



China Motor Bus Co. Ltd.



Annual Report 2007

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Corporate Information

BOARD OF DIRECTORS

NGAN Kit-ling, JP
Chairman & Managing Director

Dr. NGAN Kit-keung, D.Sc., Ph.D., D.Tech., D.B.A., Comp.I.Manf., C.Prof.B.T.M., F.Inst.D., FCMI, P.Eng.
Assistant Managing Director

Dr. Henry NGAN

*Dr. LIU Lit-mo, L.L.D., M.B.E., JP

Fritz HELMREICH

*Anthony Grahame STOTT, B.Sc., F.F.A.

*TSE Yiu-wah

(*Independent Non-Executive Director)

SECRETARY

KWOK Pun Tak

REGISTERED OFFICE

391 Chai Wan Road, Chai Wan, Hong Kong

BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Standard Chartered Bank

SOLICITORS

Johnson, Stokes & Master
Linklaters
Ngan & Co.

AUDITORS

KPMG

REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.irasia.com/listco/hk/cmb/index.htm

Notice of Ordinary Yearly Meeting

NOTICE IS HEREBY GIVEN that the Sixty-ninth Ordinary Yearly Meeting of the Members of the Company will be held at its registered office at 391 Chai Wan Road, Chai Wan, Hong Kong on Friday, 7th December, 2007 at 12:00 noon for the following purposes:-

1. To receive and consider the Statement of Accounts and the Reports of the Directors and Auditors for the year ended 30th June, 2007 and to declare a final dividend.
2. To elect Directors and fix their fees.
3. To appoint Auditors and authorise the Directors to fix their remuneration.
4. As special business to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"THAT:

- (A) the exercise by the Directors of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and regulations, during the Relevant Period (for the purposes of this Resolution, "Relevant Period" being the period from the passing of this Resolution until the earlier of the conclusion of the next Ordinary Yearly Meeting, or the expiration of the period within which such meeting is required by law to be held, or the revocation or variation of this Resolution by an ordinary resolution of the Shareholders of the Company in general meeting) be and is hereby generally and unconditionally approved; and
- (B) the total number of shares of the Company purchased by the Company pursuant to paragraph (A) during the Relevant Period shall be no more than 2% of the existing issued share capital of the Company at the date of this meeting, and the authority pursuant to paragraph (A) shall be limited accordingly."

5. To transact any other competent business.

By Order of the Board

Kwok Pun Tak
Secretary

Hong Kong, 18th October, 2007

Notice of Ordinary Yearly Meeting (Continued)

Explanatory Note on Resolution 2

In relation to item 2 above, Dr. Henry Ngan, Dr. Liu Lit-mo, Messrs. Fritz Helmreich, Anthony Grahame Stott and Tse Yiu-wah retire from the Board pursuant to Article 122 of the Company's Articles of Association and, being eligible, offer themselves for re-election. The biographical details and interests in the shares of the Company of all the Directors to be re-elected at the Ordinary Yearly Meeting are provided in the explanatory statement for the re-election of Directors and general mandate for repurchase of own shares which accompanies this Annual Report.

Explanatory Note on Resolution 4

Resolution 4 relates to the grant of a general mandate to the Directors to repurchase shares of the Company up to a maximum of 2% of the issued share capital of the Company at the date of the resolution (the "Repurchase Mandate"). The authority conferred on the Directors by the Repurchase Mandate would continue in force until the earlier of the conclusion of the next Ordinary Yearly Meeting of the Company, the expiration of the period within which the next Ordinary Yearly Meeting is required by law to be held, or until revoked or varied by ordinary resolution of the Shareholders in general meeting prior to the next Ordinary Yearly Meeting. An explanatory statement providing details for the re-election of Directors and general mandate for repurchase of own shares accompanies this Annual Report.

Notice of Ordinary Yearly Meeting (Continued)

Notes:

- (1) A shareholder entitled to attend and vote at the above Meeting may appoint a proxy or proxies (not exceeding 2 in number) to attend and vote in his place and such proxy need not be a shareholder of the Company.
- (2) To be valid, forms of proxy must be deposited at the Registered Office of the Company not less than forty-eight hours before the time fixed for holding the Meeting or adjourned Meeting.
- (3) Pursuant to Articles 96 and 97 of the Articles of Association of the Company, every question submitted to a general meeting shall be decided in the first instance by a show of hands of the shareholders present in person and entitled to vote, but a poll may be demanded (before a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority) by:
 - (i) at least four shareholders; or
 - (ii) a shareholder or shareholders holding or representing by proxy or entitled to vote in respect of at least one-tenth part of the capital represented at the meeting.
- (4) To qualify for the final dividend and the special dividend, all unregistered transfers should be lodged at the Company's Registrar, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 30th November, 2007.
- (5) The Transfer Books and Register of Members of the Company will be closed from Monday, 3rd December, 2007 to Thursday, 6th December, 2007, both days inclusive.
- (6) As at the date of this Notice, the Directors of the Company are:-
Ngan Kit-ling, Dr. Ngan Kit-keung, Dr. Henry Ngan, Dr. Liu Lit-mo*, Fritz Helmreich, Anthony Grahame Stott* and Tse Yiu-wah*.
- (7) In the case of any conflict between the Chinese translation and the English text hereof, the English text will prevail.

*Independent Non-executive Director

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30th June, 2007.

GROUP'S ACTIVITIES AND OPERATIONS

The principal activities of the company and the group are property development and investment. The principal activities and other particulars of the subsidiaries are set out in note 14 on the financial statements.

The geographical analysis of the group's turnover and operating profit is set out in note 3 on the financial statements.

JOINTLY CONTROLLED ENTITIES

Particulars of jointly controlled entities at 30th June, 2007 are set out in note 15 on the financial statements.

FINANCIAL STATEMENTS

The profit of the group for the year ended 30th June, 2007 and the state of affairs of the company and of the group at that date are set out in the financial statements on pages 20 to 56.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.50 per share were paid on 28th June, 2007. A second interim dividend of HK\$0.30 per share is payable on 15th November, 2007. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.20 per share be paid in respect of the year ended 30th June, 2007 and that HK\$10,000,000 be transferred to general reserve.

Subject to the approval by shareholders at the forthcoming Ordinary Yearly Meeting, the final dividend and the special dividend will be payable on 4th February, 2008.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 13 on the financial statements.

DIRECTORS

The directors during the year and up to the date of this report are given on page 2 and further information regarding directors is given on page 18.

The company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and still considers the independent non-executive directors to be independent.

In accordance with article 122 of the company's articles of association, Dr. Henry Ngan, Dr. Liu Lit-mo, Messrs. Fritz Helmreich, Anthony Grahame Stott and Tse Yiu-wah retire from the board and, being eligible, offer themselves for re-election (for details of directors, see Appendix I of the explanatory statement on re-election of directors and general mandate for repurchase of own shares accompanying this annual report).

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2007, the interests and short positions of the directors and chief executive of the company in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by directors of listed companies were as follows:

	Ordinary shares of HK\$2 each				Percentage of total issued shares
	Personal interests	Family interests	Other interests	Total ordinary shares held	
NGAN Kit-ling	4,848,345	–	33,468 (Note)	4,881,813	10.71%
Dr. NGAN Kit-keung	6,941,013	1,250	33,468 (Note)	6,975,731	15.30%
Dr. Henry NGAN	7,173,125	250	33,468 (Note)	7,206,843	15.81%
Dr. LIU Lit-mo	62,250	–	–	62,250	0.14%
Fritz HELMREICH	50,000	–	–	50,000	0.11%
Anthony Grahame STOTT	600	–	–	600	–
TSE Yiu-wah	137,800	–	–	137,800	0.30%

Note: The 33,468 shares in the company are included in the estate of the late Madam WONG Yick-mui.

All the interests disclosed above represent long positions as at 30th June, 2007.

Save as disclosed above, as at 30th June, 2007, none of the directors or chief executive of the company or any of their spouses or children under 18 years of age had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

During the year under review, the company did not grant to any director or chief executive or to the spouse or children under 18 years of age of any such director or chief executive any right to subscribe for shares of 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.

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The company has been notified of the following interests in the company's issued shares at 30th June, 2007, amounting to 5% or more of the shares in issue:

<u>Substantial shareholders</u>	<u>Ordinary shares held</u>	<u>Percentage of total issued shares</u>
NGAN Kit-ling	4,881,813(note)	10.71%
Dr. NGAN Kit-keung	6,975,731(note)	15.30%
Dr. Henry NGAN	7,206,843(note)	15.81%
CHAN Kwan Shat & WONG Wai Gin	5,553,200	12.18%
<u>Other persons</u>		
CHEE Ying Cheung & CHING Yung Yu	4,007,000	8.79%

Note : There is a duplication of 33,468 shares which are included in the estate of the late Madam WONG Yick-mui.

All the interests disclosed above represent long positions as at 30th June, 2007.

Save as disclosed above, so far as the directors are aware, as at 30th June, 2007, none of the above shareholders had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

Apart from the foregoing, as at 30th June, 2007, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

DIRECTORS' INTEREST IN CONTRACTS

Madam Ngan Kit-ling is the sole proprietor of Ngan & Co., one of the company's solicitors, and as such has an interest in legal fees and expenses paid by the company to that firm.

Apart from the foregoing, no contract 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, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming ordinary yearly meeting has an unexpired service contract with the company which is not determinable by the company within one year without payment of compensation, other than normal statutory obligations.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of emoluments of the directors and the five highest paid directors/employees of the company are set out in note 7 on the financial statements.

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

During the year, neither the company nor any of its subsidiaries has repurchased, sold or redeemed any of the company's listed securities.

SHARE CAPITAL

Particulars of the movements in the share capital of the company during the year are set out in note 24 on the financial statements.

Report of the Directors (Continued)

EMPLOYEES' RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually.

