

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2006.

## Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are property development, property investment, hotel and restaurant operations, manager of real estate investment trust, trading of building materials, share investment, provision of management and maintenance services, property management, insurance agency and fitness centre operation.

## Results And Dividends

The results of the Group for the year are set out in the consolidated income statement. Dividends paid and proposed for the year are set out in note 13 to the consolidated financial statements.

## Reserves

Movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity.

## Five Years' Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in Appendix II.

## Fixed Assets

The movements in the fixed assets of the Group during the year are set out in notes 15 and 17 to the consolidated financial statements.

Details of the major properties of the Group at 31 December 2006 are set out in Appendix I.

## Share Capital

The movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

## Purchase, Sale or Redemption of Shares

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

## Share Option Scheme

Details of the Company's Share Option Scheme are set out in this Report from pages 36 to 37 and note 30 to the consolidated financial statements.

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## Directors

The Directors of the Company during the year and up to the date of this report were:

The late Mr. LO Ying Shek (passed away on 1 September 2006)

Dr. LO Ka Shui

Mr. LO Kai Shui

Madam LO TO Lee Kwan

Mr. CHENG Hoi Chuen, Vincent\*

Professor WONG Yue Chim, Richard\*

Mrs. LEE Pui Ling, Angelina\*

Mr. LO Hong Sui, Antony

Madam LAW Wai Duen

Mr. LO Hong Sui, Vincent

Dr. LO Ying Sui, Archie

Mr. KAN Tak Kwong

\* Independent Non-executive Directors

In accordance with the Company's Bye-Laws, Madam LO TO Lee Kwan, Mrs. LEE Pui Ling, Angelina, Mr. LO Hong Sui, Antony and Mr. LO Hong Sui, Vincent shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each Independent Non-executive Director is the period up to his/her retirement by rotation in accordance with the Company's Bye-Laws.

## Directors' Interests in the Share Capital of the Company and Associated Corporations

As at 31 December 2006, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong ("SFO") were as follows:

### The Company

Name of Director	Number of shares (Long Positions)				Total	Percentage of issued share capital	Outstanding share options	Other derivative interests
	Personal interests	Family interests	Corporate interests	Other interests				
LO Ka Shui	7,554,551	–	26,217,577 Note (6)	236,071,188 Note (1)	269,843,316	44.91	300,000	7,320,000 Note (8)
LO Kai Shui	–	–	513,113 Note (7)	195,755,331 Note (1)	196,268,444	32.66	200,000	–
CHENG Hoi Chuen, Vincent	–	10,000	–	–	10,000	–	–	–
LO Hong Sui, Antony	2,916	–	–	–	2,916	–	50,000	–
LAW Wai Duen	240,451	–	–	195,755,331 Note (1)	195,995,782	32.62	50,000	–
LO Hong Sui, Vincent	291	–	–	–	291	–	–	–
LO Ying Sui, Archie	3,855,046	3,700	33,269,396 Note (3)	195,755,331 Note (1)	232,883,473	38.76	–	–
KAN Tak Kwong	840,566	–	–	–	840,566	0.14	120,000	–

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### Directors' Interests in the Share Capital of the Company and Associated Corporations (continued)

During the year ended 31 December 2006, movements of the share options granted to Directors (some are also substantial shareholders) under the Company's share option scheme as required to be disclosed according to Rule 17.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of Director	*Year of grant of options	Number of shares					Options lapsed on 16.1.2006	Outstanding options at 31.12.2006
		Outstanding options at 1.1.2006	Options granted	Options exercised	Options cancelled			
LO Ying Shek (Late)	2004	200,000	-	(200,000)	-	-	-	
	2005	50,000	-	-	(50,000)	-	-	
		250,000	-	(200,000)	(50,000)	-	-	
LO Ka Shui	2004	200,000	-	(200,000)	-	-	-	
	2005	300,000	-	-	-	-	300,000	
		500,000	-	(200,000)	-	-	300,000	
LO Kai Shui	2001	180,000	-	(180,000)	-	-	-	
	2002	150,000	-	(150,000)	-	-	-	
	2003	150,000	-	(150,000)	-	-	-	
	2004	200,000	-	(200,000)	-	-	-	
	2005	200,000	-	-	-	-	200,000	
		880,000	-	(680,000)	-	-	200,000	
LO Hong Sui, Antony	2005	50,000	-	-	-	-	50,000	
LAW Wai Duen	2005	50,000	-	-	-	-	50,000	
KAN Tak Kwong	2001	130,000	-	(130,000)	-	-	-	
	2002	110,000	-	(110,000)	-	-	-	
	2003	100,000	-	(100,000)	-	-	-	
	2004	100,000	-	(100,000)	-	-	-	
	2005	120,000	-	-	-	-	120,000	
		560,000	-	(440,000)	-	-	120,000	
Total:		2,290,000	-	(1,520,000)	(50,000)	-	720,000	

