

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

The Company is a company incorporated in Bermuda with limited liability 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 in the introduction to the annual report.

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are 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.

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

2. Application of New or Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

At the date of authorisation of these consolidated financial statements, the following Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations (“HK(IFRIC)”) were issued but not yet effective. The Directors anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ⁸
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
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

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

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

⁷ Effective for annual periods beginning on or after 1 January 2008.

⁸ Effective for annual periods beginning on or after 1 January 2009.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at 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 Hong Kong Institute of Certified Public Accountants. 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.

All significant 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 share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority 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 associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and 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 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.

3. Significant Accounting Policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents accounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Rental income from operating lease is recognised in the income statement on a straight-line basis over the terms of the relevant leases.

Hotel operation income is recognised upon the provision of services and the utilisation by guests of the hotel facilities.

Building management service income is recognised when building management services are provided.

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 estimated future cash receipts through the expected life of the financial assets to that assets net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Service income is recognised when services are provided.

Sales of goods are recognised when goods are delivered and title is passed.

Agency commission income is recognised when services are rendered.

Joining fee is recognised as revenue when a new member signs up.

Membership fee is recognised as revenue on a straight-line basis over the membership period. Other service income is recognised when services are rendered. Membership fee and other service fee received in advance are recorded as deferred income.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold land and building transferred from investment properties are stated at deemed cost equal to its fair value at the date of change in use and is continued to be accounted for as if it was an asset held under finance lease.

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost 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, at the following rates per annum:

Leasehold land held under finance lease	Over the shorter of the term of the lease, or 50 years
Owner occupied buildings and hotel buildings	Over the shorter of the term of the lease, or 50 years
Furniture and fixtures, motor vehicles and plant and machinery	20%

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 the derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments representing prepaid land costs are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Prepaid lease payment is amortised to the consolidated income statement over the term of relevant land leases.

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 is determined 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.

Leasing

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.

3. Significant Accounting Policies (continued)

Leasing (continued)

The Group as lessee

Rentals payable under operating leases 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. 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 Group (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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3. Significant Accounting Policies (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered the service entitling them to the contribution.

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 income statement 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

3. Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell except for certain financial assets and investment properties which are measured at fair value.

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 into two categories, 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.

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 non-current loan receivables, debtors and pledged bank deposits and balances) 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.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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 in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit and 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 the 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, 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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (including creditors, unsecured bank overdraft and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

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 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 (share options 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 share options reserve.

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

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has made judgments about assumptions concerning the future that have significant risk of causing a material judgment on the amounts recognised in the consolidated financial statements within the next financial year.

Investment properties

At 31 December 2006, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used income capitalization method and by reference to market price of relevant period for similar properties. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Fair value

The fair value of listed available for sale investments, loan receivables, trade and other debtors, trade and other creditors and derivative financial instruments are determined as follows:

- the fair value of listed available for sale investments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- the fair value of loan receivables, trade and other debtors and trade and other creditors are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- the fair value of derivatives financial instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include loans receivable, pledged bank deposits, trade debtors, bank balances and cash, trade creditors, derivative financial instruments, unsecured bank overdrafts and borrowings. 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group's cash flow interest rate risk relates to floating-rate bank and other borrowings. The Group's fair value interest rate risk relates to fixed-rate short term bank deposits and fixed-rate bank and other borrowings. The Group will continue to maintain a reasonable mix of floating-rate and fixed-rate borrowings and take actions to hedge against any foreseeable interest rate exposure, if necessary. The interest rates and terms of repayment of bank and other borrowings of the Group are disclosed in note 27.

(ii) Currency risk

The Group have foreign currency sales and purchases and certain borrowings of the Group are denominated in foreign currencies which expose the Group to foreign currency risk.

(iii) Other price risk

The Group's available for sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk in relation to its available for sale investments.

5. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Group's principal financial assets are pledged bank deposits, bank balances and cash, trade and other debtors, loan receivables and available for sale investments. The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade and other debtors. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debtors at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

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

6. Revenue

Revenue represents the aggregate of gross rental income, building management service income, income from hotel and restaurant operations, proceeds from sales of building materials, property management and maintenance income, agency commission and fitness centre operation.

	2006 HK\$'000	2005 HK\$'000
Property rental income	821,733	959,537
Building management service income	108,341	142,204
Hotel income	2,592,005	2,208,475
Sales of goods	127,526	112,317
Other	122,648	98,668
	3,772,253	3,521,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into the following operations:

Property investment	–	income from leasing of properties and furnished apartments and properties held for investment potential.
Hotel operation	–	hotels accommodation, food and banquet operations.
Other operations	–	sales of building materials, restaurant operation, provision of property management, maintenance and agency services, provision of insurance agency services and fitness centre operation.

These operations are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2006

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	930,074	2,592,005	250,174	–	3,772,253
Inter-segment sales	34,654	–	21,650	(56,304)	–
Total	964,728	2,592,005	271,824	(56,304)	3,772,253
Inter-segment sales are charged at a mutually agreed price.					
RESULTS					
Segment results	562,783	525,216	55,501		1,143,500
Unallocated corporate income					143,453
Unallocated corporate expenses					(100,079)
Fair value changes on investment properties	342,167	–	–		342,167
Fair value changes on derivative financial instruments					37,206
Loss on disposal of property investment subsidiaries	(264,620)	–	–		(264,620)
Finance costs					(713,884)
Share of results of associates	160	–	14,295		14,455
Profit before tax					602,198
Income taxes					(194,674)
Profit for the year					407,524

7. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
Capital expenditure	31,090	253,163	8,992	293,245
Depreciation on property, plant and equipment	7,380	212,918	9,011	229,309
Amortisation of prepaid lease payments	166	44,605	–	44,771
Non-cash expenses other than depreciation and amortisation	–	8,227	–	8,227