The actuarial valuation of the two defined benefit retirement schemes as at 30th June, 2007 showed that there were sufficient assets in each of the two schemes to cover the on-going liabilities of the schemes. The actuary of these schemes is Watson Wyatt Hong Kong Limited. In the actuarial valuations, the aggregate cost valuation method was used. The major assumptions used in these valuations were: Investment Return at 2.5% per annum; Salary Escalation at 2.5% per annum; and Normal Retirement Age 65. Other relevant information extracted from the valuations pertaining to these schemes is set out below:-

- (a) China Motor Bus General Monthly Rated Staff Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2007 was HK\$1,014,000 (2006: HK\$1,061,000).
 - (ii) The on-going funding level of the scheme was 167% (2006: 181%).
 - (iii) The on-going basis funding surplus in the scheme was HK\$405,000 (2006: HK\$476,000).

- (b) China Motor Bus Senior Executive Retirement Scheme
 - (i) The market value of the scheme assets as at 30th June, 2007 was HK\$10,552,000 (2006: HK\$10,258,000).
 - (ii) The on-going funding level of the scheme was 115% (2006: 114%).
 - (iii) The on-going basis funding surplus in the scheme was HK\$1,381,000 (2006: HK\$1,251,000).

Note: The obligations in respect of defined benefit retirement schemes in the financial statements are calculated using the projected unit credit method (see note 1(n)(ii) on the financial statements).

As from 1st December, 2000, the group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement schemes. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

For the defined contribution retirement scheme, the contributions are expensed as incurred and may not be reduced by contributions forfeited by those employees who have left the scheme as all would be fully vested in the contributions.

Report of the Directors (Continued)

COMMENTARY ON ANNUAL RESULTS

Revenue and Operating Profit

Turnover of the group for the year under review comprising rental income from its investment properties amounted to HK\$77 million (2006: HK\$68 million). Operating profit of the group increased to HK\$154.3 million from HK\$117.6 million in the previous year primarily due to the increase in rental income and finance income. The profit after taxation attributable to shareholders of HK\$465 million (2006: HK\$395 million) reflects an increase in the valuation gains of investment properties for the year in line with prevailing market trends.

Liquidity and Financial Resources

At 30th June, 2007, the group had no bank borrowings (2006: HK\$Nil) and had cash and cash equivalents of HK\$1,332 million (2006: HK\$1,249 million) which were held in the form of short term deposits or cash at bank and in hand.

For the year under review, net cash inflow from operating activities was HK\$59 million (2006: HK\$56 million). Repayment of loans by and dividends from jointly controlled entities amounted to HK\$16 million and HK\$3 million respectively (2006: HK\$15 million and HK\$93 million respectively). The consolidated cash flow statement for the group for the year ended 30th June, 2007 is set out on pages 24 and 25 of this annual report.

Capital Expenditure and Commitments

Capital expenditure incurred during the year amounted to HK\$42 million (2006: HK\$582 million).

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	<i>Percentage of the Group's total</i>	
	<i>Turnover</i>	<i>Purchases</i>
The largest customer	45%	
Five largest customers in aggregate	76%	
The largest supplier		23%
Five largest suppliers in aggregate		82%

So far as the directors are aware, at no time during the year have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

Report of the Directors (Continued)

DISCLOSURE PURSUANT TO LISTING RULE 13.22

At 30th June 2007, the group had the following loans to its affiliated companies (as defined by the Listing Rules):

	Note	Amount HK\$000's	Type	Tenure
Island Land Development Ltd		516,350	Interest free, unsecured loan	No fixed terms of repayment
Hareton Ltd		207,707	Interest free, unsecured loan	No fixed terms of repayment
	15	<u>724,057</u>		

Combined balance sheet of the above affiliated companies at 30th June, 2007 is as follows:

	HK\$000's
Fixed assets	1,286,000
Retirement benefit assets	<u>200</u>
	<u>1,286,200</u>
Current assets	119,876
Current liabilities	<u>(17,699)</u>
	<u>102,177</u>
Non-current liabilities	<u>(46,953)</u>
	<u>1,341,424</u>

Attributable interest to the group at 30th June, 2007 in the above affiliated companies amounted to HK\$670,712,000 (2006: HK\$567,349,000).

SUMMARY OF FINANCIAL DATA

A summary of the group's financial data for the last five years is shown on page 57.

PROPERTIES

Particulars of the properties and property interests of the group are shown on page 58.

PUBLIC FLOAT

As at the date of this report, the company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the company and within the knowledge of the directors.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Ordinary Yearly Meeting.

By order of the board

NGAN Kit-ling
Chairman

Hong Kong, 18th October, 2007

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the year ended 30th June, 2007, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Code") which became applicable to the Company in respect of the year under review were applied by the Company, and the relevant Code provisions in the Code were met by the Company, with the exception of the deviations as set out in this report.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry of all the directors of the Company, the Company has been advised that all of its directors have complied with the required standard as set out in the Model Code applicable during the year ended 30th June, 2007.

(C) BOARD OF DIRECTORS

(i) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Four board meetings were held during the financial year ended 30th June, 2007. The composition of the Board and attendance of the directors are set out below:

Directors	Attendance at Meetings
Executive directors	
NGAN Kit-ling (Chairman & Managing Director)	4
Dr. NGAN Kit-keung (Assistant Managing Director)	3
Dr. Henry NGAN	4
Non-executive director	
Fritz HELMREICH	4
Independent non-executive directors	
Dr. LIU Li-mo	3
Anthony Grahame STOTT	4
TSE Yiu-wah	3

Ngan Kit-ling, Dr. Ngan Kit-keung and Dr. Henry Ngan are siblings. Fritz Helmreich is the spouse of Ngan Kit-ling.

Each director of the Company has been appointed on the strength of his/her experience and potential to contribute to the Group and its businesses.

Corporate Governance Report (Continued)

(C) BOARD OF DIRECTORS (Continued)

(ii) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interest of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted an appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities, where there are changes to the Company's or directors' disclosure obligations. Newly appointed directors receive briefings and orientation on their legal and other responsibilities as a director and the role of the Board. The Company has also provided appropriate information in a timely manner to the directors to enable them to make informed decisions and to discharge their duties and responsibilities as directors of the Company.

There is a clear division of responsibilities between the Board and the management. While decisions on the Group's operations are delegated to the management, decisions on important matters including those affecting the Group's strategy and policies, major investment and major commitments are made by the Board.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer as required under code provision A2.1 of the Code. NGAN Kit-ling serves as the Chairman and the Chief Executive Officer of the Company. The Company believes that separation of Chairman and the Chief Executive Officer would not result in enhanced efficiency and improved governance. The balance of power and authority between Chief Executive Officer and the Board is ensured by regular discussion and meetings of the full Board and active participation of independent non-executive directors.

(E) ROTATION OF DIRECTORS

Code A4.2 provides that all directors including those appointed for a specified term should retire by rotation at least every three years. All those existing directors of the Company who do not hold any executive office of the Company are subject to retirement from the Board at the Ordinary Yearly Meeting of the Company and may stand for re-election at the Ordinary Yearly Meeting. Certain executive directors of the Company do not rotate as there are specific provisions governing the rotation of directors in the Company's Articles of Association.

(F) REMUNERATION OF DIRECTORS

Code B1.1 provides that the Company should establish a remuneration committee. The Company has not established a remuneration committee in view of the Company's size and simple structure. The full Board reviews annually the remuneration of the executive directors and determines their remuneration. Regarding directors' fees and bonus, details are set out in note 7(a) to the financial statements.

Corporate Governance Report (Continued)

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and the function of such a committee are performed by the Board. The Chairman and other directors from time to time review the composition of the Board. The Board makes recommendations to shareholders on directors standing for re-election, providing information on directors to enable shareholders to make an informed decision on the re-election, and where necessary, to appoint directors to fill casual vacancies.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and taxation services provided by KPMG, the external auditors of the Company, amounted to HK\$2.49 million and HK\$0.53 million respectively.

(I) AUDIT COMMITTEE

The Audit Committee is primarily responsible for review of the financial information of the Company and oversight of the Company's financial controls, internal control and risk management systems.

The Audit Committee met three times in the year ended 30th June, 2007. The composition and attendance of individual members of the Audit Committee at Audit Committee meetings in the year ended 30th June, 2007 are set out below:

Members	Attendance at Meetings
Anthony Grahame STOTT (Chairman)	3
Fritz HELMREICH	3
TSE Yiu-wah	2

During the year the Audit Committee has met with the external auditors without executive directors or management present.

The work performed by the Audit Committee during the financial year ended 30th June, 2007 included the review of the effectiveness of the group's internal control systems and the review of the interim report and annual report before submission to the Board.

Corporate Governance Report (Continued)

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the Group's financial statements. A statement by the auditors of their reporting responsibilities for the year ended 30th June, 2007 is set out in the Independent Auditor's Report on page 19 of this Annual Report.

GROUP RESULTS AND DIVIDENDS

The Board of Directors announces that the operating profit of the Group for the year ended 30th June, 2007 increased to HK\$154.3 million from HK\$117.6 million in the previous year primarily due to the increase in rental income and finance income. The audited consolidated profit of the Group for the year amounted to HK\$465 million, compared with HK\$395 million for the previous year. The increase in profit reflects an increase in the valuation gains of investment properties for the year in line with the prevailing market trend.

The Directors will recommend to shareholders at the forthcoming Ordinary Yearly Meeting to be held on Friday, 7th December, 2007 the payment of a final dividend of HK\$0.10 per share. The Directors will also recommend to the shareholders the payment of a special dividend of HK\$1.20 per share. These two dividends, together with the first interim dividend of HK\$0.10 per share, a special dividend of HK\$0.50 per share, and a second interim dividend of HK\$0.30 per share payable on 15th November, 2007, will make a total dividend for the year of HK\$2.20 per share, compared with HK\$2.00 per share for the previous year.