## Directors' Interests in the Share Capital of the Company and Associated Corporations (continued)

Notes:

- (a) Options were granted under the Great Eagle Holdings Limited Share Option Scheme adopted on 10 June 1999.
  - (b) Consideration paid for each grant of option was HK\$1.00.
  - (c) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$25.96.
  - (d) No share options were granted in the year of 2006.
- \* Further required particulars of share options granted in each year are set out in note 30 to the consolidated financial statements under the heading of Share Option.

Other than as disclosed above, none of the Directors or their associates had any interest or short position in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO).

## Substantial Shareholders' Interests in the Company

As at 31 December 2006, the following Shareholders, not being Directors of the Company, were recorded in the register of interests and short positions in the shares or underlying shares kept under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued share capital of the Company:

Name of Shareholder	Number of shares (Long Positions)	Percentage of issued share capital	Notes
KSL Management Limited	40,315,857	6.71	(2)
Surewit Finance Limited	39,175,573	6.52	(2)
Adscan Holdings Limited	33,269,396	5.54	(3)
HSBC International Trustee Limited	237,600,575	39.54	(4)
Powermax Agents Limited	143,082,768	23.81	(5)

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## Substantial Shareholders' Interests in the Company (continued)

Notes:

- (1) The 195,755,331 shares of Mr. LO Kai Shui, Madam LAW Wai Duen and Dr. LO Ying Sui, Archie and 195,755,331 shares of the 236,071,188 shares of Dr. LO Ka Shui were the same parcel of shares.
- (2) 39,175,573 shares of Surewit Finance Limited, a direct wholly-owned subsidiary of KSL Management Limited ("KSLM"), and 39,175,573 shares of 40,315,857 shares of KSLM were the same parcel of shares. 40,315,857 shares of KSLM were duplicated in the interests of Dr. LO Ka Shui. The said shares were held for a discretionary trust of which Dr. LO Ka Shui was the founder.
- (3) These 33,269,396 shares held by Adscan Holdings Limited were duplicated in the interests of Dr. LO Ying Sui who had entire interest in said company.
- (4) 195,755,331 shares of the 237,600,575 shares were the same parcel of shares as described in Note (1). HSBC International Trustee Limited ("HKIT"), as trustee of a discretionary trust in which the persons mentioned in Note (1) were the beneficiaries, were interested in said 195,755,331 shares. 40,315,857 shares of the 237,600,575 shares were the same parcel of shares as described in Note (2). The 2 companies mentioned in Note (2) were the wholly-owned subsidiaries of HKIT. The remaining shares were held by other trusts for which HKIT acted as the trustee.
- (5) These 143,082,768 shares held by Powermax Agents Limited were duplicated in the interests of HKIT. This company was a direct wholly-owned subsidiary of HKIT.
- (6) These 26,217,577 shares were held by a company in which Dr. LO Ka Shui had entire interest.
- (7) These 513,113 shares were held by companies in which Mr. LO Kai Shui had entire interests.
- (8) Dr. LO Ka Shui has entered certain agreements to sell European Put Options covering a total of 7,320,000 shares.

Other than as disclosed above, no notifications were received by the Company from any person (other than Directors of the Company) of having an interest or short position in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO).

