Lippo China Resources Limited

力寶華潤有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 156)

ANNUAL REPORT 2007

Contents

Corporate Information

Board of Directors

Non-executive Directors

Dr. Mochtar Riady (*Honorary Chairman*)
Mr. Ning Gaoning
Mr. Leon Nim Leung Chan

Executive Directors

Mr. James Riady (*Chairman*)
Mr. Stephen Riady
(*Deputy Chairman, Managing Director and Chief Executive Officer*)
Mr. John Luen Wai Lee, J.P.

Independent non-executive Directors

Mr. Edwin Neo
Mr. King Fai Tsui
Mr. Victor Ha Kuk Yung

Committees

Audit Committee

Mr. Victor Ha Kuk Yung (*Chairman*)
Mr. Leon Nim Leung Chan
Mr. Edwin Neo
Mr. King Fai Tsui

Remuneration Committee

Mr. Leon Nim Leung Chan (*Chairman*)
Mr. Victor Ha Kuk Yung
Mr. Edwin Neo
Mr. King Fai Tsui
Mr. Stephen Riady

Nomination Committee

Mr. Leon Nim Leung Chan (*Chairman*)
Mr. Victor Ha Kuk Yung
Mr. Edwin Neo
Mr. King Fai Tsui
Mr. Stephen Riady

Secretary

Ms. Millie Yuen Fun Luk

Qualified Accountant

Mr. Tai Chiu Ng

Auditors

Ernst & Young

Principal Bankers

Fubon Bank (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Agricultural Bank of China, Shanghai Branch
United Overseas Bank Limited

Solicitors

Richards Butler

Registrars

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

Room 2301, 23rd Floor
Tower One
Lippo Centre
89 Queensway
Hong Kong

Stock Code

156

Website

www.lcr.com.hk

Chairman's Statement

I have pleasure in presenting the annual report of the Company for the year ended 31st December, 2007.

The Hong Kong economy sustained a robust momentum of growth in 2007, with GDP growing at a rate of 6.3 per cent. Falling unemployment rate and continuing strong domestic consumption boosted market confidence. Supported by an environment of low interest rate, and capital inflow, the local property and stock markets rallied. Stock prices and market turnover surged to record highs in October 2007 before the corrections in stock markets around the world took place due to concern of a slowdown in the US economy, stemming from sub-prime mortgage problems. The PRC economy continued to grow at a fast pace in 2007, with the GDP growth rate reaching 11.9 per cent. The implementation of further tightening macro-economic measures in the PRC might slow down the pace of growth but these measures will be beneficial for maintaining healthy and steady growth in the longer term.

During the year, the Company completed the distribution in specie of its approximate 72.26 per cent. shareholding in Hongkong Chinese Limited ("HKC") to the shareholders of the Company (the "Distribution"). As a result, the Company ceased to be the holding company of HKC.

Following the Distribution, the Group has focused on the development of its retail business. I am pleased to see the birth of the Group's department store chain "Robbinz" and the successful launching of the Group's flagship store in Tianjin in November 2007.

The overall performance of the Group was satisfactory during the year. For the year ended 31st December, 2007, the Group recorded a profit attributable to shareholders of HK$656 million, compared to a profit of HK$394 million in 2006.

I would like to thank my fellow Directors and all the staff for their hard work, valuable contribution and devotion during the year. I would also like to take this opportunity to express my sincere gratitude to our shareholders, business partners and customers for their trust and continued support.

Dr. Mochtar Riady
Honorary Chairman

17th April, 2008

Chief Executive Officer's Report

I am pleased to present a report on the business review and performance of the Company for the year ended 31st December, 2007.

Business Review

Results

Following the distribution in specie of the Company's approximate 72.26 per cent. shareholding in Hongkong Chinese Limited ("HKC") to the shareholders of the Company in July 2007, HKC ceased to be a subsidiary of the Company and the Company has no longer consolidated HKC's results since then. Pre-operating expenses incurred for the opening of the new department stores affected the Group's profitability in the second half of the year. Nevertheless, the Group still maintained satisfactory results in 2007. It achieved a profit attributable to shareholders of HK$656 million for the year ended 31st December, 2007, compared to a profit of HK$394 million in 2006.

Retail business

The Group's department store chain "Robbinz" was established in the PRC during the year. "Robbinz" is positioned to serve the fast growing mid-to-upper consumer segment providing customers with one-stop shopping service. The continuing fast-growing PRC economy has resulted in the rise of the middle class and increase in purchasing power. The total retail sales of consumer goods in the PRC during 2007 amounted to approximately RMB8,921 billion, an increase of approximately 16.8 per cent. when compared with 2006. Such favourable environment has provided a good opportunity for the development of the Group's retail business in the PRC.

The flagship store of "Robbinz" in Tianjin, with a gross floor area of approximately 98,000 square metres, was opened in November 2007. The second "Robbinz" store in Chengdu, with a gross floor area of approximately 28,000 square metres, was opened in December 2007. Both stores are located at prime locations in the city centre and under 20-year leases.

Robbinz Department Store in Tianjin, the PRC

Robbinz Department Store in Chengdu, the PRC

Chief Executive Officer's Report *(continued)*

Robbinz Department Store in Xuzhou, the PRC

Robbinz Department Store in Yangzhou, the PRC

According to the business development plan, the Group will open more department stores in municipalities and provincial capitals of the PRC in the near future. Two more new "Robbinz" stores shall be opened in Xuzhou and Yangzhou respectively (both in Jiangsu Province). The Group will then operate and manage a total retail space of approximately 300,000 square metres. Moreover, the Group will continue to look for suitable opportunities to extend its market share in the retail sector in the PRC.

Auric Pacific Group Limited (together with its subsidiaries, the "APG Group"), in which the Group is interested in approximately 49.3 per cent. of its issued share capital and the shares of which are listed on the Main Board of SGX-ST, achieved a net profit after tax of S$51.5 million for the year ended 31st December, 2007, compared to a profit of S$22.3 million in 2006.

Chief Executive Officer's Report *(continued)*

During the year, the APG Group acquired Edmontor Investments Pte Ltd, the holding company of Delifrance Asia Limited ("Delifrance Asia"). Delifrance Asia and its subsidiaries (the "Delifrance Asia Group") operate the Delifrance chain of cafes and bristros with presence in a number of countries and cities in Asia including, inter alia, Hong Kong, Shanghai, Singapore, Malaysia, Indonesia and Thailand. The acquisition of the Delifrance Asia Group has provided the APG Group a good opportunity to achieve cross synergy.

In order to focus its resources into expanding existing and newly acquired core businesses, in February 2008, the APG Group entered into an agreement for the disposal of its entire interest in One Phillip Street in Singapore for a cash consideration of approximately S$99 million. The disposal will give rise to a net gain of approximately S$13.5 million to the APG Group.

The operating environment of Robinson and Company, Limited ("Robinson"), in which the APG Group was interested approximately 29.99 per cent., has changed significantly since the APG Group's acquisition in 2006. The global economy has been experiencing greater volatility as sub-prime woes continue to affect global financial markets and the general economic environment which in turn have affected consumer sentiment and spending in the markets where Robinson operates. Rising rental and staff costs have also contributed to an increasingly challenging operating environment. As the prospects for Robinson would be subject to greater uncertainty, the APG Group accepted the cash offer for Robinson (the "Offer") at a price of S$7.20 per share in April 2008 which was a timely opportunity for the APG Group to divest its investment in Robinson at an attractive price. The aggregate consideration received by the APG Group under the Offer amounted to approximately S$185.6 million.

Property investment and development

The Group's investment properties continued to enjoy high occupancy during the year. Rental provided the Group with stable income. Lippo Plaza at Huaihai Zhong Road, Shanghai maintained very high occupancy at satisfactory rental rates.

In order to have more strategic flexibility over its existing property interests, the Group acquired in October 2007 the remaining 30 per cent. interest in Tecwell Limited which in turn owns 95 per cent. interest in Lippo Plaza in Shanghai, for an aggregate consideration of US$52.2 million. In December 2007, the Group also entered into an agreement with the PRC joint venture partner pursuant to which the rights of the latter in the 力寶中旅廣場 (Lippo CTS Plaza) project in Zhuhai, representing approximately 22.85 per cent. of the gross floor area thereof, would be transferred to the Group for an aggregate consideration of RMB110 million.

Chief Executive Officer's Report *(continued)*

Distribution in specie

During the year, the Company, HKC and Lippo Limited ("Lippo"), the holding company of the Company (collectively, the "Lippo Group") undertook a realignment to streamline the corporate structure of the Lippo Group. The Company declared a special interim distribution by way of distribution in specie of its approximate 72.26 per cent. shareholding in HKC to its shareholders in July 2007 (the "Distribution"). As a result, the Company ceased to be the holding company of HKC, while Lippo has become the beneficial owner of approximately 51.4 per cent. of the issued share capital of HKC. The Distribution has resulted in a clearer and better defined operational model for the Lippo Group. Following the realignment, HKC will primarily focus on property investment and development while the Company will primarily focus on retail business. The better defined and more focused separate operations of the Company, HKC and Lippo will enable investors to better appraise, assess and distinguish the values, potential and performance of each of the listed entities within the Lippo Group.

Prospects

Looking ahead, we believe the Hong Kong economy will continue to benefit from the low interest rate environment and steady economic growth in the PRC. Nevertheless, there are a number of uncertainties in the external environment. Prevailing sluggishness in the US economy arising from the sub-prime mortgage problems has increased the chance of a recession of the US economy. Together with tightened liquidity and continued deterioration in the credit market, the global economy will inevitably be affected in varying degrees. Despite these uncertainties, there is also broad optimism about the economic and business prospects in the surrounding Asian countries, including the PRC where the 2008 Beijing Olympic Games will be held in August this year.

The overall outlook for the Group is promising. With strong fundamentals, the Group is in an excellent position to benefit from the continuing economic growth in Asia, particularly in the PRC. We are optimistic about the prospects of the Company and Management will continue to adopt a cautious and prudent approach to capture suitable investment opportunities and maximize returns for our shareholders.

Mr. Stephen Riady
Chief Executive Officer

17th April, 2008

Discussion and Analysis of Annual Results

Hong Kong's economy stayed vibrant in 2007. The Asia region also sustained healthy economic growth.

The Group achieved encouraging results in 2007 with good performance on various businesses. During the year, property investment and development sector performed well and sustained impressive returns to the Group. The Group also took advantage of the positive global and local market conditions and realised a substantial part of its investment portfolio at profit. Meanwhile, the Group continued to strengthen its core businesses.

On 17th July, 2007, the Company declared a special interim distribution to be satisfied by way of a distribution in specie (the "Distribution") comprising substantially all the Company's beneficial shareholding of 973,240,440 shares of HK$1.00 each in Hongkong Chinese Limited ("HKC") held by the Company. Following the Distribution, results of HKC and its subsidiaries (the "HKC Group") ceased to be accounted for in the consolidated financial statements of the Company. The Distribution has resulted in a clearer operational structure of the Group. Following the Distribution, the Group will primarily focus on its retail business.

For the year ended 31st December, 2007, the Group's profit attributable to shareholders increased to HK$656 million (2006 – HK$394 million).

Results for the Year

Turnover for the year ended 31st December, 2007 totalled HK$981 million, which was lower than the HK$1,318 million (restated) which excluded the turnover of HK$139 million from food businesses contributed by a former subsidiary in 2006. Property and treasury and securities investments remained the principal sources of revenue of the Group, contributing 20 per cent. (2006 – 17 per cent., restated) and 65 per cent. (2006 – 68 per cent., restated) of the total turnover.

The Group reported a profit for the year from continuing operations of HK$939 million (2006 – HK$599 million). Property investment and development sector was the main contributor.

Property investment and development

Turnover generated from this segment increased to HK$200 million (2006 – HK$173 million when the proceeds of HK$55 million relating to sales of properties and the rental income of HK$16 million contributed by a former subsidiary were excluded) as a result of the increase in rental income from the leasing of the existing high quality and well-located investment properties.

Rental income generated from properties located in Hong Kong and Mainland China registered an increase of 29 per cent. and 15 per cent., respectively. Lippo Centre in Hong Kong and Lippo Plaza in Shanghai, China continued to achieve high occupancy and renewal rental rates. The investment properties continued to provide stable rental income to the Group during the year. With a positive outlook in both regional and local property markets, the Group recorded a total revaluation gain on investment properties of HK$319 million (2006 – HK$548 million) during the year.

The Group's earnings from property investment and development also benefited from the prosperous property market in Singapore. In June 2007, the Group disposed of its entire interest in a joint venture, which held twenty-two strata lots in a commercial building located at 79 Anson Road in Singapore at a net profit of HK$102 million.

Discussion and Analysis of Annual Results *(continued)*

Results for the Year *(continued)*

Property investment and development *(continued)*

Before the Distribution, the Group had an investment in a property fund (the "Property Fund") through the HKC Group, carrying the objective of investing in real estates in the East Asia region. The Property Fund's investment in Overseas Union Enterprise Limited, a listed company in Singapore principally engaged in hotel operation and property investment, recorded a strong growth for the year as a result of the escalating property market and booming tourist demand in Singapore. The Group registered a share of profit of HK$491 million from the investment.

Additionally, the Group has participated in other well-located development projects in China and Singapore.

Treasury and securities investments

Entering 2007, the Group redeemed its investment in a real estate fund for a net proceed of S$92 million. The redemption enabled the Group to realise the gain made pursuant to the subscription in the real estate fund, which has been recognised as unrealised gain in the past years. Turnover and profits attributable to treasury and securities investments for the year amounted to HK$633 million (2006 – HK$994 million) and HK$66 million (2006 – HK$375 million) respectively.

Looking ahead, the investment market would still be challenging and full of uncertainty. Foreseeing the global investment market continued to be volatile with the shadow over the US sub-prime mortgage issues, the Group took necessary steps to restructure and refine its composition of investment portfolio in the securities investment segment so as to improve overall asset quality.

Retail business

The Group starts focusing on its retail business during the year. The Group has entered into certain lease agreements to commence its retail business in Mainland China. The leased premises would be used to operate department stores carried trade name "Robbinz" in the strategic locations in Mainland China which included Tianjin and Chengdu, etc. The proposed branch network will also cover other core cities in Mainland China. The flagship store in Tianjin with a gross floor area of approximately 98,000 square metres and the store in Chengdu with a gross floor area of approximately 28,000 square metres commenced business in November 2007 and December 2007, respectively. The Group positions itself at the mid-to-upper retail market. By establishing an extensive network of department stores, the Group will capture the growth opportunities in the China economy and the domestic consumption in Mainland China. Capital expenditure of HK$195 million has been made by the Group for the year. With the significant pre-operating expenses of HK$89 million required for the set up of new stores in Mainland China and expensed upon commencement of operation according to accounting standards, the Group recorded a loss of HK$126 million for the year. The pre-operating expenses mainly represent the provision of rental expenses of the department stores incurred during the pre-operating period.

Other businesses

During the year, the Group registered a share of profit of HK$124 million from a listed associate in Singapore, Auric Pacific Group Limited ("APG"). The businesses of APG mainly included food manufacturing, wholesale and distribution, retail as well as property and securities investment. The Group also participated in certain property project management in Singapore. Revenue of HK$40 million was generated in the current year. In May 2007, the Group disposed of its 34.34 per cent. interest in the Convoy Group, which engaged in the provision of independent financial planning services in Hong Kong, at a net profit of HK$58 million. The disposal is in line with the Group's policy of focusing on core businesses of the Group.

Discussion and Analysis of Annual Results *(continued)*

Financial Position

As at 31st December, 2007, the Group's total assets amounted to HK$6.2 billion (2006 – HK$5.2 billion, when total assets of the HKC Group with an amount of HK$6.0 billion were excluded). Property-related assets decreased to HK$4.1 billion (2006 – HK$6.7 billion), representing 66 per cent. (2006 – 60 per cent.) of the total assets. On the other hand, investment portfolio of the Group reduced to HK$0.5 billion (2006 – HK$1.3 billion), representing 8 per cent. (2006 – 12 per cent.) of the Group's total assets.

The cash and cash equivalents of the Group remained stable at HK$0.3 billion (2006 – HK$0.3 billion which excluded HK$0.6 billion cash and cash equivalents of HKC Group which ceased to be subsidiaries of the Group during the year). The Group's financial position remained strong and current ratio (measured as current assets to current liabilities) stood at 1.31 to 1 (2006 – 1.74 to 1).

As at 31st December, 2007, the bank loans of the Group decreased to HK$1,147 million (2006 – HK$1,977 million). All the bank loans were secured (2006 – HK$1,967 million of which were secured and HK$10 million of which were unsecured) by certain properties of the Group. The bank loans as at 31st December, 2006 were also secured by shares in certain subsidiaries and certain securities of the Group. 81 per cent. (2006 – 72 per cent.) of the loans were denominated in Hong Kong dollars or Renminbi. All bank loans carried interest at floating rates and 4 per cent. (2006 – 6 per cent.) of the bank loans were repayable within one year. At the end of the year, gearing ratio (measured as bank and other borrowings, net of minority interests, to shareholders' funds) was 31.2 per cent. (2006 – 35.1 per cent.).

Taking into account the profit for the year, the 2006 final dividend, 2007 interim dividend and 2007 special interim dividend paid to the shareholders of the Company amounted to HK$129 million, and special interim distribution of 1.057745 HKC share for every ten shares of the Company held by the Company's shareholders amounted to HK$2,170 million, net asset value attributable to shareholders to the Company decreased to HK$3.6 billion (2006 – HK$5.5 billion). This was equivalent to HK$0.4 per share (2006 – HK$0.6 per share).

The Group monitors the relative foreign exchange position of its assets and liabilities to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure.

Apart from the abovementioned, there were no charges on the Group's assets at the end of the year (2006 – Nil). On 25th July, 2007, a jointly controlled entity of the Group entered into an agreement to sell all of the rights, title and interest in the receivables in respect of its residential project to Vesta Investment Corporation Limited ("Vesta") and Vesta issued floating rate notes in an aggregate principal amount of US$346 million to institutional investors upon the purchase of the receivables (the "Securitisation Exercise"). On the same date, the Company entered into a cost overruns undertaking and a deed of understanding in relation to the Securitisation Exercise which would result in a net maximum exposure of approximately HK$86 million for the Group. Save as aforesaid, the Group had no material contingent liabilities outstanding (2006 – aside from those arising from the normal course of the Group's banking operation, the Group had no material contingent liabilities outstanding).

As at 31st December, 2007, the Group had total capital commitment of HK$0.4 billion (2006 – HK$0.9 billion). The investments or capital assets will be financed by the Group's internal resources and/or external banking financing, as appropriate.

Discussion and Analysis of Annual Results (*continued*)

Staff and Remuneration

The Group had approximately 931 employees as at 31st December, 2007 (2006 – 317 employees). The increase was in line with the development of the retail business of the Group. Total staff costs (including directors' emoluments) during the year amounted to HK$135 million (2006 – HK$163 million) (included staff costs from discontinued operation). The Group ensures that its employees are offered competitive remuneration packages. Certain employees of the Group were granted options under the share option scheme of the Company.

Outlook

The US sub-prime mortgage crisis, which began in August 2007, has caused greater volatility in financial markets worldwide. While the Asia economy was relatively unscathed, the external trading environment has turned more uncertain, and the repercussions of the credit market turbulence have yet to play out fully. The operating environment of the Group remains challenging. Overall, the Group is cautiously optimistic for the year ahead. Economic fundamentals in Hong Kong and the Asia Pacific Region remain sound. While striving to continue to improve internal operational efficiencies, the Group will keep on refining its existing core businesses and seeking new investment opportunities with long-term growth potential. Given its own strong financial position, the Group is confident that it would be able to take advantage of new business opportunities in its pursuit of enhancing shareholders' value.

Corporate Governance Report

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance practices. The Board of Directors (the "Board") believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure they meet public and shareholders' expectation, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

In 2007, the Company continued to take measures to closely monitor and enhance its corporate governance practices so as to comply with the requirements of the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

To the best knowledge and belief of the Directors, the Directors consider that the Company has complied with the code provisions of the Code for the year ended 31st December, 2007.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2007.

To enhance the corporate governance, the Company has also established a written guideline on no less exacting terms than the Model Code for the employees of the Group.

Board of Directors

The Board currently comprises nine members (the composition of the Board is shown on page 21), including three executive Directors and six non-executive Directors of whom three are independent as defined under the Listing Rules (brief biographical details of the Directors are set out on pages 22 to 24). Dr. Mochtar Riady (being the Honorary Chairman) is the father of Messrs. James Riady (being the Chairman) and Stephen Riady (being the Deputy Chairman, Managing Director and Chief Executive Officer) and Mr. James Riady is a brother of Mr. Stephen Riady. Save as disclosed herein, to the best knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Company has three independent non-executive Directors, representing one-third of the Board. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All the independent non-executive Directors have signed the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to confirm their independence.

Under the Company's Articles of Association, one-third of the Directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. In addition, every Director is subject to retirement by rotation at least once every three years notwithstanding that the total number of Directors to retire at the relevant annual general meeting would as a result exceed one-third of the Directors.

Corporate Governance Report *(continued)*

Board of Directors *(continued)*

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive Directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments. The Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

Three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, have been established to oversee particular aspects of the Group's affairs.

The Board meets regularly to review the financial and operating performance of the Group and other business units, and formulate future strategy. Seven Board meetings were held in 2007. Individual attendance of each Director at the Board meetings and each committee member at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee during 2007 are set out below.

	Attendance/Number of Meetings			
Directors	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meetings**
Non-executive Directors				
Dr. Mochtar Riady (*Honorary Chairman*)	0/7	N/A	N/A	N/A
Mr. Ning Gaoning	0/7	N/A	N/A	N/A
Mr. Leon Nim Leung Chan (*Chairman of the Remuneration Committee and Nomination Committee*)	7/7	3/3	2/2	2/2
Executive Directors				
Mr. James Riady (*Chairman*)	2/7	N/A	N/A	N/A
Mr. Stephen Riady (*Deputy Chairman, Managing Director and Chief Executive Officer*)	7/7	N/A	2/2	2/2
Mr. John Luen Wai Lee	6/7	N/A	N/A	N/A
Independent Non-executive Directors				
Mr. Victor Ha Kuk Yung (*Chairman of the Audit Committee*)	4/7	3/3	1/2	1/2
Mr. Edwin Neo	5/7	3/3	1/2	1/2
Mr. King Fai Tsui	7/7	3/3	2/2	2/2

Corporate Governance Report *(continued)*

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer of the Company are segregated. Mr. James Riady is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr. Stephen Riady is the Chief Executive Officer of the Company. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which have been approved by the Board.

Non-executive Directors

There are currently six non-executive Directors of whom three are independent. Under the Company's Articles of Association, every Director, including the non-executive Directors, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a Director cannot exceed three years.

All the non-executive Directors have a fixed term of contract of two years with the Company.

Remuneration of Directors

A Remuneration Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lcr.com.hk). The principal role of the Committee is to exercise the powers of the Board to determine and review the remuneration packages of individual Directors and key executives, including salaries, bonuses, share options and benefits in kind. Factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration have been considered in determining the remuneration packages so as to align management incentives with shareholders' interests. During the year, the Remuneration Committee reviewed and approved, inter alia, (i) the remuneration packages of the Directors and fees payable to committee members of the Company's Board committees; (ii) service contracts of certain Directors; and (iii) the new share option scheme of the Company (the "Scheme") and matters relating to the granting of options under the Scheme.

Majority of the Committee members are non-executive Directors and three of them are independent. The Remuneration Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Remuneration Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. Two meetings were held in 2007 and the individual attendance of each member is set out above.

Details of Directors' emoluments and retirement benefits are disclosed in Notes 8 and 10 to the financial statements, respectively.

Nomination of Directors

The Board has the power to appoint Director(s) pursuant to the Company's Articles of Association. No new Director was appointed during 2007.

