



Great Eagle Holdings Limited
鷹君集團有限公司

Incorporated in Bermuda with limited liability
(Stock Code: 41)

Annual Report 2006
二〇〇六年年報

Solid Ground for
GROWTH



GROUP PROFILE 集團概要

The Great Eagle Group is one of Hong Kong's leading property and hotel companies. Headquartered in Hong Kong, the Group develops, invests in and manages high quality office, retail, residential and hotel properties in Hong Kong, North America and Europe. Its principal holdings include a 48.3% interest in Champion Real Estate Investment Trust, which owns 1.56 million square feet of Grade-A commercial office space in the Central business district of Hong Kong. It also owns a 1.8 million square feet office, retail and hotel complex known as Langham Place in the prime shopping district of Mongkok, Kowloon. In the United States, it owns four office buildings with a total floor area of 791,000 square feet.

The Group's extensive hotel portfolio currently comprises eight properties with over 4,700 rooms, including six luxury hotels branded under the Langham name in Hong Kong, London, Boston, Melbourne and Auckland, the Eaton Hotel in Hong Kong and the Delta Chelsea Hotel in Toronto. Langham Hotels International Limited (a wholly-owned subsidiary of Great Eagle) manages all the hotels with the exception of the Toronto property. The Group is also active in property management and maintenance services as well as building materials trading.

The Group was founded in 1963 in the form of The Great Eagle Company, Limited, which listed on the Hong Kong Stock Exchange in 1972. In 1990, Great Eagle Holdings Limited, a company incorporated in Bermuda, became the listed company and holding company of the Group.

The Group had a net profit of HK\$408 million (approximately US\$52 million) in financial year 2006 and a net asset value of HK\$20,049 million (approximately US\$2,570 million) as of 31st December 2006.

鷹君集團為香港大型地產商及酒店公司。集團總部設於香港，業務以發展、投資及管理優質寫字樓、商場、住宅及酒店物業為主，遍及香港、北美及歐洲。集團的主要資產包括冠君產業信託 48.3% 權益，該信託在香港核心商業區擁有一項甲級商用寫字樓物業，面積達一百五十六萬平方呎。此外，集團亦持有一個位於九龍旺角購物旺區的寫字樓、商場及酒店綜合項目，面積達一百八十萬平方呎，命名為朗豪坊。於美國亦擁有四幢寫字樓物業，總面積為七十九萬一千平方呎。

集團之酒店物業遍佈世界各地，現時共有八間酒店，客房數目逾四千七百間。包括六間位於香港、倫敦、波士頓、墨爾本及奧克蘭以朗廷或朗豪品牌命名的豪華酒店，香港逸東酒店及多倫多 Delta Chelsea 酒店。除多倫多物業外，其他酒店全部由鷹君集團全資附屬公司朗廷酒店國際有限公司負責管理。集團其他業務包括物業管理及維修，及建築材料貿易。

集團原以鷹君有限公司為首，於1963年創立，並於1972年在香港交易所上市。1990年，由百慕達註冊之鷹君集團有限公司取代其上市地位並成為集團控股公司。

2006年財政年度，集團純利為港幣四億八百萬元（約五千二百萬美元），於2006年12月31日資產淨值為港幣二百億四千九百萬元（約二十五億七千萬美元）。



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano

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Directors

LO Ka Shui

Chairman and Managing Director

LO Kai Shui

Deputy Managing Director

LO TO Lee Kwan

CHENG Hoi Chuen, Vincent

WONG Yue Chim, Richard

LEE Pui Ling, Angelina

LO Hong Sui, Antony

LAW Wai Duen

LO Hong Sui, Vincent

LO Ying Sui, Archie

KAN Tak Kwong

Audit Committee

CHENG Hoi Chuen, Vincent

Chairman

WONG Yue Chim, Richard

LEE Pui Ling, Angelina

Remuneration Committee

LEE Pui Ling, Angelina

Chairman

CHENG Hoi Chuen, Vincent

WONG Yue Chim, Richard

Nomination Committee

WONG Yue Chim, Richard

Chairman

CHENG Hoi Chuen, Vincent

LEE Pui Ling, Angelina

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

Citibank, N.A.

Solicitors

Johnson, Stokes & Master

Clifford Chance

Auditors

Deloitte Touche Tohmatsu

Secretary

TSANG Yiu Wing, Peter

Principal Registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

Hong Kong Branch Registrars

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

Registered Office

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Principal Office

33rd Floor, Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

Website

<http://www.greateagle.com.hk>

董事

羅嘉瑞
主席兼董事總經理
羅啟瑞
副董事總經理
羅杜莉君
鄭海泉
王于漸
李王佩玲
羅孔瑞
羅慧端
羅康瑞
羅鷹瑞
簡德光

審核委員會

鄭海泉
主席
王于漸
李王佩玲

薪酬委員會

李王佩玲
主席
鄭海泉
王于漸

提名委員會

王于漸
主席
鄭海泉
李王佩玲

主要往來銀行

香港上海滙豐銀行有限公司
中國銀行(香港)有限公司
恒生銀行有限公司
花旗銀行

律師

孖士打律師行
高偉紳律師行

核數師

德勤•關黃陳方會計師行

秘書

曾耀榮

主要股份過戶登記處

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

股份過戶登記處香港分處

香港中央證券登記有限公司
香港
灣仔
皇后大道東 183 號
合和中心 17 樓

註冊辦事處

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

主要辦事處

香港
灣仔
港灣道 23 號
鷹君中心 33 樓

網址

<http://www.greateagle.com.hk>

FINANCIAL HIGHLIGHTS 財務摘要

For the year ended 31 December 2006

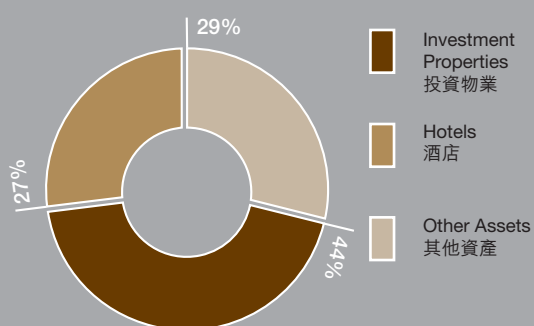
截至2006年12月31日止年度

	2006 HK\$'000 港幣千元	2005 HK\$'000 港幣千元	Change % 變動
Revenue 收益	3,772,253	3,521,201	7%
Profit Before Tax 除稅前溢利	602,198	13,408,911	-96%
Profit Attributable to Equity Holders of the Parent 母公司股權持有人應佔溢利	405,506	10,028,139	-96%
Earnings Per Share 每股盈利	\$0.68	\$16.93	-96%
Dividend Per Share 每股股息	\$5.300	\$0.235	2155%
Equity Attributable to Equity Holders of the Parent 母公司股權持有人應佔權益	20,048,647	24,339,091	-18%
Fixed Assets 固定資產	24,148,848	46,193,383	-48%
Total Assets 資產總額	33,198,754	48,497,487	-32%