HIGHLIGHTS OF PROPERTY DEVELOPMENT AND INVESTMENTS ARE SUMMARIZED BELOW:-

INLAND LOT 7105, KAM HONG STREET, NORTH POINT

The property has a site area of approximately 17,870 sq. ft. After completing negotiations with Government on the modification of the Government Lease, including payment of a premium of HK\$568.3 million in October 2005, your Company has transferred the site to a wholly-owned subsidiary of the Company to enable the site to be developed into an upmarket commercial and residential complex with a total gross floor area not exceeding 16,866.6 square metres. The subsidiary has appointed a wholly-owned subsidiary of Swire Properties Ltd. to design and build the development on the site and to market and sell the units on its behalf. This prestigious development, known as "Island Lodge", comprises 184 luxurious residential units with sizes ranging from 777 square feet to 2,265 square feet in a single 45 storey block with a tastefully decorated clubhouse, 50 car parking spaces and retail facilities on the ground floor. At 30th June, 2007, most of the podium and 3 floors of the residential tower were completed. The project is planned for completion in the first half of 2009. Pre-sale consent has been given in July 2007 and it is anticipated that residential units will be offered for sale in the last quarter of 2007.

INLAND LOT 88, NO. 391 CHAI WAN ROAD, CHAI WAN

The property, which is wholly-owned by the Company, continues to be held for investment purposes and derives rental income. The property has a site area of approximately 102,420 sq. ft. In May 2001, the site was rezoned and designated as a Comprehensive Development Area. In February 2002, the Town Planning Board approved, subject to a number of planning conditions, the Company's application under Section 16 of the Town Planning Ordinance for redevelopment. Planning approval was extended in January 2005 for a further three years subject to the same conditions. The Company is continuing discussion with Government on the modification of the Government Lease. The Company remains committed to maximising the potential of the site.

THE REMAINING PORTION OF KOWLOON INLAND LOT NO. 1300 (NO. 3, JORDAN ROAD, KOWLOON)

The 26-storey building comprising 48 furnished apartments and retail units continues to be popular with tenants and has a satisfactory occupancy record in spite of stiff competition.

Chairman's Statement (Continued)

U.K. PROPERTIES

The Group's commercial properties in London, namely Albany House, Thanet House and Scorpio House were fully let and continue to perform well.

FUTURE OUTLOOK

Construction work on the prestigious residential and commercial complex on Inland Lot 7105, in Kam Hong Street, known as "Island Lodge", is progressing well and it is anticipated that residential units will be offered for sale in the last quarter of 2007. The Group intends to continue with its policy to seek investment opportunities, both locally and overseas, in its customary prudent way in the future.

NGAN Kit-ling
Chairman

Hong Kong, 18th October, 2007

INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

NGAN Kit-ling, JP, (74), Chairman and Managing Director, Executive Director of CMB since 1968. Solicitor and Notary Public. Also Director of Island Communication Enterprises Limited, Communication Holdings Limited, Heartwell Limited, Island Communication Investments Limited, Grand Island Place Investments Limited, Nottingham Developments Limited, Oxney Investments Limited, Communication Properties Limited, Eaglefield Properties Limited and Forever Vitality Limited. A substantial shareholder of CMB as defined in the Securities and Futures Ordinance. Spouse of Mr Fritz HELMREICH. Sister of Dr. Ngan Kit-keung and Dr. Henry Ngan.

Dr. NGAN Kit-keung, D.Sc, Ph.D., D.Tech., D.B.A., Comp.I.Manf., C.Prof.B.T.M., F.Inst.D., FCMI, P.Eng., (72), Assistant Managing Director. Director of CMB since 1961 and appointed as Assistant Managing Director since 1967. A substantial shareholder of CMB as defined in the Securities and Futures Ordinance. Also Director of Island Communication Enterprises Limited, Communication Holdings Limited, Heartwell Limited, Oxney Investments Limited, Island Communication Investments Limited, Grand Island Place Investments Limited, Nottingham Developments Limited, Communication Properties Limited, Prosperous Orient Limited, Eaglefield Properties Limited and Forever Vitality Limited. He is also a Non-Executive Director of Croydon Bus & Coach Co., Ltd. in United Kingdom. Dr. Ngan was elected a Fellow of the Duke of Edinburgh's Award World Fellowship in 2002. Brother of NGAN Kit-ling and Dr. Henry NGAN. Brother-in-law of Fritz Helmreich.

Dr. Henry NGAN, (69), Director of CMB since 1976. Medical Practitioner. Executive Director since 1998. Also Director of Island Communication Enterprises Limited, Communication Holdings Limited, Heartwell Limited, Island Communication Investments Limited, Grand Island Place Investments Limited, Nottingham Developments Limited, Oxney Investments Limited, Communication Properties Limited, Prosperous Orient Limited, Eaglefield Properties Limited and Forever Vitality Limited. A substantial shareholder of CMB as defined in the Securities and Futures Ordinance. Brother of NGAN Kit-ling and Dr. NGAN Kit-keung. Brother-in-law of Fritz Helmreich.

* Dr. LIU Lit Mo, L.L.D., M.B.E., JP, (69), Director of CMB since 1981. Managing Director of Liu Chong Hing Investment Ltd., Vice Chairman and Executive Director of Chong Hing Bank Ltd. Also Member of Advisory Board of Tung Wah Group of Hospitals, Board of Trustees of the Chinese University of Hong Kong, United College and Director of Liu Po Shan Memorial College. He was also the Past District Governor of Rotary International District 3450 (Hong Kong, Macau & Mongolia), Past Chairman of Tung Wah Group of Hospitals, Past Chairman of Hong Kong Football Association, Past President of Hong Kong Chiu Chow Chamber of Commerce and Past Member of Board of Trustees of the Lord Wilson Heritage Trust. Awarded Silver Jubilee Medal by Her Majesty the Queen in 1977. He was conferred an Honorary Doctor's Degree in Laws by Lingnan University in 2005.

Fritz HELMREICH, Dipl. Ing. (Austria), MSc., (77), Director of CMB since 1993. Former Austrian Trade Commissioner to Hong Kong. Has held a number of diplomatic posts including Commercial Counsellor (Head of Commercial Section), Austrian Embassy, Beijing, PRC and Chargé d' Affaires, Austrian Embassy, Republic of Singapore. Also Director of Island Communication Enterprises Limited, Oxney Investments Limited, Island Communication Investments Limited, Grand Island Place Investments Limited, Nottingham Developments Limited, Communication Properties Limited, Prosperous Orient Limited, Eaglefield Properties Limited and Forever Vitality Limited. Spouse of NGAN Kit-ling. Brother-in-law of Dr. Ngan Kit-keung and Dr. Henry Ngan.

* Anthony Grahame STOTT, B.Sc., F.F.A., (53), Director of CMB since 2002. He is an actuary who between 1982 and 2002 was with Watson Wyatt & Co., a leading global actuarial and management consultancy, from 1992 to 1996 as Managing Director Hong Kong and from 1995 to 2002 as Regional Director Asia Pacific. He was president of the Actuarial Association in Hong Kong in 1984 as well as having been a member of a number of Hong Kong Government advisory committees.

* TSE Yiu Wah, (60), Director of CMB since 2004. He is also director of Auzakia Company Limited and Sing Shun Properties Limited. He was the South East Asia Manager of Sealand Service Inc. Mr. Tse had over 26 years of experience in the property investment field in Hong Kong.

(* Independent Non-Executive Director)

Senior Management

Victor WONG, ACIS, (62), Personnel & Administration Manager. Was Company Secretary of CMB from 1982 to 1989 and rejoined CMB in 1993. Has 37 years experience in administration, personnel management and company secretary fields with 29 years in Senior Management post.

Y.T. YUEN, BBA(Hons), FCCA, CPA, (45), Chief Accountant. Joined CMB in 1999. Has 22 years experience in accounting field.

KWOK Pun Tak, FCIS, FCS, (54), Company Secretary. Joined CMB in 2002. Has 26 years company secretarial experience.

Independent Auditor's Report



TO THE SHAREHOLDERS OF CHINA MOTOR BUS COMPANY, LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Motor Bus Company, Limited (the "company") set out on pages 20 to 56, which comprise the consolidated and company balance sheets as at 30th June, 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 30th June, 2007 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 18th October, 2007

Consolidated Profit and Loss Account for the Year Ended 30th June, 2007

(Expressed in Hong Kong dollars)

	NOTE	2007	2006
		\$000's	\$000's
TURNOVER	3	76,819	68,018
FINANCE INCOME	4	95,572	59,348
OTHER INCOME	5	1,654	11,682
STAFF COSTS	6(a)	(7,784)	(7,705)
DEPRECIATION		(563)	(1,140)
OTHER OPERATING EXPENSES		<u>(11,346)</u>	<u>(12,619)</u>
OPERATING PROFIT	3, 6	154,352	117,584
SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES		128,607	173,997
VALUATION GAINS ON INVESTMENT PROPERTIES		<u>227,947</u>	<u>148,726</u>
PROFIT BEFORE TAXATION		510,906	440,307
TAXATION	8	<u>(46,380)</u>	<u>(45,094)</u>
PROFIT AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS	10, 25	<u>464,526</u>	<u>395,213</u>
DIVIDENDS ATTRIBUTABLE TO THE YEAR	9(a)	<u>100,308</u>	<u>91,189</u>
EARNINGS PER SHARE	11		
BASIC AND DILUTED		<u>\$10.19</u>	<u>\$8.67</u>

The notes on pages 26 to 56 form part of these financial statements.

Consolidated Balance Sheet at 30th June, 2007

(Expressed in Hong Kong dollars)

	NOTE	2007 \$000's	2006 \$000's
NON-CURRENT ASSETS			
FIXED ASSETS	13	2,172,315	1,848,115
INTEREST IN JOINTLY CONTROLLED ENTITIES	15	943,359	833,752
OTHER INVESTMENTS	16	12,903	11,876
DEFINED BENEFIT ASSET	17	<u>656</u>	<u>803</u>
		<u>3,129,233</u>	<u>2,694,546</u>
CURRENT ASSETS			
PROPERTY UNDER DEVELOPMENT FOR SALE	18	629,199	587,862
DEBTORS, DEPOSITS AND PREPAYMENTS	19	2,211	4,905
DEPOSITS WITH BANKS	20	1,318,991	1,237,471
CASH AT BANK AND IN HAND	20	<u>12,965</u>	<u>11,477</u>
		<u>1,963,366</u>	<u>1,841,715</u>
CURRENT LIABILITIES			
CREDITORS AND ACCRUALS	21	88,056	42,256
TAXATION	23	<u>3,711</u>	<u>3,944</u>
		<u>91,767</u>	<u>46,200</u>
NET CURRENT ASSETS		<u>1,871,599</u>	<u>1,795,515</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,000,832</u>	<u>4,490,061</u>
Representing:-			
SHARE CAPITAL	24	91,189	91,189
RESERVES	25	4,298,733	3,828,919
		4,389,922	3,920,108
DEFERRED PROFITS	26	441,197	441,197
DEFERRED TAXATION	23(b)	<u>169,713</u>	<u>128,756</u>
		<u>5,000,832</u>	<u>4,490,061</u>

Approved and authorised for issue by the board of directors on 18th October, 2007.