A Nomination Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lcr.com.hk). The principal role of the Committee includes, inter alia, review of the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes; assessment of the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. During the year, the Nomination Committee reviewed, inter alia, the eligibility of the Directors seeking for re-election at the last annual general meeting and assessed the independency of the independent non-executive Directors. The Nomination Committee also reviewed the existing size and efficiency of the Board.

Majority of the Committee members are non-executive Directors and three of them are independent. The Nomination Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Nomination Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. Two meetings were held in 2007 and the individual attendance of each member is set out above.

Auditors' Remuneration

Messrs. Ernst & Young has been appointed by the shareholders annually as the Company's auditors. During the year, the fees charged to the accounts of the Group for the statutory audit and non-statutory audit services provided by Messrs. Ernst and Young (which for the purpose includes any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the auditors nationally and internationally) amounted to approximately HK$2.7 million (2006 – HK$3.0 million) and approximately HK$0.3 million (2006 – HK$1.2 million), respectively. The non-statutory audit services provided in 2007 mainly consisted of financial due diligence and tax review of the Group.

Corporate Governance Report *(continued)*

Audit Committee

The Board established an Audit Committee in December 1998. The Audit Committee has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lcr.com.hk). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members are non-executive Directors and three of them including the Chairman are independent. The Audit Committee comprises four members including one non-executive Director, namely Mr. Leon Nim Leung Chan, and three independent non-executive Directors, namely Messrs. Victor Ha Kuk Yung (being the Chairman of the Audit Committee), Edwin Neo and King Fai Tsui. Three meetings were held in 2007 and the individual attendance of each member is set out above.

The Committee members possess diversified industry experience and the Chairman of the Audit Committee has appropriate professional qualifications and experience in accounting matters. Under its current terms of reference, the Committee will meet at least two times each year. Senior management and auditors shall normally attend the meetings.

During the year, the Audit Committee discharged its duties by reviewing the financial and audit matters of the Group, including management accounts, financial statements, and interim and annual reports as well as internal control and risk management matters of the Group, discussing with executive Directors, management, auditors and external independent professional accounting firms regarding the financial matters of the Group and/or internal audit and control matters of the Group, and making recommendations to the Board on financial-related matters.

Internal Controls

The Board recognises its responsibility for maintaining an adequate system of internal control and prompt and transparent reporting of the Company's activities to the shareholders and to the public.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations.

During the year, a review of the effectiveness of the Group's internal control system covering all material controls and risk management functions has been conducted. The review will be conducted annually in accordance with the requirements of the Code.

Internal Audit

During the year, an internal audit department (the "IA Department") was set up to perform internal audit and to review the internal control system of the Group.

The principal roles of the internal audit are to ensure the effectiveness of internal control procedures and strict compliance with different standards and policies across different businesses and operations of the Group. The IA Department audits and evaluates the Group's internal control operation and management activities so as to assess that there are no significant misrepresentations of risks and faults in the Group. The Board and the Audit Committee will actively take actions based on the findings from the IA Department. The IA Department is also responsible for providing improvement procedures to different operation teams and departments so as to minimize the risk exposure in the future. Ongoing enhancement and revision on the internal control system will have to be made from time to time so as to cope with the growth of the Group.

Notifiable Transactions and Connected Transactions

During the year 2007, the Company has released announcements in respect of a number of "notifiable transactions" and "connected transactions" which can be viewed in the Company's website (www.lcr.com.hk).

Communication with Shareholders

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions were proposed for each substantially separate issue at the AGM.

The Company's Articles of Association contain the rights of shareholders to demand a poll and the procedures for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be released and posted on the websites of the Stock Exchange and the Company.

Fair Disclosure and Investor Relations

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Stock Exchange, the same information will be available to the public on the Company's website. The Company recognises its responsibility to disclose its activities to those with a legitimate interest and to respond to their questions. In all cases, great care has been taken to ensure that no price sensitive information is disclosed.

Management of the Group has been maintaining regular contacts with the investment community, and participated in non-deal road shows, investor conferences and analyst meetings to keep the public abreast of the latest development of the Group.

Financial Reporting

The Board recognises its responsibility to prepare the Company's financial statements which give a true and fair view and are in compliance with Hong Kong Financial Reporting Standards, Listing Rules and other regulatory requirements. As at 31st December, 2007, the Board is not aware of any material misstatement or uncertainties that may put doubt on the Group's financial position or continue as a going concern. The Board has selected appropriate accounting policies and applied consistently. Judgments and estimates are reasonably and prudently made. The external auditor is responsible for audit and report, if any, material misstatement or non-compliance with Hong Kong Financial Reporting Standards or other regulations. The Board uses its best endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting.

The responsibilities of the auditors with respect to financial reporting are set out in the Independent Auditors' Report on pages 38 and 39.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st December, 2007.

Principal Activities

The principal activity of the Company is investment holding. Its subsidiaries, associates and jointly controlled entities are principally engaged in investment holding, retail business, property investment and development, food business, property management, securities investment, treasury investment, money lending, banking and other related financial services.

The activities and other particulars of the principal subsidiaries, principal associates and principal jointly controlled entity are set out in the financial statements on pages 139 to 144, pages 145 and 146 and page 147, respectively.

Following the distribution in specie of the Company's approximate 72.26 per cent. shareholding in Hongkong Chinese Limited ("HKC") to the shareholders of the Company in July 2007, HKC ceased to be a subsidiary of the Company. Corporate finance and securities broking business which was solely carried out by the subsidiaries of HKC became discontinued operation.

Save as disclosed herein, there were no significant changes in the nature of these activities during the year.

Segment Information

An analysis of the Group's turnover and results by principal activity and geographical area for the year ended 31st December, 2007 is set out in Note 5 to the financial statements.

Results and Dividends

The results and details of cash flows of the Group for the year ended 31st December, 2007 and the state of affairs of the Group and the Company as at 31st December, 2007 are set out in the financial statements on pages 40 to 147.

An interim dividend of HK0.2 cent per share (2006 – HK0.2 cent per share) and a special interim dividend of HK0.8 cent per share (2006 – Nil) for the six months ended 30th June, 2007 was paid on 22nd October, 2007. The Directors have resolved to recommend the payment of a final dividend of HK0.4 cent per share (2006 – HK0.4 cent per share) amounting to approximately HK$36.8 million (2006 – approximately HK$36.8 million) and a special final dividend of HK0.6 cent per share (2006 – Nil) amounting to approximately HK$55.2 million (2006 – Nil) for the year ended 31st December, 2007. Total dividends for the year ended 31st December, 2007 (excluding the special interim distribution declared on 17th July, 2007) will be HK2 cents per share (2006 – HK0.6 cent per share) amounting to approximately HK$184 million (2006 – approximately HK$55.2 million).

Special Interim Distribution

On 17th July, 2007, the Directors declared a special interim distribution which was satisfied by way of a distribution in specie of shares of HK$1.00 each in Hongkong Chinese Limited ("HKC Shares") held by the Company in proportion of 1.057745 HKC Share (the "Distribution Shares") for every 10 shares of the Company held by the shareholders whose names appear on the Register of Members of the Company on 3rd August, 2007 (the "Distribution"). The Distribution amounted to approximately HK$2,170 million and was subsequently completed in August 2007. The relevant share certificates of the Distribution Shares were posted to the shareholders by the end of August 2007.

Summary of Group Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years ended 31st December, 2007 is set out on page 152.

Goodwill

Details of movements in goodwill during the year are set out in Note 18 to the financial statements.

Fixed Assets

Details of movements in the fixed assets during the year are set out in Note 19 to the financial statements.

Investment Properties

Details of movements in the investment properties during the year are set out in Note 20 to the financial statements.

Bank Loans

Details of bank loans are summarised in Note 29 to the financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 33 to the financial statements.

Share Option Schemes

Details of the share option schemes of the Company are set out in Note 34 to the financial statements.

Reserves and Distributable Reserves

Details of movements in the reserves during the year and details of the distributable reserves are set out in Note 35 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Report of the Directors *(continued)*

Post Balance Sheet Event

Details of the significant post balance sheet event of the Group are set out in Note 45 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in the financial statements on pages 139 to 144.

Donations

Charitable and other donations made by the Group during the year amounted to HK$15,217,000 (2006 – HK$8,228,000).

Directors

The Directors of the Company during the year were:

Non-executive Directors

Dr. Mochtar Riady (*Honorary Chairman*)
Mr. Ning Gaoning
Mr. Leon Nim Leung Chan

Executive Directors

Mr. James Riady (*Chairman*)
Mr. Stephen Riady (*Deputy Chairman, Managing Director and Chief Executive Officer*)
Mr. John Luen Wai Lee, J.P.

Independent non-executive Directors

Mr. Edwin Neo
Mr. King Fai Tsui
Mr. Victor Ha Kuk Yung

In accordance with Article 120 of the Company's Articles of Association, Dr. Mochtar Riady, Messrs. Edwin Neo and Victor Ha Kuk Yung will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Company considers such Directors to be independent.

Report of the Directors (*continued*)

Brief Biographical Details of Directors and Senior Management

Dr. Mochtar Riady (also known as Dr. Lee Man Tjin), aged 78, is the founder and the Chairman of the group of companies controlled by the Riady family. Dr. Riady is the father of Messrs. James Riady and Stephen Riady. Dr. Riady has over 30 years' banking and financial institution experience in Indonesia, Hong Kong, Singapore, Taiwan and the United States of America. He was appointed the Honorary Chairman of the Company in 1992. He is also the Chairman of Hongkong Chinese Limited ("HKC") and a director of Lippo Cayman Limited ("Lippo Cayman") and Lippo Capital Limited ("Lippo Capital"). Details of the interests of Dr. Mochtar Riady in the Company are disclosed in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

Mr. James Riady, aged 51, is the Deputy Chairman of the group of companies controlled by the Riady family. Mr. Riady is a son of Dr. Mochtar Riady and a brother of Mr. Stephen Riady. He holds a Bachelor of Commerce degree from the University of Melbourne, Australia. He was appointed the Chairman of the Company in 1992. Details of the interests of Mr. James Riady in the Company are disclosed in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

Mr. Stephen Riady, aged 47, has been the Deputy Chairman and Managing Director of the Company since 1992. He is also the Chief Executive Officer of the Company. Mr. Riady is a son of Dr. Mochtar Riady and a brother of Mr. James Riady. He is also the Chairman of Lippo Limited ("Lippo") and a director and Chief Executive Officer of HKC. Mr. Riady is a director of Lanius Limited, Lippo Cayman, Lippo Capital, First Tower Corporation ("First Tower") and Skyscraper Realty Limited ("Skyscraper"). He is also a director of Overseas Union Enterprise Limited and Auric Pacific Group Limited, both are public listed companies in Singapore. He is a graduate of the University of Southern California and holds an Honorary Degree of Doctor of Business Administration from Napier University in the United Kingdom. He is one of the first Honorary University Fellows installed by the Hong Kong Baptist University in September 2006. Mr. Riady is a banker by profession, with over 15 years' experience in retail, commercial and merchant banking in North America and in the Southeast Asian region. Details of the interests of Mr. Stephen Riady in the Company are disclosed in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

Mr. Ning Gaoning, aged 49, was appointed a Director of the Company in December 1998. He has a Bachelor of Arts degree in Economics from Shandong University in China and a Master of Business Administration degree in Finance from the University of Pittsburgh in the United States of America. Mr. Ning is currently the non-executive director and Chairman of China Agri-Industries Holdings Limited, the Chairman of China Foods Limited and COFCO Limited, and a director of BOC International Holdings Limited.

Report of the Directors *(continued)*

Brief Biographical Details of Directors and Senior Management *(continued)*

Mr. John Luen Wai Lee, J.P., aged 59, was appointed a Director of the Company in 1992. Mr. Lee is also the Managing Director and Chief Executive Officer of Lippo and a director of HKC, First Tower and Skyscraper. He is an independent non-executive director of New World Development Company Limited and New World China Land Limited. He is a qualified accountant and was a partner of one of the leading international accounting firms in Hong Kong. He has extensive experience in corporate finance and capital markets. Mr. Lee serves as a member on a number of Hong Kong Government Boards and Committees including the Solicitors Disciplinary Tribunal Panel, the Hospital Authority and Non-local Higher and Professional Education Appeal Board. He is also the Chairman of the Queen Elizabeth Hospital Governing Committee.

Mr. Leon Nim Leung Chan, aged 52, was appointed an independent non-executive Director of the Company in 1997 and was re-designated as a non-executive director of the Company in September 2004. He is a practising lawyer and presently the principal partner of Messrs. Y.T. Chan & Co. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1980 and was also admitted as a solicitor in England in 1984 and in Victoria, Australia in 1985. He was a member of the Solicitors Disciplinary Tribunal from May 1993 to April 2008 and is currently one of the Panel Chairman of the Appeal Tribunal Panel on appeals against a decision of the Building Authority. He is also a non-executive director of Lippo and HKC.

Mr. Edwin Neo, aged 58, was appointed an independent non-executive Director of the Company in March 2002. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1976 and of the Supreme Court of England and Wales in 1993. Mr. Neo is a practising lawyer and a notary public and is presently the sole proprietor of Hoosenally & Neo, Solicitors & Notaries. He is also an independent non-executive director of Lippo.

Mr. King Fai Tsui, aged 58, was appointed an independent non-executive Director of the Company in September 2004. Mr. Tsui is a director and senior consultant of a registered financial services company in Hong Kong. He is an independent non-executive director of Vinda International Holdings Limited and China Aoyuan Property Group Limited. He has over 30 years of extensive experience in accounting, finance and investment management, particularly in investments in Mainland China. Mr. Tsui worked for two of the Big Four audit firms in the United States of America and Hong Kong and served in various public listed companies in Hong Kong in a senior capacity. He is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia and a member of the American Institute of Certified Public Accountants. He graduated from the University of Houston, Texas, the United States of America and holds a Master of Science in Accountancy and a Bachelor of Business Administration with first class honours. Mr. Tsui is also an independent non-executive director of Lippo and HKC.

Brief Biographical Details of Directors and Senior Management *(continued)*

Mr. Victor Ha Kuk Yung, aged 54, was appointed an independent non-executive Director of the Company in September 2004. Mr. Yung is a professional accountant with over 30 years of working experience in the financial and accounting fields, and served in management positions in various multinational companies in Asia. He was appointed a member of the listings sub-committee of the Stock Exchange of Singapore from 1998 to 1999. Mr. Yung holds a Master of Science Degree in Corporate Governance and Directorship from the Hong Kong Baptist University, and is a member of the Hong Kong Institute of Certified Public Accountants. He is also an independent non-executive director of Lippo and HKC.

Brief Biographical Details of Other Officers

Mr. Tai Chiu Ng, was appointed the qualified accountant of the Company in March 2006. He holds a master's degree in Business (Electronic Commerce) from Curtin University of Technology in Australia, a master's degree in International Banking and Financial Studies from the Heriot-Watt University in the United Kingdom and a doctor's degree in Business Administration from the University of Hull in the United Kingdom. Mr. Ng is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Ng has over 20 years' experience in the accounting and corporate finance field in Hong Kong.

Ms. Millie Yuen Fun Luk, was appointed the company secretary of the Company in December 1992. Ms. Luk is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has over 15 years' experience in the company secretarial field.

Directors' and Five Highest Paid Employees' Emoluments

Details of the emoluments of the Directors and the five highest paid employees in the Group are set out in Notes 8 and 9 to the financial statements, respectively.

The emoluments of the Directors are determined by reference to the market terms and their duties and responsibilities within the Group.

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations

As at 31st December, 2007, the interests or short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange (the "Model Code"), were as follows:

1. Interests in shares of the Company and associated corporations

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK$0.10 each in the Company					
Mochtar Riady	–	–	6,544,696,389 *Notes (i) and (ii)*	6,544,696,389	71.13
James Riady	–	–	6,544,696,389 *Notes (i) and (ii)*	6,544,696,389	71.13
Stephen Riady	–	–	6,544,696,389 *Notes (i) and (ii)*	6,544,696,389	71.13
Number of ordinary shares of HK$0.10 each in Lippo Limited ("Lippo")					
Mochtar Riady	–	–	248,697,776 *Note (i)*	248,697,776	57.34
James Riady	–	–	248,697,776 *Note (i)*	248,697,776	57.34
Stephen Riady	–	–	248,697,776 *Note (i)*	248,697,776	57.34
John Luen Wai Lee	825,000	–	–	825,000	0.19

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

1. Interests in shares of the Company and associated corporations *(continued)*

Name of Director	Personal interests (held as beneficial owner)	Family interests (interest of spouse)	Other interests	Total interests	Approximate percentage of total interests in the issued share capital
Number of ordinary shares of HK$1.00 each in Hongkong Chinese Limited ("HKC")					
Mochtar Riady	–	–	692,262,956 *Notes (i) and (iii)*	692,262,956	51.4
James Riady	–	–	692,262,956 *Notes (i) and (iii)*	692,262,956	51.4
Stephen Riady	–	–	692,262,956 *Notes (i) and (iii)*	692,262,956	51.4
John Luen Wai Lee	200	200	–	400	0.00
King Fai Tsui	–	50,000	–	50,000	0.00

Note:

(i) As at 31st December, 2007, Lippo Cayman Limited ("Lippo Cayman"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, and through its wholly-owned subsidiaries, Lippo Capital Limited, J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in an aggregate of 248,697,776 ordinary shares of HK$0.10 each in, representing approximately 57.34 per cent. of, the issued share capital of Lippo. Lanius Limited ("Lanius"), an associated corporation (within the meaning of Part XV of the SFO) of the Company, was the registered shareholder of 10,000,000 ordinary shares of US$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. Dr. Mochtar Riady did not have any interests in the share capital of Lanius. The beneficiaries of the trust included Dr. Mochtar Riady, Mr. James Riady, Mr. Stephen Riady and their respective family members including, inter alia, a minor child of Mr. Stephen Riady. Dr. Mochtar Riady, as the founder and beneficiary of the trust, and Messrs. James Riady and Stephen Riady (together with his minor child), as beneficiaries of the trust, were taken to be interested in Lippo Cayman under the SFO.

(ii) As at 31st December, 2007, Lippo was indirectly interested in 6,544,696,389 ordinary shares of HK$0.10 each in, representing approximately 71.13 per cent. of, the issued share capital of the Company.

(iii) As at 31st December, 2007, Lippo was indirectly interested in 692,262,956 ordinary shares of HK$1.00 each in, representing approximately 51.4 per cent. of, the issued share capital of HKC.

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

1. Interests in shares of the Company and associated corporations *(continued)*

As at 31st December, 2007, Dr. Mochtar Riady, as the founder and beneficiary of the aforesaid discretionary trust, and Messrs. James Riady and Stephen Riady (together with his minor child), as beneficiaries of the aforesaid discretionary trust, through their interests in Lippo Cayman as mentioned in Note (i) above, were also taken to be interested in the share capital of the following associated corporations (within the meaning of Part XV of the SFO) of the Company:

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interest in the issued share capital
Abital Trading Pte. Limited	Ordinary shares	2	100
AcrossAsia Limited	Ordinary shares	3,669,576,788 (*Note a*)	72.45
Actfield Limited	Ordinary shares	1	100
Boudry Limited	Ordinary shares	1,000	100
CRC China Limited	Ordinary shares	1	100
Congrad Holdings Limited	Ordinary shares	1	100
Cyport Limited	Ordinary shares	1	100
East Winds Food Pte Ltd.	Ordinary shares	400,000 (*Note b*)	88.88
First Bond Holdings Limited	Ordinary shares	1	100
First Tower Corporation	Ordinary shares	1 (*Note c*)	100
Glory Power Worldwide Limited	Ordinary shares	1	100
Grand Peak Investment Limited	Ordinary shares	2	100
Grandform Limited	Ordinary shares	1	100
Grandhill Asia Limited	Ordinary shares	1	100
Honix Holdings Limited	Ordinary shares	1	100
Huge Returns Limited	Ordinary shares	1	100
J & S Company Limited	Ordinary shares	1	100
Lippo Assets (International) Limited	Ordinary shares	1,000,000	100
	Non-voting deferred shares	15,000,000	100
Lippo Capital Limited	Ordinary shares	705,690,000	100
Lippo Energy Company N.V.	Ordinary shares	6,000	100
Lippo Energy Holding Limited	Ordinary shares	1	100
Lippo Finance Limited	Ordinary shares	6,176,470	82.35

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

1. Interests in shares of the Company and associated corporations *(continued)*

Name of associated corporation	Class of shares	Number of shares interested	Approximate percentage of interest in the issued share capital
Lippo Holding America Inc.	Ordinary shares	1	100
Lippo Holding Company Limited	Ordinary shares	2,500,000	100
	Non-voting deferred shares	7,500,000	100
Lippo Holdings Inc.	Ordinary shares	1	100
Lippo Investments Limited	Ordinary shares	2	100
Lippo Realty Limited	Ordinary shares	2	100
Lippo Strategic Holdings Inc.	Ordinary shares	1	100
Multi-World Builders & Development Corporation	Ordinary shares	4,080	51
Nelton Limited	Ordinary shares	10,000	100
Pointbest Limited	Ordinary shares	1	100
SCR Ltd.	Ordinary shares	1	100
Sinotrend Global Holdings Limited	Ordinary shares	1	100
Skyscraper Realty Limited	Ordinary shares	10 (*Note d*)	100
The HCB General Investment (Singapore) Pte Ltd. ("HCB General")	Ordinary shares	70,000	70
Times Grand Limited	Ordinary shares	1	100
Valencia Development Limited	Ordinary shares	800,000	100
	Non-voting deferred shares	200,000	100
Welux Limited	Ordinary shares	1	100

Note:

a. The interests included 219,600,000 ordinary shares held by Mideast Pacific Strategic Holdings Limited in which Lippo Cayman controlled a 30 per cent. interest.

b. The interests were held by HCB General, a 70 per cent. owned subsidiary of Lippo Cayman.

c. The interest was held by Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.

d. The interests were held through Lippo, a 57.34 per cent. owned subsidiary of Lippo Cayman.

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

1. Interests in shares of the Company and associated corporations *(continued)*

As at 31st December, 2007, each of Messrs. James Riady and Stephen Riady, as beneficial owners, through their respective nominees, was interested in 5 ordinary shares of HK$1.00 each in, representing 25 per cent. of, the issued share capital of Lanius which was the registered shareholder of 10,000,000 ordinary shares of US$1.00 each in, representing 100 per cent. of, the issued share capital of Lippo Cayman. Lanius was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and beneficiary. The beneficiaries of the trust also included, inter alia, Messrs. James Riady and Stephen Riady (together with his minor child). Dr. Mochtar Riady did not have any interests in the share capital of Lanius but the shareholders of Lanius were accustomed to act in accordance with his instructions.

As at 31st December, 2007, Mr. John Luen Wai Lee, as a beneficial owner, was also interested in 230,000 ordinary shares of HK$0.10 each in, representing approximately 0.0045 per cent. of, the issued share capital of AcrossAsia Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company.