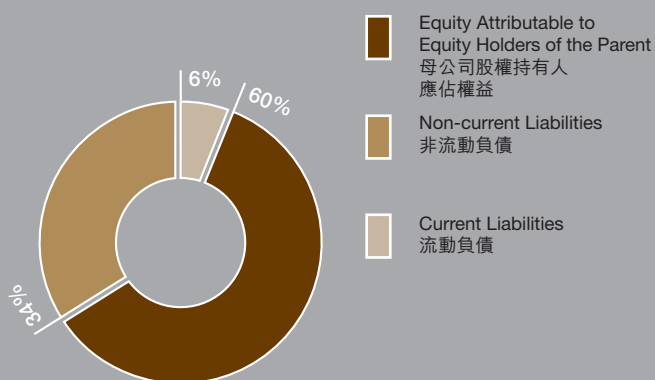
EMPLOYMENT OF ASSETS 資產運用

Assets Employed 資產

(Total Assets HK\$33,199 Million)
(資產總值港幣331億9千9百萬元)

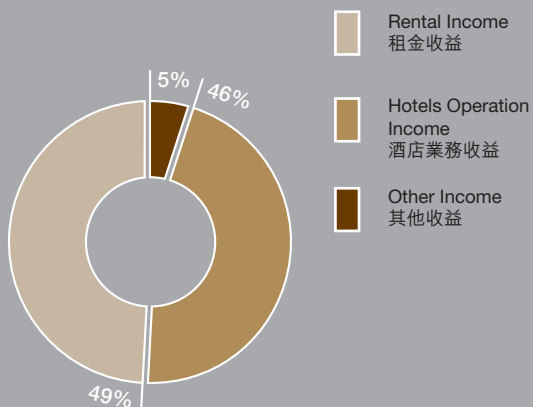


Financed By 代表

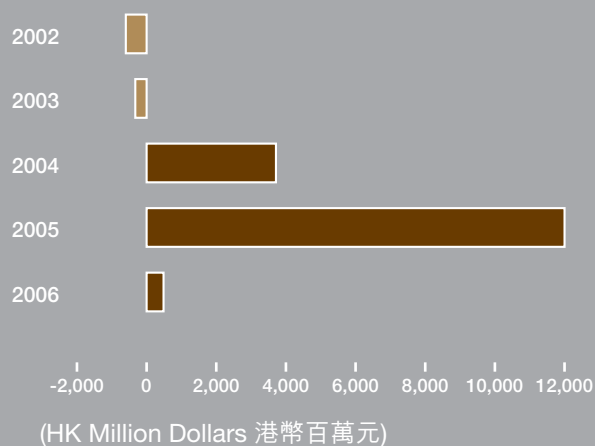


Profit From Operation 經營溢利

(HK\$1,187 Million)
(港幣11億8千7百萬元)



Profit Attributable to the Equity Holders of the Parent 母公司股權持有人應佔溢利 (Year 年份)





Grade-A Commercial Space for GROWING BUSINESSES



2006 saw continued strength in Hong Kong's office market. With a massive inflow of investment funds into China-related equities, the large number of global fund management firms setting up headquarters in Asia has created significant demand for premium office space in Hong Kong, at a time when new supply is at one of its lowest levels in recent years – leading to higher occupancy and substantially higher rental rates from our commercial properties.



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano



A “TRIPLE PLAY” OF SHOPPING,

Office and Hotel



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano

Our long-term investment property, Langham Place, has proven the success of our three-in-one hotel, retail and office development model. By constantly upgrading the tenant mix and introducing unique and innovative promotional programmes, the Mall has enhanced its appeal to a wider spectrum of shoppers, further reinforcing its position as one of the most popular malls in Hong Kong.



Langham Means Luxury - AROUND THE WORLD



Our hotel portfolio performed very well under buoyant global economic conditions in 2006. The 5-star Langham Place Hotel has been a great success, firmly establishing itself as a favourite amongst discerning international business travelers from around the globe. Together with the success of its Office Tower and Shopping Mall, these three complementary elements have established Langham Place as one of Hong Kong's commercial landmarks. More importantly, this huge urban renewal project has revitalized the inner city of Mongkok, winning acclaim from urban planners around the world.

CHAIRMAN'S STATEMENT



During 2006, we restructured our balance sheet and placed the Group on an even more solid footing for growth in the future.

In May 2006, we spun off our interests in Citibank Plaza and created the Champion Real Estate Investment Trust, in which we retained a 49.2% interest. With this move, we have realized significant value for the shareholders of Great Eagle. At the same time we have also raised for the Group net proceeds of HK\$10.4 billion, significantly reducing its net consolidated debts as a result. The consequent saving in interest expenses contributed to the growth of our core income in 2006. We were also pleased to have been able to return part of the realized value to the shareholders by way of a special dividend of HK\$5.00 per share or HK\$3,004 million in October 2006.

2006 was also a year in which we saw continued strength in the Hong Kong office market. The local economy has been going from strength to strength, especially in the financial and banking sectors. With intensified focus of global investors on the China economy, which has been undergoing spectacular growth, there has been a massive flow of investment funds into China-related equities. Hong Kong being at the forefront of the Chinese capital market has been a major beneficiary of this tremendous funds flow. Investment banks have hired a lot more people in Hong Kong to handle the long pipeline of initial public offerings. At the same time, the large number of global fund management companies that are setting up Asian outposts here have induced even more demand for office space from their service providers, such as lawyers and banks' trading desks. Private banks have also expanded rapidly during 2006. All these factors have created a significant incremental demand for office premises in Hong Kong, at a time when the new supply was at one of the lowest levels in recent years. This has led to higher occupancy rates and substantially higher rent rates at our office properties. The positive impact of these favourable market conditions was not apparent in our financial results of 2006 because we have waived temporarily our income entitlement from Citibank Plaza in relation to the Champion REIT spin-off. The strong uptake in rents at the property coupled with receding distribution waivers should lead to significant contribution from Champion REIT to the performance of our Group in the coming years.

Our long-term investment property Langham Place has proven the success of the three-in-one hotel, retail and office development model. By constantly upgrading the tenant mix and with unique and innovative promotional

programmes, the Mall has enhanced its appeal to a wider spectrum of shoppers and has further reinforced its position as one of the most popular malls in Hong Kong. The 5-star Langham Place Hotel has been a great success and has firmly established itself as a favourite among discerning business travelers. The Office Tower has also made satisfactory leasing progress during 2006. Together the three complementary elements have established Langham Place as an important commercial landmark in Hong Kong. More importantly this huge urban renewal project has revitalized the inner city of Mongkok, and has won the acclamation of urban planners from all over the world.