NGAN Kit-ling	}	Director
	}	
Dr. NGAN Kit-keung	}	Director
	}	

The notes on pages 26 to 56 form part of these financial statements.

Balance Sheet at 30th June, 2007

(Expressed in Hong Kong dollars)

	NOTE	2007 \$000's	2006 \$000's
NON-CURRENT ASSETS			
FIXED ASSETS	13	425,370	325,363
INTEREST IN SUBSIDIARIES	14	1,018,356	1,018,356
DEFINED BENEFIT ASSET	17	656	803
		<u>1,444,382</u>	<u>1,344,522</u>
CURRENT ASSETS			
DEBTORS, DEPOSITS AND PREPAYMENTS	19	352	414
AMOUNTS DUE FROM SUBSIDIARIES	22	840,198	840,114
DEPOSITS WITH BANKS		3,369	5,712
CASH AT BANK AND IN HAND		5,238	4,611
		<u>849,157</u>	<u>850,851</u>
CURRENT LIABILITIES			
CREDITORS AND ACCRUALS	21	10,593	10,326
AMOUNTS DUE TO SUBSIDIARIES	22	610,908	510,259
		<u>621,501</u>	<u>520,585</u>
NET CURRENT ASSETS			
		<u>227,656</u>	<u>330,266</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,672,038</u>	<u>1,674,788</u>
Representing:-			
SHARE CAPITAL	24	91,189	91,189
RESERVES	25	1,281,545	1,301,878
		1,372,734	1,393,067
DEFERRED PROFITS	26	230,132	230,132
DEFERRED TAXATION	23(b)	69,172	51,589
		<u>1,672,038</u>	<u>1,674,788</u>

Approved and authorised for issue by the board of directors on 18th October, 2007.

NGAN Kit-ling)
) Director
)

Dr. NGAN Kit-keung)
) Director
)

The notes on pages 26 to 56 form part of these financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 30th June, 2007

(Expressed in Hong Kong dollars)

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
SHAREHOLDERS' EQUITY AT 1ST JULY	3,920,108	3,598,755
EXCHANGE DIFFERENCES ARISING ON CONSOLIDATION	<u>96,477</u>	<u>17,329</u>
NET GAINS NOT RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	... 96,477	... 17,329
NET PROFIT FOR THE YEAR	... 464,526	... 395,213
DIVIDENDS APPROVED AND PAID DURING THE YEAR	... (91,189)	... (91,189)
SHAREHOLDERS' EQUITY AT 30TH JUNE	<u>4,389,922</u>	<u>3,920,108</u>

The notes on pages 26 to 56 form part of these financial statements.

Consolidated Cash Flow Statement for the Year Ended 30th June, 2007

(Expressed in Hong Kong dollars)

	2007	2006
	\$000's	\$000's
OPERATING ACTIVITIES		
Operating profit	154,352	117,584
Adjustments for:		
– Depreciation	563	1,140
– Dividend income from other investments	(536)	(517)
– Interest income	(65,858)	(54,780)
– Recognition of deferred profits	–	(10,001)
– Net unrealised gain on other investments carried at fair value	(1,027)	(90)
– Gain on disposal of fixed assets	(3)	–
– Foreign exchange gain	(27,115)	(2,363)
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	60,376	50,973
Decrease in defined benefit asset	147	341
Decrease in debtors, deposits and prepayments	194	22
Increase in creditors and accruals	4,463	10,888
Payment made for third party claims	–	(329)
CASH GENERATED FROM OPERATIONS	65,180	61,895
Tax paid		
– Hong Kong Profits Tax paid	(149)	(1,349)
– Overseas tax paid	(5,507)	(4,338)
NET CASH FROM OPERATING ACTIVITIES	59,524	56,208
INVESTING ACTIVITIES		
Purchase of fixed assets	(339)	(663)
Proceeds from sale of fixed assets	3	–
Expenditure on development project	–	(580,854)
Dividends from jointly controlled entities	3,000	93,400
Dividends from other investments	536	517
Interest received	68,358	53,614
Repayment of loans by jointly controlled entities	16,000	14,500
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	87,558	(419,486)

Consolidated Cash Flow Statement for the Year Ended 30th June, 2007 (Continued)

(Expressed in Hong Kong dollars)

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
FINANCING ACTIVITIES		
Dividends paid	<u>(91,189)</u>	<u>(91,189)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>... (91,189)</u>	<u>... (91,189)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	55,893	(454,467)
EFFECT OF FOREIGN EXCHANGE RATES	27,115	2,363
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	<u>1,248,948</u>	<u>1,701,052</u>
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<u>1,331,956</u>	<u>1,248,948</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Deposits with banks	1,318,991	1,237,471
Cash at bank and in hand	<u>12,965</u>	<u>11,477</u>
	<u>1,331,956</u>	<u>1,248,948</u>

Notes on The Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

- (a) **Statement of compliance**
These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.
- (b) **Basis of preparation of financial statements**
The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.
The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 31.
- (c) **Subsidiaries and controlled enterprises**
Subsidiaries are entities controlled by the group. Subsidiaries are considered to be controlled if the group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.
An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.
Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.
In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).
- (d) **Jointly controlled entities**
A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.
An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account reflects the group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year.
Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments in securities

The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:

- (i) Investments in securities are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant unrealised gain or loss recognised in the consolidated profit and loss account.
- (ii) Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated profit and loss account as they arise.

(f) Fixed assets

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use. Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(r)(i).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h). Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(ii) Other properties and fixed assets

Other properties are stated at valuation less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(i)). All other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(i)).

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(g) Depreciation

Depreciation is calculated to write off the cost or valuation of the company's and the group's fixed assets over their estimated useful lives as follows:

Other properties	- over the period of the lease
Motor buses	- on a straight line basis, over 12 years for new buses and 7 years for converted or second hand buses, to a residual value of \$10,000 and \$7,000 respectively
Plant, fixtures and equipment	- on a straight line basis to write off the assets over 10 or 5 years

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance leases (see note 1(f)(i)).
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the company or group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(f)) or is held for development for sale (see note 1(j)).

(i) Impairment of assets

(i) Impairment of investments in other receivables

Other current and non-current receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes on The Financial Statements (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts); and
- investments in subsidiaries and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and (d)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

(j) Inventories

Property under development for sale

Inventories in respect of property development for sale activities are carried at the lower of cost and net realisable value.

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (l) Trade and other payables
Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.
- (m) Cash equivalents
Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.
- (n) Employee benefits
 - (i) Short term employee benefits and contributions to defined contribution retirement plans
Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
 - (ii) Defined benefit retirement plan obligations
The group's net obligations in respect of defined benefit retirement schemes are calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of the scheme's assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.
When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the profit and loss account.
In calculating the group's obligation in respect of a scheme, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.
Where the calculation of the group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.
- (o) Income tax
 - (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
 - (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (continued)

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Deferred profits

Profits from the sale of land and buildings to jointly controlled entities for development for resale and investment are deferred to the extent of the group's attributable interest in the jointly controlled entities. The deferred profits will be recognised and taken to the profit and loss account as and when the properties are sold by the jointly controlled entities.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date and the exchange gains and losses arising are dealt with in the profit and loss account. Exchange differences arising on consolidation are taken directly to reserves.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Notes on The Financial Statements (Continued)

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for the current accounting period of the group and the company. The adoption of these new and revised HKFRSs did not have significant impact on the results of operations and financial position of the group and the company.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 32).

3. TURNOVER

The principal activities of the company and the group are property development and investment. The principal activities of the subsidiaries are set out in note 14 on the financial statements.

Turnover represents rental income from investment properties.

The analysis of geographical location of the operations of the company and its subsidiaries during the year is as follows:

	Group turnover		Operating profit	
	2007	2006	2007	2006
	\$000's	\$000's	\$000's	\$000's
Geographical locations of operations				
Hong Kong	18,776	15,214	82,349	60,340
United Kingdom	<u>58,043</u>	<u>52,804</u>	<u>72,003</u>	<u>57,244</u>
	<u>76,819</u>	<u>68,018</u>	<u>154,352</u>	<u>117,584</u>

The turnover of the jointly controlled entities attributable to the group for the year amounted to \$46,897,000 (2006: \$125,745,000).

Notes on The Financial Statements (Continued)

4. FINANCE INCOME

	2007	2006
	\$000's	\$000's
Interest income	65,858	54,780
Dividend income from other investments	536	517
Exchange gains	28,151	3,961
Net unrealised gains on other investments	1,027	90
	<u>95,572</u>	<u>59,348</u>

5. OTHER INCOME

	2007	2006
	\$000's	\$000's
Recognition of deferred profits	–	10,001
Management fee	497	496
Unclaimed dividends forfeited	493	359
Gain on disposal of fixed assets	3	–
Sundry income	661	826
	<u>1,654</u>	<u>11,682</u>

6. OPERATING PROFIT

	2007	2006
	\$000's	\$000's
Operating profit is arrived at		
after charging:-		
(a) Staff costs:		
Contributions to defined contribution retirement scheme	104	85
Decrease in asset for defined benefit retirement schemes (note 17)	147	341
Salaries, wages and other benefits	7,533	7,279
	<u>7,784</u>	<u>7,705</u>
(b) Other items:		
Auditors' remuneration		
– audit services (Note)	2,787	2,582
– tax services	532	528
Legal and professional fees	1,322	2,935
Property expenses	3,073	2,958
Note: including under/overprovision in respect of previous years		
and after crediting:-		
Rental income less outgoings	73,746	65,060
which includes		
– gross rental income from investment properties	<u>76,819</u>	<u>68,018</u>

Notes on The Financial Statements (Continued)

7. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

(a) Directors

Directors' fees are set with reference to the articles of association of the company and are approved by the shareholders at Ordinary Yearly Meetings of the company.