2. Interests in underlying shares of the Company and associated corporations

(i) The Company

Name of Director	Capacity and nature of interest	Number of underlying shares of HK$0.10 each in the Company in respect of which options have been granted*	Approximate percentage of the issued share capital of the Company
John Luen Wai Lee	Personal (held as beneficial owner)	22,000,000	0.24
Leon Nim Leung Chan	Personal (held as beneficial owner)	3,000,000	0.03
Edwin Neo	Personal (held as beneficial owner)	2,300,000	0.02
King Fai Tsui	Personal (held as beneficial owner)	2,300,000	0.02
Victor Ha Kuk Yung	Personal (held as beneficial owner)	2,300,000	0.02

* The options were granted on 17th December, 2007 without consideration under the share option scheme adopted by the Company (the "Share Option Scheme"). Such options are exercisable from 17th June, 2008 to 16th December, 2012 in accordance with the rules of the Share Option Scheme to subscribe for ordinary shares of HK$0.10 each in the Company at an exercise price of HK$0.267 per share (subject to adjustment). None of the options were exercised by any of the above Directors since they were granted.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

2. Interests in underlying shares of the Company and associated corporations *(continued)*

(ii) Lippo

Name of Director	Capacity and nature of interest	Number of underlying shares of HK$0.10 each in Lippo in respect of which options have been granted#	Approximate percentage of the issued share capital of Lippo
John Luen Wai Lee	Personal (held as beneficial owner)	900,000	0.21
Leon Nim Leung Chan	Personal (held as beneficial owner)	155,000	0.04
Edwin Neo	Personal (held as beneficial owner)	130,000	0.03
King Fai Tsui	Personal (held as beneficial owner)	130,000	0.03
Victor Ha Kuk Yung	Personal (held as beneficial owner)	130,000	0.03

The options were granted on 17th December, 2007 without consideration under the share option scheme adopted by Lippo (the "Lippo Share Option Scheme"). Such options are exercisable from 17th June, 2008 to 16th December, 2012 in accordance with the rules of the Lippo Share Option Scheme to subscribe for ordinary shares of HK$0.10 each in Lippo at an exercise price of HK$6.98 per share (subject to adjustment). None of the options were exercised by any of the above Directors since they were granted.

Report of the Directors *(continued)*

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Associated Corporations *(continued)*

2. Interests in underlying shares of the Company and associated corporations *(continued)*

(iii) HKC

Name of Director	Capacity and nature of interest	Number of underlying shares of HK$1.00 each in HKC in respect of which options have been granted^	Approximate percentage of the issued share capital of HKC
John Luen Wai Lee	Personal (held as beneficial owner)	3,400,000	0.25
Leon Nim Leung Chan	Personal (held as beneficial owner)	600,000	0.04
King Fai Tsui	Personal (held as beneficial owner)	450,000	0.03
Victor Ha Kuk Yung	Personal (held as beneficial owner)	450,000	0.03

^ The options were granted on 17th December, 2007 without consideration under the share option scheme adopted by HKC (the "HKC Share Option Scheme"). Such options are exercisable from 17th June, 2008 to 16th December, 2012 in accordance with the rules of the HKC Share Option Scheme to subscribe for ordinary shares of HK$1.00 each in HKC at an exercise price of HK$1.68 per share (subject to adjustment). None of the options were exercised by any of the above Directors since they were granted.

The above interests in the underlying shares of the Company and its associated corporation were held pursuant to unlisted physically settled equity derivatives. As at 31st December, 2007, none of the Directors or chief executive of the Company had any interests in the underlying shares in respect of cash settled or other equity derivatives of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

All the interests stated above represent long positions. Save as disclosed herein, as at 31st December, 2007, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at 31st December, 2007, none of the Directors or chief executive of the Company nor their spouses or minor children (natural or adopted) were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Report of the Directors *(continued)*

Arrangements to Acquire Shares or Debentures

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests and Short Positions of Shareholders Discloseable under the Securities and Futures Ordinance

As at 31st December, 2007, so far as is known to the Directors of the Company, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") as follows:

Interests of substantial shareholders in shares of the Company

Name	Number of ordinary shares of HK$0.10 each	Approximate percentage of the issued share capital
Lippo Limited ("Lippo")	6,544,696,389	71.13
Lippo Cayman Limited ("Lippo Cayman")	6,544,696,389	71.13
Lanius Limited ("Lanius")	6,544,696,389	71.13
Madam Lidya Suryawaty	6,544,696,389	71.13

Note:

1. 6,544,696,389 ordinary shares of the Company were held by Skyscraper Realty Limited directly as beneficial owner which in turn was a wholly-owned subsidiary of First Tower Corporation ("First Tower"). First Tower was a wholly-owned subsidiary of Lippo. Lippo Cayman, and through its wholly-owned subsidiaries, Lippo Capital Limited (which owned approximately 50.47 per cent. interest of the issued share capital of Lippo), J & S Company Limited and Huge Returns Limited, was directly and indirectly interested in approximately 57.34 per cent. of the issued share capital of Lippo.

2. Lanius was the registered shareholder of the entire issued share capital of Lippo Cayman and was the trustee of a discretionary trust, of which Dr. Mochtar Riady is the founder and in accordance with whose instructions Lanius was accustomed to act. The beneficiaries of the trust included Dr. Mochtar Riady and his family members. Madam Lidya Suryawaty is the spouse of Dr. Mochtar Riady. Dr. Mochtar Riady was not the registered holder of any shares in the issued share capital of Lanius.

3. Lippo's interests in the shares of the Company were recorded as the interests of Lippo Cayman, Lanius and Madam Lidya Suryawaty. The above ordinary shares in the Company related to the same block of shares that Dr. Mochtar Riady, Messrs. James Riady and Stephen Riady were interested, details of which are disclosed in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company and associated corporations".

All the interests stated above represent long positions. Save as disclosed herein, as at 31st December, 2007, none of the substantial shareholders or other persons (other than the Directors or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Competing Business

During the year and up to the date of this report, none of the Directors are considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Connected Transactions and Continuing Connected Transactions

Connected transactions and continuing connected transactions disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

(A) On 29th January, 2007, a tenancy agreement was entered into between Superform Investment Limited ("Superform"), a wholly-owned subsidiary of the Company, and Lippo Limited ("Lippo"), an intermediate holding company of the Company, pursuant to which Lippo agreed to lease from Superform a portion of 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong, with a gross floor area of approximately 11,028 square feet, for a term of two years from 1st January, 2007 to 31st December, 2008, both days inclusive, at a monthly rental of HK$375,100 (equivalent to HK$4,501,200 per annum), exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals.

The independent non-executive Directors have confirmed that the above tenancy has been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the above tenancy agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors of the Company have also confirmed that (i) the above tenancy agreement has received the approval of the Board of Directors of the Company; (ii) the above tenancy is in accordance with the pricing policies stated in the financial statements of the Company (the "Pricing Policies"); (iii) the above tenancy was entered into in accordance with the terms of the above tenancy agreement; and (iv) the rental paid has not exceeded the estimated annual rental disclosed in the announcement dated 29th January, 2007.

Further details of the above tenancy are disclosed in Note 42(b) to the financial statements.

(B) On 17th July, 2007, a sale and purchase agreement was entered into between Mr. Wong Kon Kei ("Mr. Wong"), Discovery Planet Limited ("DPL") and The Macau Chinese Bank Limited ("MCB") pursuant to which DPL agreed to acquire and Mr. Wong agreed to sell 15 per cent. of the issued share capital of MCB for MOP47,200,000 (equivalent to approximately HK$45,784,000) (the "MCB Acquisition").

DPL is a wholly-owned subsidiary of Winwise Holdings Limited ("Winwise") which in turn is a wholly-owned subsidiary of Hongkong Chinese Limited ("HKC"), a then subsidiary of the Company. Immediately before the MCB Acquisition, Winwise held 85 per cent. of the issued share capital of MCB and the balance of which was held by Mr. Wong who was a substantial shareholder and director of MCB.

The MCB Acquisition provided Winwise and DPL with strategic flexibility over MCB with 100 per cent. ownership of MCB.

Report of the Directors *(continued)*

Connected Transactions and Continuing Connected Transactions *(continued)*

(C) Following the distribution in specie of the Company's approximate 72.26 per cent. shareholding in HKC to the shareholders of the Company in July 2007, HKC ceased to be a subsidiary of the Company and becomes a fellow subsidiary of the Company. Due to the change in the shareholding structure, HKC is regarded as a connected person of the Company under the Listing Rules. Accordingly, the following tenancy agreements constituted continuing connected transactions of the Company:

(1) a tenancy agreement dated 18th September, 2006 entered into between Porbandar Limited ("Porbandar"), a wholly-owned subsidiary of the Company, and HKC, pursuant to which HKC agreed to lease from Porbandar Room 4301, 43rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong, with a gross floor area of approximately 4,879 square feet, for a term of two years from 16th September, 2006 to 15th September, 2008, both days inclusive, at a monthly rental of HK$163,446.50 (equivalent to HK$1,961,358 per annum), exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to the then prevailing open market rentals; and

(2) a tenancy agreement dated 29th January, 2007 entered into between Prime Power Investment Limited ("Prime Power"), a wholly-owned subsidiary of the Company, and Lippo Securities Holdings Limited ("Lippo Securities"), a wholly-owned subsidiary of HKC, pursuant to which Lippo Securities agreed to lease from Prime Power Rooms 2302-2306, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong, with a gross floor area of approximately 12,038 square feet, for a term of two years from 18th January, 2007 to 17th January, 2009, both days inclusive, at a monthly rental of HK$385,216 (equivalent to HK$4,622,592 per annum), exclusive of rates, service charges and all other outgoings, for carrying on securities brokerage business. The rental was determined by reference to the then prevailing open market rentals.

The independent non-executive Directors have confirmed that the above tenancies have been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the above tenancy agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors of the Company have also confirmed that (i) the above tenancy agreements have received the approval of the Board of Directors of the Company; (ii) the above tenancies are in accordance with the Pricing Policies; (iii) the above tenancies were entered into in accordance with the terms of the above tenancy agreements; and (iv) the rentals paid have not exceeded the estimated annual rentals disclosed in the announcement dated 17th August, 2007.

Further details of the above tenancies are disclosed in Note 42(c) to the financial statements.

Connected Transactions and Continuing Connected Transactions *(continued)*

(D) On 10th October, 2007, a sale and purchase agreement (the "Tecwell Agreement") was entered into between the Company, Frontop Limited ("Frontop"), a wholly-owned subsidiary of the Company, and Itochu Corporation ("Itochu"), pursuant to which the Company agreed to procure Frontop to acquire from Itochu 30 shares of US$1.00 each in, representing 30 per cent. of the issued share capital of, Tecwell Limited ("Tecwell") and the loans of approximately US$36,197,824, being all of the shareholders' loans (including interest accrued thereon) due and owed from Tecwell to Itochu as at the date of Tecwell Agreement, for an aggregate consideration of US$52.2 million (equivalent to approximately HK$405,437,000) (the "Tecwell Acquisition") and to guarantee Frontop's obligations under the Tecwell Agreement.

Tecwell was a then 70 per cent. subsidiary of the Company with the remaining 30 per cent. interest being held by Itochu which was a substantial shareholder of Tecwell. Tecwell is holding 95 per cent. interest in 上海力寶復興房地產有限公司 (Shanghai Lippo Fuxing Real Estate Limited) which is the owner of a majority portion of a self-developed commercial building in Shanghai, the People's Republic of China.

The Tecwell Acquisition provided the Company with strategic flexibility over Tecwell as the Company can control the entire issued capital of Tecwell upon the completion.

(E) On 14th December, 2007, an agreement was entered into between廣東省拱北中旅集團有限公司 (Guangdong Gongbei CTS Group Co., Ltd.) ("Gongbei CTS") and Chung Po Investment and Development Company Limited ("Chung Po"), a wholly-owned subsidiary of the Company, pursuant to which Gongbei CTS agreed to transfer to Chung Po certain rights in relation to 力寶中旅廣場 (Lippo CTS Plaza) project ("Zhuhai Chung Po Project") primarily including, without limitation, (i) the property rights and operation management rights to a hotel with a total gross floor area of approximately 16,419.50 square metres; (ii) the property rights and operation management rights of the majority portion of the third level of the podium; and (iii) the usage rights to 16 car parking spaces on the third floor basement carpark for an indefinite term (the "Transferor's Rights") for an aggregate consideration of RMB110 million (equivalent to approximately HK$116,765,000) (the "Transfer").

Chung Po holds approximately 77.15 per cent. of the economic interest of 珠海中寶房產開發有限公司 (Zhuhai Chung Po House Property Development Co., Ltd.) ("Zhuhai Chung Po") and Gongbei CTS is entitled to the Transferor's Rights, representing approximately 22.85 per cent. of the economic interest of Zhuhai Chung Po. Zhuhai Chung Po is a co-operative joint venture established primarily for the purpose of the development of the Zhuhai Chung Po Project.

The Transfer will provide Chung Po and the Company with all of the economic interest in the Zhuhai Chung Po Project which will enable Chung Po to have more strategic flexibility over the operation of Zhuhai Chung Po and the Zhuhai Chung Po Project.

The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the connected transactions and continuing connected transactions disclosed herein.

Directors' and Controlling Shareholders' Interest in Contracts

Save as disclosed above and in Note 42 to the financial statements, there were no other contracts of significance in relation to the Company's business, to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party, subsisting at the end of the year or at any time during the year, and in which a Director or the controlling shareholders or any of their respective subsidiaries, directly or indirectly, had a material interest.

During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries has been made.

Directors' Service Contracts

No Director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

Major Suppliers and Customers

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined and that of sales attributable to the Group's five largest customers combined were less than 30 per cent. of the Group's aggregate purchases and sales, respectively.

Retirement Benefits Schemes

Details of the retirement benefits schemes of the Group and the employer's retirement benefits costs charged to the consolidated profit and loss account for the year are set out in Note 10 to the financial statements.

Report of the Directors *(continued)*

Audit Committee

The Company has established an audit committee (the "Committee"). The existing members of the Committee comprise three independent non-executive Directors, namely Mr. Victor Ha Kuk Yung (Chairman), Mr. Edwin Neo and Mr. King Fai Tsui and one non-executive Director, Mr. Leon Nim Leung Chan. The Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the audited financial statements for the year ended 31st December, 2007.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. The Company's Corporate Governance Report is set out on pages 12 to 18.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Auditors

The financial statements for the year were audited by Ernst & Young who will retire at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment.

On behalf of the Board
John Luen Wai Lee
Director

Hong Kong, 17th April, 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of Lippo China Resources Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Lippo China Resources Limited set out on pages 40 to 147, which comprise the consolidated and company balance sheets as at 31st December, 2007, and the consolidated profit and loss account, the consolidated summary 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our 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 auditors' 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 auditors consider 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.

Independent Auditors' Report *(continued)*

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 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.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Hong Kong, 17th April, 2008

Consolidated Profit and Loss Account

For the year ended 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000 (restated)
Continuing Operation			
Revenue	6	**981,292**	1,456,642
Cost of sales		**(753,156)**	(1,134,710)
Gross profit		**228,136**	321,932
Administrative expenses		**(136,663)**	(168,493)
Other operating expenses		**(110,501)**	(102,123)
Fair value gains on investment properties		**319,250**	547,627
Gain/(Loss) on disposal of associates		**57,620**	(5,575)
Gain on disposal of subsidiaries	38	**83,779**	848
Gain on disposal of available-for-sale financial assets		**746**	89,403
Net fair value gain on financial assets at fair value through profit or loss		**29,979**	220,846
Provisions for impairment losses:			
Associates		**(33,692)**	–
Available-for-sale financial assets		**(13,775)**	(6,126)
Allowance for bad and doubtful debts		**–**	(33,854)
Finance costs	11	**(73,029)**	(80,838)
Share of results of associates	12	**620,674**	50,845
Share of results of jointly controlled entities		**6,680**	(9,063)
Profit before tax	7	**979,204**	825,429
Tax	13	**(40,455)**	(225,932)
Profit for the year from continuing operations		**938,749**	599,497
Discontinued Operation			
Profit for the year from discontinued operation	14	**13,180**	15,347
Profit for the year		**951,929**	614,844
Attributable to:			
Equity holders of the Company	15 &35	**656,159**	393,629
Minority interests	35	**295,770**	221,215
		951,929	614,844

Consolidated Profit and Loss Account *(continued)*

For the year ended 31st December, 2007

	Note	**2007** **HK cents**	2006 HK cents (restated)
Earnings per share attributable to equity holders of the Company	16		
Basic			
– For profit for the year		**7.13**	4.28
– For profit from continuing operations		**7.03**	4.16
Diluted			
– For profit for the year		**N/A**	N/A
– For profit from continuing operations		**N/A**	N/A
		HK$'000	HK$'000
Dividends and distributions	17		
Special interim distribution, declared and paid		**2,170,326**	–
Interim dividend, declared and paid		**18,402**	18,402
Special interim dividend, declared and paid		**73,609**	–
Final dividend, proposed/paid after the balance sheet date		**36,804**	36,804
Special final dividend, proposed/paid after the balance sheet date		**55,206**	–
		2,354,347	55,206

Consolidated Balance Sheet

As at 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-Current Assets			
Goodwill	18	**23,371**	57,285
Fixed assets	19	**316,636**	244,203
Investment properties	20	**3,426,316**	3,971,901
Properties under development	21	**43,747**	201,174
Interests in associates	22	**915,338**	2,775,160
Interests in jointly controlled entities	23	**2,713**	205,618
Available-for-sale financial assets	24	**411,057**	385,618
Held-to-maturity financial assets	25	**–**	9,582
Loans and advances	26	**–**	27,066
		5,139,178	7,877,607
Current Assets			
Properties held for sale		**5,058**	23,750
Properties under development	21	**461,679**	369,865
Inventories		**1,092**	–
Financial assets at fair value through profit or loss	27	**63,997**	933,831
Loans and advances	26	**5,445**	281,487
Debtors, prepayments and deposits	28	**208,898**	224,701
Client trust bank balances		**–**	582,905
Treasury bills		**–**	194,970
Cash and bank balances		**345,418**	720,767
		1,091,587	3,332,276
Current Liabilities			
Bank and other borrowings	29	**46,019**	374,276
Amount due to a jointly controlled entity	23	**46,968**	–
Creditors, accruals and deposits received	30	**670,529**	1,163,051
Current, fixed, savings and other deposits of customers	31	**–**	305,521
Tax payable		**72,022**	67,960
		835,538	1,910,808
Net Current Assets		**256,049**	1,421,468
Total Assets Less Current Liabilities		**5,395,227**	9,299,075

Consolidated Balance Sheet *(continued)*

As at 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-Current Liabilities			
Bank and other borrowings	29	**1,100,590**	1,850,950
Deferred tax liabilities	32	**512,654**	532,065
		1,613,244	2,383,015
Net Assets		**3,781,983**	6,916,060
Equity			
Equity attributable to equity holders of the Company			
Share capital	33	**920,109**	920,109
Reserves	35	**2,705,640**	4,582,760
		3,625,749	5,502,869
Minority interests	35	**156,234**	1,413,191
		3,781,983	6,916,060

John Luen Wai Lee
Director

Stephen Riady
Director

Consolidated Summary Statement of Changes in Equity

For the year ended 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000
Total equity at 1st January		**6,916,060**	6,808,487
Changes in equity during the year:			
Exchange differences on translation of foreign operations		**136,344**	133,366
Net fair value gain on available-for-sale financial assets		**146,062**	84,444
Deferred tax arising from fair value gain on available-for-sale financial assets		**(353)**	(2,921)
Derecognition of available-for-sale financial assets		**(1,204)**	(91,312)
Surplus on revaluation of leasehold land and buildings	35	**117,263**	–
Deferred tax arising from surplus on revaluation of leasehold land and buildings	35	**(20,522)**	–
Release of reserve in respect of disposal of subsidiaries		**3,483**	–
Share of reserves of associates and jointly controlled entities		**25,872**	87,744
Net income recognised directly in equity		**406,945**	211,321
Profit for the year		**951,929**	614,844
Total recognised income and expense for the year		**1,358,874**	826,165
Issue of shares by subsidiaries to minority shareholders	35	**250**	1,051
Acquisition of shares in subsidiaries from minority shareholders	35	**(100,918)**	(258)
Advances from/(Repayment to) minority shareholders of subsidiaries	35	**(233,904)**	41,384
Disposal of subsidiaries		**(132,426)**	–
Deconsolidation of subsidiaries		**–**	(706,850)
Equity-settled share option arrangements	35	**10,000**	–
Changes in interests in subsidiaries	35	**–**	(303)
2005 final dividend, declared and paid to shareholders of the Company	35	**–**	(18,402)
2005 final distribution, declared and paid to minority shareholders of subsidiaries	35	**–**	(11,208)
2006 interim dividend, declared and paid to shareholders of the Company	17 & 35	**–**	(18,402)
2006 interim distribution, declared and paid to minority shareholders of subsidiaries	35	**–**	(5,604)
2006 final dividend, declared and paid to shareholders of the Company	17 & 35	**(36,804)**	–
2006 final distribution, declared and paid to minority shareholders of subsidiaries	35	**(18,680)**	–
2007 interim dividend, declared and paid to shareholders of the Company	17 & 35	**(18,402)**	–

Consolidated Summary Statement of Changes in Equity *(continued)*

For the year ended 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000
2007 special interim dividend, declared and paid to shareholders of the Company	17 & 35	**(73,609)**	–
2007 interim distribution, declared and paid to minority shareholders of subsidiaries	35	**(2,985)**	–
Effect on distribution in specie		**(3,885,473)**	–
		(3,134,077)	107,573
Total equity at 31st December		**3,781,983**	6,916,060
Total recognised income and expense for the year attributable to:			
Equity holders of the Company		**1,033,813**	554,777
Minority interests		**325,061**	271,388
		1,358,874	826,165

Balance Sheet

As at 31st December, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-Current Assets			
Fixed assets	19	**561**	593
Interests in subsidiaries	36	**2,950,593**	5,401,176
Interests in an associate	22	**1**	1
Available-for-sale financial assets	24	**22,060**	19,932
		2,973,215	5,421,702
Current Assets			
Debtors, prepayments and deposits		**18,767**	21,324
Cash and bank balances		**136,728**	186,470
		155,495	207,794
Current Liabilities			
Bank loans	29	**30,000**	50,000
Creditors, accruals and deposits received		**18,037**	17,373
Tax payable		**297**	297
		48,334	67,670
Net Current Assets		**107,161**	140,124
Total Assets Less Current Liabilities		**3,080,376**	5,561,826
Non-Current Liabilities			
Bank loans	29	**590,000**	1,090,000
Net Assets		**2,490,376**	4,471,826
Equity			
Share capital	33	**920,109**	920,109
Reserves	35	**1,570,267**	3,551,717
		2,490,376	4,471,826

John Luen Wai Lee
Director

Stephen Riady
Director

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Note	**2007 HK$'000**	2006 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	37	**(539,404)**	527,368
Interest received		**38,990**	63,190
Dividends received from:			
Associates		**28,653**	22,935
A jointly controlled entity		**708**	–
Listed investments		**1,003**	2,614
Unlisted investments		**5,648**	2,291
Taxes paid:			
Hong Kong		**(926)**	(933)
Overseas		**(12,044)**	(21,788)
Net cash inflow/(outflow) from operating activities		**(477,372)**	595,677
Cash flows from investing activities			
Proceeds from disposals of:			
Fixed assets		**149**	74
Investment properties		**–**	37,719
Interests in associates		**85,000**	448,171
Available-for-sale financial assets		**2,378**	335,190
Payments to acquire:			
Fixed assets		**(203,244)**	(8,512)
Available-for-sale financial assets		**(7,093)**	(10,485)
Additions to properties under development		**(76,551)**	(113,723)
Additions to investment properties		**(22,028)**	(473,643)
Advances to associates		**(105,757)**	(278,116)
Repayment from/(Advances to) jointly controlled entities		**111,599**	(99,909)
Disposal of subsidiaries, net of cash and cash equivalents disposed of	38	**216,903**	(283,452)
Increase in interests in associates		**–**	(1,541,138)
Increase in interests in jointly controlled entities		**–**	(2,734)
Acquisition of shares in subsidiaries from minority shareholders		**(124,289)**	(258)
Net cash outflow from investing activities		**(122,933)**	(1,990,816)

Consolidated Cash Flow Statement *(continued)*

For the year ended 31st December, 2007

	2007 HK$'000	2006 HK$'000
Cash flows from financing activities		
Drawdown of bank and other borrowings (Note)	**2,574,074**	1,286,577
Repayment of bank and other borrowings (Note)	**(2,080,587)**	(197,658)
Advances from/(Repayment to) minority shareholders of subsidiaries	**(233,904)**	41,384
Issue of shares by subsidiaries to minority shareholders	**250**	1,051
Interest paid	**(94,572)**	(87,062)
Dividends paid to shareholders of the Company	**(128,815)**	(36,804)
Dividends and distributions paid to minority shareholders of subsidiaries	**(21,665)**	(16,812)
Net cash inflow from financing activities	**14,781**	990,676
Net decrease in cash and cash equivalents	**(585,524)**	(404,463)
Cash and cash equivalents at beginning of year	**915,737**	1,304,220
Exchange realignments	**15,205**	15,980
Cash and cash equivalents at end of year	**345,418**	915,737
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**345,418**	720,767
Treasury bills	**–**	194,970
	345,418	915,737

Note: The amounts exclude bank loans drawn down by the Group for lending to its margin clients in respect of the initial public offerings. All such bank loans were fully repaid during the year.