BALANCE SHEET

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	15,536,388	9,849,373	5,383,936	30,769,697
Interests in associates	849	–	28,426	29,275
Unallocated corporate assets				2,399,782
Consolidated total assets				33,198,754
LIABILITIES				
Segment liabilities	694,315	412,456	111,584	1,218,355
Unallocated corporate liabilities				11,931,464
Consolidated total liabilities				13,149,819

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7. Business and Geographical Segments (continued)

Business segments (continued)

2005

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	1,101,741	2,208,475	210,985	–	3,521,201
Inter-segment sales	29,695	–	31,103	(60,798)	–
Total	<u>1,131,436</u>	<u>2,208,475</u>	<u>242,088</u>	<u>(60,798)</u>	<u>3,521,201</u>
Inter-segment sales are charged at a mutually agreed price.					
RESULTS					
Segment results	<u>674,275</u>	<u>308,779</u>	<u>34,533</u>		1,017,587
Unallocated corporate expenses					(98,217)
Fair value changes on investment properties	12,982,057	–	–		12,982,057
Fair value changes on derivative financial instruments					258,944
Finance costs					(760,710)
Share of results of associates	140	–	9,110		9,250
Profit before tax					13,408,911
Income taxes					(2,323,495)
Profit for the year					<u>11,085,416</u>

7. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
Capital expenditure	209,638	182,015	7,657	399,310
Depreciation on property, plant and equipment	4,525	191,552	7,513	203,590
Amortisation of prepaid lease payments	166	44,605	–	44,771
Non-cash expenses other than depreciation and amortisation	1,746	10,119	13,455	25,320

BALANCE SHEET

	Property investment HK\$'000	Hotel operation HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	38,292,774	9,469,555	209,230	47,971,559
Interests in associates	689	–	18,071	18,760
Unallocated corporate assets				507,168
Consolidated total assets				48,497,487
LIABILITIES				
Segment liabilities	1,017,582	362,504	122,454	1,502,540
Unallocated corporate liabilities				20,740,954
Consolidated total liabilities				22,243,494

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7. Business and Geographical Segments (continued)

Geographical segments

A geographical analysis of the Group's revenue is as follows:

	2006 HK\$'000	2005 HK\$'000
Hong Kong	2,024,311	1,957,162
North America	957,647	873,210
Europe	419,047	357,145
Asia Pacific, other than Hong Kong	371,248	333,684
	3,772,253	3,521,201

An analysis of the carrying amount of segment assets and additions to investment properties, property, plant and equipment analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to investment properties, property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	23,956,899	41,829,647	113,529	80,138
North America	3,730,132	3,435,144	47,535	231,151
Europe	1,924,190	1,659,995	78,065	35,711
Asia Pacific, other than Hong Kong	1,158,476	1,046,773	54,116	52,310
	30,769,697	47,971,559	293,245	399,310

8. Other Income

Included in other income are:

	2006 HK\$'000	2005 HK\$'000
Dividend received from an unlisted investment	1,118	–
Dividends received from listed investments	809	717
Gain on partial disposal of an associate	387	–
Gain on disposal of property, plant and equipment	56	–
Gain on disposal of a listed investment	7,691	–
Interest income	177,995	32,386
Net exchange gain	12,044	120
Allowance for doubtful debts written back	745	–

9. Finance Costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings not wholly repayable within five years	91,157	78,204
Interest on bank borrowings wholly repayable within five years	488,211	573,592
Interest on other loans not wholly repayable within five years	–	20,160
Interest on other loans wholly repayable within five years	117,616	76,843
Other borrowing costs	16,900	11,911
	713,884	760,710

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10. Income Taxes

	2006 HK\$'000	2005 HK\$'000
Current tax:		
Current year:		
Hong Kong Profits Tax	36,461	50,442
Other jurisdictions	29,984	22,932
	66,445	73,374
Overprovision in prior years:		
Hong Kong Profits Tax	(96)	(241)
Other jurisdictions	(1,090)	(4,688)
	(1,186)	(4,929)
	65,259	68,445
Deferred tax (note 28):		
Current year	129,415	2,246,785
Underprovision in prior years	–	8,265
	129,415	2,255,050
	194,674	2,323,495

Hong Kong Profits Tax is calculated at 17.5% of estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

10. Income Taxes (continued)

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

	2006 HK\$'000	2005 HK\$'000
Profit before tax	602,198	13,408,911
Tax at the domestic income tax rate of 17.5%	105,385	2,346,559
Tax effect of expenses that are not deductible for tax purpose	46,172	33,630
Tax effect of income that is not taxable for tax purpose	(15,934)	(51,663)
(Over)underprovision in prior years	(1,186)	3,336
Tax effect of share of results of associates	(2,530)	(1,619)
Tax effect of tax losses not recognised	44,817	24,974
Utilisation of tax losses previously not recognised	(23,879)	(34,868)
Effect of different tax rates of subsidiaries operating in other jurisdictions	36,829	11,117
Others	5,000	(7,971)
Tax charge for the year	194,674	2,323,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Profit for the Year

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging:		
Staff costs	980,528	887,286
Share based payments	5,348	7,255
	985,876	894,541
Depreciation on		
– hotel buildings	148,388	155,481
– other property, plant and equipment	80,921	48,109
	229,309	203,590
Allowance for doubtful debts	–	13,325
Auditors' remuneration	6,435	4,563
Loss on disposal of property, plant and equipment	–	130
Fitting-out works of investment properties and hotel buildings written off	8,227	11,865
Operating lease payments on rented premises	3,491	2,485
Cost of inventories recognised as an expense	364,151	320,421
Share of tax of associates (included in the share of results of associates)	1,923	275
and after crediting:		
Rental income from investment properties less related outgoings of HK\$253,420,000 (2005: HK\$276,908,000)	568,313	682,629

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the twelve (2005: twelve) directors were as follows:

	2006					Total HK\$'000
	Fee HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses HK\$'000	Share based payments HK\$'000	Retirement benefits scheme contributions HK\$'000	
Mr. LO Ying Shek (Late)	67	–	–	110	–	177
Dr. LO Ka Shui	100	3,885	780	834	146	5,745
Mr. LO Kai Shui	100	1,104	230	562	55	2,051
Madam LO TO Lee Kwan	100	–	–	–	–	100
Mr. CHENG Hoi Chuen, Vincent	310	–	–	–	–	310
Professor WONG Yue Chim, Richard	270	–	–	–	–	270
Mrs. LEE Pui Ling, Angelina	270	–	–	–	–	270
Mr. LO Hong Sui, Antony	100	1,055	220	136	53	1,564
Madam LAW Wai Duen	100	430	90	136	22	778
Mr. LO Hong Sui, Vincent	100	–	–	–	–	100
Dr. LO Ying Sui, Archie	100	–	–	–	–	100
Mr. KAN Tak Kwong	100	2,827	3,200	335	141	6,603
	1,717	9,301	4,520	2,113	417	18,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Directors' and Employees' Emoluments (continued)

	2005					Total HK\$'000
	Fee HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses HK\$'000	Share based payments HK\$'000	Retirement benefits scheme contributions HK\$'000	
Mr. LO Ying Shek (Late)	60	2,820	–	682	–	3,562
Dr. LO Ka Shui	60	3,761	550	1,303	132	5,806
Mr. LO Kai Shui	60	1,077	135	1,055	54	2,381
Madam LO TO Lee Kwan	60	–	–	–	–	60
Mr. CHENG Hoi Chuen, Vincent	140	–	–	–	–	140
Professor WONG Yue Chim, Richard	125	–	–	–	–	125
Mrs. LEE Pui Ling, Angelina	125	–	–	–	–	125
Mr. LO Hong Sui, Antony	60	1,029	129	–	51	1,269
Madam LAW Wai Duen	60	420	53	–	21	554
Mr. LO Hong Sui, Vincent	60	–	–	–	–	60
Dr. LO Ying Sui, Archie	60	–	–	–	–	60
Mr. KAN Tak Kwong	60	2,590	539	579	130	3,898
	930	11,697	1,406	3,619	388	18,040

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2005: three) were Directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2005: two) individuals were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	7,798	5,294
Discretionary bonuses	1,810	345
Share based payments	347	366
Retirement benefits scheme contributions	328	355
	10,283	6,360

12. Directors' and Employees' Emoluments (continued)

Employees' emoluments (continued)

	2006 Number of employees	2005 Number of employees
Bands:		
HK\$2,500,001 – HK\$3,000,000	1	1
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	1
	3	2

13. Dividends

	2006 HK\$'000	2005 HK\$'000
Dividends paid:		
– Final dividend of HK20 cents in respect of 2005 (2005: HK13 cents in respect of 2004) per ordinary share	119,186	76,849
– Interim:		
Dividend of HK5 cents in respect of 2006 (2005: HK3.5 cents) per ordinary share	30,042	20,801
Special dividend of HK\$5 in respect of 2006 (2005: nil) per ordinary share	3,004,225	–
	3,034,267	20,801
	3,153,453	97,650
Dividends proposed:		
– Proposed final dividend of HK25 cents in respect of 2006 (2005: HK20 cents) per ordinary share	150,216	119,129

The proposed final dividend in respect of 2006 is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Earnings Per Share

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

	2006 HK\$'000	2005 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	405,506	10,028,139
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	597,809,803	592,177,466
Effect of dilutive potential shares:		
Share options	1,066,642	1,380,383
Weighted average number of shares for the purpose of diluted earnings per share	598,876,445	593,557,849

15. Property, Plant and Equipment

	Hotel buildings HK\$'000	Owner occupied land and buildings situated in Hong Kong HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
COST						
At 1 January 2005	8,046,866	15,956	143,006	4,870	3,810	8,214,508
Exchange adjustments	(245,274)	–	(2)	–	–	(245,276)
Additions	48,305	–	141,368	1,038	5	190,716
Transfer in	146,965	207,768	–	–	–	354,733
Disposals/written off	(3,752)	–	(6,377)	(135)	–	(10,264)
At 31 December 2005	7,993,110	223,724	277,995	5,773	3,815	8,504,417
Exchange adjustments	323,216	–	5,163	–	–	328,379
Additions	106,689	–	155,466	–	–	262,155
Transfer in	5,652	80,397	–	–	–	86,049
Disposals/written off	(11,894)	–	(13,413)	(625)	–	(25,932)
At 31 December 2006	8,416,773	304,121	425,211	5,148	3,815	9,155,068
DEPRECIATION AND IMPAIRMENT						
At 1 January 2005	939,756	6,502	81,489	3,980	3,264	1,034,991
Exchange adjustments	(30,405)	–	(318)	–	–	(30,723)
Charge for the year	155,481	4,155	43,197	567	190	203,590
Eliminated on disposal	–	–	(6,218)	(135)	–	(6,353)
At 31 December 2005	1,064,832	10,657	118,150	4,412	3,454	1,201,505
Exchange adjustments	42,467	–	2,067	–	–	44,534
Charge for the year	148,388	7,019	73,296	416	190	229,309
Eliminated on disposal	(3,667)	–	(2,889)	(625)	–	(7,181)
At 31 December 2006	1,252,020	17,676	190,624	4,203	3,644	1,468,167
CARRYING VALUES						
At 31 December 2006	7,164,753	286,445	234,587	945	171	7,686,901
At 31 December 2005	6,928,278	213,067	159,845	1,361	361	7,302,912

17. Investment Properties

	2006 HK\$'000	2005 HK\$'000
FAIR VALUE		
At 1 January	37,049,745	24,793,003
Exchange adjustments	5,279	(21,971)
Additions	24,850	208,594
Disposal of property investment subsidiaries	(22,670,000)	–
Increase in fair value recognised in the consolidated income statement	342,167	12,982,057
Disposals/write-off	–	(303,405)
Transfer to property, plant and equipment	(86,049)	(354,733)
Reclassification to non-current assets held for sale	–	(253,800)
At 31 December	14,665,992	37,049,745

- (a) The Group's property interests of HK\$12,839,600,000 (2005: HK\$35,340,485,000) which are 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.
- (b) The fair value of the Group's investment properties at 31 December 2006 have been arrived at on a basis of valuation carried out by independent professional property valuers not connected with the Group:

Investment properties in Hong Kong – Knight Frank Petty Limited.