Directors' bonus is calculated on the basis provided in the articles of association of the company.

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:-

Name	Fees \$000's	Salaries, allowances and benefits in kind \$000's	Bonus in accordance with article 155 \$000's	Group's contributions to retirement scheme \$000's	Total \$000's
<i>2007</i>					
Ngan Kit-ling	55	2,339	-	-	2,394
Dr. Ngan Kit-keung	55	1,219	-	-	1,274
Dr. Henry Ngan	55	240	-	-	295
Fritz Helmreich	55	240	-	-	295
Dr. Liu Lit-mo	50	-	-	-	50
Anthony Grahame Stott	50	-	-	-	50
Tse Yiu-wah	50	-	-	-	50
	<u>370</u>	<u>4,038</u>	<u>-</u>	<u>-</u>	<u>4,408</u>
<i>2006</i>					
Ngan Kit-ling	45	2,336	-	-	2,381
Dr. Ngan Kit-keung	45	1,219	-	-	1,264
Dr. Henry Ngan	45	240	-	-	285
Fritz Helmreich	45	240	-	-	285
Dr. Liu Lit-mo	40	-	-	-	40
Anthony Grahame Stott	40	-	-	-	40
Tse Yiu-wah	40	-	-	-	40
	<u>300</u>	<u>4,035</u>	<u>-</u>	<u>-</u>	<u>4,335</u>

Fees and other emoluments in respect of independent non-executive directors for the year ended 30th June, 2007 amounted to \$150,000 (2006: \$120,000).

(b) Employees

Set out below are analyses of the emoluments for the year ended 30th June, 2007 of three employees (2006: three) of the group who, not being directors of the company, are among the top five highest paid individuals (including directors of the company and other employees of the group) employed by the group.

(i) Aggregate emoluments		<u>2007</u>	<u>2006</u>
		\$000's	\$000's
Basic salary, housing allowance and other benefits		1,518	1,425
Retirement scheme contribution		35	24
		<u>1,553</u>	<u>1,449</u>
(ii) Bandings			
<i>Bands (in HK\$)</i>		<i>Number</i>	<i>Number</i>
\$Nil – \$1,000,000		3	3

Notes on The Financial Statements (Continued)

8. TAXATION

The provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year ended 30th June, 2007. Taxation for overseas subsidiaries is similarly calculated at the appropriate current rates of taxation ruling in the relevant countries.

(a) Taxation in the consolidated profit and loss account represents:-

	<u>2007</u> \$000's	<u>2006</u> \$000's
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	93	93
Overprovision in respect of prior years	<u>–</u>	<u>(1)</u>
	<u>93</u>	<u>92</u>
Current tax – Overseas		
Tax for the year	4,998	4,953
Under/(over)provision in respect of prior years	<u>332</u>	<u>(317)</u>
	<u>5,330</u>	<u>4,636</u>
Deferred tax		
Origination and reversal of temporary differences		
– relating to property valuation	42,089	29,840
– others	3,001	10,526
– effect of change in the United Kingdom tax rate on deferred tax balances at 1st July	<u>(4,133)</u>	<u>–</u>
	<u>40,957</u>	<u>40,366</u>
	<u>46,380</u>	<u>45,094</u>

On 21st March, 2007, it was announced that the United Kingdom income tax rate will be changed from 22% to 20% with effect from 6th April, 2008. Accordingly, the relevant UK deferred tax liabilities have been calculated using the new rate of 20%.

Share of taxation of jointly controlled entities for the year ended 30th June, 2007 amounting to \$6,852,000 (2006: \$12,844,000) is included in share of results of jointly controlled entities in the consolidated profit and loss account.

(b) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	<u>2007</u> \$000's	<u>2006</u> \$000's
Profit before taxation	<u>510,906</u>	<u>440,307</u>
Notional tax on profit before taxation calculated at applicable tax rates	99,609	83,113
Tax effect of non-deductible expenses	409	160
Tax effect of non-taxable revenue	(50,983)	(39,243)
Effect of change in tax rate on opening balance of deferred tax	(4,133)	–
Under/(over)provision in respect of prior years	332	(317)
Tax effect of tax losses not recognised	1,887	2,198
Tax losses utilised	(331)	(276)
Tax effect of previously unrecognised tax losses now recognised	<u>(410)</u>	<u>(541)</u>
Actual total tax charge	<u>46,380</u>	<u>45,094</u>

Notes on The Financial Statements (Continued)

9. DIVIDENDS

(a) Dividends attributable to the year:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
First interim dividend declared and paid of \$0.10 per share (2006: \$0.10)	4,559	4,559
Special dividend declared and paid of \$0.50 per share (2006: \$0.50)	22,798	22,798
Second interim dividend declared after the balance sheet date of \$0.30 per share (2006: \$0.30)	13,678	13,678
Final dividend proposed after the balance sheet date of \$0.10 per share (2006: \$0.10)	4,559	4,559
Special dividend proposed after the balance sheet date of \$1.20 per share (2006: \$1.00)	<u>54,714</u>	<u>45,595</u>
	<u>100,308</u>	<u>91,189</u>

The interim dividend, final dividend and special dividend declared or proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Second interim dividend declared in respect of previous financial year of \$0.30 per share (2006: \$0.30)	13,678	13,678
Final dividend approved in respect of previous financial year of \$0.10 per share (2006: \$0.10)	4,559	4,559
Special dividend approved in respect of previous financial year of \$1.00 per share (2006: \$1.00)	<u>45,595</u>	<u>45,595</u>
	<u>63,832</u>	<u>63,832</u>

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders, \$70,856,000 (2006: \$260,091,000) is dealt with in the financial statements of the company.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of \$464,526,000 (2006: \$395,213,000) and the weighted average of 45,594,656 (2006: 45,594,656) shares in issue during the year.

Notes on The Financial Statements (Continued)

12. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

(a) Business segments

The group comprises the following main business segments:

	Property investment and development		Treasury management		Unallocated		Consolidated	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
Turnover	76,819	68,018	-	-	-	-	76,819	68,018
Finance income	-	-	95,572	59,348	-	-	95,572	59,348
Other income	-	10,001	-	-	1,654	1,681	1,654	11,682
Total revenue	<u>76,819</u>	<u>78,019</u>	<u>95,572</u>	<u>59,348</u>	<u>1,654</u>	<u>1,681</u>	<u>174,045</u>	<u>139,048</u>
Segment results	73,230	74,821	95,572	59,348	-	-	168,802	134,169
Unallocated expenses	-	-	-	-	-	-	(14,450)	(16,585)
Operating profit	-	-	-	-	-	-	154,352	117,584
Share of results of jointly controlled entities	128,607	173,997	-	-	-	-	128,607	173,997
Valuation gains on investment properties	227,947	148,726	-	-	-	-	227,947	148,726
Taxation	-	-	-	-	-	-	(46,380)	(45,094)
Profit attributable to shareholders	-	-	-	-	-	-	<u>464,526</u>	<u>395,213</u>
Depreciation for the year	(301)	(255)	-	-	(262)	(885)	(563)	(1,140)
Fixed assets	2,152,069	1,827,876	-	-	20,246	20,239	2,172,315	1,848,115
Other investments	-	-	12,903	11,876	-	-	12,903	11,876
Defined benefit asset	-	-	-	-	656	803	656	803
Property under development for sale	629,199	587,862	-	-	-	-	629,199	587,862
Debtors, deposits and prepayments	1,155	1,270	691	3,192	365	443	2,211	4,905
Cash balances	-	-	1,331,956	1,248,948	-	-	1,331,956	1,248,948
Segment assets	<u>2,782,423</u>	<u>2,417,008</u>	<u>1,345,550</u>	<u>1,264,016</u>	<u>21,267</u>	<u>21,485</u>	<u>4,149,240</u>	<u>3,702,509</u>
Interest in jointly controlled entities	943,359	833,752	-	-	-	-	943,359	833,752
Total assets	-	-	-	-	-	-	<u>5,092,599</u>	<u>4,536,261</u>
Deferred profits	441,197	441,197	-	-	-	-	441,197	441,197
Creditors and accruals	74,866	29,308	-	-	13,190	12,948	88,056	42,256
Taxation	-	-	-	-	3,711	3,944	3,711	3,944
Deferred taxation	-	-	-	-	169,713	128,756	169,713	128,756
Segment liabilities	<u>516,063</u>	<u>470,505</u>	<u>-</u>	<u>-</u>	<u>186,614</u>	<u>145,648</u>	<u>702,677</u>	<u>616,153</u>
Capital expenditure incurred during the year	<u>41,406</u>	<u>581,497</u>	<u>-</u>	<u>-</u>	<u>270</u>	<u>20</u>	<u>41,676</u>	<u>581,517</u>

(b) Geographical segments

The group participates in two principal economic environments. Hong Kong is a major market for all of the group's business. In the United Kingdom, the major business is property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong		United Kingdom	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
Turnover	18,776	15,214	58,043	52,804
Segment assets	2,804,637	2,565,124	1,344,603	1,137,385
Capital expenditure incurred during the year	41,676	581,517	-	-

Notes on The Financial Statements (Continued)