Notes to the Financial Statements

1. Corporate Information

Lippo China Resources Limited is a limited liability company incorporated in Hong Kong Special Administrative Region of the People's Republic of China. The registered office of the Company is located at Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries, associates and jointly controlled entities are principally engaged in investment holding, retail business, property investment and development, food business, property management, securities investment, treasury investment, money lending, banking and other related financial services.

The immediate holding company of the Company is Skyscraper Realty Limited which is incorporated in the British Virgin Islands. In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets, which have been measured at fair value. Disposal groups and non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Note 3. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries, respectively. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations have had no material effect on these financial statements.

HKFRS 7	Financial Instruments : Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 44 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group has only issued equity instruments to the Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to access whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements or impact on the financial position or results of operations of the Group.

Notes to the Financial Statements *(continued)*

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards *(continued)*

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1st January, 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellation*[1]
HKFRS 3 (Revised)	Business Combinations*[2]
HKFRS 8	Operating Segments*[1]
HKAS 1 (Revised)	Presentation of Financial Statements*[1]
HKAS 23 (Revised)	Borrowing Costs*[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements*[2]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions*[3]
HK(IFRIC)-Int 12	Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes*[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

*[1] Effective for annual periods beginning on or after 1st January, 2009
*[2] Effective for annual periods beginning on or after 1st July, 2009
*[3] Effective for annual periods beginning on or after 1st March, 2007
*[4] Effective for annual periods beginning on or after 1st January, 2008
*[5] Effective for annual periods beginning on or after 1st July, 2008

HKFRS 2 has been amended to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. It must be applied prospectively and will affect future acquisitions and transactions with minority interests.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (*continued*)

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1st January, 2009.

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. The standard also introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKFRS 27 has been revised to require a change in the ownership interest of a subsidiary to be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. It must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

Notes to the Financial Statements *(continued)*

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards *(continued)*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures. The Group has already commenced an assessment of the impact of the other new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the results of operations and financial position.

2.4 Change in Accounting Estimates

On 16th March, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New Corporate Income Tax Law"), which became effective from 1st January, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax (the "CIT") rate for domestic and foreign investment enterprises at a rate of 25 per cent. (2006 – 33 per cent.). This change in the CIT rate will directly offset the Group's effective tax rate prospectively from 2008. According to HKAS 12 Income taxes, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, the change in the CIT rate has had the following impact on the financial position of the Group for the year ended 31st December, 2007:

(a) Effect on the consolidated balance sheet as at 31st December, 2007:

	HK$'000
Decrease in deferred tax liabilities	(81,230)
Increase in minority interests	25,962
Increase in retained profits	55,268
	–

2.4 Change in Accounting Estimates *(continued)*

(b) Effect on the consolidated profit and loss account for the year ended 31st December, 2007:

	HK$'000
Decrease in deferred tax charges	81,230
Increase in minority interests	(25,962)
	55,268

At the date of approval of these consolidated financial statements, detailed implementation and administrative requirements relating to the New Corporate Income Tax Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods when more detailed requirements are issued.

3. Summary of Significant Accounting Policies

(a) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

(b) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

Notes to the Financial Statements *(continued)*

3. Summary of Significant Accounting Policies *(continued)*

(b) Joint ventures *(continued)*

A joint venture is treated as:

(i) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20 per cent. of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20 per cent. of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Unrealised gains 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 entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly controlled entities is included as part of the Group's interests in jointly controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

3. Summary of Significant Accounting Policies *(continued)*

(d) Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20 per cent. of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates, and jointly controlled entities represents the excess of the cost of the business combination over the Group's interests in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1st January, 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to the Financial Statements *(continued)*

3. Summary of Significant Accounting Policies *(continued)*

(e) Goodwill *(continued)*

Goodwill on acquisitions for which the agreement date is on or after 1st January, 2005 (continued)

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 Business Combinations ("SSAP 30") in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the consolidated profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated profit and loss account.

The excess for the associates and jointly controlled entities is included in the Group's share of the associates' and jointly controlled entities' profit or loss in the period in which the investments are acquired.

(f) Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, properties held for sale and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risk specific to the asset. An impairment loss is charged to the profit and loss account in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. Summary of Significant Accounting Policies *(continued)*

(f) Impairment of non-financial assets other than goodwill *(continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of fixed assets are dealt with as movements in the other asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the other asset revaluation reserve realised in respect of previous valuations is transferred to the retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	20 per cent.
Furniture, fixtures, plant and equipment	10 per cent. to $33\frac{1}{3}$ per cent.
Motor vehicles	12 per cent. to 25 per cent.

Where parts of an item of fixed assets have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

3. Summary of Significant Accounting Policies (*continued*)

(g) Fixed assets and depreciation (*continued*)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its used or disposal. Any gain or loss on disposal or retirement recognised in the profit and loss account in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(h) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the year in which they arise.

Any gains or losses on the retirement or disposal of investment properties are recognised in the profit and loss account in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Fixed assets and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Fixed assets and depreciation" above.

(i) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses. Cost comprises the cost of land, development expenditure, other attributable costs and borrowing costs capitalised.

Properties under development which have either been pre-sold or which are intended for sale, and are expected to be completed within one year from the balance sheet date, are classified as current assets.

3. Summary of Significant Accounting Policies *(continued)*

(j) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be a available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties, and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(k) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the profit and loss account. The net fair value gain or loss recognised in the profit and loss account does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Notes to the Financial Statements *(continued)*

3. Summary of Significant Accounting Policies *(continued)*

(k) Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

The Group's financial assets at fair value through profit or loss which are under regular way of purchases or sales are recognised on the trade date, that is, the date the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the profit and loss account when the financial assets are derecognised or impaired, as well as through the amortisation process.

All regular way purchases or sales of held-to-maturity financial assets are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

All regular way purchases or sales of loans and receivables are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities, debt securities, and investment funds that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the financial assets are derecognised or until the financial assets are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the profit and loss account as "Revenue" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such financial assets are recognised in the profit and loss account as "Provisions for impairment losses on available-for-sale financial assets" and are transferred from the investment revaluation reserve.

3. Summary of Significant Accounting Policies *(continued)*

(k) Investments and other financial assets *(continued)*

Available-for-sale financial assets (continued)

When the fair value of unlisted equity securities and debt securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that financial asset, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

All regular way purchases or sales of available-for-sale financial assets are recognised on the settlement date, that is, the date the asset is received or delivered by the Group.

Fair value

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and other valuation models.

(l) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the profit and loss account. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to the Financial Statements *(continued)*

3. Summary of Significant Accounting Policies *(continued)*

(l) Impairment of financial assets *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exits. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the profit and loss account.

Impairment losses on debt instruments are reversed through the profit and loss account if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

(m) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(i) the rights to receive cash flows from the asset have expired;

(ii) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Summary of Significant Accounting Policies *(continued)*

(m) Derecognition of financial assets *(continued)*

Where continuing involvement takes the form of a written and/or purchase option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(n) Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the profit and loss account.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

(o) Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(p) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit and loss account.

(q) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value which is determined by reference to prevailing market prices, on an individual property basis.

3. Summary of Significant Accounting Policies (*continued*)

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, other than food and beverages, is determined on a weighted average basis and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Cost of food and beverages is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms. Contingent rent, which is determined based on a factor other than just the passage of time, is recognised when the Group's entitlement to receive payment has been established in accordance with the terms of the agreements;

(ii) income from the sale of completed properties, on the exchange of legally binding unconditional sales contracts;

(iii) sale from food business, on dispatch of goods to customers;

(iv) receipts from catering business, upon the delivery of food and beverages to customers;

(v) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged, or the settlement dates when the securities are delivered;

(vi) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial assets;

(vii) dividend income, when the shareholders' right to receive payment has been established; and

(viii) commission income, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro rata basis over the relevant period.

3. Summary of Significant Accounting Policies *(continued)*

(t) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the Financial Statements *(continued)*

3. Summary of Significant Accounting Policies *(continued)*

(u) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

(v) Employee benefits

Paid leave entitlement

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

Retirement benefits costs

Employer's contributions made by the Group to the Mandatory Provident Funds operated for the benefits of employees of the Group as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of the schemes are held separately from those of the Group in independently administrated funds.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using an adjusted Black-Scholes model, further details of which are given in Note 34 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit and loss account for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

3. Summary of Significant Accounting Policies *(continued)*

(v) Employee benefits *(continued)*

Share-based payment transactions (continued)

No expense is recognised for awards the do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7th November, 2002 that had not vested by 1st January, 2005 and to those granted on or after 1st January, 2005.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

(x) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. Summary of Significant Accounting Policies *(continued)*

(y) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, cash at banks, demand deposits, treasury bills, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand, cash at banks, demand deposits and treasury bills which are not restricted as to use.

(z) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date, and their profit and loss accounts are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in the exchange equalisation reserve relating to that particular foreign operation is recognised in the profit and loss account.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto, the weighted average exchange rates for the year. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Summary of Significant Accounting Policies *(continued)*

(aa) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under the common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(ab) Dividends and distributions

Final dividends and distributions proposed by the Directors are classified as a separate allocation of distributable reserves within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends and distributions have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends and distributions are simultaneously proposed and declared because the Company's memorandum and articles of association and bye-laws grant the Directors the authority to declare interim dividends and distributions. Consequently, interim dividends and distributions are recognised immediately as a liability when they are proposed and declared.

Notes to the Financial Statements *(continued)*

4. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

4. Significant Accounting Judgements and Estimates *(continued)*

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31st December, 2007 was HK$23,371,000 (2006 – HK$57,285,000). Further details are given in Note 18.

Estimation of the fair value of investment properties

The best evidence of fair value is the current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) the current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) the recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognised movements of their fair values in equity. When the fair value declines, management makes assessment about the decline in value to determine whether there is an impairment that should be recognised in the profit and loss account. Impairment losses of HK$13,775,000 (2006 – HK$6,126,000) have been recognised for available-for-sale financial assets for the year. The carrying amount of available-for-sale financial assets at 31st December, 2007 was HK$411,057,000 (2006 – HK$385,618,000).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements *(continued)*

5. Segment Information

Segment information is presented by way of business segment as the primary segment reporting format and geographical segment as the secondary segment reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, revenue is based on the location of customers, and assets and capital expenditure are based on the location of the assets.

Descriptions of the business segments are as follows:

(a) the treasury investment segment includes investments in cash and bond markets;

(b) the property investment and development segment includes letting, resale and development of properties;

(c) the securities investment segment includes dealings in securities and disposals of investments;

(d) the retail business segment engages in operating of department stores;

(e) the banking business segment engages in the provision of commercial and retail banking services;

(f) the "other" segment comprises principally restaurants and catering business, food manufacturing, wholesale distribution of food and allied fast-moving consumer goods, the development of computer hardware and software, money lending and the provision of property, project and fund management and investment advisory services; and

(g) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services. As at the balance sheet date, the corporate finance and securities broking segment is classified as discontinued operation of the Group.

Notes to the Financial Statements *(continued)*

5. Segment Information *(continued)*

An analysis of the Group's segment information by business segment is set out as follows:

Group

2007	Continuing operations								Discontinued operation		
	Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Retail business HK$'000	Banking business HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000	Corporate finance and securities broking HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue											
External	20,361	200,240	613,120	39,205	15,388	92,978	–	981,292	67,424	–	1,048,716
Inter-segment	21,046	5,692	–	–	–	882	(27,620)	–	164	(164)	–
Total	41,407	205,932	613,120	39,205	15,388	93,860	(27,620)	981,292	67,588	(164)	1,048,716
Segment results	39,626	579,539	26,126	(125,824)	4,157	78,990	(27,341)	575,273	13,180	–	588,453
Unallocated corporate expenses								(151,912)	–		(151,912)
Finance costs								(71,511)	–		(71,511)
Share of results of associates	–	492,387	–	–	–	128,287	–	620,674	–	–	620,674
Share of results of jointly controlled entities	–	7,442	–	–	–	(762)	–	6,680	–	–	6,680
Profit before tax								979,204	13,180		992,384
Tax								(40,455)	–		(40,455)
Profit for the year								938,749	13,180		951,929

Notes to the Financial Statements *(continued)*

5. Segment Information *(continued)*

An analysis of the Group's segment information by business segment is set out as follows: (*continued*)

Group

2007	Continuing operations: Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Retail business HK$'000	Banking business HK$'000	Other HK$'000	Inter segment elimination HK$'000	Consolidated HK$'000	Discontinued operation: Corporate finance and securities broking HK$'000	Consolidated HK$'000
Assets and liabilities										
Segment assets	345,418	4,082,399	475,054	352,376	–	14,588	–	5,269,835	–	5,269,835
Interests in associates	–	10,389	–	–	154,025	750,924	–	915,338	–	915,338
Interests in jointly controlled entities	–	2,713	–	–	–	–	–	2,713	–	2,713
Unallocated assets								42,879	–	42,879
Total assets								6,230,765	–	6,230,765
Segment liabilities	–	1,977,776	90,704	486,205	–	412,956	(2,339,222)	628,419	–	628,419
Unallocated liabilities								1,820,363	–	1,820,363
Total liabilities								2,448,782	–	2,448,782
Other segment information:										
Capital expenditure	–	1,506	–	195,009	286	4,203	–	201,004	297	201,301
Depreciation	–	(2,741)	(195)	(2,787)	(999)	(1,466)	–	(8,188)	(273)	(8,461)
Allowance for bad and doubtful debts relating to:										
Banking operations	–	–	–	–	(168)	–	–	(168)	–	(168)
Non-banking operations	–	–	–	(63)	–	(2,480)	–	(2,543)	–	(2,543)
Provisions for impairment losses on available-for-sale financial assets	–	–	(13,775)	–	–	–	–	(13,775)	–	(13,775)
Net fair value gain on financial assets at fair value through profit or loss	–	–	29,979	–	–	–	–	29,979	–	29,979
Fair value gains on investment properties	–	319,250	–	–	–	–	–	319,250	–	319,250
Unallocated:										
Capital expenditure								1,943		1,943
Depreciation								(3,997)		(3,997)

Notes to the Financial Statements *(continued)*

5. Segment Information *(continued)*

An analysis of the Group's segment information by business segment is set out as follows: *(continued)*

Group

2006 (restated)	Continuing operations: Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Retail business HK$'000	Banking business HK$'000	Other HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000	Discontinued operation: Corporate finance and securities broking HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue											
External	29,312	244,087	964,625	15,091	28,965	174,562	–	1,456,642	95,614	–	1,552,256
Inter-segment	14,875	5,093	–	–	–	7,274	(27,242)	–	1,065	(1,065)	–
Total	44,187	249,180	964,625	15,091	28,965	181,836	(27,242)	1,456,642	96,679	(1,065)	1,552,256
Segment results	42,788	689,888	332,109	(12,830)	7,271	(22,924)	(26,729)	1,009,573	17,616	–	1,027,189
Unallocated corporate expenses								(147,209)	–		(147,209)
Finance costs								(78,717)	–		(78,717)
Share of results of associates	–	(17,679)	–	–	–	68,524	–	50,845	–	–	50,845
Share of results of jointly controlled entities	–	(6,991)	–	–	–	(2,072)	–	(9,063)	–	–	(9,063)
Profit before tax								825,429	17,616		843,045
Tax								(225,932)	(2,269)		(228,201)
Profit for the year								599,497	15,347		614,844

Notes to the Financial Statements (*continued*)

5. Segment Information (*continued*)

An analysis of the Group's segment information by business segment is set out as follows: (*continued*)

Group

2006 (Restated)	Continuing operations: Treasury investment HK$'000	Property investment and development HK$'000	Securities investment HK$'000	Retail business HK$'000	Banking business HK$'000	Other HK$'000	Inter segment elimination HK$'000	Consolidated HK$'000	Discontinued operation: Corporate finance and securities broking HK$'000	Consolidated HK$'000
Assets and liabilities										
Segment assets	619,748	4,678,253	1,329,249	7,240	541,361	35,168	–	7,211,019	786,732	7,997,751
Interests in associates	–	1,847,403	–	–	184,025	742,918	–	2,774,346	814	2,775,160
Interests in jointly controlled entities	–	201,961	–	–	–	3,657	–	205,618	–	205,618
Unallocated assets								231,354	–	231,354
Total assets								10,422,337	787,546	11,209,883
Segment liabilities	–	1,603,101	196,023	17,537	308,875	341,518	(2,023,984)	443,070	767,974	1,211,044
Unallocated liabilities								3,082,779	–	3,082,779
Total liabilities								3,525,849	767,974	4,293,823
Other segment information:										
Capital expenditure	–	998	–	562	334	2,289	–	4,183	460	4,643
Depreciation	–	(3,590)	(388)	(57)	(1,901)	(3,358)	–	(9,294)	(432)	(9,726)
Write-back of allowance/ (Allowance) for bad and doubtful debts relating to:										
Banking operation	–	–	–	–	4	–	–	4	–	4
Non-banking operations	–	–	–	–	–	(35,708)	–	(35,708)	1,850	(33,858)
Provisions for impairment losses on available-for-sale financial assets	–	–	(6,126)	–	–	–	–	(6,126)	–	(6,126)
Net fair value gain on financial assets at fair value through profit or loss	–	–	220,846	–	–	–	–	220,846	–	220,846
Fair value gains on investment properties	–	547,627	–	–	–	–	–	547,627	–	547,627
Unallocated:										
Capital expenditure								3,869		3,869
Depreciation								(5,949)		(5,949)

Notes to the Financial Statements *(continued)*

5. Segment Information *(continued)*

An analysis of the Group's segment information by geographical segment is set out as follows:

Group

2007	**Hong Kong HK$'000**	**Macau HK$'000**	**Republic of Singapore HK$'000**	**Malaysia HK$'000**	**Japan HK$'000**	**Mainland China HK$'000**	**Other HK$'000**	**Consolidated HK$'000**
Revenue	**244,902**	**15,389**	**539,536**	**–**	**880**	**179,074**	**68,935**	**1,048,716**
Attributable to discontinued operation	**(67,424)**	**–**	**–**	**–**	**–**	**–**	**–**	**(67,424)**
Revenue from continuing operations	**177,478**	**15,389**	**539,536**	**–**	**880**	**179,074**	**68,935**	**981,292**
Segment assets	**1,752,211**	**–**	**559,800**	**–**	**–**	**2,583,134**	**417,569**	**5,312,714**
Interests in associates	**13,460**	**–**	**706,391**	**1,780**	**–**	**8,445**	**185,262**	**915,338**
Interests in jointly controlled entities	**–**	**–**	**2,713**	**–**	**–**	**–**	**–**	**2,713**
Total assets								**6,230,765**
Capital expenditure	**4,814**	**286**	**564**	**–**	**–**	**195,350**	**2,230**	**203,244**

2006 (restated)	Hong Kong HK$'000	Macau HK$'000	Republic of Singapore HK$'000	Malaysia HK$'000	Japan HK$'000	Mainland China HK$'000	Other HK$'000	Consolidated HK$'000
Revenue	716,273	28,965	344,573	34,127	58,504	136,674	233,140	1,552,256
Attributable to discontinued operation	(95,614)	–	–	–	–	–	–	(95,614)
Revenue from continuing operations	620,659	28,965	344,573	34,127	58,504	136,674	233,140	1,456,642
Segment assets	2,615,156	895,717	1,904,168	–	62,845	2,161,568	589,651	8,229,105
Interests in associates	40,465	–	2,404,217	2,258	–	111,978	216,242	2,775,160
Interests in jointly controlled entities	–	–	191,887	–	–	–	13,731	205,618
Total assets								11,209,883
Capital expenditure	3,396	350	3,268	–	–	625	873	8,512

Notes to the Financial Statements *(continued)*

6. Revenue

Revenue, which is also the Group's turnover, represents the aggregate of gross income on treasury investment which includes interest income on bank deposits and debt securities, gross rental income, gross proceeds from sales of properties, gross income from securities investment which includes gross proceeds from sales of investments, dividend income and related interest income, gross income from underwriting and securities broking, sales income from food business, gross income from restaurants and catering business, gross rental income from department stores, gross income from property management, gross interest income, commissions, dealing income and other revenues from a banking subsidiary, and interest and other income from money lending and other businesses, after eliminations of all significant intra-group transactions.

An analysis of the revenue of the Group by principal activity is as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000 (restated)
Treasury investment	**20,361**	29,312
Property investment and development	**200,240**	244,087
Securities investment	**613,120**	964,625
Retail business	**39,205**	15,091
Banking business	**15,388**	28,965
Other	**92,978**	174,562
Attributable to continuing operations	**981,292**	1,456,642
Corporate finance and securities broking attributable to discontinued operation	**67,424**	95,614
	1,048,716	1,552,256

Revenue attributable to banking business represents revenue generated from The Macau Chinese Bank Limited, a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China up to the date when the bank ceased to be a subsidiary of the Company. Revenue attributable to banking business is analysed as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Interest income	**12,428**	23,916
Commission income	**2,132**	3,915
Other revenues	**828**	1,134
	15,388	28,965

Notes to the Financial Statements *(continued)*

7. Profit Before Tax

Profit before tax is arrived at after crediting/(charging):

	Group	
	2007 **HK$'000**	2006 HK$'000
Gross rental income	**200,240**	189,195
Less: Outgoings	**(30,755)**	(31,586)
Net rental income	**169,485**	157,609
Employee benefits expense (Note (a)):		
Wages and salaries	**(122,054)**	(159,204)
Share options	**(10,000)**	–
Retirement benefits costs	**(3,327)**	(3,500)
Less: Forfeited contributions	**–**	20
Net retirement benefits costs	**(3,327)**	(3,480)
Total staff costs	**(135,381)**	(162,684)
Interest income:		
Listed financial assets at fair value through profit or loss	**821**	5,650
Unlisted financial assets at fair value through profit or loss	**324**	790
Listed held-to-maturity financial assets	**–**	884
Loan and receivables	**575**	1,093
Banking operation	**12,428**	23,916
Other	**20,361**	29,312
Dividend income:		
Listed investments	**1,003**	2,614
Unlisted investments	**5,648**	2,291
Other unlisted investment income	**–**	725
Gain/(Loss) on disposal of:		
Listed financial assets at fair value through profit or loss	**(130)**	20,509
Unlisted financial assets at fair value through profit or loss	**2,217**	7,440
Listed available-for-sale financial assets	**–**	112,923
Unlisted available-for-sale financial assets	**746**	(23,520)
Net fair value gain on financial assets at fair value through profit or loss:		
Listed	**11,388**	26,174
Unlisted	**18,591**	194,672
Provision for impairment losses on unlisted available-for-sale financial assets	**(13,775)**	(6,126)
Depreciation	**(12,458)**	(15,675)
Gain/(Loss) on disposal of fixed assets	**38**	(69)
Gain on disposal of properties	**–**	423
Foreign exchange gains – net	**11,602**	10,917
Cost of inventories sold	**(7,330)**	(101,149)
Auditors' remuneration	**(2,674)**	(3,466)
Minimum lease payments under operating lease rentals in respect of land and buildings	**(119,054)**	(27,244)

Note:

(a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.