Our hotel portfolio performed very well under generally buoyant global economic conditions in 2006. The Hong Kong market was boosted by a healthy increase in the number of international conventions and trade shows. Our Hong Kong hotels capitalized on the resulting growth in business traveler arrivals to generate strong growth in room yields year-on-year. By offering superb service coupled with a well conceived and executed brand-building programme, the Langham brand has achieved increased recognition in the international lodging industry. As a result our hotels in London, Boston, Melbourne and Auckland have very much recovered from the earlier effects of the re-branding exercise. They all registered highly satisfactory growth in REVPAR in 2006.



Courtesy: The Jerde Partnership Photographer – Hiroyuki Kawano

OPERATIONS REVIEW



HONG KONG RENTAL PROPERTIES

(a) Rental Income

	Gross Rental Income (HK\$ million)	
	2006	2005
Citibank Plaza*	146.4	330.5
Great Eagle Centre	63.6	54.6
Langham Place		
Office	65.0	29.2
Commercial	322.5	333.4
Eaton Houses	32.8	35.3
Convention Plaza Apartments	3.1	3.1
Others	3.3	2.4
Total	636.7	788.5

(b) Occupancy and Rental Trend

	Occupancy at 31 December 2006		
	Office	Commercial	Residential
Citibank Plaza	96.4%	100.0%	–
Great Eagle Centre	96.0%	100.0%	–
Langham Place	74.8%	95.1%	–
Eaton Houses	–	–	73.9% [#]
Convention Plaza Apartments	–	–	100.0%

* Upon the public listing of the Champion Real Estate Investment Trust ("Champion REIT") on 24 May 2006, the Group's interests in Citibank Plaza were disposed of to Champion REIT. The rental income from Citibank Plaza for the year ended 31 December 2006 therefore covered the period from 1 January 2006 to 23 May 2006.

[#] Average occupancy rate for the 12 months ended 31 December 2006.

Citibank Plaza

Due to the disposal of the Group's interests in Citibank Plaza to Champion REIT, rental income of the property ceased to accrue to the Group from 24 May 2006. Therefore only HK\$146.4 million income was recorded for 2006, as compared to HK\$330.5 million for 2005. The shortfall was however partly made up for with savings on interest expenses.

Immediately after the initial public offering of Champion REIT on 24 May 2006, the Group held a 49.2% interest in the REIT, which remained the same as of 31 December 2006. Based on the results announcement of Champion REIT on 15 March 2007, the occupancy at the office portion of Citibank Plaza increased to 96.4% at year-end 2006 (as compared to 86.1% at the beginning of the year). Spot rental levels rose from roughly HK\$50 per sq. ft. to approximately HK\$80 per sq. ft. in the same period. While rental revenue went up, operating expenses were lower than forecast due to reduced agency commissions and reduced responsibility for Government Rates on vacant premises. With its favourable cashflow, Champion has been able to declare a distribution per unit of HK\$0.20 for the period of 24 May 2006 to 31 December 2006, which exceeds the minimum DPU of HK\$0.1694 guaranteed by the Group. Therefore the Group is no longer liable for any shortfall payments.

Great Eagle Centre

The office portion continued to enjoy very high occupancy throughout 2006, with a year-end occupancy rate of 96.0%, almost level with that of 96.4% as of 31 December 2005. The retail component remained fully leased during 2006. As higher rents were achieved upon rollover or replacement of tenancies, gross rental income from the property rose to HK\$63.6 million for 2006, up 16.5% from that of HK\$54.6 million for 2005.

Langham Place

During 2006, we have adjusted our promotional strategy by focusing our resources on several highly popular major events at the Langham Place Mall. As a result, we have successfully enhanced the image of the Mall. We have seen a significant increase in footfall during the year and the sales volume of our retail tenants has also seen good growth year on year. However this favourable trend has yet to be reflected in the rental income of 2006 because of our ongoing re-tenanting initiative at the Mall. Occupancy rate was 95.1% as of 31 December 2006, moderately down from that of 98.5% at the previous year-end. Gross rental income also decreased 3.3% from HK\$333.4 million for 2005 to HK\$322.5 million for 2006, reflecting mainly the downtime in between tenancies and tenant inducements incurred to bring in higher quality brands. This current tenant realignment exercise will continue well into 2007. Though it may moderate the growth in rental income in the short term, we are confident that this initiative will put the Mall on a solid base for strong income growth in the coming years.

The progress of leasing at the Office Tower was satisfactory in 2006 with occupancy increased to 74.8% by year-end. Achieved effective rent rates have also increased significantly during 2006 in line with the general Kowloon office market.

Eaton House Furnished Apartments

The three Eaton Houses together saw a 7.1% decline in rental income in 2006 to HK\$32.8 million mainly due to a decline in occupancy at the Blue Pool Road property under keen competition of newly opened service apartments in the neighbourhood. We are however positive that it will regain market share once the major refurbishments have been completed in the first quarter of 2007 and with strategic focus on corporate business.

CHAIRMAN'S STATEMENT

U.S. COMMERCIAL PROPERTIES

The San Francisco Bay Area office market generally improved in 2006. Stronger office employment drove market vacancy down from 17% in 2005 to 11% by year-end 2006. Increased demand for office space resulted in higher rental rates as compared with 2005. These factors are having a favorable impact on real estate values.

Our U.S. portfolio however had yet to benefit from this favourable trend. Its contribution decreased by 35.8% to HK\$53.8 million in 2006 from HK\$83.8 million in 2005. This was mainly caused by higher vacancy at the 150 Spear Street property following the departure of several large tenants. Though a majority of the vacant floors were subsequently re-let, the loss of rental income and the costs of re-letting took a significant toll on the overall performance of the properties.

Our U.S. commercial portfolio was 87% leased at year-end 2006. With the current demand for space and little new supply of office space planned, occupancy is expected to improve during 2007.



2006 saw a good improvement in overall results with total revenue amounting to HK\$2.6 billion, up 17% over 2005. Our Hong Kong hotels have benefited from the buoyant economic growth and healthy demand of exhibitions and conventions. Overseas hotels have also seen a solid rebound supported by a buoyant lodging market and with the gradual subsidence of the effects of our re-branding exercise.

During the year, the hotel group has seen significant progress in brand recognition by various innovative marketing programs, particularly in the expansion of our loyalty and airline partnerships, which have improved market share. We have also effectively deployed our global sales force and will continue to invest in advertising and communications.

At the same time we are continuing to seek out opportunities to launch our luxury brand in global markets.

HONG KONG OPERATIONS

Langham Hotel, Hong Kong

Positive performance was achieved during the year mainly due to steady flow of corporate business, which was boosted primarily by the number of large trade fairs during the course of the year. The hotel continues to set its focus on securing high-yield corporate business and has seen good growth from this sector.

To further enhance the Langham brand standard in the hotel, major refurbishment projects were completed during the year including Sun's Café, which underwent a total renovation to transform it into an interactive all day dining restaurant and re-opened as L'Eclipse.

For the year 2006, the hotel achieved an average occupancy of 87% (2005: 83%) and average room rate of HK\$1,318 (2005: HK\$1,145).