13. FIXED ASSETS

	Investment properties	Other properties	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
(a) The group					
Cost or valuation:					
At 1st July, 2005	1,660,753	27,100	8,565	7,677	1,704,095
Exchange adjustment	17,329	-	-	-	17,329
Additions	-	568,300	-	663	568,963
Transfer out	-	(575,324)	-	-	(575,324)
Revaluation surplus	148,726	-	-	-	148,726
At 30th June, 2006	1,826,808	20,076	8,565	8,340	1,863,789
Representing:					
Cost	-	-	8,565	8,340	16,905
2002 valuation	-	20,076	-	-	20,076
2006 valuation	1,826,808	-	-	-	1,826,808
	<u>1,826,808</u>	<u>20,076</u>	<u>8,565</u>	<u>8,340</u>	<u>1,863,789</u>
At 1st July, 2006	1,826,808	20,076	8,565	8,340	1,863,789
Exchange adjustment	96,477	-	-	-	96,477
Additions	-	-	-	339	339
Disposals	-	-	-	(898)	(898)
Revaluation surplus	227,947	-	-	-	227,947
At 30th June, 2007	2,151,232	20,076	8,565	7,781	2,187,654
Representing:					
Cost	-	-	8,565	7,781	16,346
2002 valuation	-	20,076	-	-	20,076
2007 valuation	2,151,232	-	-	-	2,151,232
	<u>2,151,232</u>	<u>20,076</u>	<u>8,565</u>	<u>7,781</u>	<u>2,187,654</u>
Accumulated depreciation:					
At 1st July, 2005	-	290	7,472	6,788	14,550
Charge for the year	-	66	758	316	1,140
Written back on transfer out	-	(16)	-	-	(16)
At 30th June, 2006	-	340	8,230	7,104	15,674
At 1st July, 2006	-	340	8,230	7,104	15,674
Charge for the year	-	66	130	367	563
Written back on disposals	-	-	-	(898)	(898)
At 30th June, 2007	-	406	8,360	6,573	15,339
Net book value:					
At 30th June, 2007	<u>2,151,232</u>	<u>19,670</u>	<u>205</u>	<u>1,208</u>	<u>2,172,315</u>
At 30th June, 2006	<u>1,826,808</u>	<u>19,736</u>	<u>335</u>	<u>1,236</u>	<u>1,848,115</u>
Tenure of title to properties:					
2007					
Held in Hong Kong					
- Long leases	550,000	19,670	-	-	569,670
- Medium term leases	479,124	-	-	-	479,124
	1,029,124	19,670	-	-	1,048,794
Held outside Hong Kong					
- Freehold	1,122,108	-	-	-	1,122,108
	<u>2,151,232</u>	<u>19,670</u>	<u>-</u>	<u>-</u>	<u>2,170,902</u>
2006					
Held in Hong Kong					
- Long leases	443,000	19,736	-	-	462,736
- Medium term leases	446,124	-	-	-	446,124
	889,124	19,736	-	-	908,860
Held outside Hong Kong					
- Freehold	937,684	-	-	-	937,684
	<u>1,826,808</u>	<u>19,736</u>	<u>-</u>	<u>-</u>	<u>1,846,544</u>

Notes on The Financial Statements (Continued)

13. FIXED ASSETS (Continued)

	Investment properties	Other properties	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
(b) The company					
Cost or valuation:					
At 1st July, 2005	305,124	27,100	8,565	6,534	347,323
Additions	–	568,300	–	20	568,320
Transfer out	–	(575,324)	–	–	(575,324)
At 30th June, 2006	<u>305,124</u>	<u>20,076</u>	<u>8,565</u>	<u>6,554</u>	<u>340,319</u>
Representing:					
Cost	–	–	8,565	6,554	15,119
2002 valuation	–	20,076	–	–	20,076
2006 valuation	<u>305,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>305,124</u>
	<u>305,124</u>	<u>20,076</u>	<u>8,565</u>	<u>6,554</u>	<u>340,319</u>
At 1st July, 2006	305,124	20,076	8,565	6,554	340,319
Additions	–	–	–	270	270
Disposals	–	–	–	(898)	(898)
Revaluation surplus	<u>100,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>100,000</u>
At 30th June, 2007	<u>405,124</u>	<u>20,076</u>	<u>8,565</u>	<u>5,926</u>	<u>439,691</u>
Representing:					
Cost	–	–	8,565	5,926	14,491
2002 valuation	–	20,076	–	–	20,076
2007 valuation	<u>405,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>405,124</u>
	<u>405,124</u>	<u>20,076</u>	<u>8,565</u>	<u>5,926</u>	<u>439,691</u>
Accumulated depreciation:					
At 1st July, 2005	–	290	7,472	6,325	14,087
Charge for the year	–	66	758	61	885
Written back on transfer out	–	(16)	–	–	(16)
At 30th June, 2006	<u>–</u>	<u>340</u>	<u>8,230</u>	<u>6,386</u>	<u>14,956</u>
At 1st July, 2006	–	340	8,230	6,386	14,956
Charge for the year	–	66	130	67	263
Written back on disposals	–	–	–	(898)	(898)
At 30th June, 2007	<u>–</u>	<u>406</u>	<u>8,360</u>	<u>5,555</u>	<u>14,321</u>
Net book value:					
At 30th June, 2007	<u>405,124</u>	<u>19,670</u>	<u>205</u>	<u>371</u>	<u>425,370</u>
At 30th June, 2006	<u>305,124</u>	<u>19,736</u>	<u>335</u>	<u>168</u>	<u>325,363</u>
Tenure of title to properties:					
2007					
Held in Hong Kong					
– Long leases	400,000	19,670	–	–	419,670
– Medium term leases	<u>5,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,124</u>
	<u>405,124</u>	<u>19,670</u>	<u>–</u>	<u>–</u>	<u>424,794</u>
2006					
Held in Hong Kong					
– Long leases	300,000	19,736	–	–	319,736
– Medium term leases	<u>5,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,124</u>
	<u>305,124</u>	<u>19,736</u>	<u>–</u>	<u>–</u>	<u>324,860</u>

- (i) The group's investment properties which are situated in Hong Kong and held under long and medium term leases, have been revalued at 30th June, 2007 by Professional Property Services Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for development potential or reversionary potential as appropriate.
- (ii) The group's investment properties which are situated in the United Kingdom and are freehold properties, have been revalued at 30th June, 2007 by SAVILLS Commercial Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for reversionary potential.
- (iii) The gross carrying amounts of investment properties of the group held for use in operating leases were \$2,151,232,000 (2006: \$1,826,808,000). Further details of the leasing arrangements are contained in note 29(a).
- (iv) The carrying amount of other properties of the group at 30th June, 2007 would have been \$11,536,000 (2006: \$11,575,000) had they been carried at cost less accumulated depreciation.

Notes on The Financial Statements (Continued)

14. INTEREST IN SUBSIDIARIES

	The company	
	2007	2006
	\$000's	\$000's
Unlisted shares, at cost	1,018,356	1,018,356

Details of the subsidiaries are as follows:-

Name of company	Place of incorporation	Place of operation	Issued ordinary share capital	Percentage directly held	Percentage indirectly held	Principal activity
Island Communication Enterprises Limited	Hong Kong	Hong Kong	185,073,024 HK\$1 shares	100%	–	Investment holding
Heartwell Limited	Hong Kong	Hong Kong	9,000,002 HK\$10 shares	100%	–	Investment holding
Communication Holdings Limited	British Virgin Islands	Hong Kong	35,900,010 HK\$10 shares	100%	–	Investment holding
Forever Vitality Limited	Hong Kong	Hong Kong	100 HK\$1 shares	100%	–	Property development
Affluent Dragon Island Limited	Hong Kong	Hong Kong	2 HK\$10 shares	100%	–	Dormant
Island Communication Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	–	100%	Investment property holding
Grand Island Place Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	–	100%	Investment property holding
Nottingham Developments Limited	British Virgin Islands	Hong Kong	1 US\$1 share	–	100%	Investment holding
Oxney Investments Limited	British Virgin Islands	United Kingdom	1 US\$1 share	–	100%	Investment property holding
Communication Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	–	100%	Investment property holding
Eaglefield Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	–	100%	Investment property holding
Prosperous Orient Limited	Hong Kong	Hong Kong	2 HK\$10 shares	–	100%	Investment property holding

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The group	
	2007	2006
	\$000's	\$000's
Share of net assets	219,302	93,695
Loans to jointly controlled entities	724,057	740,057
	<u>943,359</u>	<u>833,752</u>

Details of the group's interest in the jointly controlled entities are as follows:-

Name of jointly controlled entity	Form of business structure	Place of incorporation	Place of operation	Particulars of issued share capital	Proportion of ownership interest		Financial year end
					Group's effective interest or held by subsidiary company	Principal activity	
Swire and Island Communication Developments Limited	Incorporated	British Virgin Islands	Hong Kong	60 'A' shares of HK\$10 40 'B' shares of HK\$10 1 non-voting dividend share of HK\$10	- 100% 100%	Property development for investment	31st December
Island Land Development Limited	Incorporated	British Virgin Islands	Hong Kong	100 shares of HK\$10	50%	Property development for investment	31st December
Hareton Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	50%	Property development for resale and investment	31st December
Ultoxeter Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	20%	Property development for resale	31st December

The loans to the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The following supplementary financial information is disclosed relating to the group's effective share of the four principal jointly controlled entities:

(i) Swire and Island Communication Developments Limited

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
(a) Profit and loss account		
Income (Note)	20,880	110,838
Expenses	<u>(10,411)</u>	<u>(45,431)</u>
Profit before taxation	10,469	65,407
Taxation	<u>(1,808)</u>	<u>(11,404)</u>
Profit after taxation	<u>8,661</u>	<u>54,003</u>
(b) Balance sheet		
Fixed assets	291,601	291,602
Current assets	5,794	6,686
Current liabilities	(7,469)	(14,974)
Deferred taxation	<u>(18,127)</u>	<u>(17,176)</u>
Net assets	<u>271,799</u>	<u>266,138</u>

(ii) Island Land Development Limited

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
(a) Profit and loss account		
Income (Note)	132,926	127,144
Expenses	<u>(9,109)</u>	<u>(7,716)</u>
Profit before taxation	123,817	119,428
Taxation	<u>(4,940)</u>	<u>(1,198)</u>
Profit after taxation	<u>118,877</u>	<u>118,230</u>
(b) Balance sheet		
Fixed assets	643,000	536,000
Retirement benefit assets	100	80
Current assets	8,766	7,567
Current liabilities	(525,078)	(540,676)
Deferred taxation	<u>(23,477)</u>	<u>(18,537)</u>
Net assets/(liabilities)	<u>103,311</u>	<u>(15,566)</u>

Note: Income includes revaluation gains on investment properties.