(b) The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

Notes to the Financial Statements *(continued)*

8. Directors' Emoluments

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Directors' fees	**1,069**	1,168
Basic salaries, housing and other allowances and benefits in kind	**8,958**	9,212
Share options	**3,444**	–
Discretionary bonuses paid and payable	**3,000**	3,000
Retirement benefits costs	**12**	12
	16,483	13,392

The emoluments paid to each of the individual directors during the year are as follows:

2007	Directors' fees HK$'000	Basic salaries, housing and other allowances and benefits in kind HK$'000	Share options HK$'000	Discretionary bonuses paid and payable HK$'000	Retirement benefits costs HK$'000	Total HK$'000
Executive directors:						
Mr. James Riady	–	1,248	–	–	–	1,248
Mr. Stephen Riady	–	6,213	–	–	–	6,213
Mr. John Luen Wai Lee	32	1,497	2,376	3,000	12	6,917
	32	8,958	2,376	3,000	12	14,378
Non-executive directors:						
Dr. Mochtar Riady	185	–	–	–	–	185
Mr. Ning Gaoning	120	–	–	–	–	120
Mr. Leon Nim Leung Chan	227	–	324	–	–	551
	532	–	324	–	–	856
Independent non-executive directors:						
Mr. Edwin Neo	120	–	248	–	–	368
Mr. King Fai Tsui	185	–	248	–	–	433
Mr. Victor Ha Kuk Yung	200	–	248	–	–	448
	505	–	744	–	–	1,249
	1,069	8,958	3,444	3,000	12	16,483

Notes to the Financial Statements (*continued*)

8. Directors' Emoluments (*continued*)

The emoluments paid to each of the individual directors during the year are as follows: (*continued*)

2006	Directors' fees HK$'000	Basic salaries, housing and other allowances and benefits in kind HK$'000	Discretionary bonuses paid and payable HK$'000	Retirement benefits costs HK$'000	Total HK$'000
Executive directors:					
Mr. James Riady	–	1,776	–	–	1,776
Mr. Stephen Riady	–	5,482	–	–	5,482
Mr. John Luen Wai Lee	29	1,954	3,000	12	4,995
	29	9,212	3,000	12	12,253
Non-executive directors:					
Dr. Mochtar Riady	240	–	–	–	240
Mr. Ning Gaoning	120	–	–	–	120
Mr. Leon Nim Leung Chan	279	–	–	–	279
	639	–	–	–	639
Independent non-executive directors:					
Mr. Edwin Neo	120	–	–	–	120
Mr. King Fai Tsui	180	–	–	–	180
Mr. Victor Ha Kuk Yung	200	–	–	–	200
	500	–	–	–	500
	1,168	9,212	3,000	12	13,392

There were no arrangements under which a Director waived or agreed to waive any emoluments during the year.

Details of share options granted to the Directors are set out in Note 34 to the financial statements.

Notes to the Financial Statements *(continued)*

9. Five Highest Paid Employees' Emoluments

The five highest paid employees during the year included two Directors (2006 – one), details of whose emoluments are set out in Note 8 to the financial statements. Details of the emoluments of the remaining three (2006 – four) non-director, highest paid employees for the year are as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Basis salaries, housing and other allowances and benefits in kind	**2,981**	9,715
Share options	**2,376**	–
Discretionary bonuses paid and payable	**9,500**	32,260
Retirement benefits costs	**56**	86
	14,913	42,061

The number of the non-director, highest paid employees whose emoluments fell within the following bands is as follows:

	Group	
Emoluments bands (HK$):	**2007** **Number of employees**	2006 Number of employees
3,500,001 – 4,000,000	**1**	–
4,500,001 – 5,000,000	**1**	–
5,500,001 – 6,000,000	**–**	1
6,000,001 – 6,500,000	**1**	1
11,000,001 – 11,500,000	**–**	1
19,000,001 – 19,500,000	**–**	1
	3	4

Notes to the Financial Statements *(continued)*

10. Retirement Benefits Costs

The Group previously operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administrative expenses, in accordance with the rules of the schemes.

During the year, there were no forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses (2006 – HK$20,000). The amounts of forfeited voluntary contributions available to offset future employer contributions against the above schemes were not material at the year end. The retirement benefits scheme costs charged to the consolidated profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK$3,327,000 (2006 – HK$3,480,000).

11. Finance Costs

	Group	
	2007 HK$'000	2006 HK$'000
Interest on bank and other borrowings wholly repayable within five years (Note)	**80,081**	76,655
Interest on bank loans wholly repayable after five years (Note)	**27,159**	31,743
Total interest	**107,240**	108,398
Less: Interest capitalised	**(24,534)**	(16,090)
	82,706	92,308
Represented by:		
Finance costs attributable to continuing operations	**73,029**	80,838
Finance costs attributable to discontinued operation	**9,677**	11,470
	82,706	92,308

Note: The amounts exclude interest expense incurred by a banking subsidiary of the Group.

Notes to the Financial Statements *(continued)*

12. Share of Results of Associates

The amount included the Group's share of profit in Lippo ASM Asia Property LP ("LAAP"), a property fund which carries the objective of investing in real estates in the East Asia Region up to the date when LAAP ceased to be an associate of the Group, of approximately HK$491 million (2006 – loss of HK$18 million).

13. Tax

	Group	
	2007 **HK$'000**	2006 HK$'000
Hong Kong:		
Charge for the year	**1,376**	2,348
Underprovisions/(Overprovisions) in prior years	**(396)**	2,727
Deferred	**50,227**	9,151
	51,207	14,226
Overseas:		
Charge for the year	**23,889**	23,343
Underprovisions in prior years	**112**	919
Deferred	**(34,753)**	189,713
	(10,752)	213,975
Total charge for the year	**40,455**	228,201

Hong Kong profits tax has been provided at the rate of 17.5 per cent. (2006 – 17.5 per cent.) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries/jurisdictions in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

Notes to the Financial Statements *(continued)*

13. Tax *(continued)*

A reconciliation of the tax charge applicable to profit before tax using the statutory rate for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit before tax (including profit from discontinued operation)	**992,384**	843,045
Tax at the statutory tax rate of 17.5 per cent. (2006 – 17.5 per cent.)	**173,667**	147,533
Effect of different tax rates in other jurisdictions	**21,932**	37,396
Effect of change in tax rate	**(75,282)**	–
Adjustments in respect of current tax of previous years	**(284)**	3,646
Profits and losses attributable to jointly controlled entities and associates	**(109,787)**	(7,312)
Income not subject to tax	**(25,770)**	(33,808)
Expenses not deductible for tax	**35,177**	31,051
Tax losses utilised from previous years	**(9,102)**	(19,308)
Tax losses not recognised	**29,904**	21,627
Other	**–**	47,376
Tax charge at the Group's effective rate of 4.1 per cent. (2006 – 27.1 per cent.)	**40,455**	228,201
Represented by:		
Tax charge attributable to continuing operations	**40,455**	225,932
Tax charge attributable to discontinued operation	**–**	2,269
	40,455	228,201

For the companies operated in Republic of Singapore, Mainland China and Republic of the Philippines, corporate taxes have been calculated on the estimated assessable profits for the year at the rate of 18 per cent., 33 per cent. and 32 per cent. (2006 – 20 per cent., 33 per cent. and 32 per cent.), respectively.

The share of tax charge attributable to associates amounting to HK$125,958,000 (2006 – HK$1,154,000) is included in "Share of results of associates" on the face of the consolidated profit and loss account. In 2006, the share of tax credit attributable to a jointly controlled entity amounting to HK$1,604,000 was included in "Share of results of jointly controlled entities" on the face of the consolidated profit and loss account.

Notes to the Financial Statements *(continued)*

14. Discontinued Operation

On 18th June, 2007, the Company announced a proposal to declare a special interim distribution to be satisfied by way of a distribution in specie (the "Distribution") comprising substantially all the Company's beneficial shareholding of 973,240,440 shares of HK$1.00 each in Hongkong Chinese Limited ("HKC"), representing approximately 72.26 per cent. of the issued share capital of HKC, held by the Company. On 17th July, 2007, the Company announced the decision of its board of directors to declare the Distribution in the proportion of 1.057745 share of HKC ("HKC Share") for every ten shares of the Company held by the Company's shareholders based on the market price of HKC at HK$2.23 per share. Following the Distribution, HKC and its subsidiaries (the "HKC Group") ceased to be subsidiaries of the Company and the corporate finance and securities broking business which was solely carried out by the HKC Group became discontinued operation. Results of the HKC Group ceased to be accounted for in the consolidated financial statements of the Group.

(a) Profit for the year from corporate finance and securities broking business are presented below:

	Note	**2007** **HK$'000**	2006 HK$'000
Revenue	6	**67,424**	95,614
Cost of sales		**(23,234)**	(37,340)
Gross profit		**44,190**	58,274
Administrative expenses		**(15,760)**	(24,257)
Other operating expenses		**(5,573)**	(4,931)
Finance costs	11	**(9,677)**	(11,470)
Profit before tax		**13,180**	17,616
Tax	13	**–**	(2,269)
Profit for the year		**13,180**	15,347
		HK cents	HK cents
Earnings per share	16		
Basic, from the discontinued operation		**0.10**	0.12
Diluted, from the discontinued operation		**N/A**	N/A

14. Discontinued Operation *(continued)*

(b) The net cash flows incurred by corporate finance and securities broking business are presented below:

	2007 HK$'000
Operating activities	**(1,062,412)**
Investing activities	**15,825**
Financing activities	**1,010,119**
Net cash outflow	**(36,468)**

15. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year includes a profit of HK$209,101,000 (2006 – HK$129,722,000) which has been dealt with in the financial statements of the Company as set out in Note 35 to the financial statements.

16. Earnings Per Share Attributable to Equity Holders of the Company

(a) Basic earnings per share

Basic earnings per share is calculated based on (i) the consolidated profit for the year attributable to equity holders of the Company; and (ii) the weighted average number of 9,201,089,000 ordinary shares (2006 – 9,201,089,000 ordinary shares) in issue during the year.

	2007 HK$'000	2006 HK$'000
Consolidated profit for the year attributable to equity holders of Company:		
From continuing operations	**646,635**	382,539
From discontinued operation	**9,524**	11,090
	656,159	393,629

(b) Diluted earnings per share

No diluted earnings per share is presented for the years ended 31st December, 2007 and 2006 as the share options outstanding during these years had no dilutive effect on the basic earnings per share for these years.

Notes to the Financial Statements *(continued)*

17. Dividends and Distributions

	Group and Company	
	2007 **HK$'000**	2006 HK$'000
Special interim distribution, declared and paid, of 1.057745 HKC Share per ten ordinary shares (Note 14)	**2,170,326**	–
Interim dividend, declared and paid, of HK0.2 cent (2006 – HK0.2 cent) per ordinary share	**18,402**	18,402
Special interim dividend, declared and paid, of HK0.8 cent (2006 – Nil) per ordinary share	**73,609**	–
Final dividend, proposed, of HK0.4 cent (2006 – HK0.4 cent) per ordinary share	**36,804**	36,804
Special final dividend, proposed, of HK0.6 cent (2006 – Nil) per ordinary share	**55,206**	–
	2,354,347	55,206

The proposed final dividend and special final dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements *(continued)*

18. Goodwill

	Group HK$'000
At 1st January, 2006:	
Cost	159,638
Accumulated impairment	(86,946)
Net carrying amount	72,692
Cost at 1st January, 2006, net of accumulated impairment	72,692
Disposal of subsidiaries	(15,832)
Exchange adjustments	425
Carrying amount at 31st December, 2006	57,285
At 1st January, 2007:	
Cost	140,891
Accumulated impairment	(83,606)
Net carrying amount	57,285
Cost at 1st January, 2007, net of accumulated impairment	57,285
Disposal of subsidiaries	(57,285)
Acquisition of shares in a subsidiary from a minority shareholder	23,371
Carrying amount at 31st December, 2007	23,371
At 31st December, 2007:	
Cost	**23,371**
Accumulated impairment	**–**
Net carrying amount	**23,371**

Notes to the Financial Statements *(continued)*

18. Goodwill *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Banking business cash-generating unit; and
- Property investment cash-generating unit.

Banking business cash-generating unit

The recoverable amount of the banking business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection was 5 per cent. The growth rate used to extrapolate the cash flows of the banking business beyond the five-year period was assumed to be nil.

Property investment cash-generating unit

The recoverable amount of the property investment cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projection is 7 per cent. The growth rate used to extrapolate the cash flows of the property investment beyond the five-year period is assumed to be nil.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Banking business HK$'000	**Property investment HK$'000**	**Total HK$'000**
2007			
Carrying amount of goodwill	**–**	**23,371**	**23,371**
2006			
Carrying amount of goodwill	57,285	–	57,285

Notes to the Financial Statements *(continued)*

19. Fixed Assets

Group

2007	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures, plant and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1st January, 2007	666,797	56,387	82,828	17,019	823,031
Additions during the year	131	196,536	4,235	2,342	203,244
Disposal of subsidiaries	(26,816)	(25,501)	(48,800)	(7,979)	(109,096)
Disposals during the year	–	–	(59)	(301)	(360)
Surplus on revaluation	117,263	–	–	–	117,263
Reclassified to investment properties	(358,818)	(545)	–	–	(359,363)
Exchange adjustments	256	314	492	323	1,385
At 31st December, 2007	398,813	227,191	38,696	11,404	676,104
Accumulated depreciation and impairment losses:					
At 1st January, 2007	450,411	51,414	67,936	9,067	578,828
Provided for the year	3,903	3,970	2,839	1,746	12,458
Disposal of subsidiaries	(1,182)	(20,735)	(36,260)	(3,538)	(61,715)
Disposals during the year	–	–	(58)	(191)	(249)
Reclassified to investment properties	(170,206)	(545)	–	–	(170,751)
Exchange adjustments	116	231	383	167	897
At 31st December, 2007	283,042	34,335	34,840	7,251	359,468
Net book value:					
At 31st December, 2007	115,771	192,856	3,856	4,153	316,636

Notes to the Financial Statements *(continued)*

19. Fixed Assets *(continued)*

Group

2006	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures, plant and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1st January, 2006	789,273	55,699	160,433	13,367	1,018,772
Additions during the year	–	1,423	3,494	3,595	8,512
Disposal of subsidiaries	(125,666)	(756)	(83,413)	–	(209,835)
Disposals during the year	–	(235)	(419)	(158)	(812)
Exchange adjustments	3,190	256	2,733	215	6,394
At 31st December, 2006	666,797	56,387	82,828	17,019	823,031
Accumulated depreciation and impairment losses:					
At 1st January, 2006	513,443	49,983	96,253	6,879	666,558
Provided for the year	5,831	1,618	6,020	2,206	15,675
Disposal of subsidiaries	(70,830)	(151)	(35,141)	–	(106,122)
Disposals during the year	–	(168)	(393)	(108)	(669)
Exchange adjustments	1,967	132	1,197	90	3,386
At 31st December, 2006	450,411	51,414	67,936	9,067	578,828
Net book value:					
At 31st December, 2006	216,386	4,973	14,892	7,952	244,203

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

The net book value of the leasehold land and buildings comprises:

	Group	
	2007 HK$'000	2006 HK$'000
Long term leasehold land and buildings situated in Hong Kong	**113,700**	188,611
Leasehold land and buildings situated outside Hong Kong under:		
Medium term leases	**2,071**	26,267
Long term leases	**–**	1,508
	2,071	27,775
Total	**115,771**	216,386

Notes to the Financial Statements *(continued)*

19. Fixed Assets *(continued)*

Company

2007	**Leasehold improvements HK$'000**	**Furniture, fixtures, plant and equipment HK$'000**	**Motor vehicles HK$'000**	**Total HK$'000**
Cost:				
At 1st January, 2007	**2,244**	**5,142**	**4,445**	**11,831**
Additions during the year	**–**	**225**	**–**	**225**
Disposals during the year	**–**	**–**	**(218)**	**(218)**
At 31st December, 2007	**2,244**	**5,367**	**4,227**	**11,838**
Accumulated depreciation:				
At 1st January, 2007	**2,221**	**4,892**	**4,125**	**11,238**
Provided for the year	**5**	**102**	**108**	**215**
Disposals during the year	**–**	**–**	**(176)**	**(176)**
At 31st December, 2007	**2,226**	**4,994**	**4,057**	**11,277**
Net book value:				
At 31st December, 2007	**18**	**373**	**170**	**561**

2006	Leasehold improvements HK$'000	Furniture, fixtures, plant and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1st January, 2006	2,219	4,979	4,445	11,643
Additions during the year	25	163	–	188
At 31st December, 2006	2,244	5,142	4,445	11,831
Accumulated depreciation:				
At 1st January, 2006	2,219	4,812	3,989	11,020
Provided for the year	2	80	136	218
At 31st December, 2006	2,221	4,892	4,125	11,238
Net book value:				
At 31st December, 2006	23	250	320	593

Notes to the Financial Statements *(continued)*

20. Investment Properties

	Group	
	2007 HK$'000	2006 HK$'000
Medium term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**17,170**	16,800
Fair value adjustments	**746**	370
Disposal of subsidiaries	**(17,916)**	–
Balance at end of year	**–**	17,170
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of year	**1,069,821**	1,045,994
Disposals during the year	**–**	(38,000)
Fair value adjustments	**253,877**	61,827
Reclassified from fixed assets	**188,612**	–
Disposal of subsidiaries	**(93,110)**	–
Balance at end of year	**1,419,200**	1,069,821
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	**2,170,347**	2,153,862
Additions during the year	**4,440**	4,422
Fair value adjustments	**60,521**	322,507
Exchange adjustments	**86,142**	34,673
Disposal of subsidiaries	**(358,440)**	(345,117)
Balance at end of year	**1,963,010**	2,170,347
Long term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	**40,000**	40,000
Fair value adjustments	**4,106**	–
Balance at end of year	**44,106**	40,000
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of year	**674,563**	8,605
Additions during the year	**17,588**	469,221
Fair value adjustments	**–**	162,923
Exchange adjustments	**3,996**	33,814
Disposal of subsidiaries	**(696,147)**	–
Balance at end of year	**–**	674,563
Total	**3,426,316**	3,971,901

Notes to the Financial Statements *(continued)*

20. Investment Properties *(continued)*

Based on professional valuations as at 31st December, 2007 made by Vigers Appraisal and Consulting Limited and by reference to the actual disposal value of investment properties which were disposed to a third party subsequent to the balance sheet date, the investment properties in Hong Kong were revalued on an open market, existing use basis at HK$1,419,200,000 (2006 – HK$1,086,991,000).

Based on professional valuations as at 31st December, 2007 made by RHL Appraisal Ltd., the investment properties situated outside Hong Kong were revalued on an open market, existing use basis at HK$2,007,116,000 (2006 – HK$2,884,910,000).

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

21. Properties under Development

	Group	
	2007 **HK$'000**	2006 HK$'000
Land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of year	**660,039**	509,179
Additions during the year	**76,551**	113,723
Exchange adjustments	**33,694**	37,137
Disposal of subsidiaries	**(169,367)**	–
Balance at end of year	**600,917**	660,039
Provisions for impairment losses:		
Balance at beginning of year	**(89,000)**	(89,000)
Exchange adjustments	**(6,491)**	–
Balance at end of year	**(95,491)**	(89,000)
	505,426	571,039
Less: Amount classified under current portion	**(461,679)**	(369,865)
Non-current portion	**43,747**	201,174
Land and buildings held under the following lease terms:		
Leasehold (Note)	**43,747**	139,180
Freehold	**461,679**	431,859
	505,426	571,039

Notes to the Financial Statements *(continued)*

21. Properties under Development *(continued)*

Note: The lease terms of the properties under development situated outside Hong Kong of HK$20,629,000 (2006 – HK$117,310,000) are 99 years and those of HK$23,118,000 (2006 – HK$21,870,000) are determined by their final intended use upon completion and vary from 40 to 70 years.

Certain properties under development have been mortgaged to secure banking facilities made available to the Group as set out in Note 29 to the financial statements.

22. Interests in Associates

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets in listed investments	**727,094**	595,668
Share of net assets in unlisted investments	**6,413**	1,711,387
Goodwill arising from acquisition less impairment	**154,025**	185,784
Due from associates	**60,641**	357,720
Due to associates	**(1,975)**	(24,401)
	946,198	2,826,158
Provisions for impairment losses	**(30,860)**	(50,998)
	915,338	2,775,160
Market value of listed investments at 31st December	**500,097**	361,414

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment except for the balance of HK$4,500,000 (2006 – HK$4,500,000) due from Maxipo International Limited which bears interest at HK$ prime rate per annum quoted by The Hongkong and Shanghai Banking Corporation Limited. The carrying amounts of the balances are approximate to their fair values.

The balance as at 31st December, 2006 included the Group's interest in LAAP of approximately HK$1,639 million. In May 2006, LAAP participated in a joint venture to invest in Overseas Union Enterprise Limited, a listed company in Singapore principally engaged in property investment and hotel operation. Following the Distribution, LAAP ceased to be an associate of the Group.

In February 2006, the Company donated 2,380,000 shares in Auric Pacific Group Limited ("APG"), a then subsidiary of the Company, to a university in the People's Republic of China (the "PRC") (the "Donation"), resulted in an expense of approximately HK$21 million charged to profit and loss account which represented the then book value of the donated shares. As a result of the Donation, the Group's indirect interest in APG reduced from 51.2 per cent. to 49.3 per cent. and the Group ceased control over the board of APG. Accordingly, APG ceased to be a subsidiary but became an associate of the Group.

Notes to the Financial Statements *(continued)*

22. Interests in Associates *(continued)*

The amounts of goodwill arising from the acquisition of associates are as follows:

	Group HK$'000
At 1st January, 2006:	
Cost	11,550
Accumulated impairment	(7,436)
Net carrying amount	4,114
Cost at 1st January, 2006, net of accumulated impairment	4,114
Goodwill arising from acquisition	184,025
Disposal of an associate	(2,355)
Carrying amount at 31st December, 2006	185,784
At 1st January, 2007:	
Cost	193,220
Accumulated impairment	(7,436)
Net carrying amount	185,784
Cost at 1st January, 2007, net of accumulated impairment	185,784
Impairment during the year	(30,000)
Disposal of associates	(1,759)
Carrying amount at 31st December, 2007	154,025
At 31st December, 2007:	
Cost	**184,025**
Accumulated impairment	**(30,000)**
Net carrying amount	**154,025**

Notes to the Financial Statements *(continued)*

22. Interests in Associates *(continued)*

Impairment testing of goodwill arising from the acquisition of associates

Goodwill arising from the acquisition of associates has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Banking business cash-generating unit; and
- Other business cash-generating unit.

Banking business cash-generating unit

The recoverable amount of the banking business cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year (2006 – ten-year) period. The discount rate applied to the cash flow projection is 5.9 per cent. (2006 – 8 per cent.). The growth rate used to extrapolate the cash flows of the banking business beyond the five-year (2006 – ten-year) period is assumed to be nil.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Banking business HK$'000	Other business HK$'000	Total HK$'000
2007			
Carrying amount of goodwill	**154,025**	**–**	**154,025**
2006			
Carrying amount of goodwill	184,025	1,759	185,784

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	Group	
	2007 HK$'000	2006 HK$'000
Assets	**10,705,990**	17,095,958
Liabilities	**(8,086,012)**	(10,639,631)
Revenues	**2,197,869**	1,268,385
Profit	**876,788**	171,216

	Company	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**1**	1

Details of the principal associates are set out on pages 145 and 146.

