

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st December, 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 30th June, 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the current accounting period. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following area that has an effect on how the results and financial position for the current or prior accounting periods are prepared and presented:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and Hong Kong Financial Reporting Standard (“HKFRS”) 4 (Amendments) *Financial Guarantee Contracts* which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 *Financial Instruments: Recognition and Measurement* as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

Prior to 1st July, 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

The fair value of the financial guarantee contract is accounted for by the borrower as transaction costs of the related borrowing and amortised over the guarantee period using the effective interest method.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial guarantee contracts (Continued)

In relation to a financial guarantee granted to a bank over the repayment of a loan by an associate, the Group has applied the transitional provisions in HKAS 39. The fair value of the financial guarantee contract at the date of grant of HK\$603,000, representing a deemed capital contribution to the associate, has been adjusted to the carrying amount of interests in associates. As at 1st July, 2005, the unamortised amount of HK\$219,425 has been recognised as a financial liability for the financial guarantee contract and adjusted to the carrying amount of interests in associates. Comparative figures have been restated (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of changes in accounting policies described above on the results for the current and prior period are as follows:

- (a) On results and income statement items

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$
Income from amortisation of financial guarantee contract included in finance income	60,300	60,300
Decrease in share of results of associates	(60,300)	(60,300)
	<hr/>	<hr/>
Change in profit for the period	—	—

- (b) The cumulative effect of the application of the new HKFRSs as at 30th June, 2006 is summarised below:

	As at 30th June, 2006 HK\$ (as originally stated)	Effects of HKAS 39 and HKFRS 4 (Amendment) HK\$	As at 30th June, 2006 HK\$ (as restated)
Balance sheet items			
Interests in associates	1,318,234,659	98,825	1,318,333,484
Financial guarantee contract	—	(98,825)	(98,825)
	<hr/>	<hr/>	<hr/>
Total effects on assets and liabilities		—	

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3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

(c) The application of the new HKFRSs has no impact on the Group's equity as at 1st July, 2005.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ³
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ⁴
HK(IFRIC) – Int 12	Service Concession Arrangements ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st November, 2006.

⁴ Effective for annual periods beginning on or after 1st March, 2007.

⁵ Effective for annual periods beginning on or after 1st January, 2008.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four operating divisions - hotel operations, club operations, investment holding and hotel management services. These operating divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	— own and operate a hotel
Club operations	— operate a club
Investment holding	— investments in available-for-sale financial assets
Hotel management services	— provide hotel management services

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4. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below.

For the six months ended 31st December, 2006

	Hotel operations HK\$	Club operations HK\$	Investment holding HK\$	Hotel management services HK\$	Consolidated HK\$
TURNOVER	<u>97,138,052</u>	<u>3,866,278</u>	<u>2,577,988</u>	<u>989,260</u>	<u>104,571,578</u>
RESULT					
Segment result	<u>31,369,749</u>	<u>703,077</u>	<u>2,576,023</u>	<u>989,260</u>	<u>35,638,109</u>
Unallocated corporate expenses					(2,998,477)
Finance income					2,022,473
Finance costs					(22,173,874)
Share of results of associates					<u>30,396,294</u>
Profit before taxation					<u>42,884,525</u>
Income tax expense					<u>(4,098,008)</u>
Profit for the period					<u>38,786,517</u>

For the six months ended 31st December, 2005 - as restated

	Hotel operations HK\$	Club operations HK\$	Investment holding HK\$	Hotel management services HK\$	Consolidated HK\$
TURNOVER	<u>81,885,883</u>	<u>3,760,928</u>	<u>2,031,696</u>	<u>989,260</u>	<u>88,667,767</u>
RESULT					
Segment result	<u>19,593,738</u>	<u>744,174</u>	<u>2,029,350</u>	<u>989,260</u>	<u>23,356,522</u>
Unallocated corporate expenses					(1,923,561)
Finance income					1,136,022
Finance costs					(21,825,935)
Share of results of associates					<u>34,850,314</u>
Profit before taxation					<u>35,593,362</u>
Income tax expense					<u>(2,068,292)</u>
Profit for the period					<u>33,525,070</u>

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5. FINANCE INCOME

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$ (as restated)
Income from amortisation of financial guarantee contract	60,300	60,300
Interest income on:		
Advance to an associate	1,494,732	739,920
Bank deposits	467,441	335,802
	<u>2,022,473</u>	<u>1,136,022</u>

6. FINANCE COSTS

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$
Interest expenses on:		
Bank loans wholly repayable within five years	16,417,100	18,575,048
Advance from an associate	5,499,545	3,115,495
Other unsecured loans	257,229	135,392
	<u>22,173,874</u>	<u>21,825,935</u>

7. PROFIT BEFORE TAXATION

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$
Profit before taxation has been arrived at after charging:		
Cost of hotel inventories recognised as an expense	5,821,271	4,512,510
Depreciation of property, plant and equipment	5,956,752	5,132,009
Release of prepaid lease payments	11,108,982	11,108,982

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For the six months ended 31st December, 2006

8. INCOME TAX EXPENSE

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$
The charge comprises:		
Taxation attributable to the Company and its subsidiaries		
Hong Kong Profits Tax		
Current period	3,665,474	1,348,418
Under(over)provision in prior periods	49	(31,559)
	<u>3,665,523</u>	<u>1,316,859</u>
Deferred taxation	432,485	751,433
	<u>4,098,008</u>	<u>2,068,292</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 31st December, 2005: 17.5%) of the estimated assessable profit for the period.

