Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed on inside back cover of the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are property investment, management and development.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or 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]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions [6]

[1] Effective for accounting periods beginning on or after 1 January 2007.
[2] Effective for accounting periods beginning on or after 1 March 2006.
[3] Effective for accounting periods beginning on or after 1 May 2006.
[4] Effective for accounting periods beginning on or after 1 June 2006.
[5] Effective for accounting periods beginning on or after 1 November 2006.
[6] Effective for accounting periods beginning on or after 1 March 2007.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Basis of consolidation *continued*

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received during the year.

Investments in associates

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Property, plant and equipment

Property, plant and equipment are stated at cost/deemed cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

For leasehold land and building classified as an investment property under fair value model which is then transferred to owner-occupied property, the property interest is stated at a deemed cost equal to its fair value at the date of change in use.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments of land under operating lease are charged to the consolidated income statement on straight-line basis over the lease terms.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases, including the leasehold interests in land, are charged to profit or loss on a straight -line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other Standard.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Rental income is recognised on a straight-line basis over the relevant lease term.

Management fee income and security service income are recognised when services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive dividend has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise derivative financial instruments that are not designated as hedging instruments and are classified as held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are stated at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The fair value of a derivative financial instrument is classified as a non-current asset if the remaining maturity of the derivative contract is more than 12 months and as a current asset if the remaining maturity of the derivative contract is less than 12 months.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including accounts receivable and other receivables, bank balances, time deposits and amounts due from associates are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as such or not classified as loans and receivables and financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised to profit or loss. Impairment losses on available-for-sale equity investments will not reverse to profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivative financial instruments that are not designated as hedging instruments.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are stated at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The fair value of a derivative financial instrument is classified as a non-current liability if the remaining maturing of the derivative contract is more than 12 months and as a current liability if the remaining maturity of the derivative contract is less than 12 months.

Financial liabilities

Financial liabilities including borrowings, amounts due to minority shareholders, accounts payable and advances from investees are subsequently measured at amortised cost, using the effective interest method. In respect of the fixed rate notes, the carrying amounts are further adjusted for the gain or loss attributable to the hedged risk.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives to hedge its exposure against interest rate and foreign exchange rate fluctuation.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the combined contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group designates certain derivatives as hedging instruments as either fair value hedge or cash flow hedge.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Cash flow hedge

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. For a hedge of the foreign currency risk of a firm commitment, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting, the cumulative gain or loss that was deferred in equity from the period when the hedge was effective shall remain separately recognised in equity until the hedged risk affects profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (Employee share-based compensation reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

The Group has applied HKFRS 2 "Share-based payments" to share options granted on or after 1 January 2005. The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005, no amount has been recognised in the financial statements in respect of the other equity-settled shared-based payments.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3 above, management has made various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty that can significantly affect the amounts recognised in the financial statements are set out below.

Estimate of fair value of investment properties

As described in note 14, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include cash and bank balances, time deposits, accounts receivable, equity investments, amount due from an associate, other receivables, borrowings, accounts payable, amounts due to minority shareholders and derivative financial instruments. The Company's major financial instruments include cash and bank balances, time deposits, other receivables and amounts due from/to subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group aims to minimize its currency risk and does not speculate in currency movements. The majority of the Group's and the Company's assets by value are located and all rental income are derived in Hong Kong, and denominated in Hong Kong dollars. At year-end 2006, all of the Group's debts were denominated in Hong Kong dollars with the exception of the US$182 million 10-year fixed-rate notes. The Group has entered into appropriate hedging instruments to hedge against the potential currency risk (see note 20). Other than 10-year fixed rates notes which are exposed to currency risk, the Group has no other significant currency risk.

(ii) *Interest rate risk*

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. Interest rate swap is the hedging instrument most commonly used by the Group to manage the interest rate exposure (see note 20 for details). At year-end 2006, about 64.7% of the Group's gross debts were effectively on a floating rate basis. The ratio could change with changes to the interest rate trend going forward.

The Group's policy is to maintain the proportion of borrowings in fixed rates and floating rates within an appropriate range. Accordingly, the Group entered into (i) interest rate swaps to hedge the interest rate risk of these Group's floating borrowings including bank loans and floating rate notes; (ii) cross currency swaps to hedge the interest rate risk of certain of the Group's fixed rate notes.

5. FINANCIAL INSTRUMENTS *continued*

Financial risk management objectives and policies *continued*

(iii) *Other price risk*

The Group's available-for-sale investments in listed securities are measured at fair value at each balance sheet date with reference to the listed share price. Therefore, the Group is exposed to equity price risks and the management will monitor the price movements and take appropriate actions when it is required. As at 31 December 2006, the Group has entered equity derivatives to hedge the price risk arising from certain listed securities. The equity derivatives are not designated as hedging instrument and hence are measured at fair value through profit or loss.

Credit risk

The Group's and the Company's credit risks are primarily attributable to amount due from an associate, time deposits, rent receivable from tenants and counterparty financial obligations in derivative financial instrument. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group and the Company is arising from: (a) the carrying amount of the respective recognised financial assets as stated in the consolidated and Company's balance sheets; and (b) the amount disclosed in note 33 Contingent Liabilities.

The Group's and the Company's time deposits and bank balances are deposited with banks of high credit quality in Hong Kong and the Group and the Company has exposure limit to any single financial institution.

For rent receivable from tenants, credit checks are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

To mitigate counterparty risk, the Group enters into derivative contracts only with sound financial institutions with strong investment-grade credit ratings, limits exposure to each, and monitors each's rating regularly.

The Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to the published price quotations; the fair values of the club debentures have been determined by reference to the recent transaction prices of similar club debentures;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- the fair value of derivative instruments, are calculated using quoted prices from independent financial institutions. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option derivative, the fair value is estimated using option pricing model (for example, the black-scholes model).

The directors consider that the carrying amounts of non-derivative financial assets and financial liabilities approximate their fair value, except for the carrying amount of US$182 million (approximate to HK$1,415 million) fixed rate notes (note 26(c)) with fair value of US$193 million (approximate to HK$1,504 million).