Notes to the Financial Statements *(continued)*

23. Interests in Jointly Controlled Entities

	Group	
	2007 **HK$'000**	2006 HK$'000
Share of net assets/(liabilities) in unlisted investments	**2,713**	(7,883)
Goodwill arising from acquisition	**–**	1,324
Due from jointly controlled entities	**–**	212,177
	2,713	205,618
Due to a jointly controlled entity	**(46,968)**	–
	(44,255)	205,618

As at 31st December, 2007, the balance due to a jointly controlled entity is unsecured, bears interest at a fixed rate of 3.61 per cent. per annum and has no fixed terms of repayment. As at 31st December, 2006, the balances with the jointly controlled entities included a loan of HK$3,988,000, which was secured by certain shares of a jointly controlled entity, bear interest at United States dollar prime rate plus 2 per cent. per annum and had no fixed terms of repayment. The remaining balances with the jointly controlled entities were unsecured, interest-free and had no fixed terms of repayment except for the balance of HK$165,445,000 due from Tanglin Residential Pte. Ltd. ("Tanglin") which bear interest at 4.35 per cent. per annum. The carrying amounts of the balances are approximate to their fair values.

The balance included the Group's interest in Tanglin which was set up for the purposes of a property development project in Singapore (the "Project"). Tanglin is the legal and beneficial owner, and developer of the Project and in respect of which Tanglin has sold all of the units to buyers under a deferred payment scheme. On 25th July, 2007, Tanglin entered into an agreement to sell all of the rights, title and interest in the receivables of the Project, in respect of units which have been sold, to Vesta Investment Corporation Limited ("Vesta") and Vesta issued floating rate notes in an aggregate principal amount of US$346,000,000 to institutional investors upon the purchase of the receivables (the "Securitisation Exercise").

Notes to the Financial Statements *(continued)*

23. Interests in Jointly Controlled Entities *(continued)*

The following table illustrates the summarised financial information of the Group's jointly controlled entities as extracted from their management accounts:

	Group	
	2007 **HK$'000**	2006 HK$'000
Share of the jointly controlled entities' assets and liabilities:		
Current assets	**597,292**	521,212
Non-current assets	**6,297**	48,991
Current liabilities	**(10,112)**	(25,416)
Non-current liabilities	**(620,200)**	(552,339)
Net liabilities	**(26,723)**	(7,552)
Share of the jointly controlled entities' results:		
Revenue	**13**	912
Total expenses	**(19,604)**	(9,975)
Loss after tax	**(19,591)**	(9,063)
Share of the jointly controlled entities' capital commitments	**163,418**	495,579

Details of the principal jointly controlled entity are set out on page 147.

Notes to the Financial Statements *(continued)*

24. Available-for-sale Financial Assets

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Financial assets stated at fair value:				
Equity securities listed overseas	**373,883**	240,298	**–**	–
Unlisted debt securities	**14,250**	12,122	**14,250**	12,122
Unlisted investment funds	**–**	94,442	**–**	–
	388,133	346,862	**14,250**	12,122
Financial assets stated at cost:				
Unlisted equity securities	**28,871**	104,778	**–**	–
Unlisted debt securities	**27,557**	39,093	**7,810**	7,810
Unlisted investment funds	**15,461**	15,461	**–**	–
	71,889	159,332	**7,810**	7,810
Provisions for impairment losses	**(48,965)**	(120,576)	**–**	–
	22,924	38,756	**7,810**	7,810
	411,057	385,618	**22,060**	19,932

The debt securities have effective interest rates ranging from nil to 8 per cent. (2006 – nil to 8 per cent.) per annum.

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
An analysis of the issuers of available-for-sale financial assets is as follows:				
Equity securities:				
Corporate entities	**402,754**	345,076	**–**	–
Debt securities:				
Club debentures	**7,810**	10,975	**7,810**	7,810
Corporate entities	**33,997**	40,240	**14,250**	12,122
	41,807	51,215	**22,060**	19,932

Notes to the Financial Statements *(continued)*

24. Available-for-sale Financial Assets *(continued)*

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$146,062,000 (2006 – HK$84,444,000) of which HK$1,204,000 (2006 – HK$91,312,000) was removed from equity and recognised in the consolidated profit and loss account for the year.

The above financial assets consist of investments in equity securities and investment funds which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The fair values of listed equity securities are based on quoted market prices. The fair values of certain unlisted available-for-sale financial assets have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the investment revaluation reserve, are reasonable, and that they are the most appropriate values at the balance sheet date.

Apart from the above, certain unlisted equity securities and debt securities issued by private entities are measured at cost less impairment at each balance sheet date. The Directors consider that information to be applied in the valuation technique cannot be reliably obtained on a continuous basis. The fair values of these unlisted equity securities and debt securities cannot be reliably measured.

During the year, the Directors reviewed the carrying amount of certain unlisted available-for-sale financial assets with reference to their business performances and the profit projection prepared by the investees' management. An impairment loss of HK$13,775,000 (2006 – HK$6,126,000) has been charged to the consolidated profit and loss account for the year.

Notes to the Financial Statements *(continued)*

25. Held-to-maturity Financial Assets

	Group	
	2007 **HK$'000**	2006 HK$'000
Debt securities, at amortised cost:		
Listed overseas	**–**	9,582
Market value of listed debt securities	**–**	10,444

The debt securities had effective interest rates of 9 per cent. per annum.

	Group	
	2007 **HK$'000**	2006 HK$'000
An analysis of the issuers of held-to-maturity financial assets is as follows:		
Banks and other financial institutions	**–**	9,582

26. Loans and Advances

The loans and advances to customers of the Group have effective interest rates of 3 per cent. (2006 – 3 per cent. to 18 per cent.) per annum. The carrying amounts of loans and advances are approximate to their fair values.

As at the balance sheet date, the overdue or impaired balances are related to banking operation. Movements of allowance for bad and doubtful debts during the year are as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Balance at beginning of year	**2,996**	3,000
Allowance for bad and doubtful debts	**326**	85
Impairment allowance released	**–**	(89)
Disposal of subsidiaries	**(3,322)**	–
Balance at end of year	**–**	2,996

Except for the above, the remaining balances are neither overdue nor impaired and are related to a range of customers for whom there are no recent history of default.

Notes to the Financial Statements *(continued)*

27. Financial Assets at Fair Value through Profit or Loss

	Group	
	2007	2006
	HK$'000	HK$'000
Held for trading:		
Equity securities:		
Listed in Hong Kong	**–**	56,293
Listed overseas	**769**	7,345
	769	63,638
Debt securities:		
Listed overseas	**–**	9,056
Investment funds:		
Listed overseas	**–**	46,030
Unlisted	**63,228**	342,923
	63,228	388,953
Other:		
Unlisted	**–**	5,813
	63,997	467,460
Designated as financial assets at fair value through profit or loss (Note):		
Unlisted investment funds	**–**	466,371
	63,997	933,831

Note : The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or recognising the gains or losses on different bases.

As at 31st December, 2006, the debt securities had effective interest rates ranging from 6.5 per cent. to 8 per cent. per annum.

Notes to the Financial Statements *(continued)*

27. Financial Assets at Fair Value through Profit or Loss *(continued)*

	Group	
	2007 **HK$'000**	2006 HK$'000
An analysis of the issuers of financial assets at fair value through profit or loss is as follows:		
Equity securities:		
Corporate entities	**769**	63,638
Debt securities:		
Corporate entities	**–**	9,056

28. Debtors, Prepayments and Deposits

Included in the balances are trade debtors with an aged analysis as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Outstanding balances with ages:		
Repayable on demand	**–**	45,809
Within 30 days	**27,133**	42,088
Between 31 and 60 days	**139**	1,166
Between 61 and 90 days	**1**	279
Between 91 and 180 days	**132**	155
Over 180 days	**–**	60
	27,405	89,557

Trading terms with customers are either on a cash basis or credit. For those customers who trade on credit, a credit period is allowed according to relevant business practice. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

As at balance sheet date, receivables are neither overdue nor impaired and are related to a range of customers for whom there are no recent history of default. The Group does not hold any collateral or other credit enhancements over these balances.

Except for receivables from certain securities brokers which are interest-bearing, the balances of trade debtors are non-interest-bearing. The carrying amounts of debtors and deposits are approximate to their fair values.

Notes to the Financial Statements *(continued)*

29. Bank and Other Borrowings

	Group		Company	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
Bank loans:				
Secured (Note (a))	**1,146,609**	1,967,100	**620,000**	1,140,000
Unsecured	**–**	10,000	**–**	–
	1,146,609	1,977,100	**620,000**	1,140,000
Other borrowing:				
Unsecured (Note (b))	**–**	248,126	**–**	–
	1,146,609	2,225,226	**620,000**	1,140,000
Less: Amount classified under current portion	**(46,019)**	(374,276)	**(30,000)**	(50,000)
Non-current portion	**1,100,590**	1,850,950	**590,000**	1,090,000
Bank and other borrowings by currency:				
Hong Kong dollar	**620,000**	1,608,126	**620,000**	1,140,000
Renminbi	**303,596**	–	**–**	–
Singapore dollar	**223,013**	550,950	**–**	–
United States dollar	**–**	66,150	**–**	–
	1,146,609	2,225,226	**620,000**	1,140,000
Bank loans repayable:				
Within one year	**46,019**	126,150	**30,000**	50,000
In the second year	**290,391**	270,965	**30,000**	50,000
In the third to fifth years, inclusive	**368,153**	959,985	**240,000**	420,000
After five years	**442,046**	620,000	**320,000**	620,000
	1,146,609	1,977,100	**620,000**	1,140,000
Other borrowing repayable:				
Within one year	**–**	248,126	**–**	–

The carrying amounts of the Group's and Company's bank and other borrowings are approximate to their fair values and bear interest at floating rates ranging from 3.9 per cent. to 7.1 per cent. (2006 – 4.4 per cent. to 7.3 per cent.) per annum.

Notes to the Financial Statements *(continued)*

29. Bank and Other Borrowings *(continued)*

Note:

(a) At the balance sheet date, the bank loans were secured by first legal mortgages over certain investment properties, leasehold land and buildings and properties under development with carrying amounts of HK$3,109,965,000 (2006 – HK$3,641,729,000), HK$113,700,000 (2006 – HK$188,609,000) and HK$461,679,000 (2006 – HK$369,865,000), respectively.

The bank loans as at 31st December, 2006 were also secured by:

(i) shares in certain listed subsidiaries of the Group with market value of HK$999,453,000; and

(ii) certain securities of the Group with carrying amount of HK$46,710,000.

(b) As at 31st December, 2006, the Group's other borrowing was advanced from Lippo Limited ("Lippo"), an intermediate holding company of the Company. The balance of which was fully repaid during the year.

30. Creditors, Accruals and Deposits Received

Included in the balances are trade creditors with an aged analysis as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Outstanding balances with ages:		
Repayable on demand	**–**	637,965
Within 30 days	**38,585**	114,178
Between 31 and 60 days	**7,361**	195
Between 61 and 90 days	**–**	–
Between 91 and 180 days	**–**	50
	45,946	752,388

As at 31st December, 2007, the balances of trade creditors are non-inerest-bearing.

As at 31st December, 2006, the outstanding balances that were repayable on demand included client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business amounted to HK$582,905,000. Except for certain client payables relating to cash balances held on trust for the customers in respect of the Group's securities broking business were interest-bearing, the balances of trade creditors were non-interest-bearing.

31. Current, Fixed, Savings and Other Deposits of Customers

As at 31st December, 2006, the current, fixed, savings and other deposits of customers attributable to banking operation had effective interest rates ranging from 2.5 per cent. to 5.2 per cent. per annum.

Notes to the Financial Statements *(continued)*

32. Deferred Tax

Deferred tax liabilities

The movements in deferred tax liabilities during the year are as follows:

Group

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Fair value gains on available-for-sale financial assets HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
2007						
At 1st January, 2007	**7,771**	**523,298**	**7,957**	**(6,961)**	**–**	**532,065**
Deferred tax charged/(credited) to the profit and loss account during the year	**(3,371)**	**94,973**	**–**	**(846)**	**–**	**90,756**
Effect of change in tax rate	**–**	**(75,282)**	**–**	**–**	**–**	**(75,282)**
Deferred tax debited to equity during the year	**–**	**20,522**	**353**	**–**	**–**	**20,875**
Disposal of subsidiaries	**(183)**	**(47,467)**	**(8,355)**	**–**	**–**	**(56,005)**
Exchange adjustments	**–**	**200**	**45**	**–**	**–**	**245**
At 31st December, 2007	**4,217**	**516,244**	**–**	**(7,807)**	**–**	**512,654**
2006						
At 1st January, 2006	7,275	324,177	5,026	(5,978)	23,752	354,252
Deferred tax charged/(credited) to the profit and loss account during the year	491	197,984	–	(983)	1,372	198,864
Deferred tax debited to equity during the year	–	–	2,921	–	–	2,921
Disposal of subsidiaries	–	–	–	–	(25,788)	(25,788)
Exchange adjustments	5	1,137	10	–	664	1,816
At 31st December, 2006	7,771	523,298	7,957	(6,961)	–	532,065

At 31st December, 2007, there were no significant unrecognised deferred tax liabilities (2006 – Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly controlled entities as the Group had no liability to additional tax should such amounts be remitted.

Notes to the Financial Statements *(continued)*

32. Deferred Tax *(continued)*

Deferred tax assets

The Group has deductible temporary differences and tax losses of HK$6,035,000 (2006 – HK$20,012,000) and HK$528,915,000 (2006 –HK$486,166,000), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these deductible temporary differences and tax losses at the balance sheet date due to the unpredictability of future profit streams.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. Share Capital

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Authorised:		
28,000,000,000 (2006 – 28,000,000,000) ordinary shares of HK$0.10 each	**2,800,000**	2,800,000
Issued and fully paid:		
9,201,088,716 (2006 – 9,201,088,716) ordinary shares of HK$0.10 each	**920,109**	920,109

Notes to the Financial Statements *(continued)*

34. Share Option Schemes

Share Option Scheme of the Company adopted on 7th June, 2007

A new share option scheme of the Company (the "Share Option Scheme") was adopted and approved by the shareholders of the Company and Lippo on 7th June, 2007 (the "Adoption Date"). Pursuant to the Share Option Scheme, the board of the Directors (the "Board") may, at its discretion, offer to grant to any eligible employee (including directors, officers and/or employees of the Group or any member of it); or any consultant, adviser, supplier, customer or sub-contractor of the Group or any member of it; or any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business (together the "Eligible Person") an option to subscribe for shares in the Company. The purpose of the Share Option Scheme is to provide Eligible Persons with the opportunity to acquire proprietary interests in the Company and to encourage Eligible Persons to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Share Option Scheme shall be valid and effective for the period of ten years commencing on the Adoption Date. Under the rules of the Share Option Scheme, no further options shall be granted on and after the tenth anniversary of the Adoption Date. The options can be exercised at any time during the period commencing on the date of grant and ending on the date of expiry which date shall not be later than the day last preceding the tenth anniversary of the date of grant. The Share Option Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the rules of the Share Option Scheme provide that the Board may determine, at its sole discretion, such term(s) on the grant of an option. No grantee of option is required to pay for the grant of the relevant option.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes must not exceed 30 per cent. of the issued shares of the Company from time to time. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not (when aggregated with any shares subject to options granted after the Adoption Date pursuant to any other share option scheme(s) of the Company) exceed 10 per cent. of the issued share capital of the Company on the Adoption Date (the "Scheme Mandate Limit"). The Scheme Mandate Limit may be renewed with prior approval of the shareholders of the Company. The total number of shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme to any single Eligible Person, whether or not already a grantee, in any 12-month period shall be subject to a limit that it shall not exceed 1 per cent. of the issued shares of the Company at the relevant time. The exercise price for the shares under the Share Option Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of the closing price of the shares of the Company on the date of grant of the option or the average closing price of the shares of the Company for the five trading days immediately preceding the date of grant of the option, as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); or the nominal value of the shares of the Company on the date of grant of the option.

Notes to the Financial Statements *(continued)*

34. Share Option Schemes *(continued)*

Share Option Scheme of the Company adopted on 7th June, 2007 *(continued)*

On 17th December, 2007, options were granted under the Share Option Scheme without consideration to Eligible Persons including, inter alia, certain Directors of the Company and employees of the Group to subscribe for a total of 92,010,000 ordinary shares of HK$0.10 each in the Company (the "Option Shares") at an exercise price of HK$0.267 per share (subject to adjustment). The above options cannot be exercised from the date of grant to 16th June, 2008. Such options will be exercisable from 17th June, 2008 to 16th December, 2012. The closing price of the shares of the Company on 14th December, 2007, being the trading day immediately preceding the date of grant of the options, as stated in the daily quotations sheet of the Stock Exchange was HK$0.255.

The movements in Option Shares granted under the Share Option Scheme during the year are summarised as follows:

			Number of Option Shares				
Participants	Date of grant	Exercise price per share HK$	Balance as at 1st January, 2007	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Balance as at 31st December, 2007
Directors:							
John Luen Wai Lee	17th December, 2007	0.267	–	22,000,000	–	–	22,000,000
Leon Nim Leung Chan	17th December, 2007	0.267	–	3,000,000	–	–	3,000,000
Edwin Neo	17th December, 2007	0.267	–	2,300,000	–	–	2,300,000
King Fai Tsui	17th December, 2007	0.267	–	2,300,000	–	–	2,300,000
Victor Ha Kuk Yung	17th December, 2007	0.267	–	2,300,000	–	–	2,300,000
Employees (Note)	17th December, 2007	0.267	–	32,760,000	–	–	32,760,000
Others	17th December, 2007	0.267	–	27,350,000	–	–	27,350,000
Total			–	92,010,000	–	–	92,010,000

Note: Employees refer to the employees of the Group working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the Directors and chief executive of the Company.

No option was exercised during the year (2006 – Nil).

As at the date of this report, the total number of shares available for issue under the Share Option Scheme was 920,108,871 shares of HK$0.10 each, representing approximately 10 per cent. of the issued share capital of the Company.

Notes to the Financial Statements *(continued)*

34. Share Option Schemes *(continued)*

Share Option Scheme of the Company adopted on 7th June, 2007 *(continued)*

The exercise price of the Option Shares and exercise period of the options outstanding as at the balance sheet date are as follows:

2007

Number of Option Shares	Exercise price per share (Note) HK$	Exercise period
92,010,000	**0.267**	**17th June, 2008 to 16th December, 2012**

Note: The exercise price of the Option Shares is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the options granted during the year was HK$10,000,000 (2006 – Nil) of which the Group recognised an option expense of HK$10,000,000 (2006 – Nil) during the year ended 31st December, 2007.

The fair value of equity-settled options granted during the year was estimated as at the date of grant, using an adjusted Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

2007

Dividend yield (per cent.)	**2.4**
Historical and expected volatility (per cent.)	**58.02**
Risk-free interest rate (per cent.)	**4**
Expected life of options (year)	**5**
Weighted average share price (HK$)	**0.25**

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

34. Share Option Schemes *(continued)*

Share Option Scheme of the Company adopted on 7th June, 2007 *(continued)*

At the balance sheet date and the date of this report, the Company had options outstanding under the Share Option Scheme to subscribe for a total of 92,010,000 ordinary shares of HK$0.10 each in the Company, which represented approximately 1 per cent. of the then issued share capital of the Company. The exercise in full of the outstanding options would, under the capital structure of the Company as at 31st December, 2007, result in the issue of 92,010,000 additional ordinary shares of the Company and cash proceeds, before expenses, of HK$24,567,000. In addition, the exercise in full of all these options would provide additional share capital of HK$9,201,000 and share premium of HK$15,366,000 (before issue expenses).

Share Option Scheme for Employees of the Company adopted on 2nd May, 1994

Pursuant to the Share Option Scheme for Employees of the Company (the "1994 Share Option Scheme") approved and adopted by the shareholders of the Company on 2nd May, 1994 (the "1994 Adoption Date"), the Directors of the Company might, at their discretion, grant to any employees (including Directors) of the Company and its subsidiaries options to subscribe for shares in the Company. The purpose of the adoption of the 1994 Share Option Scheme was to provide an incentive scheme to the employees of the Company and its subsidiaries. Under the rules of the 1994 Share Option Scheme, no more options could be granted from the tenth anniversary of the 1994 Adoption Date. Accordingly, no more options could be granted under the 1994 Share Option Scheme from May 2004. The options could be exercisable after two months from the date on which the options were deemed to be granted and accepted and prior to the expiry of ten years from that date.

The maximum number of shares in respect of which options might be granted under the 1994 Share Option Scheme should not exceed 10 per cent. of the number of issued shares of the Company from time to time, excluding the aggregate number of shares issued on exercise of options, and the maximum number of shares in respect of which options might be granted under the 1994 Share Option Scheme in any one financial year should not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options might be granted under the 1994 Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares subject to the 1994 Share Option Scheme at the time of grant. The exercise price for the shares under the 1994 Share Option Scheme would be determined by the Directors of the Company at their absolute discretion but in any event should not be less than 80 per cent. of the average of the closing price of the shares of the Company as stated on daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever was the greater. The consideration for the grant was HK$1.00 per grantee which must be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the option.

Notes to the Financial Statements *(continued)*

34. Share Option Schemes *(continued)*

Share Option Scheme for Employees of the Company adopted on 2nd May, 1994 *(continued)*

The following is a summary of movement in share options granted under the 1994 Share Option Scheme (the "Old Share Options") during the year:

Date of grant	Exercise price per share HK$	Exercise period of Old Share Options	Quantity of Old Share Options outstanding at 1st January, 2007	Quantity of Old Share Options lapsed during the year	Quantity of Old Share Options outstanding at 31st December, 2007
23rd June, 1997	0.883	August 1997 to June 2007	4,300,000	4,300,000	**Nil**

Pursuant to the bonus issue of new shares in the ratio of one for one in October 1997, the rights issue of new shares in July 1999 on the basis of one rights share for every one share held and the rights issue of new shares in November 2000 on the basis of one rights share for every two shares held, the holder of each Old Share Option was entitled to subscribe for six ordinary shares of HK$0.10 each in the Company in cash at the above exercise price per share which was subject to adjustment.

During the year, save for Mr. John Luen Wai Lee, a Director of the Company, held 1,500,000 Old Share Options, none of the Directors, chief executive or substantial shareholders of the Company or their respective associates had an interest in any Old Share Options to subscribe for shares of the Company. The remaining 2,800,000 Old Share Options were held by directors of the Company's subsidiaries or employees of the Company or its subsidiaries. None of the Old Share Options were exercised during the year. All the outstanding Old Share Options lapsed on 23rd June, 2007.

Since no Old Share Options were granted under the 1994 Share Option Scheme during the year, no value of the Old Share Options granted has been disclosed.