Investment properties in the United States of America ("USA") – Cushman & Wakefield of California, Inc.

The valuations, which conform to International Valuation Standards, were arrived by using the basis of capitalisation of net rental income and by reference to market prices of relevant period for similar properties.

- (c) The carrying amount of investment properties includes land situated in Hong Kong and outside of Hong Kong as follows:

	2006 HK\$'000	2005 HK\$'000
Long leases in Hong Kong	2,195,600	2,050,895
Medium-term leases in Hong Kong	10,644,000	33,295,830
Freehold land outside Hong Kong	1,826,392	1,703,020
	14,665,992	37,049,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Interests in Associates

	2006 HK\$'000	2005 HK\$'000
Cost of investment in associates:		
Unlisted associates in Hong Kong	12	12
Listed associate in Hong Kong	2,596	2,649
Share of post acquisition reserves	26,667	16,099
	29,275	18,760
Fair value of the listed associate	73,209	39,069

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

	2006 HK\$'000	2005 HK\$'000
Total assets	406,404	363,752
Total liabilities	(262,875)	(282,729)
Net assets	143,529	81,023
Group's share of net assets of associates	29,275	18,760
Revenue	413,278	330,341
Profit for the year	68,012	42,181
Group's share of results of associates for the year	14,455	9,250

Particulars regarding the principal associates are set out in note 39.

19. Available for Sale Investments

Available for sale investments comprise:

	2006 HK\$'000	2005 HK\$'000
Listed securities in Hong Kong:		
– Champion Real Estate Investment Trust (“Champion REIT”)	5,074,104	–
– Others	110,826	16,186
	5,184,930	16,186
Unlisted securities in Hong Kong	246	246
	5,185,176	16,432

The Group’s investment in Champion REIT represents a 49.2% unitholding of Champion REIT which is more than 10% of the assets in the Group’s consolidated balance sheet. The principal activity of Champion REIT is property investment. Champion REIT is not regarded as an associate of the Group because the Directors consider that the Group is not able to exercise significant influence on the operating and financial policies of Champion REIT for the fact that Champion REIT is managed by HSBC Institutional Trust Services (Asia) Limited, the trustee of Champion REIT.

At the balance sheet date, all the listed securities are stated at fair value.

The above unlisted investments represent club debentures. They are measured at cost less impairment at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Loan Receivables

	2006 HK\$'000	2005 HK\$'000
Amounts due from associates	12,377	12,377
Amounts due from minority shareholders	–	265,967
	12,377	278,344

The amounts due from associates are unsecured, interest free and have no fixed repayment terms. The associates are not expected to repay within twelve months from the balance sheet date and the balances are classified as non-current.

The amounts due from minority shareholders of the Group are unsecured, carry interest at Hong Kong Interbank Offer Rates plus 0.9125 per cent per annum, and have no fixed repayment terms.

The Directors consider that the fair value of the Group's loan receivables approximate the corresponding carrying amounts.

21. Pledged Bank Deposits, Bank Balances and Cash, Unsecured Bank Overdrafts

Bank balances and pledged bank deposits

Bank balances and pledged bank deposits carry interest at market rates which range from 2.88% to 5.32% and 3.55% to 4.50% respectively.

The pledged deposits have been placed in designated banks as part of the securities provided for long-term facilities granted to the Group. The pledge bank deposits will be released upon the settlement of relevant bank borrowings.

The Directors consider that the fair value of the Group's bank balances and pledged bank deposits approximate their carrying amounts.

Unsecured bank overdrafts

Bank overdrafts carry interest at market rates which range from 7.75% to 8%.

The Directors consider that the fair value of the Group's unsecured bank overdrafts approximate their carrying amounts.

22. Inventories

	2006 HK\$'000	2005 HK\$'000
Completed properties held for sale	42	42
Raw materials	25,064	29,342
Provisions and beverages	25,342	23,151
Work-in-progress	35,677	22,774
	86,125	75,309

23. Debtors, Deposits and Prepayments

	2006 HK\$'000	2005 HK\$'000
Trade debtors	224,719	207,815
Deferred rent receivables	59,437	79,258
Other receivables	72,014	46,941
Deposits and prepayments	85,713	73,977
	441,883	407,991

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30-60 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. The following is an aged analysis of trade debtors net of impairment losses:

	2006 HK\$'000	2005 HK\$'000
0 – 3 months	220,320	192,729
3 – 6 months	3,045	13,885
Over 6 months	1,354	1,201
	224,719	207,815

The Directors consider that the fair values of the Group's trade and other debtors approximate the corresponding carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Non-current Assets Classified as Held for Sale

During the year ended 31 December 2005, the Group entered into two sales and purchase agreements with third parties in relation to the disposal of two floors at Langham Place Office Tower with total consideration of HK\$266,677,000. The disposal was completed in 2006.

25. Creditors, Deposits and Accruals

	2006 HK\$'000	2005 HK\$'000
Trade creditors	165,195	161,154
Rental deposits	224,463	279,083
Construction fee payable and retention money payable	486,376	609,430
Accruals, interest payable and other payables	361,833	482,506
	1,237,867	1,532,173

The aged analysis of trade creditors is as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 3 months	162,060	156,398
3 – 6 months	658	2,685
Over 6 months	2,477	2,071
	165,195	161,154
Rental deposits		
– Due within one year	138,696	126,814
– Due after one year	85,767	152,269
	224,463	279,083

The Directors consider that the fair values of the Group's trade and other payables approximate the corresponding carrying amounts.