6. TURNOVER

	2006 HK$'000	2005 HK$'000
Turnover comprises:		
Gross rental income from investment properties	1,267,576	1,249,392
Management fee and security service income	539	404
	1,268,115	1,249,796

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

7. DIRECTORS' REMUNERATION

	2006 HK$'000	2005 HK$'000
Directors' fees	1,510	1,135
Other emoluments:		
Basic salaries, housing and other allowances	10,581	10,423
Bonus	2,485	2,499
Share-based payments *(note 37)*	1,171	524
Retirement benefits scheme contributions	251	233
	15,998	14,814

Remuneration paid or payable to each of the eleven (2005: twelve) Directors were as follows:

	For the year ended 31 December 2006					
	Directors' fees HK$'000 (Note)	Basic salaries, housing and other allowances HK$'000	Bonus HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Peter T.C. Lee *(note a)*	190	4,213	1,213	–	12	5,628
Michael T.H. Lee *(note b)*	120	3,599	1,027	1,171	12	5,929
Pauline W.L. Yu Wong	100	2,769	245	–	227	3,341
Non-executive Directors						
Fa-kuang Hu	120	–	–	–	–	120
Hans Michael Jebsen	120	–	–	–	–	120
Anthony Hsien Pin Lee	130	–	–	–	–	130
Chien Lee	130	–	–	–	–	130
Dr. Deanna Ruth Tak Yung Rudgard	100	–	–	–	–	100
Independent non-executive Directors						
Sir David Akers-Jones	230	–	–	–	–	230
Per Jorgensen	130	–	–	–	–	130
Dr. Geoffrey Meou-tsen Yeh	140	–	–	–	–	140
	1,510	10,581	2,485	1,171	251	15,998

7. DIRECTORS' REMUNERATION *continued*

	For the year ended 31 December 2005					
	Directors' fees HK$'000 (Note)	Basic salaries, housing and other allowances HK$'000	Bonus HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Peter T.C. Lee *(note a)*	136	4,146	1,200	–	12	5,494
Michael T.H. Lee *(note b)*	85	3,538	1,020	524	12	5,179
Pauline W.L. Yu Wong	75	2,739	279	–	209	3,302
Non-executive Directors						
Fa-kuang Hu	85	–	–	–	–	85
Hans Michael Jebsen	85	–	–	–	–	85
Anthony Hsien Pin Lee	90	–	–	–	–	90
Chien Lee	100	–	–	–	–	100
Dr. Deanna Ruth Tak Yung Rudgard	75	–	–	–	–	75
Independent non-executive Directors						
Sir David Akers-Jones	157	–	–	–	–	157
Per Jorgensen	100	–	–	–	–	100
Dr. Geoffrey Meou-tsen Yeh	95	–	–	–	–	95
David Muir Turnbull #	52	–	–	–	–	52
	1,135	10,423	2,499	524	233	14,814

David Muir Turnbull appointed as Independent non-executive Director on 11 May 2005 and resigned on 12 December 2005.

7. DIRECTORS' REMUNERATION *continued*

Notes:

Directors' fees breakdown of each of the Directors is set out below:

	Board HK$'000	Audit Committee HK$'000	Emoluments Review Committee HK$'000	Investment Committee HK$'000	Nomination Committee HK$'000	Total 2006 HK$'000	Total 2005 HK$'000
Executive Directors							
Peter T.C. Lee	140	–	–	20	30	190	136
Michael T.H. Lee	100	–	–	20	–	120	85
Pauline W.L. Yu Wong	100	–	–	–	–	100	75
Non-executive Directors							
Fa-kuang Hu	100	–	20	–	–	120	85
Hans Michael Jebsen	100	–	–	20	–	120	85
Anthony Hsien Pin Lee	100	–	–	30	–	130	90
Chien Lee	100	30	–	–	–	130	100
Dr. Deanna Ruth Tak Yung Rudgard	100	–	–	–	–	100	75
Independent non-executive Directors							
Sir David Akers-Jones	120	60	30	–	20	230	157
Per Jorgensen	100	30	–	–	–	130	100
Dr. Geoffrey Meou-tsen Yeh	100	–	20	–	20	140	95
David Muir Turnbull	–	–	–	–	–	–	52
	1,160	120	70	90	70	1,510	1,135

(a) Year 2005: The Emoluments Review Committee reviewed his 2005 fixed base salary and determined his performance-based bonus in March 2005. In the light of the recent salary review completed in November 2003, management did not receive any salary increment. Accordingly, his fixed base package remains HK$4,146,000 during the year. The stated bonus figure includes adjustment for 2004 bonus accrued in 2004 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2005), and 2005 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2006.

Year 2006: The Emoluments Review Committee reviewed his 2006 fixed base salary and determined his performance-based bonus in March 2006. It was decided to make an increment on such base salary as from April 2006. Accordingly, his fixed base package (including housing allowance which amount remains unchanged) paid during the year was HK$4,213,000. The stated bonus figure includes adjustment for 2005 bonus accrued in 2005 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2006), and 2006 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2007.

(b) Year 2005: The Emoluments Review Committee reviewed his 2005 fixed base salary and determined his performance-based bonus in March 2005. In the light of the recent salary review completed in November 2003, management did not receive any salary increment. Accordingly, his fixed base package remains HK$3,538,000 during the year. The stated bonus figure includes adjustment for 2004 bonus accrued in 2004 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2005), and 2005 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2006.

Year 2006: The Emoluments Review Committee reviewed his 2006 fixed base salary and determined his performance-based bonus in March 2006. It was decided to make an increment on his base salary as from April 2006. Accordingly, his fixed base package (including housing allowance which amount remains unchanged) paid during the year was HK$3,599,000. The stated bonus figure includes adjustment for 2005 bonus accrued in 2005 accounts (following finalisation of bonus by the Emoluments Review Committee in March 2006), and 2006 target bonus figure pending finalisation by the Emoluments Review Committee after year-end in March 2007.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2005: three) Directors, details of whose remuneration are set out in note 7 above. The remuneration of the remaining two (2005: two) individuals is detailed as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, housing and other allowances	4,922	4,762
Share-based payments	1,208	656
Bonus	758	726
Retirement benefits scheme contributions	24	24
	6,912	6,168

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	1	–
	2	2

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on		
– bank loans, overdraft and other loans:		
wholly repayable within five years	37,470	63,429
not repayable within five years	–	34,129
– floating rate notes	25,651	15,988
– fixed rate notes	107,605	108,720
– zero coupon notes (imputed interests)	10,970	9,401
	181,696	231,667
Net interest received on derivative financial instruments *(Note)*		
– due within five years	(21,783)	(924)
– due after five years	(9,634)	(32,562)
	(31,417)	(33,486)
Bank charges	7,379	10,079
Medium Term Note Programme expenses	1,083	972
Others	4,021	5,353
	162,762	214,585

Note: Fair value changes excluded accrued interest in derivative financial instruments for the year.

10. TAXATION

	2006 HK$'000	2005 HK$'000
Hong Kong profits tax for the year	90,163	75,270
(Over) underprovision in prior years	(924)	25
Prior years provision	–	103,000
	89,239	178,295
Deferred tax *(note 28)*		
– changes in fair value on investment properties	448,378	668,351
– changes in fair value on disposed leasehold properties	–	(4,903)
– other temporary differences	20,725	14,840
	469,103	678,288
	558,342	856,583

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for both years.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	3,797,881	5,175,884
Tax at the Hong Kong profits tax rate of 17.5%	664,629	905,779
Tax effect of expenses not deductible for tax purposes	1,254	19,721
Tax effect of utilisation of estimated tax losses not previously recognised	(16,980)	(29,002)
Tax effect of income not taxable for tax purposes	(62,224)	(103,487)
Tax effect of estimated tax loss not provided	1,753	195
Tax effect of deferred tax assets not recognised	143	10,436
Tax effect of share of results of associates	(21,009)	(42,237)
(Over) underprovision in prior years	(924)	25
Prior years provision	–	103,000
Others	(8,300)	(7,847)
Taxation for the year	558,342	856,583

In addition to the amount charged to the consolidated income statement, deferred tax relating to the revaluation of the Group's leasehold buildings has been charged directly to equity (see note 28).