9. DIVIDEND

	Six months ended	
	31st December, 2006 HK\$	31st December, 2005 HK\$
Final dividend for the year ended 30th June, 2006:		
HK2.6 cents (year ended 30th June, 2005: HK3.5 cents) per share	<u>21,888,152</u>	<u>29,158,506</u>

The Directors determined that an interim dividend for the six months ended 31st December, 2006 of HK2.4 cents (six months ended 31st December, 2005: HK2.2 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 18th April, 2007.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of HK\$38,786,517 (six months ended 31st December, 2005: HK\$33,525,070) and on the weighted average number of 842,241,837 (six months ended 31st December, 2005: 833,559,215) shares in issue during the period.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2006, the Group spent approximately HK\$806,000 (six months ended 31st December, 2005: HK\$10,500,000) on property, plant and equipment.

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12. INTERESTS IN ASSOCIATES

	31st December, 2006 HK\$	30th June, 2006 HK\$ (as restated)
Cost of unlisted investments in associates	1,062,961,933	1,062,961,933
Deemed capital contribution to an associate	603,000	603,000
Share of post acquisition profits, net of dividends received	<u>(7,929,655)</u>	<u>254,768,551</u>
	<u>1,055,635,278</u>	<u>1,318,333,484</u>

Included in the cost of investments in associates is goodwill of HK\$186,513,404 (30th June, 2006: HK\$186,513,404) arising on acquisitions of associates in prior years.

The Inland Revenue Department (the “IRD”) initiated tax inquiries for the years of assessment 1994/95 to 2002/03 on a wholly-owned subsidiary, Bestown Property Limited (“Bestown”), of the Group’s associate, Asian Glory Limited. Notices of assessments for additional tax in an aggregate amount of approximately HK\$133,062,000 were issued to Bestown for the years under review and objections were properly lodged with the IRD by Bestown. The effective share of the additional tax attributable to the Group as at 31st December, 2006 is estimated to be approximately HK\$33,265,000. In the opinion of the management of Bestown, as the tax inquiries are still at the stage of collation of evidence, the ultimate outcome of the tax inquiries, cannot presently be determined by the management of Bestown with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of Bestown.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.

13. TRADE AND OTHER RECEIVABLES

The Group maintains a defined credit policy. An aged analysis of trade receivables is as follows:

	31st December, 2006 HK\$	30th June, 2006 HK\$
Trade receivables		
0-30 days	7,203,479	4,130,140
31-60 days	1,917,484	1,225,360
61-90 days	<u>177,392</u>	<u>297,779</u>
	9,298,355	5,653,279
Other receivables	<u>4,680,726</u>	<u>1,836,599</u>
	<u>13,979,081</u>	<u>7,489,878</u>

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14. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	31st December,	30th June,
	2006	2006
	HK\$	HK\$
Trade payables		
0-30 days	8,295,858	2,844,636
31-60 days	313,676	214,163
61-90 days	29,670	19,064
	8,639,204	3,077,863
Other payables	13,119,635	16,431,358
	21,758,839	19,509,221

15. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities as follows:

	31st December,	30th June,
	2006	2006
	HK\$	HK\$
Guarantees given to banks, in respect of loan facilities utilised by an associate	196,000,000	204,750,000

Out of the guarantee amount, HK\$38,525 (*30th June, 2006: HK\$98,825 as restated*) was recognised in the condensed consolidated financial statements as financial guarantee contract.

16. PLEDGE OF ASSETS

- (a) At 31st December, 2006, the Group has pledged its hotel properties and prepaid lease payments having carrying values of HK\$323,268,907 (*30th June, 2006: HK\$326,075,873*) and HK\$1,279,384,431 (*30th June, 2006: HK\$1,290,493,413*), available-for-sale financial assets at fair value of HK\$401,637,319 (*30th June, 2006: HK\$434,837,784*) and pledged by way of floating charges in other assets of HK\$77,169,036 (*30th June, 2006: HK\$62,229,848*) to banks to secure loan facilities granted to the Group;
- (b) The Group has pledged its time deposit of HK\$1,463,760 (*30th June, 2006: HK\$1,433,979*) to secure a letter of guarantee issuance facility; and
- (c) The investments in certain subsidiaries of the Company have been pledged to banks or financial institutions to secure loan facilities granted to the Group.