26. Derivative Financial Instruments

The Group has used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings, details of such major swaps are summarised below:

- (a) Interest rate swap contracts of notional amount of HK\$1,217,800,000 (2005: HK\$2,982,000,000) were entered for periods up to 2009, to swap floating-rate borrowings to fixed-rate borrowings of interest rates ranging from 4.72% to 5.48% (2005: 4.72% to 5.53%); and
- (b) Interest rate swap contracts of notional amount of HK\$360,000,000 (2005: HK\$3,520,000,000) were entered for periods up to 2007 to swap borrowings from floating rates based on Hong Kong Interbank Offer Rate to floating rates based on London Interbank Offer Rate.

The outstanding swaps at 31 December 2006 is fair valued at a liability of HK\$8,234,000 (2005: HK\$44,356,000), which is estimated by discounting the future expected cash flow at the balance sheet date. Changes in fair value of these swaps were charged to the consolidated income statement.

27. Borrowings

	2006 HK\$'000	2005 HK\$'000
Bills payable	7,555	1,722
Bank loans and revolving loans (secured)	8,586,918	14,192,423
Other non-current loans (secured)	1,731,675	1,748,027
	10,326,148	15,942,172
Loan front-end fee	(18,932)	(25,164)
	10,307,216	15,917,008
The maturity of the above loans is as follows:		
On demand or within one year	538,682	1,390,620
More than one year but not exceeding two years	3,466,524	1,396,452
More than two years but not exceeding five years	5,159,409	11,498,616
More than five years	1,142,601	1,631,320
	10,307,216	15,917,008
Less: Amounts due within one year shown under current liabilities	(538,682)	(1,390,620)
	9,768,534	14,526,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Borrowings (continued)

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	14,923	12,270
More than one year but not exceeding two years	676,865	14,878
More than two years but not exceeding three years	6,779	674,829
More than three years but not exceeding four years	50,073	6,760
More than four years but not exceeding five years	502,425	49,923
More than five years	–	500,968
	1,251,065	1,259,628

The exposure of the Group's floating-rate borrowings and the contractual maturity dates are as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	523,759	1,378,350
More than one year but not exceeding two years	2,789,659	1,381,574
More than two years but not exceeding three years	1,896,222	6,519,108
More than three years but not exceeding four years	2,400,603	1,871,114
More than four years but not exceeding five years	303,307	2,376,884
More than five years	1,142,601	1,130,350
	9,056,151	14,657,380

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	4.52% to 12.50%	4.52% to 12.50%
Variable-rate borrowings	3.75% to 8.75%	2.79% to 8.02%

27. Borrowings (continued)

During the year, the Group refinanced a loan in the amount of HK\$1,174,356,000 (2005: HK\$5,000,000,000). The loan bears interest at floating rate and will be repayable by instalments with maturity date in 2012. The proceeds were used to finance operating activities of the Group.

28. Deferred Taxation

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	2,863,074	(385,260)	(68,249)	2,409,565
Exchange differences	(20,406)	8,866	155	(11,385)
Charge to income for the year	2,162,062	46,625	46,363	2,255,050
At 31 December 2005	5,004,730	(329,769)	(21,731)	4,653,230
Exchange differences	21,608	(6,304)	(372)	14,932
Charge to income for the year	94,976	30,394	4,045	129,415
Release upon disposal	(3,298,986)	7,295	–	(3,291,691)
At 31 December 2006	1,822,328	(298,384)	(18,058)	1,505,886

At the balance sheet date, the Group has unutilised tax losses of HK\$2,746,233,000 (2005: HK\$2,717,003,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,525,581,000 (2005: HK\$1,597,634,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,220,652,000 (2005: HK\$1,119,369,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Share Capital

	2006		2005	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
(a) Authorised:				
<i>Shares of HK\$0.50 each</i>				
Balance brought forward and carried forward	800,000	400,000	800,000	400,000
(b) Issued and fully paid:				
<i>Shares of HK\$0.50 each</i>				
Balance brought forward	594,801	297,401	589,765	294,883
Issued upon exercise of share options under the Share Option Scheme	2,433	1,216	2,043	1,022
Issued as scrip dividends	3,620	1,810	2,993	1,496
Balance carried forward	600,854	300,427	594,801	297,401

During the year, 3,619,550 (2005: 2,992,910) shares of HK\$0.50 each in the Company were issued at HK\$23.25 (2005: HK\$17.18) per share as scrip dividends.

30. Share Option

In accordance with Share Option Scheme of Great Eagle Holdings Limited Share Option (formerly Executive Share Option Scheme) (the "Scheme"), which was adopted pursuant to an ordinary resolution passed on 10 June 1999 and amended by an ordinary resolution passed on 20 December 2001, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Summary of the Scheme

- The purpose of the Scheme is to motivate officers, employees, associates, agents and contractors of the Company or any subsidiary (the "Participants") and to allow them to participate in the growth of the Company.
- Participants of the Scheme include any person the Board may select to be offered an option, subject to compliance with applicable laws, including, without limitation, any full-time or part-time employee of the Company or any subsidiary, any executive or non-executive director of the Company or any subsidiary and any associate, agent or contractor of the Company or any subsidiary.

30. Share Option (continued)

Summary of the Scheme (continued)

- c. The maximum number of shares of HK\$0.50 each of the Company (the “Shares”) in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme, when aggregated with any number of Shares subject to any other schemes, will be such number of Shares as shall represent 10% of the issued share capital of the Company on the date of adoption of the Scheme. The total number of Shares available for issue under the Scheme is 54,636,853 Shares, representing 9% of the Company’s issued share capital as at 10 April 2007, the latest practicable date before the approval of these financial statements.
- d. No option may be granted to any one Participant under the Scheme which, if exercised in full, would result in the total number of Shares already issued and issuable to him under all the options previously granted and to be granted to him in any 12-month period up to the proposed date of the latest grant exceeding 1% of the Company’s Shares in issue.
- e. The period within which the Shares must be taken up under an option is 36 months commencing on the expiry of 24 months after the date upon which the option is deemed to be granted and accepted and expiring on the last day of the 36 months’ period.
- f. The minimum period within which an option must be held before it can be exercised is the 24 months referred to in paragraph (e) above.
- g. Any Participant who accepts an offer of the grant of an option in accordance with the terms of the Scheme shall pay to the Company HK\$1.00 by way of consideration for the grant thereof within a period of 28 days from the date on which an option is offered to the Participant.
- h. The subscription price, the price per Share at which a grantee may subscribe for Shares on the exercise of an option, shall be the higher of (i) the last dealt price of the Shares quoted in the Stock Exchange daily quotations sheets on the date of offer of an option, which must be a business day (as defined in the Rules Governing the Listing of Securities on the Stock Exchange), and (ii) the average of the last dealt prices of the Shares quoted in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the said offer date, provided that the subscription price shall in no event be less than the nominal value of a Share.
- i. The Scheme has a life of 10 years and will expire on 10 June 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Share Option (continued)