At the date of issue of the consolidated financial statements, the Group has disputes with the Hong Kong Inland Revenue Department regarding additional tax assessments for prior years. A tax provision of HK$193 million has been made in previous years.

However, it remains the Directors' view that there still have ample grounds to contest the assessments based on tax principles as well as facts and the Group will continue to pursue the objection against the additional assessments vigorously.

11. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs	133,976	131,354
Retirement benefits scheme contributions *(note 32)*	5,230	5,301
Forfeited contributions *(note 32)*	(2,876)	(3,789)
Share-based payments	4,382	2,171
	140,712	135,037
Amortisation of prepaid lease payments	163	163
Depreciation for property, plant and equipment	6,738	5,787
Revaluation deficit (reversal of revaluation deficit) on building for own use	58	(65)
Auditor's remuneration	1,770	1,740
Gross rental income from investment properties	(1,267,576)	(1,249,392)
Less: Direct operating expenses that generated rental income	234,156	233,575
Direct operating expenses that did not generate rental income	6,405	3,776
	(1,027,015)	(1,012,041)
Dividends from		
– listed investments	(41,081)	(33,714)
– unlisted investments	(20)	–
	(41,101)	(33,714)
Interest income	(18,075)	(2,914)
Share of tax of an associate (included in share of results of associates)	57,090	107,646
Recovery of a loan to an associate	(87,043)	–
Loss on disposal of property, plant and equipment	432	9
Net foreign exchange (gain) loss	(287)	19

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividends recognised as distribution during the year:		
Interim dividend paid – HK10 cents per share (2005: HK10 cents)	105,461	105,224
Additional prior year's dividend paid on exercise of share options subsequent to 31 December 2005	45	–
2005 Final dividend paid – HK35 cents per share	368,641	–
2004 Final dividend paid – HK30 cents per share	–	314,989
	474,147	420,213
Final dividend proposed – HK40 cents per share (2005: HK35 cents)	422,055	368,641

The 2006 final dividend of HK40 cents (2005: HK35 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2006 will be payable in cash with a scrip dividend alternative.

12. DIVIDENDS *continued*

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2005 final and 2006 interim dividends. These alternatives were accepted by the shareholders as follows:

	2006 Interim HK$'000	2005 Final HK$'000
Dividends:		
Cash	95,430	340,330
Share alternative *(note 29)*	10,031	28,311
	105,461	368,641

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	2006 HK$'000	2005 HK$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	3,098,789	4,120,555

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,054,166	1,051,502
Effect of dilutive potential ordinary shares:		
Share options	924	682
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,055,090	1,052,184

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the average market price per share.

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the year should be adjusted for fair value changes on investment properties and related deferred taxation in arriving at "Underlying profit attributable to equity holders of the parent". In 2006, net realised gain on disposal of available-for-sale investments and investment properties and recovery of a loan to an associate should also be adjusted in arriving at "Profit excluding asset value changes attributable to the equity holders of the parent". In 2005, net realised gain on disposal of investment properties and prior year tax provision was adjusted in arriving at "Profit excluding asset value changes and prior year tax provision attributable to the equity holders of the parent". The difference between the underlying profit, profit excluding asset value changes and profit attributable to equity holders of the parent as shown in the consolidated income statement for the year is reconciled as follows:

13. EARNINGS PER SHARE ***continued***

	2006 HK$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the consolidated income statement	3,098,789	293.96
Gain arising from fair value changes on investment properties	(2,575,420)	(244.31)
Increase in deferred taxation in relation to fair value gain on investment properties	448,378	42.54
Gain arising from fair value changes on investment properties net of related deferred taxation attributable to minority interests	97,019	9.20
Gain arising from fair value changes on investment properties net of related deferred taxation from an associate	(56,521)	(5.36)
Underlying profit attributable to equity holders of the parent	1,012,245	96.03
Recovery of a loan to an associate	(87,043)	(8.26)
Net realised gain on disposal of available-for-sale investments	(170,277)	(16.15)
Realised fair value gain on disposal of investment properties	(191)	(0.02)
Profit excluding asset value changes attributable to equity holders of the parent	754,734	71.60

	2005 HK$'000	2005 HK$'000	Earnings per share (Basic) HK cents
Profit attributable to equity holders of the parent as shown in the consolidated income statement		4,120,555	391.87
Gain arising from fair value changes on investment properties	(4,226,005)		(401.90)
Less: Gain arising from fair value changes on disposed investment properties	467,019	(3,758,986)	44.41
Increase in deferred taxation in relation to fair value gain on investment properties		668,351	63.56
Gain arising from fair value changes on investment properties net of related deferred taxation attributable to minority interests		156,874	14.92
Gain arising from fair value changes on investment properties net of related deferred taxation from an associate		(181,523)	(17.26)
Underlying profit attributable to equity holders of the parent		1,005,271	95.60
Prior year tax provision		103,000	9.80
Realised fair value gain on disposal of investment properties		(467,453)	(44.46)
Profit excluding asset value changes and prior year tax provision attributable to equity holders of the parent		640,818	60.94

14. INVESTMENT PROPERTIES

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Fair Value				
At 1 January	29,815,430	27,916,790	4,061,000	3,510,000
Additions	84,816	385,662	–	220
Adjustment resulted from cost variation	(1,208)	(761)	–	–
Disposals	(1,491)	(2,727,166)	–	–
Transfer to a group company	–	–	(4,061,000)	–
Reclassified from buildings *(note 15)*	–	30,500	–	–
Reclassified to buildings *(note 15)*	–	(15,600)	–	–
Fair value changes	2,575,611	4,226,005	–	550,780
At 31 December	32,473,158	29,815,430	–	4,061,000

The carrying value of investment properties shown above comprises:

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Leasehold land in Hong Kong:				
– Medium term lease	5,640,000	5,500,000	–	–
– Long lease	26,833,158	24,315,430	–	4,061,000
	32,473,158	29,815,430	–	4,061,000