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

(iii) Hareton Limited

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
(a) Profit and loss account		
Income	555	470
Expenses	<u>(68)</u>	<u>(34)</u>
Profit before taxation	487	436
Taxation	<u>—</u>	<u>—</u>
Profit after taxation	<u><u>487</u></u>	<u><u>436</u></u>
(b) Balance sheet		
Current assets	51,172	50,703
Current liabilities	<u>(207,828)</u>	<u>(207,845)</u>
Net liabilities	<u><u>(156,656)</u></u>	<u><u>(157,142)</u></u>

(iv) Uttoxeter Limited

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
(a) Profit and loss account		
Income	694	1,585
Expenses	<u>(9)</u>	<u>(14)</u>
Profit before taxation	685	1,571
Taxation	<u>(103)</u>	<u>(243)</u>
Profit after taxation	<u><u>582</u></u>	<u><u>1,328</u></u>
(b) Balance sheet		
Current assets	1,881	3,423
Current liabilities	<u>(1,033)</u>	<u>(3,158)</u>
Net assets	<u><u>848</u></u>	<u><u>265</u></u>

16. OTHER INVESTMENTS

	<u>The group</u>	
	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Equity securities listed in Hong Kong, at fair value	<u><u>12,903</u></u>	<u><u>11,876</u></u>

Notes on The Financial Statements (Continued)

17. DEFINED BENEFIT RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually. The actuary of these schemes is Watson Wyatt Hong Kong Limited.

(a) The amounts recognised in the balance sheets are as follows:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Present value of the funded obligations	9,690	9,498
Fair value of scheme assets	(11,566)	(11,319)
Net unrecognised actuarial gains	<u>1,220</u>	<u>1,018</u>
	<u>(656)</u>	<u>(803)</u>

(b) Plan assets consist of deposits with bank and cash at bank of \$11,566,000 (2006: \$11,319,000).

(c) Changes in the present value of the funded obligations are as follows:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Balance brought forward	9,498	9,488
Current service cost	188	261
Interest cost	451	356
Actual benefits paid	-	(151)
Actuarial gain on obligation	<u>(447)</u>	<u>(456)</u>
Balance carried forward	<u>9,690</u>	<u>9,498</u>

(d) Changes in the fair value of scheme assets are as follows:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Balance brought forward	11,319	11,220
Expected return on scheme assets	283	280
Actual benefits paid	-	(151)
Actuarial loss on scheme assets	<u>(36)</u>	<u>(30)</u>
Balance carried forward	<u>11,566</u>	<u>11,319</u>

Notes on The Financial Statements (Continued)

17. DEFINED BENEFIT RETIREMENT SCHEMES (Continued)

(e) Expenses for the year recognised in the consolidated profit and loss account are as follows:

	2007	2006
	\$000's	\$000's
Current service cost	188	261
Interest cost	451	356
Expected return on scheme assets	(283)	(280)
Net actuarial (gain)/loss recognised	(209)	4
	<u>147</u>	<u>341</u>

The income for the year are recognised in the line of staff costs in the consolidated profit and loss account.

	2007	2006
	\$000's	\$000's
Actual return on scheme assets	<u>247</u>	<u>250</u>

(f) The principal actuarial assumptions used as at 30th June are as follows:

	2007	2006
Discount rate	4.75% p.a.	4.75% p.a.
Expected rate of return on scheme assets	2.50% p.a.	2.50% p.a.
Future salary increases	2.50% p.a.	2.50% p.a.

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

(g) Amounts for the current and previous four periods are as follows:

	2007	2006	2005	2004	2003
	\$000's	\$000's	\$000's	\$000's	\$000's
Present value of the funded obligation	9,690	9,498	9,488	10,374	10,394
Fair value of scheme assets	<u>(11,566)</u>	<u>(11,319)</u>	<u>(11,220)</u>	<u>(12,485)</u>	<u>(12,810)</u>
	<u>(1,876)</u>	<u>(1,821)</u>	<u>(1,732)</u>	<u>(2,111)</u>	<u>(2,416)</u>
Experience gain on defined benefit obligation	<u>(447)</u>	<u>(421)</u>	<u>(412)</u>	<u>(402)</u>	<u>(672)</u>
Experience loss on scheme assets	<u>36</u>	<u>30</u>	<u>316</u>	<u>315</u>	<u>115</u>

18. PROPERTY UNDER DEVELOPMENT FOR SALE

Property under development for sale is located in Hong Kong and held under a government lease for a term of 75 years commencing from May 1954, and is renewable for a further term of 75 years. Property under development for sale is expected to be recovered after more than one year.

Notes on The Financial Statements (Continued)

19. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors with the following ageing analysis:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Current	<u>279</u>	<u>393</u>
Total trade debtors	<u><u>279</u></u>	<u><u>393</u></u>

A defined credit policy is maintained within the group.

The following amounts are expected to be recovered after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$000's	\$000's	\$000's	\$000's
Debtors, deposits and prepayments	<u><u>1,132</u></u>	<u><u>1,126</u></u>	<u><u>165</u></u>	<u><u>165</u></u>

20. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<u>The group</u>	
	<u>2007</u>	<u>2006</u>
	000's	000's
United States dollars	USD 130,370	USD 129,935
Sterling Pounds	<u><u>GBP 9,029</u></u>	<u><u>GBP 6,764</u></u>

Notes on The Financial Statements (Continued)

21. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors with the following ageing analysis:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Due within 1 month	28	29
Due from 1 to 3 months	-	56
Due after 3 months	<u>201</u>	<u>201</u>
	<u>229</u>	<u>286</u>

The following amounts are expected to be settled after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$000's	\$000's	\$000's	\$000's
Creditors and accruals	<u>61,144</u>	<u>18,948</u>	<u>3,458</u>	<u>3,480</u>

22. AMOUNTS DUE FROM/DUE TO SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes on The Financial Statements (Continued)

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Provision for Hong Kong Profits Tax for the year	93	93
Balance of profits tax payable relating to prior years	<u>(10)</u>	<u>46</u>
	83	139
Overseas taxation	<u>3,628</u>	<u>3,805</u>
	<u>3,711</u>	<u>3,944</u>

(b) Deferred tax (assets)/liabilities recognised in the consolidated balance sheet:

(i) The group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Other provisions	Future benefit of tax losses	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
Balance at 1st July, 2005	8,921	80,491	(630)	(392)	88,390
(Credited)/charged to the consolidated profit and loss account	<u>10,888</u>	<u>29,840</u>	<u>58</u>	<u>(420)</u>	<u>40,366</u>
Balance at 30th June, 2006	<u>19,809</u>	<u>110,331</u>	<u>(572)</u>	<u>(812)</u>	<u>128,756</u>
Balance at 1st July, 2006	19,809	110,331	(572)	(812)	128,756
Charged to the consolidated profit and loss account	<u>2,260</u>	<u>38,595</u>	<u>9</u>	<u>93</u>	<u>40,957</u>
Balance at 30th June, 2007	<u>22,069</u>	<u>148,926</u>	<u>(563)</u>	<u>(719)</u>	<u>169,713</u>

Notes on The Financial Statements (Continued)

23. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax (assets)/liabilities recognised in the consolidated balance sheet: (continued)

(ii) The company

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Other provisions	Total
	\$000's	\$000's	\$000's	\$000's
Balance at 1st July, 2005	2,712	49,513	(630)	51,595
(Credited)/charged to the profit and loss account	<u>(64)</u>	<u>–</u>	<u>58</u>	<u>(6)</u>
Balance at 30th June, 2006	<u>2,648</u>	<u>49,513</u>	<u>(572)</u>	<u>51,589</u>
Balance at 1st July, 2006	2,648	49,513	(572)	51,589
Charged to the profit and loss account	<u>74</u>	<u>17,500</u>	<u>9</u>	<u>17,583</u>
Balance at 30th June, 2007	<u>2,722</u>	<u>67,013</u>	<u>(563)</u>	<u>69,172</u>

(c) Deferred tax assets not recognised

The group has not recognised deferred tax assets in respect of tax losses of \$34,792,000 (2006: \$29,713,000). The tax losses do not expire under current tax legislation.

24. SHARE CAPITAL

	2007		2006	
	No. of shares	Amount \$000's	No. of shares	Amount \$000's
Authorised:				
Ordinary shares of \$2 each	<u>50,000,000</u>	<u>100,000</u>	<u>50,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1st July and 30th June	<u>45,594,656</u>	<u>91,189</u>	<u>45,594,656</u>	<u>91,189</u>

Notes on The Financial Statements (Continued)

25. RESERVES

	Capital redemption reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
The group					
At 1st July, 2005	1,348	5,971	280,000	3,220,247	3,507,566
Dividends declared/approved in respect of the previous year (note 9(b))	-	-	-	(63,832)	(63,832)
Realisation of other properties revaluation reserve	-	(138)	-	138	-
Profit for the year	-	-	-	395,213	395,213
Transfer to general reserve	-	-	10,000	(10,000)	-
Exchange differences arising on consolidation	-	-	-	17,329	17,329
Dividends declared and paid in respect of the current year (note 9(a))	-	-	-	(27,357)	(27,357)
At 30th June, 2006	<u>1,348</u>	<u>5,833</u>	<u>290,000</u>	<u>3,531,738</u>	<u>3,828,919</u>
At 1st July, 2006	1,348	5,833	290,000	3,531,738	3,828,919
Dividends declared/approved in respect of the previous year (note 9(b))	-	-	-	(63,832)	(63,832)
Realisation of other properties revaluation reserve	-	(27)	-	27	-
Profit for the year	-	-	-	464,526	464,526
Transfer to general reserve	-	-	10,000	(10,000)	-
Exchange differences arising on consolidation	-	-	-	96,477	96,477
Dividends declared and paid in respect of the current year (note 9(a))	-	-	-	(27,357)	(27,357)
At 30th June, 2007	<u>1,348</u>	<u>5,806</u>	<u>300,000</u>	<u>3,991,579</u>	<u>4,298,733</u>

