of, the issued share capital of LCR. None of the options were exercised by Mr. John Lee Luen Wai since they were granted and the quantity of options held by him as at 30th June, 2006 remained unchanged.

The above interest in the underlying shares of LCR was held pursuant to unlisted physically settled equity derivatives. As at 30th June, 2006, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2006, none of the Directors or chief executive of the Company had any interests or short positions 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) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ADDITIONAL INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(Continued)*

Save as disclosed herein, as at 30th June, 2006, none of the Directors or chief executive of the Company nor their spouses or minor children (natural or adopted), were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 30th June, 2006, so far as is known to the Directors of the Company, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

Interests of substantial shareholders in shares of the Company

Name	Number of ordinary shares of HK\$1.00 each	Approximate percentage of the issued share capital
HKCL Holdings Limited ("HKCL Holdings")	806,656,440	59.89
Lippo China Resources Limited ("LCR")	973,240,440	72.26
Lippo Limited ("Lippo")	973,240,440	72.26
Lippo Cayman Limited ("Lippo Cayman")	973,240,440	72.26
Lanius Limited ("Lanius")	973,240,440	72.26
Madam Lidya Suryawaty	973,240,440	72.26

Note:

1. HKCL Holdings, the immediate holding company of the Company, as beneficial owner, held 806,656,440 ordinary shares in the Company.
2. LCR's interests in the shares of the Company included the interest of HKCL Holdings which was held by LCR through Greenroot Limited, a wholly-owned subsidiary of LCR. LCR, as beneficial owner, directly held 166,584,000 ordinary shares in, representing approximately 12.37 per cent. of, the issued share capital of the Company.

ADDITIONAL INFORMATION *(Continued)*

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE *(Continued)*

Interests of substantial shareholders in shares of the Company *(Continued)*

Note: *(Continued)*

3. Lippo was an intermediate holding company of LCR which was held by Skyscraper Realty Limited as to approximately 71.13 per cent., which in turn was wholly owned by First Tower Corporation, a wholly-owned subsidiary of Lippo.
4. Lippo Cayman was the holding company of Lippo through direct holding and through wholly-owned subsidiaries, one of which was Lippo Capital Limited which controlled an approximate 50.47 per cent. interest in Lippo.
5. Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. The beneficiaries of the trust include Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.
6. LCR's interests in the shares of the Company were recorded as the interests of Lippo, Lippo Cayman, Lanius and Madam Lidya Suryawaty. The above 973,240,440 ordinary shares in the Company related to the same block of shares that Dr. Mochtar Riady and Mr. Stephen Riady were interested, details of which were disclosed in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

All the interests stated above represent long positions. Save as disclosed herein, as at 30th June, 2006, none of the substantial shareholders or other persons (other than the Directors or chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the six months ended 30th June, 2006, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

ADDITIONAL INFORMATION *(Continued)*

AUDIT COMMITTEE

The Company has established an audit committee (the “Committee”) in compliance with rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The members of the Committee comprise four non-executive Directors, namely Mr. Leon Chan Nim Leung, Mr. Albert Saychuan Cheok, Mr. Victor Yung Ha Kuk and Mr. Tsui King Fai . The Committee meets regularly. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th June, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance practices. The Company’s Board of Directors (the “Board”) believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure they meet public and shareholders’ expectation, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

To the best knowledge and belief of the Directors, the Directors consider that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30th June, 2006 except for the following deviations from code provisions A.4.2 and D.1.2:

- (i) Prior to the amendment of the Company’s Bye-laws in the Company’s annual general meeting held on 9th June, 2006, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.
- (ii) Prior to 19th April, 2006, the Company had not written out a formalised list of functions reserved to the Board although it had been the long standing practice all these years that all important matters, in particular, those affecting the Group’s overall strategic policies, dividend policy, significant changes in accounting policy, material contracts and major investments, would go through the Board for prior approval.

ADDITIONAL INFORMATION *(Continued)*

CODE ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

The Company's Bye-laws have been amended on 9th June, 2006 to provide, inter alia, that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

On 19th April, 2006, the Company formalised the functions reserved to the Board and will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code for securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Directors have complied with the required standard as set out in the Model Code throughout the six months ended 30th June, 2006.

By Order of the Board
Hongkong Chinese Limited
John Lee Luen Wai
Director

Hong Kong, 20th September, 2006