Langham Place Hotel, Hong Kong

The hotel turned in a strong performance for the year with revenue per available room soaring 43%, fuelled by a 23% improvement in average room rates, as it became fully operational. Corporate, group and leisure business individually showed significant improvements in average rates. Food and beverage results also achieved healthy gains, particularly in the catering sector, mainly due to good wedding business. The hotel continues to build its corporate base and consolidating its position as a key player in the local five-star market.

For the year 2006, the hotel achieved an average occupancy of 86% (2005: 74%) and average room rate of HK\$1,119 (2005: HK\$905).

Eaton Hotel, Hong Kong

Good performance for the year as the hotel remained focused on strengthening room rates through targeting the high-yield corporate market. Food & beverage continued to be the major revenue contributor, with the catering business performing particularly well. The ongoing room refurbishment programs in 2007 will place the hotel in a stronger position to grow market share.

For the year 2006, the hotel achieved an average occupancy of 88% (2005: 87%) and average room rate of HK\$743 (2005: HK\$624).

INTERNATIONAL OPERATIONS

Langham Hotel, London

Good results were posted for the year, underscoring the strength of the London lodging market and further acceptance of the Langham brand positioning. It was the hotel's strategy to grow room rates as it continued to target high-yield corporate business with revenue per available room rising 22% over the preceding year.

The hotel is undergoing an extensive renovation programme. It will take place in phases continuing into the coming year. Upon completion, it will position the hotel at the very top of London's luxury hotel market.

For the year 2006, the hotel achieved an average occupancy of 75% (2005: 71%) and average room rate of £178 (2005: £155).

Langham Hotel, Boston

The performance of this hotel has made a good comeback with the recovery in the Boston lodging market, which was mainly driven by major conventions resulting in a surge of business travelers. Coupled with the newly renovated rooms, this gave the hotel the leverage to increase rates with revenue per available room rising 22% over the preceding year. We anticipate that the final phase of the rooms upgrade will further enhance the hotel's market position.

For the year 2006, the hotel achieved an average occupancy of 75% (2005: 67%) and average room rate of US\$226 (2005: US\$207).

Langham Hotel, Melbourne

The hotel has achieved positive momentum with strategic focus on high yield corporate meetings businesses. The newly renovated restaurant, bar and public areas have been well received by the market and have gained strong media attention and accolades. This has enabled the hotel to gain further recognition and to firmly establish itself as a competitive player at the top end of the Melbourne market.

CHAIRMAN'S STATEMENT

For the year 2006, the hotel achieved an average occupancy of 81% (2005: 69%) and average room rate of A\$214 (2005: A\$199).

Langham Hotel, Auckland

The hotel was able to achieve positive growth in room revenue and market share during the year with revenue per available room rising 14% over 2005, despite being hampered by a gradual slowdown in the Auckland lodging market.

Completion of extensive refurbishments in the first quarter of 2006 has provided the hotel with a quality product to compete in the high-end luxury hotel market and the hotel has received very positive exposure from the media.

For the year 2006, the hotel achieved an average occupancy of 72% (2005: 69%) and average room rate of NZ\$145 (2005: NZ\$133).

Delta Chelsea Hotel, Toronto

The hotel achieved modest growth with lower occupancy but higher average room rates, in line with its competitors, as the city faced a stagnant lodging market.

For the year 2006, the hotel achieved an average occupancy of 71% (2005: 76%) and average room rate of C\$137 (2005: C\$127).



In 2006, the construction of new commercial and residential buildings decreased. Due to the keen competition in the building materials market, our Trading Division suffered a decline in trading profit in 2006. To balance the cycle fluctuations, it is trying to diversify its business by exploring the Macau market and the retail market.



Managers' remuneration received from property management operations amounted to HK\$18.8 million in 2006, representing an increase of 9.9% on that of 2005.

The income of the Engineering Division decreased 4.2% to HK\$22.7 million in 2006 from that of 2005 due to reduced repair and maintenance jobs. Competition remained keen with tight profit margins. To widen our scope of services and to seek more business opportunities, we started to conduct fire services contracting in August 2006.

FINANCIAL REVIEW

1 Debt

By successfully spinning off our property interests in Citibank Plaza by way of the public listing of Champion REIT in May 2006, we raised approximately HK\$10.4 billion in cash precedes. Part of the proceeds was applied towards repayment of bank loans, where prepayment is permitted. HK\$3.0 billion was applied towards payment of a special interim dividend. The rest was held in cash and bank deposits, which at present on the average are generating yields sufficient to cover the interest expenses of a corresponding amount of bank loans, which are not yet pre-payable. As a result, the Consolidated Net Attributable Debt outstanding (net of cash and bank deposits) as of 31 December 2006 was HK\$7,054 million, a decrease of HK\$7,257 million from HK\$14,311 million as of 31 December 2005. Though the rise in U.S. interest rates may temporarily pause after an aggregate increase of 4.25% points in the past 36 months, the direction of interest rate movements remains highly uncertain. We therefore believe that it would be prudent to maintain our leverage at a low level and hence control our exposure to interest rate fluctuations.

Equity Attributable to Shareholders, based on professional valuation of the Group's investment properties as of 31 December 2006 and the depreciated costs of the Group's hotel properties, amounted to HK\$20,049 million as of 31 December 2006. The resulting gearing ratio at 31 December 2006 was 35%, which implies a loan-to-value ratio of 26%.

As at 31 December 2006, we had outstanding interest rate swaps with total notional principal of HK\$650 million, representing approximately 10.1% of our HK\$-denominated debts. The rest of our HK\$ debts were on floating-rate basis.

Our foreign currency debts as of 31 December 2006 amounted to the equivalent of HK\$3,863 million. These foreign currency borrowings are fully hedged by the value of the underlying properties. Of this, the equivalent of HK\$1,251 million, or 32.4% of our foreign currency debts, was on fixed-rate basis as of 31 December 2006.

2 Finance Cost

The net finance cost incurred during 2006 was HK\$535.9 million, a decrease of HK\$192.4 million over that of HK\$728.3 million in 2005. Despite the general rise in interest rates during 2006, the reduction in our net borrowings following the floatation of Champion REIT caused significant savings on interest expenses. No interest expenses were capitalized in 2006.

Overall interest cover for 2006 was 2.47 times, as compared to that of 1.58 times for 2005.

3 Liquidity and Debt Maturity Profile

As of 31 December 2006, our cash, bank deposits and committed but undrawn loan facilities amounted to a total of HK\$5,527 million. The majority of our loan facilities is medium-term in nature and is secured by properties. During 2006, we successfully refinanced the bank loan related to the Langham Hotel, London extending the final maturity of the loan. The following is a profile of the maturity of outstanding debts as of 31 December 2006:

Within 1 year	5.2%
1-2 years	33.6%
3-5 years	50.1%
More than 5 years	11.1%

4 Pledge of Assets

As at 31 December 2006, properties of the Group with a total carrying value of approximately HK\$23,919 million (2005: HK\$46,286 million) together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and deposits of approximately HK\$326 million (2005: HK\$489 million) were mortgaged or pledged to secure credit facilities granted to the Group.