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to comparable market transactions and rental yield for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in Hong Kong under long lease HK$'000	Furniture, fixtures and equipment HK$'000	Computers HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group					
Cost or valuation					
At 1 January 2005	69,592	44,897	17,362	1,131	132,982
Additions	–	4,288	2,523	–	6,811
Disposals	–	(147)	(4)	–	(151)
Reclassified to investment properties *(note 14)*	(30,500)	–	–	–	(30,500)
Reclassified from investment properties *(note 14)*	15,600	–	–	–	15,600
Surplus on revaluation	344	–	–	–	344
Disposal of subsidiaries	–	(70)	(28)	–	(98)
At 31 December 2005	55,036	48,968	19,853	1,131	124,988
Additions	–	4,634	921	–	5,555
Disposals	–	(2,305)	(66)	–	(2,371)
Surplus on revaluation	110	–	–	–	110
At 31 December 2006	55,146	51,297	20,708	1,131	128,282
Comprising:					
At cost	–	51,297	20,708	1,131	73,136
At valuation 2006	55,146	–	–	–	55,146
	55,146	51,297	20,708	1,131	128,282
Accumulated depreciation					
At 1 January 2005	–	40,747	9,037	1,131	50,915
Provided for the year	977	1,921	2,889	–	5,787
Eliminated on disposals	–	(140)	(2)	–	(142)
Eliminated on revaluation	(977)	–	–	–	(977)
Disposal of subsidiaries	–	(53)	(19)	–	(72)
At 31 December 2005	–	42,475	11,905	1,131	55,511
Provided for the year	1,397	2,319	3,022	–	6,738
Eliminated on disposals	–	(1,819)	(60)	–	(1,879)
Eliminated on revaluation	(1,397)	–	–	–	(1,397)
At 31 December 2006	–	42,975	14,867	1,131	58,973
Net book values					
At 31 December 2006	55,146	8,322	5,841	–	69,309
At 31 December 2005	55,036	6,493	7,948	–	69,477

15. PROPERTY, PLANT AND EQUIPMENT *continued*

	Furniture, fixtures and equipment HK$'000	Computers HK$'000	Motor vehicles HK$'000	Total HK$'000
The Company				
Cost				
At 1 January 2005	20,958	16,687	1,131	38,776
Additions	1,425	2,439	–	3,864
Disposals	(111)	–	–	(111)
At 31 December 2005	22,272	19,126	1,131	42,529
Additions	519	874	–	1,393
Disposals	(1,314)	(66)	–	(1,380)
At 31 December 2006	21,477	19,934	1,131	42,542
Accumulated depreciation				
At 1 January 2005	19,903	8,717	1,131	29,751
Provided for the year	669	2,754	–	3,423
Eliminated on disposals	(111)	–	–	(111)
At 31 December 2005	20,461	11,471	1,131	33,063
Provided for the year	674	2,876	–	3,550
Eliminated on disposals	(1,198)	(60)	–	(1,258)
At 31 December 2006	19,937	14,287	1,131	35,355
Net book values				
At 31 December 2006	1,540	5,647	–	7,187
At 31 December 2005	1,811	7,655	–	9,466

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The buildings of the Group were revalued at 31 December 2006 by Knight Frank Petty Limited, an independent professional valuer, on market value basis. The surplus and deficit arising on revaluation of HK$1,565,000 and HK$58,000 (2005: surplus of HK$1,256,000 and HK$65,000) has been credited to the asset revaluation reserve and charged to consolidated income statement respectively.

If the buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK$51,737,000 (2005: HK$53,350,000).

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong held under long lease.

The leasehold land is amortised on a straight-line basis over the lease terms.

17. INVESTMENTS IN SUBSIDIARIES

	The Company 2006 HK$'000	The Company 2005 HK$'000
Unlisted shares, at cost	5	5

Details of the principal subsidiaries held by the Company at 31 December 2006 are set out in note 38.

18. INVESTMENTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Unlisted cost of investment in associates	2,629	2,629	3	3
Share of post-acquisition profits and reserves, net of dividend received	452,298	342,243	–	–
	454,927	344,872	3	3
Less: Impairment loss	(11,358)	(11,358)	–	–
	443,569	333,514	3	3

The amounts due from associates are unsecured and interest free.

At the balance sheet date, amounts due from associates amounting to HK$186,117,000 (2005: HK$171,131,000) and HK$642,338,000 (2005: HK$642,596,000) are not recoverable within one year and are recoverable within one year respectively.

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2006.

18. INVESTMENTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES *continued*

Details of the Group's associates at 31 December 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Percentage of issued capital/ registered capital held	Principal activity
Parallel Asia Engineering Company Limited	Private limited company	Hong Kong	Share	25	Investment holding
Wingrove Investment Pte Ltd.	Private company limited by shares	Singapore	Share	25*	Property development and leasing
Country Link Enterprises Limited ("Country Link")	Private limited company	Hong Kong	Share	26.3*	Investment holding
Shanghai Kong Hui Property Development Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US$165,000,000 #	23.7*	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd.	Sino-Foreign equity joint venture	The People's Republic of China	US$140,000 #	23.7*	Property management

* Indirectly held

Registered capital

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK$'000	2005 HK$'000
Total assets	6,928,251	6,531,050
Total liabilities	(4,721,330)	(4,777,200)
Net assets	2,206,921	1,753,850
Group's share of net assets of associates	454,927	344,872
Turnover	668,956	523,376
Profit for the year	456,662	828,116
Group's share of results of associates for the year	120,053	241,358

19. AVAILABLE-FOR-SALE INVESTMENTS

	The Group 2006 HK$'000	The Group 2005 HK$'000
Listed investments:		
– Equity securities listed in Hong Kong	1,677,913	1,170,295
Unlisted investments:		
– Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
– Unlisted shares	117,385	117,385
Less: Impairment loss	(60,333)	(60,333)
	57,052	57,052
Amounts due therefrom	8,431	26,722
	65,483	83,774
	67,514	85,805
Total	1,745,427	1,256,100
Carrying amount analysed for reporting purposes as:		
Non-current	1,745,427	1,256,100

	The Company 2006 HK$'000	The Company 2005 HK$'000
Unlisted investments:		
– Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,031

At the balance sheet date, all available-for-sale investments are stated at fair value except for those unlisted equity securities.

The unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in Singapore. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's net fair values of derivative financial instruments at 31 December 2006 were as follows:

	The Group			
	2006 Assets HK$'000	2006 Liabilities HK$'000	2005 Assets HK$'000	2005 Liabilities HK$'000
Current				
Interest rate swaps				
Cash flow hedges	879	–	13,411	–
Not designated as hedges	504	–	136	–
Foreign exchange derivatives				
Cash flow hedges	932	–	571	–
Not designated as hedges	–	–	77	–
Equity derivatives				
Not designated as hedges	–	(39,495)	–	(64,057)
	2,315	(39,495)	14,195	(64,057)
Non-current				
Interest rate swaps				
Cash flow hedges	–	–	18,522	–
Fair value hedges	–	(3,529)	–	(10,812)
Not designated as hedges	–	–	718	–
Foreign exchange derivatives				
Cash flow hedges	1,299	(815)	2,395	–
Not designated as hedges	–	(31,913)	–	(24,194)
Cross currency swap				
Fair value hedges	1,175	(8,303)	10,369	(4,796)
	2,474	(44,560)	32,004	(39,802)
Total	4,789	(84,055)	46,199	(103,859)

Interest rate swaps

The aggregate notional amount of the outstanding interest rate swaps as at 31 December 2006 was HK$1,164,238,000 (2005: HK$2,423,492,000). Those instruments comprise fixed-to-floating interest rate swaps, floating-to-fixed interest rate swaps and average HIBOR swaps. The floating-to-fixed interest rate swaps were designated as hedging the interest rate risk of the floating borrowings including bank loans and the floating rate notes. The fixed-to-floating interest rate swap was entered into to hedge the fair value risk of the zero coupon notes. The average HIBOR swaps do not qualify for hedge accounting.

At the balance sheet date, fair value gains of HK$873,000 (2005: HK$31,965,000) from the interest rate swaps under cash flow hedges have been deferred in equity and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest payable occur.

The maturity periods of interest rate swaps at notional amount at 31 December 2006 were as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Within one year	948,983	970,000
Between one and five years	–	1,248,983
Beyond five years	215,255	204,509
	1,164,238	2,423,492

20. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Interest rate swaps *continued*

At 31 December 2006, the floating-to-fixed interest rate swaps locked in the interest rates ranging from 2.11% to 2.45% (2005: 2.11% to 2.85%). The average HIBOR swaps swapped the HIBOR into average HIBOR with the effective rates for the year ranging from 3.98% to 4.44% (2005: 0.3% to 4.1%). The fixed-to-floating swap converted a fixed rate of 5.19% to HIBOR plus 0.69% for both years.

The above derivatives are measured at fair value, as calculated by the present value of the estimated future cash flow at each balance sheet date or as determined by independent financial institutions.

Foreign exchange derivatives

The aggregate notional amount of the outstanding foreign exchange derivatives at 31 December 2006 was HK$1,605,831,000 (2005: HK$1,711,097,000). Those instruments, which comprise forward foreign exchange contracts, cross currency swaps and net basis swaps, are mainly used for managing the foreign exchange risk of the outstanding US$182 million (2005: US$200 million) fixed rate notes. Out of the US$182 million (2005: US$200 million), the foreign exchange exposures on the principal and the coupons of the US$117 million (2005: US$135 million) fixed rate notes are hedged by the cross currency swaps. The forward foreign exchange contracts are mainly designated to hedge the foreign exchange rate risk arising from the coupon payments of the remaining US$65 million (2005: US$65 million) fixed rate notes. The net basis swaps which are used to eliminate the foreign exchange exposures on the principal part of the US$65 million (2005: US$65 million) fixed rate notes were not designated as hedging instruments for hedge accounting purpose.

At 31 December 2006, fair value gains of HK$1,416,000 (2005: HK$2,966,000) from the forward foreign exchange contracts under cash flow hedges have been deferred in equity and are expected to be released to the consolidated income statement at various dates when the coupon payments of the US$65 million (2005: US$65 million) fixed rate notes occur.

The maturity periods of the foreign exchange derivatives at notional amount at 31 December 2006 were as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Within one year	34,275	48,722
Between one and five years	137,526	102,398
Beyond five years	1,434,030	1,559,977
	1,605,831	1,711,097

The above derivatives are measured at fair value, as calculated by the foreign exchange rates and the present value of the estimated future cash flow at each balance sheet date.

Equity derivatives

The aggregate notional amount of the outstanding equity derivatives at 31 December 2006 was HK$95,205,000 (2005: HK$196,300,000). The existing equity derivatives were not designated as hedging instrument according to HKAS 39.

The above derivatives are measured at fair value, as determined by an independent financial institution.

21. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable are mainly in respect of rents which are normally received in advance. Rents in arrears of the Group and the Company as at 31 December 2006 and 2005 were aged less than 90 days.

22. TIME DEPOSITS AND CASH AND BANK BALANCES

Time deposits and cash and bank balances comprise cash and short-term bank deposits carrying effective interest ranging from 3.7% to 3.9% (2005: 3.5% to 4.0%) with an original maturity of three months or less.

23. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals of the Group as at 31 December 2006 and 2005 were aged less than 90 days.

24. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest-free and are recoverable on demand.

25. ADVANCES FROM INVESTEES

The advances are unsecured, interest-free and are repayable within one year.

26. BORROWINGS

The analysis of the carrying amount of borrowings is as follows:

		The Group	
	Notes	2006 HK$'000	2005 HK$'000
Bank loans	(a)	720,000	2,056,500
Floating rate notes	(b)	548,730	548,213
Fixed rate notes	(c)	1,337,323	1,499,591
Zero coupon notes	(d)	214,568	196,219
		2,820,621	4,300,523

Notes:

(a) Bank loans

	The Group	
	2006 HK$'000	2005 HK$'000
Bank loans, unsecured	720,000	2,056,500
The bank loans are repayable as follows:		
More than two years, but not exceeding five years	720,000	1,406,500
More than five years	–	650,000
Amounts due after one year shown under non-current liabilities	720,000	2,056,500

At the balance sheet date, all the above bank loans are variable-rate borrowings with effective interest rates (which are also equal to contracted interest rates) ranging from 4.39% to 4.58% (2005: 4.53% to 4.74%) denominated in Hong Kong Dollars. Interest is normally refixed at every one to six months.

At 31 December 2006, the interest rate risk of certain bank loans was hedged by interest rate swaps (floating-to-fixed interest rate swaps) (see note 20).

(b) Floating rate notes

	The Group	
	2006 HK$'000	2005 HK$'000
Floating rate notes	548,730	548,213

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued HK$550 million five-year floating rate notes in 2004. The notes, which are guaranteed as to principal and interest by the Company, bear effective interest rates (which are equal to contracted interest rates) ranging from 4.24% to 5.04% (2005: 0.65% to 4.60%) and are repayable in full in 2009.

The Group has entered into an interest rate swap to hedge against the interest rate risk of certain floating rate notes (see note 20).

26. BORROWINGS *continued*

Notes: *continued*

(c) Fixed rate notes

	The Group	
	2006 HK$'000	2005 HK$'000
Fixed rate notes	1,555,406	1,553,967
Less: Notes repurchased and cancelled	(140,398)	–
Net gain attributable to hedged risks *(Note)*	(77,685)	(54,376)
	1,337,323	1,499,591

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US$200 million 10-year fixed rate notes in February 2002. The notes, which are guaranteed as to principal and interest by the Company, bear an effective interest rate (which is equal to contracted interest rate) of 7% per annum and are repayable in full in February 2012. During the year ended 31 December 2006, a total nominal amount of US$18 million has been repurchased and cancelled. As at 31 December 2006, the outstanding nominal amount of the notes was US$182 million.