The following table discloses details of the Company's share options held by employees and movements in such holdings during the year:

In 2006 Year of grant of options	Number of shares					
	Outstanding options at 1 January 2006	Options granted	Options exercised	Options cancelled	Options lapsed on 16 January 2006	Outstanding options at 31 December 2006
	2001	502,000	–	(460,000)	–	(42,000)
2002	437,000	–	(426,000)	–	–	11,000
2003	411,000	–	(396,000)	–	–	15,000
2004	1,187,000	–	(1,152,000)	–	–	35,000
2005	1,596,000	–	–	(129,000)	–	1,467,000
	4,133,000	–	(2,434,000)	(129,000)	(42,000)	1,528,000
Exercisable at end of the year						
Weighted average exercise price	HK\$13.90	HK\$0.00	HK\$11.17	HK\$18.21	HK\$13.39	HK\$17.90

Note: No share options were granted in the year of 2006.

In 2005 Year of grant of options	Number of shares					
	Outstanding options at 1 January 2005	Options granted	Options exercised	Options cancelled	Options lapsed on 14 February 2005	Outstanding options at 31 December 2005
	2000	600,000	–	(583,000)	–	(17,000)
2001	1,013,000	–	(511,000)	–	–	502,000
2002	824,000	–	(387,000)	–	–	437,000
2003	973,000	–	(562,000)	–	–	411,000
2004	1,201,000	–	–	(14,000)	–	1,187,000
2005	–	1,606,000	–	(10,000)	–	1,596,000
	4,611,000	1,606,000	(2,043,000)	(24,000)	(17,000)	4,133,000
Exercisable at end of the year						
Weighted average exercise price	HK\$10.27	HK\$18.21	HK\$9.11	HK\$15.49	HK\$10.12	HK\$13.90

30. Share Option (continued)

Details of the share options held by the Directors included in the above table are as follows:

In 2006

Year of grant of options	Number of shares					
	Outstanding options at 1 January 2006	Options granted	Options exercised	Options cancelled	Options lapsed on 16 January 2006	Outstanding options at 31 December 2006
	2001 – 2006	2,290,000	–	(1,520,000)	(50,000)	–

In 2005

Year of grant of options	Number of shares					
	Outstanding options at 1 January 2005	Options granted	Options exercised	Options cancelled	Options lapsed on 14 February 2005	Outstanding options at 31 December 2005
	2000 – 2005	2,920,000	770,000	(1,400,000)	–	–

The weighted average price of the shares on the date the options were exercised was HK\$21.35 (2005: HK\$15.20).

Details of Options granted in each year are as follows:

Year	Date of grant	Exercise period	Subscription price per share (HK\$)
2000	14.2.2000	15.2.2002 – 14.2.2005	10.116
2001	16.1.2001	17.1.2003 – 16.1.2006	13.392
2002	28.1.2002	29.1.2004 – 28.1.2007	8.440
2003	10.2.2003	11.2.2005 – 10.2.2008	4.625
2004	16.3.2004	17.3.2006 – 16.3.2009	13.550
2005	17.3.2005	18.3.2007 – 17.3.2010	18.210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Share Option (continued)

Notes:

- (i) Consideration paid for each grant of an option was HK\$1.00.
- (ii) The closing price of the shares of HK\$0.50 each of the Company quoted on the Stock Exchange on 7 February 2003, 15 March 2004 and 16 March 2005, being the business date immediately before the date on which share options were granted, were HK\$4.55, HK\$13.50 and HK\$18.05, respectively.
- (iii) The vesting period for the option grant is 24 months from date of grant.
- (iv) The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

Date of grant:	17.3.2005	16.3.2004	10.2.2003
Exercise price:	HK\$18.21	HK\$13.55	HK\$4.625
Expected volatility (note a):	41.88%	46.49%	32%
Expected dividend yield (note b):	0.95%	0.96%	2.82%
Expected life from grant date:	5 years	5 years	5 years
Risk free interest rate (note c):	3.81%	2.52%	2.98%
Fair value per option:	HK\$6.63	HK\$5.43	HK\$1.15

Notes:

- (a) The expected volatility was based on historical volatility.
- (b) The expected dividend yield was based on historical dividends.
- (c) Risk free interest rate was approximate to the yield of 5-year Exchange Fund Note on the grant date.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

31. Retirement Benefit Schemes

The Group has established various retirement benefit schemes for the benefit of its staff in Hong Kong and overseas. In Hong Kong, the Group operates several defined contribution schemes for qualifying employees. The schemes are registered under the Occupational Retirement Schemes Ordinance. The assets of the schemes are administered by independent third parties and are held separately from the Group's assets. The schemes are funded by contributions from both employees and employers at rates ranging from 5% to 10% of the employee's basic monthly salary. Arrangements for staff retirement benefits of overseas employees vary from country to country and are made in accordance with local regulations and custom.

The Occupational Retirement Scheme in Hong Kong had been closed to new employees as a consequence of the new Mandatory Provident Fund Pension Legislation introduced by The Government of Hong Kong Special Administrative Region in 2000.

From 1 December 2000 onwards, new staff in Hong Kong joining the Group are required to join the new Mandatory Provident Fund Scheme. The Group is required to contribute 5% to 10%, while the employees are required to contribute 5% of their salaries to the Scheme.