5 Commitments and Contingent Liabilities

As at 31 December 2006, the Group had authorised capital expenditures not provided for in the consolidated financial statements amounting to approximately HK\$86 million (2005: HK\$12 million) of which approximately HK\$85 million (2005: HK\$9 million) were contracted for.

Other than set out above, the Group did not have any significant commitments and contingent liabilities as at 31 December 2006.

OUTLOOK

The general office market in Hong Kong should remain tight throughout 2007 in the face of sustained demand from the financial and trading segments and the absence of significant new supply. The overall vacancy in Grade-A office buildings in the Central Business District will remain at an extremely low level, thereby enhancing the leverage of landlords to raise rent rates further in the coming year. We therefore expect a substantial improvement in the income performance of Champion REIT in 2007, especially when a significant proportion of Citibank Plaza's leases will be due for either renewal or rental reversion to prevailing market levels during the year. As the distribution waiver in favour of other unitholders of Champion REIT will be scaled back to 55% of the Group's entitlement for 2007, we are confident that the contribution from the REIT will resume in this current financial year. The Great Eagle Centre property will also do well in 2007 in view of its proximity to the CBD. The Langham Place Office Tower is now close to 95% let after the completion of the leasing of 122,000 sq. ft. to a U.S. multinational corporation together with other smaller leases in the first quarter of 2007. The first batch of leases signed at initial occupancy of the Office Tower will come due for renewal in the latter part of this year. As they generally carry rents which are substantially below current market levels, we are expecting a healthy increase in rental income upon renewal of those leases. We have been doing all the right things in re-tenanting and promoting the Langham Place Mall and have established a sustainable volume of regular shopper traffic. The sales momentum of our retailers has also been most promising. We expect the positive financial impact to start coming through in the latter part of 2007.

The performance of our Hong Kong hotels will continue to be underpinned by a healthy growth in business traveler arrivals, in particular convention and exhibition related travel. While there will not be much room for occupancy rates to grow further beyond last year's high 80% levels, there should be moderate increase in achieved room rates. With the possible exception of the London property, where the performance will be affected by the ongoing renovation,

our other hotels overseas are all well positioned for further improvement in their performance in the coming year. In the mean time we have been actively but selectively pursuing opportunities to increase our exposure to the China lodging market through hotel management contracts.

During 2006 we have delivered on our stated goal to significantly reduce the Group's financial gearing. Following the floatation of Champion REIT in 2006, the Group's balance sheet has been significantly strengthened. Our exposure to global interest rate fluctuations has also been drastically reduced. With our enhanced financial maneuverability we will cautiously explore investment opportunities in a disciplined manner, particularly in Mainland China. While our main focus will be on managing our existing property and hotel portfolios to maximize the organic growth of their income, we will also be looking for opportunities to grow our hotel portfolio and brand by both investment and management contracts.

STAFF

The total number of employees in the Group was 3,930 as at 31 December 2006. Salary levels of employees are competitive and discretionary bonuses are granted based on performance of the Group as well as performance of individual employees. Other employee benefits include educational allowance, insurance, medical scheme and provident fund schemes. Senior employees (including executive directors) are entitled to participate in the Great Eagle Holdings Limited Share Option Scheme. In order to enhance employee relations and communications, certain recreation activities and regular meetings of general staff with senior management were arranged during the year, with particular emphasis on performance management.

CHAIRMAN'S STATEMENT

DIVIDENDS

The Board has resolved to recommend to Shareholders at the forthcoming 2007 Annual General Meeting (the "2007 AGM") the payment of a final dividend of HK25 cents per share for the year ended 31 December 2006 (2005: HK20 cents per share), to be satisfied by way of a scrip dividend with a cash option, to Shareholders whose names appear on the Register of Members on 25 May 2007. Together with the interim dividend of HK5 cents per share and a special interim dividend of HK\$5 per share paid on 26 October 2006, on the assumption that every Shareholder elects to receive all final dividend in cash, the total dividend for the full year will be HK\$5.3 per share (2005: HK23.5 cents per share), amounting to not less than HK\$3,184,482,000 (2005: HK\$139,987,000).

Subject to the approval of Shareholders at the 2007 AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be allotted and issued pursuant to the proposed distribution of a scrip dividend mentioned herein, each Shareholder will be allotted fully-paid shares having an aggregate market value equal to the total amount which such Shareholder could elect to receive in cash and will be given the option to elect to receive payment partly or wholly in cash instead of the allotment of shares. Dividend warrants and share certificates in respect of the proposed dividend are expected to be despatched to Shareholders on or about 28 June 2007. Full details of the scrip dividend will be set out in a letter to be sent to Shareholders together with a form of election for cash soon after the 2007 AGM.

CLOSURE OF TRANSFER BOOKS

The Register of Members of the Company will be closed from Friday, 18 May 2007 to Friday, 25 May 2007, both days inclusive, during which period no share transfers will be effected.

For those Shareholders who are not already on the Register of Members, in order to qualify for the final dividend, all share certificates accompanied by the duly completed transfers must be lodged with the Hong Kong Branch Registrars of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2007.

ANNUAL GENERAL MEETING

The 2007 AGM of the Company will be held on Friday, 25 May 2007 and the notice of 2007 AGM will be published in China Daily and Hong Kong Economic Times and despatched to shareholders on or before 30 April 2007.

Finally, I would like to take this opportunity to express my appreciation and thanks to all staff members for their dedication and hard work and to address my sincere gratitude to my fellow Directors for their support and guidance in the past year.

LO Ka Shui

Chairman

and Managing Director

Hong Kong, 11 April 2007

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Dr. LO Ka Shui

aged 60, has been a member of the Board since 1980 and is now Chairman and Managing Director of the Group. He is the Non-executive Chairman of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust) and a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile Limited and some other publicly listed companies in Hong Kong. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Airport Authority. Dr. Lo is a son of Madam LO TO Lee Kwan, a Director. He graduated with Bachelor of Science degree from McGill University and a M.D. from Cornell University. He was certified in cardiology. He has more than 27 years' experience in property and hotel development and investment both in Hong Kong and overseas.

Mr. LO Kai Shui

aged 47, was appointed to the Board in 1984 and is now Deputy Managing Director of the Group. Mr. LO is a son of Madam LO TO Lee Kwan, a Director. He graduated from Columbia University with a Bachelor's Degree in Engineering. He has more than 24 years' experience in property development and investment, and building construction.

Madam LO TO Lee Kwan

aged 87, has been a Director of the Group since 1963. She is the mother of the following Directors, Dr. LO Ka Shui (Chairman and Managing Director), Mr. LO Kai Shui (Deputy Managing Director), Mr. LO Hong Sui, Antony, Madam LAW Wai Duen, Mr. LO Hong Sui, Vincent and Dr. LO Ying Sui, Archie.