The Group has entered into forward foreign exchange contracts to hedge against the foreign exchange rate risk of the coupon payments of the US$65 million fixed rate notes and the contracts are accounted for as cash flow hedges (see note 20).

The Group has also entered into cross currency swaps to hedge against the interest rate and foreign exchange rate risk in relation to the principal repayment and coupon payments of US$117 million (2005: US$135 million) of the fixed rate notes under fair value hedge (see note 20).

Note: The HK$77,685,000 (2005: HK$54,376,000) represented gains in fair value of the hedged interest rate and foreign exchange rate risk of the US$117 million (2005: US$135 million) fixed rate notes that were designated as the hedged instrument of fair value hedge.

(d) Zero coupon notes

	The Group	
	2006 HK$'000	2005 HK$'000
Zero coupon notes	218,202	207,114
Less: Net gain attributable to hedged risk *(Note)*	(3,634)	(10,895)
	214,568	196,219

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued 15-year zero coupon notes of nominal amount of HK$430 million at an issue price of around 46.37% in February 2005. The notes, which are guaranteed as to the nominal amount by the Company, bear an effective yield (which is equal to contracted yield) at the rate of 5.19% per annum and are repayable at par in February 2020. Hysan (MTN) Limited has the option to redeem the notes on 7 February 2015 at a price of about 77.4% of the nominal amount.

The Group has entered into interest rate swap to hedge against the interest rate risk of the zero coupon notes under fair value hedges (see note 20).

Note: The HK$3,634,000 (2005: HK$10,895,000) represented gains in fair value attributable to the hedged interest rate risk of the zero coupon notes under fair value hedge.

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable within one year. At 31 December 2005, the amounts were classified as non-current and were not repayable within one year.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and the Company and movements thereon during the year:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Retirement benefits scheme contributions HK$'000	Tax losses HK$'000	Total HK$'000
The Group					
At 1 January 2005	222,713	1,993,852	(1)	(15,621)	2,200,943
Charge to income for the year *(Note 10)*	1,236	663,448	1	13,603	678,288
Charge to equity for the year	–	220	–	–	220
At 31 December 2005	223,949	2,657,520	–	(2,018)	2,879,451
Charge to income for the year *(Note 10)*	19,906	448,378	–	819	469,103
Charge to equity for the year	–	274	–	–	274
At 31 December 2006	243,855	3,106,172	–	(1,199)	3,348,828

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
The Company			
At 1 January 2005	9,069	383,284	392,353
Charge to income for the year	1,338	96,386	97,724
At 31 December 2005	10,407	479,670	490,077
Credit to income for the year	(10,246)	(479,670)	(489,916)
At 31 December 2006	161	–	161

At 31 December 2006, the Group has unused estimated tax losses of HK$456 million (2005: HK$556 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$7 million (2005: HK$12 million) of such losses. No deferred tax asset has been recognised in respect of the remaining estimated tax losses of HK$449 million (2005: HK$544 million) as the utilisation of these estimated tax losses is uncertain. These estimated tax losses may be carried forward indefinitely.

At 31 December 2006, the Group has deductible temporary differences of HK$49 million (2005: HK$60 million). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The Company does not have any unused tax loss as at balance sheet date.

29. SHARE CAPITAL

	Number of shares		Share capital	
	2006 '000	2005 '000	2006 HK$'000	2005 HK$'000
Ordinary shares of HK$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,053,261	1,049,964	5,266,304	5,249,818
Issue of shares pursuant to scrip dividend scheme	1,700	3,297	8,502	16,486
Exercise of share options	176	–	881	–
At 31 December	1,055,137	1,053,261	5,275,687	5,266,304

On 9 June 2006 and 3 October 2006 respectively, the Company issued and allotted a total of 1,217,135 shares and 483,166 shares of HK$5 each in the Company at HK$23.26 and HK$20.76 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2005 final and 2006 interim dividends pursuant to the scrip dividend scheme announced by the Company on 9 May 2006 and 29 August 2006.

During the year, options to subscribe for a total of 128,267 shares and 48,000 shares were exercised at the exercise prices of HK$15.85 and HK$18.79 per share respectively. Details of options outstanding and movements during the year are set out in note 37.

These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

30. RESERVES OF THE COMPANY

The distributable reserves of the Company as at 31 December 2006 amounted to HK$5,574,477,000, being its retained profits and general reserve at that date (2005: HK$3,111,988,000, excluded unrealised fair value changes on investment properties and related deferred taxation).

	Share premium HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000 (Note)	Dividend reserve HK$'000	Employee share-based compensation HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005	1,380,278	154,995	100,000	314,989	–	5,103,500	7,053,762
Premium on issue of shares pursuant to scrip dividend scheme	40,186	–	–	–	–	–	40,186
Share issue expenses	(40)	–	–	–	–	–	(40)
Recognition of equity-settled share-based payments	–	–	–	–	2,171	–	2,171
Final dividend for 2004 distributed	–	–	–	(314,989)	–	–	(314,989)
Interim dividend for 2005 distributed	–	–	–	(105,224)	–	–	(105,224)
Dividend for 2005 declared	–	–	–	473,865	–	(473,865)	–
Profit for the year	–	–	–	–	–	643,656	643,656
At 31 December 2005	1,420,424	154,995	100,000	368,641	2,171	5,273,291	7,319,522
Premium on issue of shares pursuant to scrip dividend scheme	29,841	–	–	–	–	–	29,841
Premium on issue of shares on exercise of share options	3,031	–	–	–	(978)	–	2,053
Share issue expenses	(32)	–	–	–	–	–	(32)
Share options lapsed during the year	–	–	–	–	(13)	13	–
Recognition of equity-settled share-based payments	–	–	–	–	4,382	–	4,382
Final dividend for 2005 distributed	–	–	–	(368,641)	–	(45)	(368,686)
Interim dividend for 2006 distributed	–	–	–	(105,461)	–	–	(105,461)
Dividend for 2006 declared	–	–	–	527,516	–	(527,516)	–
Profit for the year	–	–	–	–	–	728,734	728,734
At 31 December 2006	1,453,264	154,995	100,000	422,055	5,562	5,474,477	7,610,353

Note: General reserve was set up from the transfer of retained profits.

31. DISPOSAL OF SUBSIDIARIES

The net assets of the wholly-owned subsidiaries at the date of disposal were as follows:

	2006 HK$'000	2005 HK$'000
Net assets disposed of		
Investment properties	–	2,699,341
Property, plant and equipment	–	26
Other receivables, prepayments and deposits	–	3,839
Accounts receivable	–	602
Accounts payable and accruals	–	(445)
Rental deposits from tenants	–	(23,796)
Amounts due to group companies	–	(1,149,264)
Total consideration	–	1,530,303
Satisfied by:		
Cash	–	2,679,567
Amounts due to group companies waived	–	(1,149,264)
	–	1,530,303
Net cash inflow arising on disposal:		
Cash consideration received during the year ended 31 December 2005	–	2,679,567

In 2005, the disposed wholly-owned subsidiaries contributed HK$455,550,000 and HK$2,679,567,000 to the Group's profit and cash flows respectively.

32. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124 (1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK$5,230,000 (2005: HK$5,301,000). Forfeited contributions for the year amounted to HK$2,876,000 (2005: HK$3,789,000) were refunded to the Group.

33. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	4.1	4.0	4.1	4.0
Corporate guarantee to subsidiaries				
– for issue of floating rate notes	–	–	550.0	550.0
– for issue of fixed rate notes	–	–	1,415.2	1,550.9
– for issue of zero coupon notes	–	–	430.0	430.0
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project of an associate	–	86.7	–	–
Guarantees to banks to provide financing facilities to				
– an associate	–	56.0	–	56.0
– subsidiaries	–	–	720.0	2,056.5

34. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had capital commitments in respect of the following:

	The Group		The Company	
	2006 HK$ million	2005 HK$ million	2006 HK$ million	2005 HK$ million
Investment properties:				
Authorised but not contracted for	1,011.9	–	–	–
Contracted but not provided for	152.9	69.0	–	33.5

35. LEASE COMMITMENTS

The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Within one year	–	–	14,665	4,602
In the second to fifth year inclusive	–	–	20,166	1,445
	–	–	34,831	6,047

Operating lease payments represent rentals payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for two years and three years respectively.

35. LEASE COMMITMENTS *continued*

The Group and the Company as lessor

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Within one year	830,532	735,027	–	92,906
In the second to fifth year inclusive	1,134,218	874,567	–	54,877
After five years	52,791	66,897	–	–
	2,017,541	1,676,491	–	147,783

Operating lease payments represent rentals receivable by the Group from its investment properties. Leases are negotiated and rentals are fixed for an average of one to three years.

36. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions

During the year, the Group has the following transactions with related parties:

		Substantial shareholder		Directors	
	Notes	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Expenses paid to	(a)	–	–	142	73
Gross rental income from	(b)	5,953	4,669	23,283	22,705
Construction cost paid for investment properties	(c)	–	–	–	10,894

At the balance sheet date, the Group has the following balances with related parties:

		Substantial shareholder		Directors	
	Notes	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Expenses payable to	(a)	–	–	–	48
Construction cost payable to	(c)	–	–	1,554	1,554
Amount due to a minority shareholder	(d)	–	–	94,443	94,443

Notes:

(a) These transactions were provision of services carried out in the normal course of business.

(b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business.

(c) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Ltd., whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

(d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest-free and is repayable within one year. At 31 December 2005, the amount was classified as non-current and was not repayable within one year. Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited.

36. RELATED PARTY TRANSACTIONS AND BALANCES *continued*

Related party transactions *continued*

At the balance sheet date, the Company has the following balances with related parties:

	2006 HK$'000	2005 HK$'000
Amounts due from subsidiaries	13,345,557	8,278,195
Less: Allowances on amounts due therefrom	(329,000)	(329,000)
	13,016,557	7,949,195
Amounts due to subsidiaries	104,371	21,280

Details of amounts due from and due to subsidiaries are set out in note 24 to the financial statements.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group and the Company during the year was as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	24,628	21,125
Share-based payments	3,310	1,498
Retirement benefits scheme contributions	299	265
	28,237	22,888

The remuneration of the Directors and key executives is determined by the Emoluments Review Committee and Managing Director respectively having regard to the performance of individuals and market trends.

37. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 1995 Share Option Scheme ("the 1995 Scheme")

The Company operates an Executive Share Option Scheme which was approved by shareholders on 28 April 1995 and had a term of 10 years. The 1995 Scheme expired on 28 April 2005. All outstanding options granted under the 1995 Scheme will continue to be valid and exercisable in accordance with the provisions of the 1995 Scheme.

The purpose of the 1995 Scheme was to strengthen the links between individual staff and shareholder interests.

Under the 1995 Scheme, options may be granted to employees of the Company or any of its wholly-owned subsidiaries selected by the Board at its discretion to subscribe for ordinary shares of the Company.

The maximum number of shares in respect of which options may be granted under the 1995 Scheme (together with shares issued and issuable under the scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the scheme and any other share option scheme) from time to time. The maximum number of shares issued under the scheme and other scheme will not exceed 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the scheme and any other share option scheme).

The maximum entitlement of each participant under the 1995 Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the 1995 Scheme. Under the 1995 Scheme, the exercise price was initially fixed at 80% of the average of the closing prices of the shares on the Stock Exchange for the 20 trading days immediately preceding the date of grant or the nominal value of a share whichever is the greater. The exercise price for options granted after 1 September 2001 was amended to comply with amendments to the Listing Rules. Consideration to be paid on each grant of option is HK$1.00, with full payment for exercise price to be made on exercise of the relevant option.

Grants made prior to 8 March 2005 are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

37. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Equity-settled share option scheme *continued*

The 2005 Share Option Scheme ("the 2005 Scheme")

The Company adopted a new share option scheme (the "2005 Scheme" and together with the 1995 Scheme are referred to as "the Schemes") at the Annual General Meeting ("AGM") held on 10 May 2005, which has a term of 10 years and will expire on 9 May 2015.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options may be granted to employees of the Company or any wholly-owned subsidiaries (including executive Directors) and such other persons as the Board may consider appropriate from time to time on the basis of their contribution on the development and growth of the Company and the subsidiaries to subscribe for ordinary shares of the Company.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue (being 104,996,365 shares) as at 10 May 2005, the date of the AGM approving the 2005 Scheme. Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option scheme of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholders' approval). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. Consideration to be paid on each grant of option is HK$1.00, with full payment for exercise price to be made on exercise of the relevant option.

Grant and vesting structures

With effect from 8 March 2005, the Board has approved a new grant vesting structure. Grants will be made on a periodic basis. Vesting period is three years in equal proportion. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

37. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Grant and vesting structures *continued*

The following table discloses movements of the Company's share options held by the Directors and employees during the current year:

Name	Balance as at 1.1.2006	Date of grant	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed	Balance as at 31.12.2006	Exercise price HK$	Exercise period
1995 Scheme								
Executive Director								
Peter T.C. Lee *(note a)*	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001– 6.1.2009
Eligible employees *(note b)*	535,000	30.3.2005	Nil	128,267 *(note d)*	5,400 *(note e)*	401,333	15.85	30.3.2005 – 29.3.2015
2005 Scheme								
Executive Director								
Michael T.H. Lee *(note c)*	240,000	10.5.2005	Nil	Nil	Nil	240,000	16.60	10.5.2005 – 9.5.2015
	Nil	30.3.2006	188,000	Nil	Nil	188,000	22.00 *(note g)*	30.3.2006 – 29.3.2016
Eligible employees *(note b)*	144,000	9.8.2005	Nil	48,000 *(note f)*	Nil	96,000	18.79	9.8.2005 – 8.8.2015
	120,000	12.10.2005	Nil	Nil	Nil	120,000	18.21	12.10.2005 – 11.10.2015
	Nil	30.3.2006	361,000	Nil	36,000 *(note e)*	325,000	22.00 *(note g)*	30.3.2006 – 29.3.2016
	Nil	26.6.2006	110,000	Nil	Nil	110,000	20.11 *(note h)*	26.6.2006 – 25.6.2016
	2,389,000		659,000	176,267	41,400	2,830,333		

Notes:

(a) Options granted to Peter T.C. Lee were under the 1995 Scheme with a holding period of 2 years and a vesting period of 5 years in equal proportions (i.e. 20% of the options will be vested in each year).