Notes on The Financial Statements (Continued)

25. RESERVES (Continued)

	Capital redemption reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
The company					
At 1st July, 2005	1,348	5,971	280,000	845,657	1,132,976
Dividends declared/approved in respect of the previous year (note 9(b))	-	-	-	(63,832)	(63,832)
Realisation of other properties revaluation reserve	-	(138)	-	138	-
Profit for the year	-	-	-	260,091	260,091
Transfer to general reserve	-	-	10,000	(10,000)	-
Dividends declared and paid in respect of the current year (note 9(a))	-	-	-	(27,357)	(27,357)
At 30th June, 2006	<u>1,348</u>	<u>5,833</u>	<u>290,000</u>	<u>1,004,697</u>	<u>1,301,878</u>
At 1st July, 2006	1,348	5,833	290,000	1,004,697	1,301,878
Dividends declared/approved in respect of the previous year (note 9(b))	-	-	-	(63,832)	(63,832)
Realisation of other properties revaluation reserve	-	(27)	-	27	-
Profit for the year	-	-	-	70,856	70,856
Transfer to general reserve	-	-	10,000	(10,000)	-
Dividends declared and paid in respect of the current year (note 9(a))	-	-	-	(27,357)	(27,357)
At 30th June, 2007	<u>1,348</u>	<u>5,806</u>	<u>300,000</u>	<u>974,391</u>	<u>1,281,545</u>

Notes on The Financial Statements (Continued)

25. RESERVES (Continued)

The directors consider that all of the general reserve and \$614,686,000 (2006: \$727,492,000) of the retained profits of the company, totalling \$914,686,000 (2006: \$1,017,492,000), are distributable.

The application of the capital redemption reserve is governed by section 49 of the Hong Kong Companies Ordinance. The other properties revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

26. DEFERRED PROFITS

	The group		The company	
	2007	2006	2007	2006
	\$000's	\$000's	\$000's	\$000's
At 1st July	441,197	451,198	230,132	237,225
Realised during the year	—	(10,001)	—	(7,093)
At 30th June	<u>441,197</u>	<u>441,197</u>	<u>230,132</u>	<u>230,132</u>

Notes on The Financial Statements (Continued)

27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the group's business. These risks are managed by the group's financial management policies and practices described below.

(a) Credit risk

The group's credit risk is primarily attributable to bank deposits, rental, other trade and accounts receivables. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. There are no significant concentrations of credit risk within the group.

(b) Liquidity risk

The treasury function of the group is centralised. The group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The group has no bank borrowings. In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2007		2006	
	Effective interest rate (%)	Within one year \$000's	Effective interest rate (%)	Within one year \$000's
Cash and bank balances	4.26-5.60	1,331,956	3.61-5.17	1,248,948

(d) Foreign currency risk

The group owns assets and conducts its business primarily in Hong Kong and the United Kingdom with its cash flows substantially denominated in Hong Kong dollars and Pounds Sterling.

The group's primary foreign currency assets are United States dollars denominated bank deposits and direct property investment, rental income and bank deposits in Pounds Sterling in the United Kingdom which are regularly monitored by management.

(e) Fair value

Financial instruments are carried at amounts not materially different from their fair values as at 30th June, 2007 and 30th June, 2006.

Notes on The Financial Statements (Continued)

28. CAPITAL COMMITMENTS

Contracted for capital commitments outstanding at 30th June, 2007 amounted to \$229,872,000 (2006: \$12,591,000).

29. OPERATING LEASES

(a) Significant leasing arrangements

The group leases out investment properties in Hong Kong and the United Kingdom under operating leases. The leases for investment properties in Hong Kong typically run for an initial period of one to three years. The leases for investment properties in the United Kingdom run for an initial period of fourteen to twenty five years. Lease payments are subject to upward only rent review every 5 years for investment properties in the United Kingdom. One of the leases in the United Kingdom is subject to upward only rent review in September 2011. One of the leases includes contingent rentals. Further details of the carrying value of the investment properties are contained in note 13.

\$76,819,000 (2006: \$68,018,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

(b) Future operating lease income

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<u>2007</u>	<u>2006</u>
	\$000's	\$000's
Within one year	74,811	68,897
After one but within five years	248,106	226,565
After five years	534,791	539,550
	<u>857,708</u>	<u>835,012</u>

30. MATERIAL RELATED PARTY TRANSACTIONS

Loans to the jointly controlled entities at 30th June, 2007 are disclosed in note 15. The loans are unsecured, interest-free and have no fixed terms of repayment.

31. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of accounting estimates and estimation uncertainty include the following:

(a) Valuation of investment properties

Investment properties are included in the balance sheet at their open market value, which are assessed by external qualified valuers, after taking into consideration the net rental income allowing for development potential or reversionary potential. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the investment properties.

(b) Properties under development for sale

Management determines the net realisable value of properties held under development for sale by assessing the prevailing market data such as most recent sale transactions and market survey reports and the related costs to be incurred in selling the properties.

Notes on The Financial Statements (Continued)

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 30TH JUNE, 2007

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 30th June, 2007 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1st January, 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1st January, 2007

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the group's results of operations and financial position.

Financial Summary

(Expressed in Hong Kong dollars)

	2007	2006	2005	2004	2003
	\$000's	\$000's	\$000's (restated)	\$000's (restated)	\$000's (restated)
CONSOLIDATED PROFIT AND LOSS ACCOUNT					
Turnover	<u>76,819</u>	<u>68,018</u>	<u>67,378</u>	<u>93,844</u>	<u>87,987</u>
Operating profit	154,352	117,584	77,000	100,665	114,617
Share of results of jointly controlled entities (notes 2, 3 and 4)	128,607	173,997	202,059	57,889	16,715
Valuation gains/(losses) on investment properties (note 2)	<u>227,947</u>	<u>148,726</u>	<u>186,517</u>	<u>91,762</u>	<u>(19,310)</u>
Profit before taxation	510,906	440,307	465,576	250,316	112,022
Taxation (notes 1, 3 and 4)	<u>(46,380)</u>	<u>(45,094)</u>	<u>(27,211)</u>	<u>(20,670)</u>	<u>(18,363)</u>
Profit after taxation and attributable to the group	<u>464,526</u>	<u>395,213</u>	<u>438,365</u>	<u>229,646</u>	<u>93,659</u>
CONSOLIDATED BALANCE SHEET					
Fixed assets	2,172,315	1,848,115	1,689,545	1,503,223	1,310,592
Interest in jointly controlled entities (notes 1 and 3)	943,359	833,752	767,655	610,746	689,307
Other investments	12,903	11,876	11,786	10,801	3,512
Defined benefit asset	656	803	1,144	1,640	2,105
Net current assets	<u>1,871,599</u>	<u>1,795,515</u>	<u>1,671,813</u>	<u>1,693,935</u>	<u>1,597,856</u>
	<u>5,000,832</u>	<u>4,490,061</u>	<u>4,141,943</u>	<u>3,820,345</u>	<u>3,603,372</u>
Representing:-					
Share capital	91,189	91,189	91,189	91,189	91,189
Reserves (notes 1 and 3)	<u>4,298,733</u>	<u>3,828,919</u>	<u>3,507,566</u>	<u>3,206,011</u>	<u>2,995,454</u>
Shareholders' funds	4,389,922	3,920,108	3,598,755	3,297,200	3,086,643
Deferred profits	441,197	441,197	451,198	451,198	451,198
Contingency reserves	-	-	3,600	5,600	10,700
Deferred taxation (notes 1 and 3)	<u>169,713</u>	<u>128,756</u>	<u>88,390</u>	<u>66,347</u>	<u>54,831</u>
	<u>5,000,832</u>	<u>4,490,061</u>	<u>4,141,943</u>	<u>3,820,345</u>	<u>3,603,372</u>
Earnings per share	<u>\$10.19</u>	<u>\$8.67</u>	<u>\$9.61</u>	<u>\$5.04</u>	<u>\$2.05</u>
Dividends per share	<u>\$2.00</u>	<u>\$2.00</u>	<u>\$2.80</u>	<u>\$2.00</u>	<u>\$19.50</u>

Notes:

1. The figure in 2003 has been restated pursuant to the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) "Income taxes".
2. These figures in 2005, 2004 and 2003 have been restated pursuant to the adoption of Hong Kong Accounting Standard 40 "Investment properties".
3. These figures in 2005, 2004 and 2003 have been restated pursuant to the adoption of HK(SIC) Interpretation 21 "Income taxes - Recovery of revalued non-depreciable assets".
4. These figures in 2005, 2004 and 2003 have been restated pursuant to the adoption of HKAS 1 "Presentation of financial statements".

Group Properties

Properties held for investment

Location	Lot number	Existing use	Term of lease
391 Chai Wan Road, Chai Wan	CWIL 88	Industrial	Long
Unit 8-14, 3/F, Chai Wan Industrial City Phase I, 60 Wing Tai Road, Chai Wan	CWIL 132	Industrial	Medium
21/F, 26/F, 27/F & 28/F Island Place Tower Island Place 510 King's Road, North Point	IL 8849	Office	Medium
Unit B 37/F One Island Place; Units E & F 35/F, Units E-H 36/F & Units C-H 37/F Two Island Place 51-61 Tanner Road, North Point	IL 8849	Residential	Medium
No. 3 Jordan Road, Kowloon	Remaining portion of KIL 1300	Residential and commercial	Long
Albany House, Petty France, SW1 London		Office	Freehold
Thanet House, 231/232 Strand, WC2 London		Restaurant and office	Freehold
Scorpio House, SW3 London		Office	Freehold

Property under development for sale

Location	Lot number	Existing use	Term of lease
9-23 Kam Hong Street, Nos 172-186 Java Road and Nos 61-75 Marble Road, North Point	IL 7105	Residential and commercial	Long