* **Mr. CHENG Hoi Chuen, Vincent**

aged 58, was appointed a Director in 1994. He is the Chairman of The Hongkong and Shanghai Banking Corporation Limited and a Group Managing Director of HSBC Holdings plc. He graduated from The Chinese University of Hong Kong with B.S.Sc. and from The University of Auckland with a Master's Degree in Philosophy (Economics).

* **Professor WONG Yue Chim, Richard**

aged 54, was appointed a Director in 1995. He is Deputy Vice-Chancellor and Professor of Economics at the University of Hong Kong. He is a leading figure in advancing economic research on policy issues in Hong Kong through his work as Founding Director of the Hong Kong Centre for Economic Research, Asia Pacific Economic Co-operation Study Centre, and the Hong Kong Institute of Economics and Business Strategy. He was awarded the Silver Bauhinia Star in 1999 in recognition of his contributions in education, housing, industry and technology development and was appointed a Justice of the Peace in 2000 by the Government of the Hong Kong Special Administrative Region.

* **Mrs. LEE Pui Ling, Angelina**

aged 58, was appointed a Director in 2002. She is a practising solicitor in Hong Kong and a partner of the firm of Woo, Kwan, Lee & Lo. She is also a Non-executive Director of Cheung Kong Infrastructure Holdings Limited, Henderson Land Development Company Limited and TOM Group Limited. She is active in public service and is a Non-executive Director of the Securities and Futures Commission, a Member of the Takeover and Mergers Panel and Takeovers Appeal Committee, and a Non-executive Director of the Mandatory Provident Fund Management Board. She has a Bachelor of Laws degree from University College London, United Kingdom and is a Fellow of the Institute of Chartered Accountants in England & Wales.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. LO Hong Sui, Antony

aged 65, was appointed a Director of the Group in 1967. He has been actively involved in property development, construction and investment for more than 38 years. Mr. LO is a son of Madam LO TO Lee Kwan, a Director. He graduated from the University of New South Wales with a Bachelor's Degree in Commerce.

Madam LAW Wai Duen

aged 70, has been a Director of the Group since 1963. She graduated from the University of Hong Kong with a Bachelor's Degree in Arts and has been actively involved in the Group's property development and investment in Hong Kong for more than 42 years. She is a daughter of Madam LO TO Lee Kwan, a Director.

Mr. LO Hong Sui, Vincent

aged 58, has been a Director of the Group since 1970. He is also Chairman and Chief Executive of the Shui On Group which he founded in 1971. The Shui On Group is a diversified group engaged in property development, construction and construction materials with interests in Hong Kong and the Chinese Mainland. He is the Chairman of Shui On Construction and Materials Limited, and the Chairman and Chief Executive Officer of Shui On Land Limited – Shui On's flagship property company in mainland established in 2004. He is also a Non-executive Director of Hang Seng Bank Limited and an Independent Non-executive Director of China Telecom Corporation Limited. Mr. LO is a son of Madam LO TO Lee Kwan, a Director.

Dr. LO Ying Sui, Archie

aged 54, has been a Director since 1993. Dr. LO is a son of Madam LO TO Lee Kwan, a Director, and is a practising cardiologist.

Mr. KAN Tak Kwong

aged 55, joined the Group in 1981 and was appointed a Director in 1988. He graduated from The Chinese University of Hong Kong with a Master's Degree in Business Administration and is a member of various professional societies including the Hong Kong Institute of Certified Public Accountants. Mr. KAN has more than 31 years' experience in finance, accounting and administration in the real estate, finance and construction industries.

* Independent Non-executive Directors

Note: As at 31 December 2006, KSL Management Limited ("KSL Management"), Surewit Finance Limited ("Surewit"), Adscan Holdings Limited ("Adscan") have interests in the share capital of the Company which were disclosed to the Company and The Stock Exchange of Hong Kong Limited under the provisions of Part XV of the Securities and Futures Ordinance of Hong Kong. Dr. LO Ka Shui is a director of KSL Management and Surewit. Dr. LO Ying Sui, Archie is a Director of Adscan.

SENIOR MANAGEMENT

Mr. TONG Chun Wan

aged 59, joined the Group in 1983 and is now an Assistant Director. He is also the Managing Director of The Great Eagle Development and Project Management Limited. He graduated from the University of Hong Kong with a Bachelor's Degree in Architectural Studies and a Bachelor's Degree in Architecture. He is a registered architect with the Architect's Registration Board, Hong Kong. Mr. TONG has over 28 years' experience in property development and project management in Hong Kong, Mainland China and overseas.

Mr. LEE Ching Ming, Adrian

aged 55, joined the Group in 1994 as an Assistant Director. He is responsible for finance, investment and corporate communications. As Director and General Manager of The Great Eagle Estate Agents Limited, he is also responsible for the marketing, leasing and sales of the Group's properties. He graduated from the University of Hong Kong with a Bachelor of Social Sciences degree. Before joining the Group, Mr. LEE had worked in a major international bank for over 20 years.

Mr. MOK Siu Bun, Terry

aged 53, joined the Group in 1981 and is now the Group's Financial Controller. He has a Master's Degree in Business Administration and has over 25 years' experience in accounting and finance in the real estate industry.

Mr. LEUNG Tat Kai, Henry

aged 53, joined the Group in 2002 and is now a Director and the General Manager of The Great Eagle Properties Management Company, Limited. He is responsible for the management of the Group's property portfolio. Mr. LEUNG has a Bachelor's Degree in Laws and is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom. He has over 20 years' experience in the real estate industry and property management.

Mr. SO Yiu Wah, Eric

aged 63, rejoined the Group in 2002 as Hotel Executive Vice President. He has extensive experience of international hotel management over 35 years.

Mr. Nigel ROBERTS

aged 54, joined the Group in 1999. He previously held a number of general management and corporate positions with renowned luxury hotel companies around the world for over 28 years. Mr. ROBERTS is the Managing Director of the Langham Hotel, Hong Kong and is also the Senior Vice President-Operations at corporate level with the responsibility of ensuring that all Langham Hotels meet our exacting standards in both quality and service.

Mr. Brett BUTCHER

aged 47, joined the Group in 2002 and is now the Managing Director of Langham Place Hotel as well as Senior Vice President of Sales and Marketing for the Group's hotels division. He holds a Bachelor's Degree in Business (Hospitality Management) and has extensive experience in both hotel operations and sales and marketing. His hotel career now spans 27 years and has covered assignments in Asia, the Pacific and North America.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Helmut KNIPP

aged 64, joined the Group in June 2006 and is now Senior Vice President – Development of the Group's hotels division. He is based at the division's Hong Kong head office of Langham Hotels International ("LHI") and spearheads the development team to extend LHI's hotels' business ventures worldwide. His distinguished international hospitality career spans three continents with more than 30 years of experience at world renowned hotels, resorts and clubs in Europe, North-America, Asia and the Caribbean. Prior to joining the Group, he was Managing Director of CCA International Limited ("CCA"), Hong Kong, managing 28 clubs and resorts in 14 countries in Asia and Europe and handling business development in China and the Asia Pacific region and, at the same time, was also Executive Director of Palmerston Hotels & Resorts, the hotel brand he helped launch for CCA. Mr. KNIPP achieved his diploma in hotel management and administration in Germany.