Forfeited contributions to retirement schemes for the year ended 31 December 2006 amounting to HK\$301,000 (2005: HK\$1,031,000) have been used to reduce the existing level of contributions. Total contributions to retirement fund schemes for the year ended 31 December 2006 charged to the consolidated income statement amounted to HK\$37,172,000 (2005: HK\$34,543,000). As at 31 December 2006, contributions of HK\$432,000 (2005: HK\$301,000) due in respect of the year had not been paid over to the schemes.

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32. Disposal of Property Investment Subsidiaries

On 26 April 2006, the Group entered into certain reorganisation agreements with HSBC Institutional Trust Services (Asia) Limited (as trustee on behalf of Champion REIT) in connection with the disposal of the Group's property interests in Citibank Plaza and its related assets and liabilities. Details of the principal steps and process of the above reorganisation are set out in the circular of the Company dated 24 April 2006.

The above reorganisation was completed on 24 May 2006 and the transactions involved in the above reorganisation were accounted for as the disposal of property investment subsidiaries. The net assets of the property investment subsidiaries at the date of the disposal were as follows:

	HK\$'000	HK\$'000
Net assets disposed of:		
Investment properties		22,670,000
Debtors, deposits and prepayments		65,642
Bank balances and cash		256,627
Creditors, deposits and accruals		(92,864)
Provision for taxation		(8,866)
Deferred taxation		(3,291,691)
		<hr/>
		19,598,848
Net assets attributable to minority interests		(2,067,282)
		<hr/>
		17,531,566
Total consideration satisfied by:		
Cash	10,384,518	
Fair value of units issued by Champion REIT to equity holders of the Company	6,882,428	17,266,946
	<hr/>	<hr/>
Loss on disposal of property investment subsidiaries		264,620
		<hr/>
Net cash inflow arising on disposal:		
Cash consideration received		10,384,518
Bank balances and cash disposed of		(256,627)
		<hr/>
		10,127,891
		<hr/>

32. Disposal of Property Investment Subsidiaries (continued)

Immediately after the completion of the disposal, the Group received 1,349,495,877 units of Champion REIT (representing a 49.2% interest in Champion REIT) with a fair value of HK\$6,882,428,000 as part of the consideration from Champion REIT. The securities are classified as available for sale investments since the units are not held for trading purposes. The Directors consider that the Group is not able to exercise significant influence on the operating and financial policies of Champion REIT for the fact that Champion REIT is managed by HSBC Institutional Trust Services (Asia) Limited, the trustee of Champion REIT. At the balance sheet date, the fair value of the units of Champion REIT was HK\$5,074,014,000. The change in fair value has been recognised in the investment revaluation reserve.

33. Major Non-cash Transaction

During the year, 3,619,550 (2005: 2,992,910) shares of HK\$0.50 each in the Company were issued at HK\$23.25 (2005: HK\$17.18) per share as scrip dividends.

34. Pledge of Assets

At 31 December 2006, the Group pledged the following assets for credit facilities granted to its subsidiaries:

- (a) the Group's investment properties with a total carrying value of HK\$14,627,292,000 (2005: HK\$37,005,245,000) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties;
- (b) the Group's hotel buildings and prepaid lease payments with a total carrying value of HK\$7,164,753,000 and HK\$1,820,528,000 (2005: HK\$6,928,278,000 and HK\$1,865,132,000) respectively;
- (c) the Group's owner occupied buildings situated in Hong Kong and prepaid lease payments with a total carrying value of HK\$286,412,000 and HK\$20,197,000 (2005: HK\$213,033,000 and HK\$20,365,000) respectively; and
- (d) bank deposits of HK\$326,465,000 (2005: HK\$489,346,000).

35. Commitments and Contingent Liabilities

At 31 December 2006, the Group has authorised capital expenditure for acquisition of investment properties and property, plant and equipment which is not provided for in these consolidated financial statements amounting to HK\$86,191,000 (2005: HK\$11,911,000) of which HK\$85,390,000 (2005: HK\$8,522,000) was contracted for.

Other than set out above, the Group did not have any significant commitments and contingent liabilities at the balance sheet date.

36. Operating Lease Arrangements

The Group as lessor

Property rental income earned during the year was HK\$821,733,000 (2005: HK\$959,537,000). The properties held had committed leases typically running for the next one to six years.

Contingent rental income were calculated based on the excess of certain percentage of revenue of the relevant operation that occupied the properties over the fixed portion of the monthly rentals. Contingent rental income earned during the year was HK\$11,785,000 (2005: HK\$8,738,000).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	512,699	874,890
In the second to fifth years inclusive	693,189	1,436,708
After five years	39,731	200,021
	1,245,619	2,511,619

Where leases are negotiated at a fixed rate for the first few years, but subject to renegotiation for the remaining contracted lease terms, the minimum lease payments are calculated based on the latest negotiated rent.

The Group as lessee

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	2,516	2,836
In the second to fifth years inclusive	545	1,479
	3,061	4,315

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for term of one to three years and rentals are fixed over the respective leases.

37. Related Party Transactions

The Group had the following significant related party transactions during the year and balances at the balance sheet date with certain companies in which some shareholders and directors of the Company have beneficial interests. The transactions were carried out in the normal course of the Group's business on terms mutually agreed between the parties.

	2006 HK\$'000	2005 HK\$'000
Transactions for the year ended 31 December		
Trading income	1,361	1,613
Rental income	1,413	1,483
Management fee received	280	240
Rental charges	600	1,950
Cost and expenses incurred for super-structural works	106,375	97,415
Payment for renovation works	39	2,316
Balances as at 31 December		
Amount due from associates (see note 20)	12,377	12,377
Amount due from minority shareholders (see note 20)	–	265,967
Debtors, deposits and prepayments (see note a)	3,678	4,306
Creditors, deposits and accruals (see note b)	327,722	477,034

Notes:

- a. The amounts represent the trade receivables from the related companies. The amounts are unsecured, interest-free and have no fixed repayment terms. The Directors consider that the fair values of debtors at the balance sheet date approximate the corresponding carrying amount.
- b. The amounts represent the construction fee payable to the related companies. The amounts are unsecured, interest-free and have no fixed repayment terms. The Directors considered that the fair values of creditors, deposits and accruals at the balance sheet date approximate the corresponding carrying amount.