Notes to the Financial Statements *(continued)*

35. Reserves

Group

2007	Share premium account HK$'000	Share option reserve HK$'000	Special capital reserve (Note (a)) HK$'000	Legal reserve (Note (b)) HK$'000	Investment revaluation reserve HK$'000	Other asset revaluation reserve HK$'000	Exchange equalisation reserve HK$'000	Regulatory reserve (Note (c)) HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000
At 1st January, 2007	785,257	–	2,075,948	2,861	115,030	–	(8,457)	913	1,611,208	4,582,760	1,413,191
Net fair value gain on available-for-sale financial assets	–	–	–	–	143,149	–	–	–	–	143,149	2,913
Deferred tax arising from fair value gain on available-for-sale financial assets	–	–	–	–	(255)	–	–	–	–	(255)	(98)
Derecognition of available-for-sale financial assets	–	–	–	–	(870)	–	–	–	–	(870)	(334)
Surplus on revaluation of leasehold land and buildings	–	–	–	–	–	117,263	–	–	–	117,263	–
Deferred tax arising from surplus on revaluation of leasehold land and buildings	–	–	–	–	–	(20,522)	–	–	–	(20,522)	–
Share of reserves of associates and jointly controlled entities	–	–	–	–	8,634	–	8,987	–	–	17,621	8,251
Transfer of reserves	–	–	–	1,019	–	–	–	–	(1,019)	–	–
Repayment to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(233,904)
Acquisition of shares in a subsidiary from a minority shareholder	–	–	–	–	–	–	–	–	–	–	(100,918)
Issue of shares by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	–	250
Equity-settled share option arrangements	–	10,000	–	–	–	–	–	–	–	10,000	–
Disposal of subsidiaries	–	–	–	–	–	–	6,691	–	–	6,691	(135,634)
Effect on distribution in specie	–	–	(2,075,948)	(3,880)	(49,327)	–	(54,243)	(913)	(599,452)	(2,783,763)	(1,101,710)
Exchange realignment	–	–	–	–	–	–	106,222	–	–	106,222	30,122
Profit for the year	–	–	–	–	–	–	–	–	656,159	656,159	295,770
2006 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	–	–	(36,804)	(36,804)	–
2006 final distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(18,680)
2007 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	–	–	(18,402)	(18,402)	–
2007 interim distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,985)
2007 special interim dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	–	–	(73,609)	(73,609)	–
At 31st December, 2007	785,257	10,000	–	–	216,361	96,741	59,200	–	1,538,081	2,705,640	156,234

Notes to the Financial Statements *(continued)*

35. Reserves *(continued)*

Group

2006	Share premium account HK$'000	Special capital reserve (Note (a)) HK$'000	Legal reserve (Note (b)) HK$'000	Investment revaluation reserve HK$'000	Exchange equalisation reserve HK$'000	Regulatory reserve (Note (c)) HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000
At 1st January, 2006	785,257	2,075,948	2,192	79,154	(135,010)	845	1,255,120	4,063,506	1,824,872
Net fair value gain on available-for-sale financial assets	–	–	–	77,043	–	–	–	77,043	7,401
Deferred tax arising from fair value gain on available-for-sale financial assets	–	–	–	(2,111)	–	–	–	(2,111)	(810)
Derecognition of available-for-sale financial assets	–	–	–	(67,099)	–	–	–	(67,099)	(24,213)
Share of reserves of associates and jointly controlled entities	–	–	–	28,043	38,408	–	–	66,451	21,293
Transfer of reserves	–	–	669	–	–	68	(737)	–	–
Advances from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	41,384
Changes in interests in subsidiaries	–	–	–	–	–	–	–	–	(303)
Issue of shares by subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	1,051
Acquisition of shares in a subsidiary from a minority shareholder	–	–	–	–	–	–	–	–	(258)
Deconsolidation of subsidiaries	–	–	–	–	1,281	–	–	1,281	(708,131)
Exchange realignment	–	–	–	–	86,864	–	–	86,864	46,502
Profit for the year	–	–	–	–	–	–	393,629	393,629	221,215
2005 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	(18,402)	(18,402)	–
2005 final distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(11,208)
2006 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	–	–	(18,402)	(18,402)	–
2006 interim distribution, declared and paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	(5,604)
At 31st December, 2006	785,257	2,075,948	2,861	115,030	(8,457)	913	1,611,208	4,582,760	1,413,191

35. Reserves (*continued*)

Note:

(a) Special capital reserve

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the subsequent confirmation by the court on 22nd December, 1997, the then entire amount standing to the credit of the share premium account of the Company in the amount of HK$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation"). The credit arising from the Cancellation was transferred to a special capital reserve account.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the subsequent confirmation by the court on 26th January, 1999, the then issued and fully paid-up share capital of the Company was reduced from approximately HK$1,533,498,000 divided into 3,066,996,246 shares of HK$0.50 each to approximately HK$306,699,000 divided into 3,066,996,246 shares of HK$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK$1,226,799,000 was cancelled and transferred to a special capital reserve account.The special capital reserve was distributed to the shareholders of the Company during the year.

(b) Legal reserve

The legal reserve represents the part of reserve generated by a banking subsidiary of the Company which may only be distributable in accordance with certain limited circumstances prescribed by the statute of the country in which the subsidiary operates. The banking subsidiary ceased to be a subsidiary of the Group during the year.

(c) Regulatory reserve

The regulatory reserve represents the part of reserve generated by a banking subsidiary of the Company arising from the difference between the impairment allowance made under HKAS 39 and for regulatory purpose. The banking subsidiary ceased to be a subsidiary of the Group during the year.

Notes to the Financial Statements *(continued)*

35. Reserves *(continued)*

Company

	Share premium account HK$'000	Share option reserve HK$'000	Special capital reserve HK$'000	Capital reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
2007							
At 1st January, 2007	**783,382**	**–**	**2,075,948**	**705**	**3,176**	**688,506**	**3,551,717**
Net fair value gain on available-for-sale financial assets	**–**	**–**	**–**	**–**	**2,129**	**–**	**2,129**
Equity-settled share option arrangements	**–**	**10,000**	**–**	**–**	**–**	**–**	**10,000**
Profit for the year (Note 15)	**–**	**–**	**–**	**–**	**–**	**209,101**	**209,101**
2006 final dividend, declared and paid to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**(36,804)**	**(36,804)**
2007 interim dividend, declared and paid to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**(18,402)**	**(18,402)**
2007 special interim dividend, declared and paid to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**(73,609)**	**(73,609)**
Effect on distribution in specie	**–**	**–**	**(2,075,948)**	**–**	**–**	**2,083**	**(2,073,865)**
At 31st December, 2007	**783,382**	**10,000**	**–**	**705**	**5,305**	**770,875**	**1,570,267**
2006							
At 1st January, 2006	783,382	–	2,075,948	705	2,689	595,588	3,458,312
Net fair value gain on available-for-sale financial assets	–	–	–	–	487	–	487
Profit for the year (Note 15)	–	–	–	–	–	129,722	129,722
2005 final dividend, declared and paid to shareholders of the Company	–	–	–	–	–	(18,402)	(18,402)
2006 interim dividend, declared and paid to shareholders of the Company	–	–	–	–	–	(18,402)	(18,402)
At 31st December, 2006	783,382	–	2,075,948	705	3,176	688,506	3,551,717

At 31st December, 2007, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Hong Kong Companies Ordinance, amounted to HK$770,875,000 (2006 – HK$688,506,000). There is no other distributable reserve as at 31st December, 2007 (2006 – HK$2,075,948,000).

Included in the retained profits of the Group and the Company at 31st December, 2007 was an amount of a proposed final dividend and special final dividend for the year then ended of HK$36,804,000 (2006 – HK$36,804,000) and HK$55,206,000 (2006 – Nil) respectively declared after the balance sheet date.

Notes to the Financial Statements *(continued)*

36. Interests in Subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Investments at cost:		
Unlisted shares	**178,383**	178,383
Shares listed in Hong Kong	**–**	242,754
	178,383	421,137
Due from subsidiaries	**7,122,922**	7,556,266
Due to subsidiaries	**(3,302,202)**	(1,208,296)
	3,999,103	6,769,107
Provisions for impairment losses	**(1,048,510)**	(1,367,931)
	2,950,593	5,401,176
Market value of listed shares at 31st December	**–**	173,247

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain balances bear interest at rates reflecting the respective costs of funds within the Group. The carrying amounts of the balances are approximate to their fair values.

As at 31st December, 2006, the listed shares had been mortgaged to secure banking facilities made available to the Company.

Details of the principal subsidiaries are set out on pages 139 to 144.

Notes to the Financial Statements *(continued)*

37. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before tax to cash generated from/used in operations

	Note	2007 HK$'000	2006 HK$'000
Profit before tax (including profit from discontinued operation)		**992,384**	843,045
Adjustments for:			
Share of results of associates		**(620,674)**	(50,845)
Share of results of jointly controlled entities		**(6,680)**	9,063
Loss/(Gain) on disposal of:			
Fixed assets	7	**(38)**	69
Investment properties		**–**	281
Interests in subsidiaries	38	**(83,779)**	(848)
Interests in an associate		**(57,620)**	5,575
Available-for-sale financial assets	7	**(746)**	(89,403)
Provisions for impairment losses:			
Loans and advances		**2,199**	–
Interests in associates		**33,686**	–
Available-for-sale financial assets	7	**13,775**	6,126
Fair value gains on investment properties		**(319,250)**	(547,627)
Net fair value gain on financial assets at fair value through profit or loss		**–**	(220,846)
Loss on changes in interests in subsidiaries		**–**	(303)
Allowance for bad and doubtful debts		**–**	33,854
Interest expenses	11	**82,706**	92,308
Interest income		**(34,509)**	(61,645)
Dividend income		**(6,651)**	(4,905)
Depreciation	7	**12,458**	15,675
Net loss on defined-benefit pension obligation		**–**	67
Share options	7	**10,000**	–
Effect of the Donation	38	**–**	21,005
Operating profit before working capital changes		**17,261**	50,646
Decrease/(Increase) in properties held for sale		**(443)**	33,604
Decrease/(Increase) in inventories		**(1,092)**	11,028
Decrease in held-to-maturity financial assets		**–**	22
Decrease in financial assets at fair value through profit or loss		**491,825**	244,221
Increase in loans and advances		**(436,466)**	(31,124)
Increase in debtors, prepayments and deposits		**(845,895)**	(70,259)
Increase/(Decrease) in client trust bank balances		**24,388**	(138,445)
Increase in creditors, accruals and deposits received		**357,861**	238,897
Increase/(Decrease) in current, fixed, savings and other deposits of customers		**(146,843)**	188,778
Cash generated from/(used in) operations		**(539,404)**	527,368

Notes to the Financial Statements *(continued)*

38. Disposal of Subsidiaries

	Group	
	2007 HK$'000	2006 HK$'000
Net assets disposed of:		
Goodwill	**57,285**	15,832
Fixed assets	**47,381**	103,713
Investment properties	**1,165,613**	345,117
Interests in associates	**2,573,000**	120,197
Interests in jointly controlled entities	**151,684**	–
Properties under development	**169,367**	–
Available-for-sale financial assets	**111,444**	15,505
Held-to-maturity financial assets	**9,613**	–
Loans and advances	**738,451**	–
Properties held for sale	**19,666**	–
Inventories	**–**	132,377
Financial assets at fair value through profit or loss	**378,009**	218,279
Debtors, prepayments and deposits	**858,578**	254,324
Client trust bank balances	**558,517**	–
Deferred tax assets	**–**	1,120
Treasury bills	**13,580**	–
Cash and bank balances	**383,685**	339,112
Bank and other borrowings	**(1,592,240)**	(28,113)
Creditors, accruals and deposits received	**(875,182)**	(181,238)
Current, fixed, savings and other deposits of customers	**(158,678)**	–
Tax payable	**(8,963)**	(12,808)
Deferred tax liabilities	**(56,005)**	(25,788)
Defined-benefit pension obligation	**–**	(2,143)
Minority interests	**(1,237,344)**	(708,131)
Release of legal reserve	**(3,880)**	–
Release of investment revaluation reserve	**(49,327)**	–
Release of exchange equalisation reserve	**(47,552)**	1,281
Release of regulatory reserve	**(913)**	–
	3,205,789	588,636
Gain on disposal of subsidiaries	**83,779**	848
Effect of the Donation (Note 22)	**–**	(21,005)
Excess of the net assets value over the fair market value of a disposal group	**(505,074)**	–
	2,784,494	568,479
Satisfied by:		
Cash consideration	**614,168**	55,660
Increase in interests in associates	**–**	512,532
Increase in financial assets at fair value through profit or loss	**–**	287
Special interim distribution (Note 17)	**2,170,326**	–
	2,784,494	568,479

Notes to the Financial Statements *(continued)*

38. Disposal of Subsidiaries *(continued)*

An analysis of net inflow/outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Cash consideration	**614,168**	55,660
Cash and cash equivalents disposed of	**(397,265)**	(339,112)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**216,903**	(283,452)

39. Contingent Liabilities

At the balance sheet date, the Group and the Company had the following contingent liabilities:

(a) Guarantees in respect of banking facilities

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	**460**	402
An investee company	**920**	746
	1,380	1,148

(b) Details of the off-balance sheet exposures relating to banking operation

As at 31st December, 2006, the Group had contingent liabilities relating to its banking subsidiary of HK$29,564,000, comprising guarantees and other endorsements of HK$17,172,000 and liabilities under letters of credit on behalf of customers of HK$12,392,000. The banking subsidiary ceased to be a subsidiary of the Group during the year.

(c) Cost overruns undertaking and deed of understanding relating to the Securitisation Exercise

On 25th July, 2007, the Company entered into a cost overruns undertaking and a deed of understanding in relation to the Securitisation Exercise of a jointly controlled entity which would result in a net maximum exposure of approximately S$15,882,000 (equivalent to HK$86,177,000) for the Group. Details of the Securitisation Exercise are described in Note 23 to the financial statements.

40. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties and properties held for sale under operating lease arrangements with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market condition. At 31st December, 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Within one year	**121,915**	151,243
In the second to fifth years, inclusive	**62,648**	83,127
After five years	**1,284**	–
	185,847	234,370

(b) As lessee

The Group leases certain properties under operating lease agreements which are non-cancellable. The leases expire on various dates until 31st December, 2028 and the leases for properties contain provision for rental adjustments. As at 31st December, 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Within one year	**150,481**	28,747
In the second to fifth years, inclusive	**841,924**	152,332
After five years	**2,796,549**	500,916
	3,788,954	681,995

Notes to the Financial Statements *(continued)*

41. Capital Commitments

The Group had the following commitments at the balance sheet date:

	Group	
	2007 **HK$'000**	2006 HK$'000
Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	**248,960**	310,888
Other capital commitments:		
Contracted, but not provided for (Note)	**117,473**	542,251
	366,433	853,139

Note: The balance as at 31st December, 2006 included the Group's capital commitments in respect of the formation of joint ventures for certain property projects in the Republic of Singapore and the PRC of approximately HK$402 million.

The Company did not have any material commitments at the balance sheet date (2006 – Nil).

Notes to the Financial Statements *(continued)*

42. Related Party Transactions

Listed below are related party transactions disclosed in accordance with the HKAS 24 Related party disclosures.

(a) As at 31st December, 2007, the Group had balances with its associates and jointly controlled entities, further details of which are set out in Notes 22 and 23 to the financial statements, respectively.

(b) During the year, the Group received rental income from Lippo of HK$4,501,000 (2006 – HK$2,977,000). The rental was determined by reference to open market rentals.

(c) After the Distribution as set out in Note 14 to the financial statements, Lippo Securities Holdings Limited ("Lippo Securities") and HKC ceased to be subsidiaries of the Company and became fellow subsidiaries of the Company. The Group received rental income of HK$2,311,000 and HK$981,000 from Lippo Securities and HKC respectively for the period from 17th July, 2007 to 31st December, 2007. The above rentals were determined by reference to open market rentals.

(d) During the period from 1st January, 2007 to 16th July, 2007, ImPac Asset Management (HK) Limited ("ImPac"), a former non-wholly owned subsidiary of the Company, received investment advisory income from Lippo ASM Investment Management Limited ("Lippo ASM"), a former associate of the Group, amounted to HK$5,649,000 (2006 – HK$11,287,000). After the Distribution, ImPac and Lippo ASM ceased to be non-wholly owned subsidiary of the Company and associate of the Group respectively.

(e) During the period from 1st January, 2007 to 16th July, 2007, HKC paid finance costs of HK$3,025,000 (2006 – HK$8,348,000) to Lippo in respect of the loan advanced to HKC. The balance of which was fully repaid during the year.

The transactions referred to items (b) and (c) above are/were continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Further details of the transactions are disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors.

In respect of the above transactions, the relationships between the Company, HKC and Lippo, all are publicly listed companies in Hong Kong, and the ultimate holding company of which is Lippo Cayman, are defined, and the Directors' interests therein are separately reported.

Notes to the Financial Statements *(continued)*

43. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

At 31st December, 2007
Financial assets

	Financial assets at fair value through profit or loss held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in associates (Note 22)	–	60,641	–	60,641
Available-for-sales financial assets	–	–	411,057	411,057
Financial assets at fair value through profit or loss	63,997	–	–	63,997
Loans and advances	–	5,445	–	5,445
Debtors and deposits	–	142,437	–	142,437
Cash and bank balances	–	345,418	–	345,418
	63,997	553,941	411,057	1,028,995

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interests in associates (Note 22)	1,975
Interests in jointly controlled entities (Note 23)	46,968
Bank and other borrowings	1,146,609
Creditors, accruals and deposits received	670,529
	1,866,081

Notes to the Financial Statements *(continued)*

43. Financial Instruments by Category *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Group

At 31st December, 2006

Financial assets

	Financial assets at fair value through profit or loss					
	designated as such upon initial recognition HK$'000	held for trading HK$'000	Held-to maturity financial assets HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in associates (Note 22)	–	–	–	357,720	–	357,720
Interests in jointly controlled entities (Note 23)	–	–	–	212,177	–	212,177
Held-to-maturity financial assets	–	–	9,582	–	–	9,582
Available-for-sales financial assets	–	–	–	–	385,618	385,618
Financial assets at fair value through profit or loss	466,371	467,460	–	–	–	933,831
Loans and advances	–	–	–	308,553	–	308,553
Debtors and deposits	–	–	–	214,988	–	214,988
Client trust bank balances	–	–	–	582,905	–	582,905
Treasury bills	–	–	–	194,970	–	194,970
Cash and bank balances	–	–	–	720,767	–	720,767
	466,371	467,460	9,582	2,592,080	385,618	3,921,111

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interests in associates (Note 22)	24,401
Bank and other borrowings	2,225,226
Creditors, accruals and deposits received	1,163,051
Current, fixed, savings and other deposits of customers	305,521
	3,718,199

Notes to the Financial Statements (*continued*)

43. Financial Instruments by Category (*continued*)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (*continued*)

Company

At 31st December, 2007
Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in subsidiaries (Note 36)	**7,122,922**	**–**	**7,122,922**
Available-for-sales financial assets	**–**	**22,060**	**22,060**
Debtors and deposits	**17,019**	**–**	**17,019**
Cash and bank balances	**136,728**	**–**	**136,728**
	7,276,669	**22,060**	**7,298,729**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interests in subsidiaries (Note 36)	**3,302,202**
Bank and other borrowings	**620,000**
Creditors, accruals and deposits received	**18,037**
	3,940,239

Notes to the Financial Statements *(continued)*

43. Financial Instruments by Category *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (*continued*)

Company

At 31st December, 2006
Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interests in subsidiaries (Note 36)	7,556,266	–	7,556,266
Available-for-sales financial assets	–	19,932	19,932
Debtors and deposits	17,104	–	17,104
Cash and bank balances	186,470	–	186,470
	7,759,840	19,932	7,779,772

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interests in subsidiaries (Note 36)	1,208,296
Bank and other borrowings	1,140,000
Creditors, accruals and deposits received	17,373
	2,365,669

Notes to the Financial Statements (*continued*)

44. Financial Risk Management Objectives and Policies

The Group had established policies and procedures for risk management which were reviewed regularly by the Executive Directors and senior management of the Group to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The risk management function was carried out by individual business units and regularly overseen by the Group's senior management with all the risk limits approved by the Executive Directors of the Group and they are summarised as follows:

(a) Credit risk

Credit risk arose from the possibility that the counterparty in a transaction may default. It arose from lending, treasury, investment and other activities undertaken by the Group.

The credit policies for banking and margin lending businesses set out in details the credit approval and monitoring mechanism, the loan classification criteria and provision policy. Credit approval was conducted in accordance with the credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the Group's total assets. Day-to-day credit management was performed by management of individual business units.

The Group had established guidelines to ensure that all new debt investments were properly made, taking into account the credit rating requirements, the maximum exposure limit to a single corporate or issuer; etc. All relevant departments within the Group were involved to ensure that appropriate processes, systems and controls were set in place before and after the investments were acquired.

The Group's exposure to credit risk arising from loans and advances and trade debtors as at the balance sheet date based on the information provided to key management is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
By geographical area:		
Hong Kong	**1,050**	199,654
Mainland China	**31,800**	8,935
Republic of Singapore	**–**	759
Macau	**–**	152,094
Europe	**–**	1,694
Others	**–**	34,974
	32,850	398,110

The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to the Financial Statements *(continued)*

44. Financial Risk Management Objectives and Policies *(continued)*

(b) Liquidity risk

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations met with the statutory requirement on minimum liquidity ratio whenever applicable.

Management comprising Executive Directors and senior managers monitored the liquidity position of the Group on an on-going basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources. 4 per cent. of the Group's debts would mature in less than one year as at 31st December, 2007 (2006 – 17 per cent.) based on the carrying value of bank and other borrowings.

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

Group

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2007							
Assets							
Debt securities:							
Available-for-sale financial assets	–	–	–	–	14,250	27,557	41,807
Loans and advances	5,445	–	–	–	–	–	5,445
Debtors and deposits	–	90,302	20,806	21,772	–	9,557	142,437
Cash and bank balances	140,729	204,689	–	–	–	–	345,418
	146,174	294,991	20,806	21,772	14,250	37,114	535,107
Liabilities							
Bank and other borrowings	–	15,000	31,019	658,544	442,046	–	1,146,609
Creditors, accruals and deposits received	–	96,439	–	295,620	–	278,470	670,529
	–	111,439	31,019	954,164	442,046	278,470	1,817,138

Notes to the Financial Statements (*continued*)

44. Financial Risk Management Objectives and Policies (*continued*)

(b) Liquidity risk (*continued*)

An analysis of the maturity profile of assets and liabilities of the Group analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows: (*continued*)

Group

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2006							
Assets							
Debt securities:							
Held-to-maturity financial assets	–	–	–	–	9,582	–	9,582
Available-for-sale financial assets	–	–	–	8,371	12,122	30,722	51,215
Financial assets at fair value through profit or loss	–	–	–	–	976	8,080	9,056
Loans and advances	110,599	116,151	54,737	10,740	16,326	–	308,553
Debtors and deposits	51,437	68,355	9,643	170	–	85,383	214,988
Client trust bank balances	52,417	530,488	–	–	–	–	582,905
Treasury bills	–	194,970	–	–	–	–	194,970
Cash and bank balances	223,903	496,864	–	–	–	–	720,767
	438,356	1,406,828	64,380	19,281	39,006	124,185	2,092,036
Liabilities							
Bank and other borrowings	–	76,150	298,126	1,230,950	620,000	–	2,225,226
Creditors, accruals and deposits received	638,001	120,051	234,322	1,583	–	169,094	1,163,051
Current, fixed, savings and other deposits of customers	107,747	194,458	3,316	–	–	–	305,521
	745,748	390,659	535,764	1,232,533	620,000	169,094	3,693,798

Notes to the Financial Statements *(continued)*

44. Financial Risk Management Objectives and Policies *(continued)*

(b) Liquidity risk *(continued)*

An analysis of the maturity profile of assets and liabilities of the Company analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

Company

	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December, 2007							
Assets							
Debt securities:							
Available-for-sale financial assets	**–**	**–**	**–**	**–**	**14,250**	**7,810**	**22,060**
Debtors and deposits	**–**	**446**	**–**	**–**	**–**	**16,573**	**17,019**
Cash and bank balances	**4,260**	**132,468**	**–**	**–**	**–**	**–**	**136,728**
	4,260	**132,914**	**–**	**–**	**14,250**	**24,383**	**175,807**
Liabilities							
Bank and other borrowings	**–**	**15,000**	**15,000**	**270,000**	**320,000**	**–**	**620,000**
Creditors, accruals and deposits received	**–**	**–**	**–**	**–**	**–**	**18,037**	**18,037**
	–	**15,000**	**15,000**	**270,000**	**320,000**	**18,037**	**638,037**
At 31st December, 2006							
Assets							
Debt securities:							
Available-for-sale financial assets	–	–	–	–	12,122	7,810	19,932
Debtors and deposits	–	446	–	–	–	16,658	17,104
Cash and bank balances	17,539	168,931	–	–	–	–	186,470
	17,539	169,377	–	–	12,122	24,468	223,506
Liabilities							
Bank and other borrowings	–	–	50,000	470,000	620,000	–	1,140,000
Creditors, accruals and deposits received	–	–	–	–	–	17,373	17,373
	–	–	50,000	470,000	620,000	17,373	1,157,373

Notes to the Financial Statements *(continued)*

44. Financial Risk Management Objectives and Policies *(continued)*

(c) Interest rate risk

Interest rate risk primarily resulted from timing differences in the repricing of interest-bearing assets, liabilities and commitments. The Group's interest rate positions arose mainly from treasury, banking and other investment activities undertaken.