Mr. CHEUNG Tai Ming, Ringo

aged 45, joined the Group in 1986 and is now the Managing Director of Toptech Co. Limited, the Group's wholly-owned subsidiary, which is involved in the trading of building and architectural products in Hong Kong and Mainland China, an area in which Mr. CHEUNG has extensive experience.

Mr. HO Hon Ching, Barry

aged 44, joined the Group in 2004 as the Group Chief Internal Auditor. He holds a Bachelor's Degree in Economics from the University of Hull, United Kingdom. He is an Associate of the Institute of Chartered Accountants in England and Wales, a Certified Public Accountant in Hong Kong, a Certified Internal Auditor and a Certified Fraud Examiner in USA. He has extensive experience in accounting, statutory auditing and internal auditing.

Mr. TSANG Yiu Wing, Peter

aged 56, joined the Group in 1994 as Company Secretary. He is responsible for the Group's company secretarial matters and also responsible for personnel, office administration and insurance matters in the Group's head office. Mr. TSANG is a Fellow of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. He has 26 years' experience in company secretarial practice.

Mr. WONG Chi Wai, Chris

aged 38, joined the Group in March 2006 as Head of Legal. He has a Bachelor's Degree in Laws from the University of Hong Kong and a Bachelor's Degree in PRC Laws from the Peking University. He has over 10 years' experience in corporate finance and general corporate work gained in different international law firms.

Mr. CHU Shik Pui

aged 45, joined the Group in 1989. He is currently the Senior Tax and Investment Manager primarily responsible for the Group's taxation and investment matters. He is a fellow of The Chartered Association of Certified Accountants, an associate of The Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. CHU was previously the Group's Assistant Financial Controller and has 22 years' experience in taxation, finance and accounting.

CORPORATE GOVERNANCE REPORT

The Company is committed to fulfilling its responsibilities to shareholders by ensuring a high standard of corporate governance practices. This report describes its corporate governance practices and explains the applications of the principles of the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all provisions of the CG Code throughout the year ended 31 December 2006, except the following deviations from certain CG Code provisions in respect of which remedial steps for compliance have been taken or considered reasons are given below:

CG Code Provision A.2.1

Chairman and Chief Executive Officer (“CEO”)

This CG Code provision requires that the roles of chairman and CEO should be separate and should not be performed by the same individual.

Mr. Lo Ying Shek, who was the founder of the Company and the Chairman of the Board, passed away on 1 September 2006. Before the said date, Dr. Lo Ka Shui was the Deputy Chairman and both the late Mr. Lo Ying Shek and Dr. Lo Ka Shui were Managing Directors of the Company but the function of CEO has been assumed by Dr. Lo Ka Shui since 1985.

Dr. Lo Ka Shui was appointed as Chairman of the Board on 20 September 2006 and continued his office as Managing Director. This is a deviation from Code Provision A.2.1. The Board considered this arrangement appropriate as it can preserve the consistent leadership of the Company and allows for efficient discharge of the executive functions of the CEO. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals including three Independent Non-executive Directors.

CG Code Provision A.4.1 and A.4.2

Appointments, Re-Election and Removal

CG Code provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election.

The non-executive directors have no fixed term of office. The Bye-laws of the Company requires that one-third of the directors (other than the executive chairman and managing directors) should retire by rotation. The Company considers that its corporate governance measures in this respect are no less exacting than those prescribed by CG Code provision A.4.1 and therefore does not intend to take any steps in this regard.

CG Code provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years.

Under the existing Bye-laws of the Company, the executive chairman and managing directors of the Company are not subject to retirement by rotation. The same provision is contained in The Great Eagle Holdings Limited Company Act, 1990 of Bermuda. As such, the executive chairman and managing directors are by statute not required to retire by rotation. After due consideration, the Board considers that it is not appropriate to propose any amendment to The Great Eagle Holdings Limited Company Act, 1990 simply to require the Chairman and Managing Directors of the Company to retire by rotation.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES (continued)

CG Code Provision E.1.2

Communication with Shareholders

This CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting (the “AGM”) and arrange for the chairmen of the audit, remuneration and nomination committees (or in the absence of the chairman of any such committee, another member of the committee) to be available to answer questions at the AGM.

The former Chairman of the Board, the late Mr. Lo Ying Shek who passed away on 1 September 2006, had not attended the AGM held in June 2006. The said AGM was chaired by Dr. Lo Ka Shui, the then Deputy Chairman, who was appointed Chairman on 20 September 2006. The date of the AGM to be held in 2007 was fixed in consultation with the Chairman of the Board as well as the chairmen and members of the aforesaid committees regarding their availabilities of attendance.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the financial year ended 31 December 2006.

BOARD OF DIRECTORS

Since the passing away of the late Mr. Lo Ying Shek, the Board comprises 11 Directors, of whom 3 are Independent Non-executive Directors. The participation of Independent Non-executive Directors in the Board brings independent judgement on issues relating to the Group’s strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members for the year ended 31 December 2006 were:

The late Mr. LO Ying Shek, *Former Chairman and Managing Director (who passed away on 1 September 2006)*

Dr. LO Ka Shui, *Chairman and Managing Director (Appointed Chairman on 20 September 2006)*

Mr. LO Kai Shui, *Deputy Managing Director*

Madam LO TO Lee Kwan

Mr. CHENG Hoi Chuen, Vincent*

Professor WONG Yue Chim, Richard*

Mrs. LEE Pui Ling, Angelina*

Mr. LO Hong Sui, Antony

Madam LAW Wai Duen

Mr. LO Hong Sui, Vincent

Dr. LO Ying Sui, Archie

Mr. KAN Tak Kwong

* Independent Non-executive Directors

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

BOARD OF DIRECTORS (continued)

The Board has four meetings held during the financial year ended 31 December 2006 and the attendance record, on a named basis, of all the four Board meetings is set out below:

Attendance of individual Directors at Board meetings in 2006

Number of meetings	4	
The late Lo Ying Shek	0/4	0%
Lo Ka Shui	4/4	100%
Lo Kai Shui	3/4	75%
Lo To Lee Kwan	0/4	0%
Cheng Hoi Chuen, Vincent *	4/4	100%
Wong Yue Chim, Richard *	2/4	50%
Lee Pui Ling, Angelina *	4/4	100%
Lo Hong Sui, Antony	4/4	100%
Law Wai Duen	3/4	75%
Lo Hong Sui, Vincent	2/4	50%
Lo Ying Sui, Archie	3/4	75%
Kan Tak Kwong	4/4	100%

* Independent Non-executive Directors

Average attendance rate	68.75%
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The relationships (including financial, business, family or other material or relevant relationships) if any, among members of the Board are disclosed in the 2006 Annual Report.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee on 8 March 2004 and adopted the terms of reference of the Remuneration Committee in 2005 in alignment with the mandatory provisions set out in the CG Code, with additional functions and duties covering the Company's employees and share option scheme(s).