The remuneration of the Directors and other members of key management during the year were disclosed in note 12. The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Particulars of Principal Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2006 are set out below:

Direct subsidiary	Issued and paid up equity share capital	Principal activity	Percentage of issued equity share capital held by the Company
– incorporated and operating in the British Virgin Islands:			
Jolly Trend Limited	2 shares of US\$1 each	Investment holding	100%
Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong:			
Benington Limited	100 shares of HK\$10 each	Property investment	100%
Bon Project Limited	2 shares of HK\$1 each	Property investment	100%
Chance Mark Limited	2 shares of HK\$1 each	Property investment	100%
Clever Gain Investment Limited	2 shares of HK\$1 each	Restaurant operation	100%
Eagle Asset Management (CP) Limited	16,000,000 shares of HK\$1 each	Manager of real estate investment trust	100%
Eagle Property Management (CP) Limited	1 share of HK\$1	Property management	100%
Ease Billion Development Limited	2 shares of HK\$1 each	Property investment	100%
Easy Wealth Limited	2 shares of HK\$1 each	Property investment	100%
Eaton Hotels Limited (formerly known as Eaton House International Limited)	2 shares of HK\$10 each	Management of furnished apartments	100%
Fortuna Wealth Company Limited	2 shares of HK\$1 each	Property investment	100%
G E Advertising Agency Limited	2 shares of HK\$1 each	Advertising agency	100%

38. Particulars of Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong: (continued)			
Gold Epoch Investment Limited	2 shares of HK\$1 each	Property investment	100%
Grow On Development Limited	5,000 shares of HK\$1 each	Hotel ownership and operation	100%
Harvest Star International Limited	2 shares of HK\$1 each	Hotel ownership and operation	100%
Keysen Engineering Company, Limited	2 shares of HK\$1 each	Maintenance services	100%
Langham Hotels International Limited	2 shares of HK\$1 each	Hotel management	100%
Langham Place Hotel (HK) Limited	2 shares of HK\$1 each	Hotel ownership and operation	100%
Longworth Management Limited	10,000 shares of HK\$1 each	Property management	100%
Million Prime Company Limited	2 shares of HK\$1 each	Property investment	100%
Moon Yik Company, Limited	10,000,000 shares of HK\$1 each	Property investment	100%
Renaissance City Development Company Limited	2 shares of HK\$10 each	Property investment	100%
Selex Properties Management Company, Limited	2 shares of HK\$1 each	Property management	100%
Strong Dynamic Limited	2 shares of HK\$1 each	Fitness centre operation	100%
The Great Eagle Company, Limited	2,000,000 shares of HK\$0.5 each	Investment holding	100%
The Great Eagle Development and Project Management Limited	2 shares of HK\$10 each	Project management	100%
The Great Eagle Engineering Company Limited	2 shares of HK\$1 each	Maintenance services	100%
The Great Eagle Estate Agents Limited	2 shares of HK\$10 each	Real estate agency	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Particulars of Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated and operating in Hong Kong: (continued)			
The Great Eagle Finance Company, Limited	100,000 shares of HK\$100 each	Financing	100%
The Great Eagle Insurance Agency Limited (formerly known as The Great Eagle Insurance Company, Limited)	1,000 shares of HK\$1 each	Insurance agency	100%
The Great Eagle Properties Management Company, Limited	100,000 shares of HK\$1 each	Property management	100%
Toptech Co. Limited	600,000 shares of HK\$1 each	Trading of building materials	100%
Venus Glory Company Limited	2 shares of HK\$1 each	Property investment	100%
Worth Bright Company Limited	2 shares of HK\$1 each	Property investment	100%
Zamanta Investments Limited	100 shares of HK\$10 each	Property investment	100%
– incorporated in the British Virgin Islands and operating in United Kingdom:			
Great Eagle Hotels (UK) Limited	1 share of US\$1	Hotel ownership and operation	100%
– incorporated and operating in Canada:			
Great Eagle Hotels (Canada) Limited	10 common shares of C\$1 each	Hotel ownership and operation	100%
– incorporated in the British Virgin Islands and operating in Australia:			
Katesbridge Group Limited	1 share of US\$1	Investment holding	100%
– incorporated and operating in Australia:			
Southgate Hotel Management Pty. Ltd.	17,408 shares of A\$2 each	Hotel operation	100%

38. Particulars of Principal Subsidiaries (continued)

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company
– incorporated in the British Virgin Islands and operating in New Zealand:			
Great Eagle Hotels (New Zealand) Limited	1 share of US\$1	Property investment	100%
– incorporated and operating in New Zealand:			
Great Eagle Hotels (Auckland) Limited	1,000 shares of no par value	Hotel operation	100%
– incorporated and operating in USA:			
EIH Properties Company – XX, LLC	US\$1,000	Property investment	100%
Pacific Boston Holdings Corporation	100 shares of US\$0.001 each	Hotel operation	100%
Pacific Dolphin Corporation	100 shares of no par value	Property investment	100%
Pacific Spear Corporation	100 shares of US\$0.001 each	Property investment	100%
Pacific 2700 Ygnacio Corporation	100 shares of US\$1 each	Property investment	100%
Pacific Ygnacio Corporation	100 shares of no par value	Property investment	100%
Shorthills NJ, Inc.	100 shares of US\$1 each	Property investment	100%

Note: All these subsidiaries have no debt securities subsisting at the end of the year or at any time during the year.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which principally affect the results or assets and liabilities of the Group.

39. Particulars of Principal Associates

Details of the Group's principal associates at 31 December 2006 are set out below:

Indirect associates	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Group
City Apex Limited	3,500 of US\$1 each	Investment holding	23%
Recruit Holdings Limited	274,800,000 of HK\$0.2 each	Investment holding and publishing	22.77%