The Group monitors its interest-sensitive products and investments and net repricing gap and limits interest rate exposure through management of maturity profile, currency mix and choice of fixed or floating interest rates. The interest rate risk was managed and monitored regularly by senior management of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group and the Company's profit before tax (through the impact on floating rate interest bearing monetary assets and liabilities).

	2007		2006	
	Increase/ (Decrease) in basis points	**Increase/ (Decrease) in profit before tax HK$'000**	Increase/ (Decrease) in basis points	Increase/ (Decrease) in profit before tax HK$'000
Group				
Hong Kong dollar	**+50**	**(6,170)**	+50	(8,133)
United States dollar	**+50**	**945**	+50	808
Singapore dollar	**+50**	**198**	+50	(1,279)
Renminbi	**+50**	**150**	+50	260
Hong Kong dollar	**-50**	**6,170**	-50	8,133
United States dollar	**-50**	**(945)**	-50	(808)
Singapore dollar	**-50**	**(198)**	-50	1,279
Renminbi	**-50**	**(150)**	-50	(260)
Company				
Hong Kong dollar	**+50**	**497**	+50	549
United States dollar	**+50**	**945**	+50	52
Singapore dollar	**+50**	**411**	+50	227
Hong Kong dollar	**-50**	**(497)**	-50	(549)
United States dollar	**-50**	**(945)**	-50	(52)
Singapore dollar	**-50**	**(411)**	-50	(227)

44. Financial Risk Management Objectives and Policies (continued)

(d) Foreign currency risk

Foreign exchange risk was the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign currency risk primarily arose from currency exposures originating from its banking activities, foreign exchange dealings and other investment activities.

The Group monitors the relative foreign exchange positions of its assets and liabilities and allocates accordingly to minimise foreign currency risk. When appropriate hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure. The foreign currency risk was managed and monitored on an on-going basis by senior management of the Group.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Singapore dollar exchange rate, with all other variables held constant, of the Group and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(Decrease) in profit before tax	
	2007 HK$'000	2006 HK$'000
Group		
United States dollar against Hong Kong dollar		
– strengthened 3 per cent. (2006 – 3 per cent.)	**9,177**	11,556
– weakened 3 per cent. (2006 – 3 per cent.)	**(9,177)**	(11,556)
Singapore dollar against Hong Kong dollar		
– strengthened 3 per cent. (2006 – 3 per cent.)	**5,707**	4,463
– weakened 3 per cent. (2006 – 3 per cent.)	**(5,707)**	(4,463)
Company		
United States dollar against Hong Kong dollar		
– strengthened 3 per cent. (2006 – 3 per cent.)	**3,323**	67
– weakened 3 per cent. (2006 – 3 per cent.)	**(3,323)**	(67)
Singapore dollar against Hong Kong dollar		
– strengthened 3 per cent. (2006 – 3 per cent.)	**11**	168
– weakened 3 per cent. (2006 – 3 per cent.)	**(11)**	(168)

The Group has a banking subsidiary in Macau with certain monetary assets and liabilities denominated in Hong Kong dollar and United States dollar. The Directors considered that the foreign currency risk of this subsidiary is immaterial as no material fluctuation of exchange rates between Pataca and Hong Kong dollar and between Pataca and United States dollar is expected.

Notes to the Financial Statements *(continued)*

44. Financial Risk Management Objectives and Policies *(continued)*

(e) Equity price risk

Equity price risk is the risk that the fair values of financial assets decrease as a result of changes in the levels of equity indices and the value of individual financial assets. The Group is exposed to equity price risk arising from individual financial assets classified as available-for-sale financial assets (Note 24) and financial assets at fair value through profit or loss (Note 27) as at 31st December, 2007. The Group's listed financial assets are mainly listed on the Hong Kong, Singapore and Indonesia stock exchanges and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31st December, 2007	**High/low 2007**	31st December, 2006	High/low 2006
Hong Kong – Hang Seng Index	**27,812**	**31,638/18,664**	19,964	20,001/14,944
Singapore – Straits Times Index	**3,482**	**3,865/2,961**	2,985	2,985/2,297
Indonesia – Jakarta Composite Index	**2,746**	**2,811/1,678**	1,806	1,806/1,172

The Group use the Value at Risk (the "VaR") model to assess possible changes in the market value of the investment portfolio based on historical data from the past 2 years. The VaR model that the Group adopted is an estimate, using a confidence level of 95 per cent, of the potential loss that is not expected to be exceeded if the current market risk positions held unchanged for 10 days. The VaR figures are regularly reviewed by senior management of the Group to ensure the loss arising from the changes in the market value of the investment portfolios are capped within an acceptable range.

The amount of VaR for the investment portfolio of the Group stated at fair value is shown as follows:

	Carrying amount HK$'000	**VaR HK$'000**
2007		
Financial assets:		
Singapore	**769**	**83**
Indonesia	**373,883**	**115,450**
Global and other	**77,478**	**4,505**
2006		
Financial assets:		
Hong Kong	56,293	7,468
Singapore	4,858	411
Indonesia	240,298	55,975
Global and other	979,244	30,226

Notes to the Financial Statements *(continued)*

44. Financial Risk Management Objectives and Policies *(continued)*

(f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31st December, 2007 and 31st December, 2006.

The Group monitors capital using a debt-equity ratio, which is calculated by dividing its total borrowings, net of minority interests by total shareholders' equity. Total borrowings include current and non-current bank and other borrowings. Total shareholders' equity includes equity attributable to equity holders of the Company.

	Group	
	2007 **HK$'000**	2006 HK$'000
Bank and other borrowings (Note 29)	**1,146,609**	2,225,226
Less: Minority interests in bank and other borrowings	**(15,180)**	(291,697)
Bank and other borrowings, net of minority interests	**1,131,429**	1,933,529
Equity attributable to the equity holders of the Company	**3,625,749**	5,502,869
Gearing ratio	**31.2%**	35.1%

45. Post Balance Sheet Event

On 22nd June, 2007, the Group entered into an agreement with a third party for the disposal of investment properties held by certain subsidiaries for a total consideration of HK$69,200,000. The consideration was determined by reference to the fair market value of the investment properties. The transaction was subsequently completed on 4th January, 2008.

46. Comparative Figures

Certain comparative amounts have been reclassified to conform with current year's presentation. The reclassifications had no impact on the Group's earnings for the year ended 31st December, 2006.

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 17th April, 2008.

Particulars of Principal Subsidiaries

Particulars of Principal Subsidiaries as at 31st December, 2007 are as set out below.

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
Bondlink Investment Limited	Hong Kong	HK$100 and HK$2 non-voting deferred shares	100	100	Property investment
Hongkong China Treasury Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Securities investment
Prime Power Investment Limited	Hong Kong	HK$100 and HK$2 non-voting deferred shares	100	100	Property investment
Reiley Inc.	British Virgin Islands	US$1	100	100	Investment holding
Superform Investment Limited	Hong Kong	HK$100 and HK$2 non-voting deferred shares	100	100	Property investment
Tamsett Holdings Limited	British Virgin Islands	US$1	100	100	Investment holding
Win Joyce Limited	Hong Kong	HK$2	100	100	Money lending
Admiralty Development Limited	Hong Kong	HK$446,767,129	–	100	Property investment
Alsurpreme Limited	British Virgin Islands	US$1	–	100	Investment holding
Apexwin Limited	British Virgin Islands	US$1	–	100	Investment holding
Brilliant Star Investment Limited *(carry on business in Hong Kong as BS Star Investment Limited)*	British Virgin Islands/ Hong Kong	US$1	–	100	Property investment

Particulars of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
Broadwell Asia Limited	British Virgin Islands	US$1	–	100	Property investment
Cajan Enterprises Limited	British Virgin Islands	US$1	–	100	Investment holding
Caross Limited	British Virgin Islands	US$1	–	100	Investment holding
Carvio Limited	British Virgin Islands	US$1	–	100	Investment holding
Castar Assets Limited	British Virgin Islands	US$1	–	100	Property investment
Celestial Fortune Limited	British Virgin Islands	US$1	–	100	Investment holding
Chalton Assets Limited	British Virgin Islands	US$1	–	100	Property investment
China Pacific Electric Limited	British Virgin Islands	US$100	–	100	Investment holding
Chung Po Investment and Development Company Limited	Hong Kong	HK$1,000 and HK$2,000,000 non-voting deferred shares	–	100	Investment holding
Citivest Asia Limited	British Virgin Islands	US$1	–	100	Investment holding
Classic Premium Limited	British Virgin Islands	US$1	–	100	Investment holding
Conreal Holdings Limited	British Virgin Islands	US$1	–	100	Investment holding
Dhillon Investments Limited	British Virgin Islands	US$1	–	100	Investment holding
Dragon Board Holdings Limited	British Virgin Islands	S$1	–	100	Investment holding
Easy Fame Inc.	British Virgin Islands	US$1	–	100	Leasing
Energetic Holdings Limited	British Virgin Islands	US$1	–	100	Property investment
Ever Praise Limited	British Virgin Islands	US$1	–	100	Property investment
Federal Investments Limited	Hong Kong	HK$1	–	100	Investment holding
Fortune Finance Investment Limited	British Virgin Islands	US$1	–	100	Investment

Particulars of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
Frontop Limited	British Virgin Islands	US$1	–	100	Investment holding
福建莆田忠信物業管理有限公司 (Fujian Putian Zhong Xin Property Management Limited)** – wholly foreign-owned re-invested enterprise##	People's Republic of China	RMB810,000*	–	100	Property management
福建大地湄洲工業區開發有限公司 (Fujian Tati Meizhou Industrial Park Development Co., Ltd.)** – wholly foreign-owned enterprise##	People's Republic of China	US$5,000,000*	–	100	Property investment and development
Gabarro Limited	British Virgin Islands	US$1	–	100	Investment holding
Golden Harmony Limited	British Virgin Islands	US$1	–	100	Financing and investment holding
Gothic Investments Limited	Samoa	US$1	–	100	Property investment
Grand Vista Limited	British Virgin Islands	US$1	–	100	Investment holding
Grandtop Pacific Limited	British Virgin Islands	US$1	–	100	Investment
HKCL Investments Pte. Ltd.**	Republic of Singapore	S$1,000,000	–	100	Property development
Hilltop Pacific Inc.	British Virgin Islands	US$1	–	100	Investment holding
Honus Ltd.	British Virgin Islands	US$1	–	100	Investment holding
Istan Assets Limited	British Virgin Islands	US$1	–	100	Property investment
Keytime Holdings Limited	British Virgin Islands	US$1	–	100	Property investment
Kingmild Limited	British Virgin Islands	US$1	–	100	Investment holding
Kingz Ltd	British Virgin Islands	US$1	–	100	Investment holding
LCR Ltd.	British Virgin Islands	US$1	–	100	Intellectual property
Lippo Commercial Management & Consulting Limited	Hong Kong	HK$1	–	100	Investment holding

Particulars of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
力寶商業管理諮詢(深圳)有限公司 (Lippo Commercial Management & Consulting (Shenzhen) Limited)** – wholly foreign-owned enterprise##	People's Republic of China	US$1,490,000*	–	100	Provision of consulting services
Lippo Consortium Pte. Limited**	Republic of Singapore	S$2	–	100	Property development
Lippo Group International Pte. Limited**	Republic of Singapore	S$2	–	100	Investment holding
Lippo Network Limited	Hong Kong	HK$1	–	100	Liaison office in Korea
Lippo Retail Holdings Limited	British Virgin Islands	US$1	–	100	Investment holding
Lippoland (Singapore) Pte. Ltd.**	Republic of Singapore	S$2,000,000	–	100	Investment holding
New Blueprint Limited	British Virgin Islands	US$1	–	100	Investment holding
Mantor Assets Limited	British Virgin Islands	US$1	–	100	Property investment
Maxsun International Limited	British Virgin Islands	US$1	–	100	Investment holding
May Best Limited	British Virgin Islands	US$1	–	100	Property investment
Netscope Limited	British Virgin Islands	US$1	–	100	Investment
Palmhill Limited	British Virgin Islands	US$1	–	100	Investment holding
Porbandar Limited	British Virgin Islands/ Hong Kong	US$2	–	100	Property investment
Prime Score Investment Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Property investment
莆田塔林基礎建設有限公司 (Putian Talin Infrastructure Company Limited)** – wholly foreign-owned enterprise##	People's Republic of China	US$300,000*	–	100	Property services
Radical Profits Limited	British Virgin Islands	US$1	–	100	Property investment

Particulars of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
Ranktop International Limited	British Virgin Islands	US$1	–	100	Investment holding
樂賓百貨（成都）有限公司 (Robbinz Department Stores (Chengdu) Limited)** – wholly foreign-owned enterprise##	People's Republic of China	US$7,000,000*	–	100	Department store
樂賓百貨（天津）有限公司 (Robbinz Department Stores (Tianjin) Limited) – wholly foreign-owned enterprise##	People's Republic of China	US$23,800,000*	–	100	Department store
Sanfield Australia Pty Ltd**	Australia	A$2	–	100	Investment holding
Sinofix Limited	British Virgin Islands	US$1	–	100	Investment holding
Sprada Limited	British Virgin Islands	US$1	–	100	Provision of consulting services
Starrico Limited	British Virgin Islands	US$1	–	100	Investment holding
Super Assets Company Limited	Samoa	US$1	–	100	Investment holding
Tecwell Limited	British Virgin Islands	US$100	–	100	Investment holding
Trefar Enterprises Limited	British Virgin Islands	US$1	–	100	Property investment
Valiant Star Limited	British Virgin Islands	US$1	–	100	Investment
West Tower Holding Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Property investment
Winfire Limited	British Virgin Islands	US$1	–	100	Financing
Winnery Limited	British Virgin Islands	US$1	–	100	Investment holding
Winsoar Limited	Hong Kong	HK$1	–	100	Investment holding
Winwell Properties Limited	British Virgin Islands	US$1	–	100	Investment holding
Wollora Assets Limited	British Virgin Islands	US$1	–	100	Property investment
Writring Investments Limited	Hong Kong	HK$2	–	100	Property investment

Particulars of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Company/Group (unless otherwise stated)#		Principal activities
上海力寶復興房地產有限公司 (Shanghai Lippo Fuxing Real Estate Limited)** – equity joint venture enterprise##	People's Republic of China	US$25,000,000*	–	95	Property investment
LCR Catering Services Limited	Hong Kong	HK$9,000,000	–	90	Catering services
珠海中寶房產開發有限公司 (Zhuhai Chung Po House Property Development Company Limited)** – cooperative joint venture enterprise##	People's Republic of China	RMB150,000,000*	–	77.2 share of development	Property investment and development
Jeremiah Holdings Limited	British Virgin Islands	S$1,298,645	–	60	Investment holding
Pantogon Holdings Pte Ltd**	Republic of Singapore	S$1,000,000	–	60	Investment holding
Aussie Land Pty Ltd**	Australia	A$100,000	–	55	Property development
Nine Heritage Pte Ltd**	Republic of Singapore	S$1,000,000	–	48	Investment holding

\# *represents the effective holding of the Group after minority interests therein*
\## *type of legal entity*
* *paid up registered capital*
** *audited by certified public accountants other than Ernst & Young, Hong Kong*

Note:

A$ – *Australian dollars*
RMB – *People's Republic of China renminbi*
S$ – *Singapore dollars*
US$ – *United States dollars*

As at 31st December, 2007, all the subsidiaries of the Company had no loan capital or convertible loan capital.

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of Principal Associates

Particulars of Principal Associates as at 31st December, 2007 are as set out below.

Name of company	Form of business structure	Place of incorporation and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Group#	Principal activities
King Success Limited	Corporate	Hong Kong	HK$10,000	50	Property investment
Lippo-Savills Property Management Limited	Corporate	Hong Kong	HK$2	50	Property management services
Maxipo International Limited	Corporate	Hong Kong	HK$51,874,833	48.8	Trading and investment holding
Medco Holdings, Inc. (*listed on The Philippine Stock Exchange, Inc.*)	Corporate	Republic of the Philippines	Pesos 700,000,000	46.04	Investment holding
莆田華正自來水有限公司 (Putian Hua Zheng Water Co., Ltd.)	Equity joint venture enterprise	People's Republic of China	RMB9,236,644*	40	Water supply
CTC Entrepreneurs Incorporation	Corporate	Republic of Philippines	Pesos 250,000	39.9	Investment holding
Catalyst Enterprises Limited	Corporate	British Virgin Islands	US$50,000	35	Investment holding
Auric Pacific Group Limited (*listed on Singapore Exchange Securities Trading Limited*)	Corporate	Republic of Singapore	S$64,461,000	27.9	Investment holding
Export and Industry Bank, Inc. (*listed on The Philippine Stock Exchange, Inc.*)	Corporate	Republic of the Philippines	Pesos 4,734,452,540	27.4	Commercial banking

Particulars of Principal Associates *(continued)*

Name of company	Form of business structure	Place of incorporation and operations	Issued and fully paid ordinary share capital (unless otherwise stated)	Approximate percentage of equity attributable to the Group#	Principal activities
China Singkong Development Holdings Limited	Corporate	British Virgin Islands	US$95	23.2	Investment holding
上海星港工業城發展有限公司 (Shanghai Singkong Industrial Park Development Co., Ltd.)	Cooperative joint venture enterprise	People's Republic of China	US$1,500,000*	23.2	Property investment and development

represents the effective holding of the Group after minority interests therein
* *paid up registered capital*

Note:

Pesos – *Philippines pesos*
RMB – *People's Republic of China renminbi*
S$ – *Singapore dollars*
US$ – *United States dollars*

The above table includes the associates of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all associates would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of Principal Jointly Controlled Entity

Particulars of Principal Jointly Controlled Entity as at 31st December, 2007 is as set out below.

Name of company	Form of business structure	Place of incorporation and operations	Issued and fully paid ordinary share capital	Approximate percentage of equity attributable to the Group#	Principal activities
Tanglin Residential Pte. Ltd.	Corporate	Republic of Singapore	S$2	50	Property investment and development

represents the effective holding of the Group after minority interests therein

Note:

S$ – *Singapore dollars*

Schedule of Major Properties

(1) Properties held for Investment as at 31st December, 2007

Description	Use	Approximate gross floor area	Status	Approximate percentage of Group's interest
Hong Kong				
Lippo Centre 89 Queensway Central Inland Lot No. 8615 (*Note*)	Commercial	Office: 53,132 (*sq.ft.*) Retail: 20,827 (*sq.ft.*) (net floor area)	Rental	100

Note: The above property comprises various shop units on the podium floors and certain office floors.

Description	Use	Approximate gross floor area	Status	Approximate percentage of Group's interest
12 units and 17 car parking spaces of Celestial Garden 5 Repulse Bay Road Rural Building Lot No. 979	Residential	28,416 (*sq.ft.*)	Rental	100
1 floor and 4 car parking spaces of AXA Centre 151 Gloucester Road Wanchai Sec. A R.P. and Inland Lot No. 2755 R.P. (*Note*)	Commercial	12,752 (*sq.ft.*)	Rental	100

Note: An agreement for the disposal of the above properties was signed during the year and the disposal was subsequently completed in January 2008.

All the above properties are held under long term leases.

Schedule of Major Properties *(continued)*

(1) Properties held for Investment as at 31st December, 2007 *(continued)*

Description	Use	Approximate gross floor area	Status	Approximate percentage of Group's interest
People's Republic of China				
No. 2 Pu Du Si Xi Xiang Dong Cheng District Beijing	Residential	1,031 (*sq.m.*)	Vacant	100

The above property is held under a long term lease.

Description	Use	Approximate gross floor area	Status	Approximate percentage of Group's interest
19th Floor to 29th Floor and 13 car parking spaces of Lippo Tianma Plaza 1 Wuyibei Road Fuzhou, Fujian	Commercial	128,000 (*sq.ft.*)	Rental	100
Lippo Plaza (excluding Unit 2 on Basement 1, 12th, 13th, 15th and 16th Floors and 4 car parking spaces) 222 Huaihai Zhong Road Shanghai Lot No. 141	Commercial	Office: 416,000 (*sq.ft.*) Retail: 99,200 (*sq.ft.*)	Rental	95
Lippo CTS Plaza Shuiwan Road Gongbei, Zhuhai Guangdong	Commercial	308,800 (*sq.ft.*)	Rental	77.2

The above properties are held under medium term leases.

(2) Properties held for Sale as at 31st December, 2007

Description	Use	Approximate site area	Approximate gross floor area	Approximate percentage of Group's interest
Overseas				
2 units at Rosehill 8-16 Virginia Street New South Wales Australia	Residential	N/A	346 (*sq.m.*)	100

Schedule of Major Properties *(continued)*

(3) Properties held for Development as at 31st December, 2007

Description	Use	Approximate site area	Approximate gross floor area	Approximate percentage of the Group's interest	Estimated completion date	Stage of development as at 31st December, 2007
People's Republic of China						
Tati City Shanting Township Putian, Fujian	Multi-use	13,910,000 *(sq.ft.)*	1,625,000 *(sq.ft.)*	100	N/A	Phase I completed
Lippo CTS Plaza Shuiwan Road Gongbei, Zhuhai Guangdong	Multi-use/ Hotel	152,000 *(sq.ft.)*	625,000 *(sq.ft.)*	77.2	2009	Phase I completed
Overseas						
Lot 1344M (Plot B8C-1) MK 34 Ocean Drive Sentosa Cove Singapore	Residential	708 *(sq.m.)*	530 *(sq.m.)*	100	1st quarter of 2009	Vacant land
Lot 626C, 1049C PT(SL), 106M PT(SL), 99484A PT(SL) and 99485K PT(SL) Town Subdivision 28 Newton One 1 Newton Road Singapore	Residential	56,117 *(sq.ft)*	159,019 *(sq.ft)*	100	1st quarter of 2009	Under construction

Schedule of Major Properties *(continued)*

(4) Properties held as Fixed Assets as at 31st December, 2007

Description	Use	Approximate gross floor area	Approximate percentage of Group's interest
Hong Kong			
Certain office floors of Tower One Lippo Centre 89 Queensway Central Inland Lot No. 8615	Commercial	33,019 *(sq.ft.)*	100
1 unit of AXA Centre 151 Gloucester Road Wanchai Sec. A R.P. and Inland Lot No. 2755 R.P.	Commercial	5,800 *(sq.ft.)*	100
3 units and 3 car parking spaces of Celestial Garden 5 Repulse Bay Road Rural Building Lot No. 979	Residential	7,101 *(sq.ft.)*	100

The above properties are held under long term leases.

Summary of Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31st December, 2007, as extracted from the audited consolidated financial statements and reclassified and restated as appropriate, is set as below.

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Profit attributable to equity holders of the Company	**656,159**	393,629	183,442	45,860	205,584
Total assets	**6,230,765**	11,209,883	9,415,480	8,815,859	8,968,276
Total liabilities	**(2,448,782)**	(4,293,823)	(2,606,993)	(2,498,451)	(3,031,409)
Net assets	**3,781,983**	6,916,060	6,808,487	6,317,408	5,936,867
Minority interests	**(156,234)**	(1,413,191)	(1,824,872)	(1,700,077)	(1,666,884)
	3,625,749	5,502,869	4,983,615	4,617,331	4,269,983