## Directors' Interest in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Connected Transactions

### 1. Reorganization in connection with the transfer of ownership of the Group's interest in Citibank Plaza to Champion Real Estate Investment Trust ("Champion REIT")

On 26 April 2006, six reorganization agreements were entered into between the trustee of Champion REIT ("Trustee") and six subsidiaries of the Company ("Vendor Companies") respectively ("Reorganization Agreements"). In respect of two of the Reorganization Agreements, the Company, Kerry Properties Limited ("Kerry Properties") and Wing Tai Corporation Limited ("Wing Tai") are parties in which they acted as guarantors and the Company is also a party to the other four Reorganization Agreements in which it acted as guarantor. The six Vendor Companies, through six holding companies ("Holding Companies") together owned the legal and beneficial interest in a substantial portion of Citibank Plaza ("Property"). Four of the Vendor Companies and four of the Holding Companies were indirect wholly owned subsidiaries of the Company while the other two Vendor Companies and two Holding Companies were each indirectly owned by the Company (as to 85.9%), Kerry Properties (as to 10.2%) and Wing Tai (as to 3.9%).

Pursuant to the Reorganization Agreements, the Trustee on behalf of Champion REIT had agreed to acquire the entire issued share capital of the six Holding Companies from the six Vendor Companies. The final consideration for the acquisition was HK\$19,300,135,000, after adjustment to ensure that the consideration reflects the value of the Property implied by the offer price of the units of Champion REIT offered pursuant to the global offering of Champion REIT and adjustment to address any overstatement or understatement of the current assets/current liabilities and of the cash balance and deposit at bank of the Holding Companies and their subsidiaries as of the date on which the units of Champion REIT are first listed on the Stock Exchange.

As part of the reorganization pursuant to the Reorganization Agreements, units of Champion REIT were issued to a wholly owned subsidiary of Kerry Properties. Kerry Properties is a connected person of the Company by virtue of its being a substantial shareholder of certain of the Company's subsidiaries. Accordingly, the reorganization constituted a connected transaction for the Company under the Listing Rules. However, the Stock Exchange has granted the Company a waiver pursuant to Rule 14A.43 of the Listing Rules from the requirement to hold a general meeting to approve this connected transaction on the basis that the requirements under Rule 14A.43 of the Listing Rules are met.

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## Connected Transactions (continued)

### 2. Contract for the supply and installation of raised access floor

On 15 November 2006, Toptech Co. Limited (“Toptech”), a wholly owned subsidiary of the Company entered into a contract with Shui On Construction Company Limited (“Shui On Construction”) for the supply and installation of raised access floor (“Works”) in one of the construction projects of Shui On Construction (“Contract”).

The contract sum of the Contract is HK\$7,091,663, subject to fluctuation in labour cost and variation of the Works in accordance with the terms of the Contract. Payment will be made in accordance with the progress of the Works done. Up to 5% of the total contract sum will be retained by Shui On Construction as retention money which will be released to Toptech as to 50% after six months from the issue of the practical completion certificate of the relevant building. The remaining retention money will be released after 12 months from the issue of the practical completion certificate or after rectification of the defective Works, whichever is earlier.

Under the Contract, an one-off transaction fee for handling the tender process, which equals to 0.3% of the total contract sum, shall be deducted from the first progress payment payable by Shui On Construction to Toptech.

If the Works are not completed on or before such date as determined in accordance with the terms of the Contract, Toptech shall pay a daily penalty of 0.3% of the total contract sum. The contract sum was determined on arm’s length basis through an open tender process conducted by Shui On Construction.

Toptech is a wholly owned subsidiary of the Company and Shui On Construction is a wholly owned subsidiary of Shui On Construction and Materials Limited. Shui On Construction is a connected person of the Company by virtue of its being an associate of Mr. Lo Hong Sui, Vincent, a director of the Company. The transaction constitutes a connected transaction for the Company under Rule 14A.13 of the Listing Rules.

## Corporate Governance

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Company had complied with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year, with exception of a few deviations. Detailed information on the Company’s corporate governance practices is set out in the Corporate Governance Report contained in pages 27 to 32 of the Annual Report.

## Arrangements to Acquire Shares or Debentures

Except for the Great Eagle Holdings Limited Share Option Scheme established by the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## **Service Contracts**

There is no service contract with a Director which is not determinable by the Company within one year without payment of compensation (other than statutory compensations).

## **Pre-emptive Rights**

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against such rights under the laws in Bermuda.

## **Major Customers and Suppliers**

During the year, the sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of total sales and purchases respectively.

## **Sufficiency of Public Float**

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

## **Donations**

Donations made by the Group for charitable and other purposes amounted to HK\$2,662,000.

## **Auditors**

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**LO Ka Shui**

*Chairman*

*and Managing Director*

Hong Kong, 11 April 2007