(b) Eligible Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance. The options granted under the Schemes have vesting periods of 3 years in equal proportions (i.e. 33% of the options will be vested in the first year, second year and third year respectively).

(c) Options granted to Michael T.H. Lee were under the 2005 Scheme with a vesting period of 3 years in equal proportions.

(d) The weighted average closing price of the shares of the Company immediately before the dates on which the options was exercised was HK$22.09.

(e) The options for 41,400 shares lapsed during the year upon the resignation of certain Eligible Employees.

(f) The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK$21.00.

(g) The closing price of the shares of the Company immediately before the date of grant (as of 29 March 2006) was HK$22.45.

(h) The closing price of the shares of the Company immediately before the date of grant (as of 23 June 2006) was HK$20.25.

37. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Grant and vesting structures *continued*

The following table discloses movements of the Company's share options held by the Directors and employees in prior year:

Name	Balance as at 1.1.2005	Date of grant	Changes during the year Granted	Changes during the year Exercised	Changes during the year Cancelled/ lapsed	Balance as at 31.12.2005	Exercise price HK$	Exercisable period (note)
1995 Scheme								
Executive Directors								
Peter T.C. Lee	1,350,000	7.1.1999	Nil	Nil	Nil	1,350,000	9.22	7.1.2001 – 6.1.2009
Eligible employees	Nil	30.3.2005	675,000	Nil	140,000	535,000	15.85	30.3.2005 – 29.3.2015
2005 Scheme								
Executive Directors								
Michael T.H. Lee	Nil	10.5.2005	240,000	Nil	Nil	240,000	16.60	10.5.2005 – 9.5.2015
Eligible employees	Nil	9.8.2005	144,000	Nil	Nil	144,000	18.79	9.8.2005 – 8.8.2015
	Nil	12.10.2005	120,000	Nil	Nil	120,000	18.21	12.10.2005 – 11.10.2015
	1,350,000		1,179,000	Nil	140,000	2,389,000		

Note:
As at 31 December 2005, options granted to Peter T.C. Lee are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue. All other options are subject to a vesting period of 3 years in equal proportions.

The Group has applied HKFRS 2 "Share-based Payments" to account for its share options granted after 7 November 2002 and vested after 1 January 2005. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's employee share-based compensation reserve. In the current year, the Group recognised the share option expenses of HK$4,382,000 (2005: HK$2,171,000) in relation to share options granted by the Company, of which HK$1,171,000 (2005: HK$524,000) related to a Director (see note 7), with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

37. SHARE-BASED PAYMENT TRANSACTIONS *continued*

Grant and vesting structures *continued*

Details of the fair values of share options determined at the date of grant using the Model with significant variables and assumptions are as follows:

	Date of grant	
	30.3.2006	26.6.2006
Closing share price at the date of grant	HK$22.00	HK$20.00
Exercise price	HK$22.00	HK$20.11
Risk free rate *(note a)*	4.539%	4.915%
Expected life of option *(note b)*	10 years (till 29 March 2016)	10 years (till 25 June 2016)
Expected volatility *(note c)*	27.04%	32.00%
Expected dividend per annum *(note d)*	HK$0.390	HK$0.392
Estimated fair values of options granted	HK$4,271,220	HK$859,247
Closing share price immediately before date of grant	HK$22.45	HK$20.25

Notes:

(a) Risk free rate: being the approximate yields of 10-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

(b) Expected life of option: being the period of 10 years commencing on the date of grant, adjusted based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

(c) Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.

(d) Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

38. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company indirectly	directly	Principal activities
Admore Investments Limited	Hong Kong	HK$2	–	100%	Investment holding
Golden Capital Investment Limited	Hong Kong	HK$2	–	100%	Investment holding
HD Treasury Limited	Hong Kong	HK$2	–	100%	Treasury operation
HD Treasury Management Limited	Hong Kong	HK$2	–	100%	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK$1	–	100%	Investment holding
Hysan Leasing Company Limited	Hong Kong	HK$2	–	100%	Leasing administration
Hysan Treasury Limited	Hong Kong	HK$2	–	100%	Treasury operation
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	Treasury operation
Hysan Property Management Limited	Hong Kong	HK$2	–	100%	Property management
Kwong Hup Holding Limited	British Virgin Islands	HK$1	–	100%	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK$1,000	–	100%	Property investment
Minsal Limited	Hong Kong	HK$2	–	100%	Property investment
Mondsee Limited	Hong Kong	HK$2	–	100%	Property investment
Stangard Limited	Hong Kong	HK$300,000	–	100%	Provision of security services
Teamfine Enterprises Limited	Hong Kong	HK$2	–	100%	Investment holding
Tohon Development Limited	Hong Kong	HK$2	–	100%	Property investment
Bamboo Grove Recreational Services Limited	Hong Kong	HK$2	100%	–	Resident club management
Earn Extra Investments Limited	Hong Kong	HK$1	100%	–	Property investment
Gearup Investments Limited	Hong Kong	HK$1	100%	–	Property development
HD Investment Limited	British Virgin Islands	HK$1	100%	–	Investment holding
Kochi Investments Limited	British Virgin Islands	HK$1	100%	–	Capital market investment
Lee Theatre Realty Limited	Hong Kong	HK$10	100%	–	Property investment
Leighton Property Company Limited	Hong Kong	HK$2	100%	–	Property investment
Main Rise Development Limited	Hong Kong	HK$2	100%	–	Investment holding
OHA Property Company Limited	Hong Kong	HK$2	100%	–	Property investment
Perfect Win Properties Limited	Hong Kong	HK$2	100%	–	Property investment
Silver Nicety Company Limited	Hong Kong	HK$20	100%	–	Property investment
Barrowgate Limited	Hong Kong	HK$10,000	65.36%	–	Property investment

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than floating rate notes, fixed rate notes and zero coupon notes issued by Hysan (MTN) Limited as disclosed in note 26, none of the subsidiaries had issued any debt securities at the year-end.