The terms of reference include the specific duties as set out in the CG Code provision B.1.3 as well as the followings:

- (a) to have the delegated responsibility to determine the Company's policy and structure for all remuneration of the Company's employees; and
- (b) to decide on the grant of share options under such Share Option Scheme as may from time to time be adopted by the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS (continued)

The Remuneration Committee now comprises all of the three Independent Non-executive Directors, namely, Mrs. Lee Pui Ling, Angelina (who is the chairman of the Remuneration Committee), Mr. Cheng Hoi Chuen, Vincent and Professor Wong Yue Chim, Richard.

During the financial year ended 31 December 2006, a meeting of the Remuneration Committee was held on 5 January 2006, when the chairman of the Remuneration Committee and the other two members had attended the meeting.

The review by the Remuneration Committee of the emoluments of Directors and senior management during the year was based on the skill, knowledge and involvement in the Company's affairs and were determined by reference to the Company's performance and profitability as well as remuneration benchmark in the industry and the prevailing market conditions.

NOMINATION OF DIRECTORS

The Company established a Nomination Committee on 8 March 2005 and adopted the terms of reference of the Nomination Committee in alignment with the provisions set out in the CG Code. The Nomination Committee now comprises all of the three Independent Non-executive Directors, namely, Professor Wong Yue Chim, Richard (who is the chairman of the Nomination Committee), Mr. Cheng Hoi Chuen, Vincent and Mrs. Lee Pui Ling, Angelina.

During the financial year ended 31 December 2006, a meeting of the Nomination Committee was held on 13 September 2006 for the purpose of considering, for recommending to the Board, the appointment of a new chairman of the Board due to the passing away of Mr. Lo Ying Shek, the former Chairman, and other matters related thereto. The chairman and the other two members of the Nomination Committee had attended the meeting.

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is analysed as follows:

	31 December 2006 HK\$'000	31 December 2005 HK\$'000
Services rendered		
Audit services	5,975	4,581
Non-audit services		
Taxation services	550	594
Other services	828	1,099
	7,353	6,274

AUDIT COMMITTEE

The Board is responsible for preparing the financial statements and the external auditors have a primary responsibility for auditing and reporting on the financial statements.

The Company established an Audit Committee in 1999 and adopted the terms of reference of the Audit Committee based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The principal duties of the Audit Committee are as follows:

- (a) to review the half-year and annual financial statements of the Company and provide comments and advices thereon to the Board;
- (b) to review the Company's internal control systems, where an internal audit function exists, to review the internal audit programme, and internal auditors' reports, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
- (c) to consider the appointment and resignation of the external auditor and the audit fee, and to review the external auditor's management letter and management's response to the points raised.

The Audit Committee now comprises all of the three Independent Non-executive Directors, namely, Mr. Cheng Hoi Chuen, Vincent (who is the chairman of the Audit Committee), Professor Wong Yue Chim, Richard and Mrs. Lee Pui Ling, Angelina. None of the three members of Audit Committee has been former partner of the Company's external auditor.

During the financial year ended 31 December 2006, two meetings of the Audit Committee were held on 20 April 2006 and 20 September 2006 for discussion of the 2005 annual results and 2006 interim results respectively. The chairman of the Audit Committee and the other two members had attended the two meetings.

The financial statements of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board is entrusted with the overall responsibility for maintaining sound and effective internal controls to safeguard the Group's assets, and has established the following in this respect:

- (a) Well defined organizational structure and limit of authority;
- (b) Reliable management reporting system;
- (c) Clear and written company policies and procedures;
- (d) Risk Control Self-Assessment conducted on major business entities of the Group.

Through the Audit Committee and the Group's Internal Audit Department, the Board has conducted an annual review on the effectiveness of the internal control systems for the year ended 31 December 2006.

The Internal Audit Department reviews all major operations of the Group on a cyclical basis. The audit reviews cover all material financial, operational and compliance controls and risk management functions. The annual audit plan and the long-term strategy plan of the Internal Audit Department are approved by the Audit Committee. The Head of Internal Audit Department reports directly to the Managing Director and the Audit Committee. Results of the audit reviews in the form of audit reports are submitted to the members of the Audit Committee and discussed at the Audit Committee meetings. The internal audit reports are also followed up by the Internal Audit Department to ensure that findings previously identified have been properly resolved.

Based on the Audit Committee's assessment on results of the internal audit reviews for the year ended 31 December 2006, no significant irregularity or deficiency in internal controls has come to the Audit Committee's attention. The Audit Committee therefore concludes that the internal control systems of the Group are adequate and effective.

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective internal control systems for the year ended 31 December 2006.

REPORT OF THE DIRECTORS

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

Principal Activities

The principal activity of the Company is investment holding.

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

Results And Dividends

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

Reserves

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

Five Years' Financial Summary

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

Fixed Assets

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

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

Share Capital

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

Purchase, Sale or Redemption of Shares

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

Share Option Scheme

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

REPORT OF THE DIRECTORS

Directors

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

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

Dr. LO Ka Shui

Mr. LO Kai Shui

Madam LO TO Lee Kwan

Mr. CHENG Hoi Chuen, Vincent*

Professor WONG Yue Chim, Richard*

Mrs. LEE Pui Ling, Angelina*

Mr. LO Hong Sui, Antony

Madam LAW Wai Duen

Mr. LO Hong Sui, Vincent

Dr. LO Ying Sui, Archie

Mr. KAN Tak Kwong

* Independent Non-executive Directors

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

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

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

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

The Company

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

REPORT OF THE DIRECTORS

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

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

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

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

Notes:

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

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

Substantial Shareholders' Interests in the Company

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

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

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests in the Company (continued)

Notes:

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

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

Directors' Interest in Contracts

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

Connected Transactions

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

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

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

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

REPORT OF THE DIRECTORS

Connected Transactions (continued)

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

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

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

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

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

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

Corporate Governance

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

Arrangements to Acquire Shares or Debentures

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

Service Contracts

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

Pre-emptive Rights

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

Major Customers and Suppliers

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

Sufficiency of Public Float

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

Donations

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

Auditors

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

On behalf of the Board

LO Ka Shui

Chairman

and Managing Director

Hong Kong, 11 April 2007

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF GREAT EAGLE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Great Eagle Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 43 to 97, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 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 disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

11 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	6	3,772,253	3,521,201
Cost of goods and services		(2,421,225)	(2,273,950)
Gross profit		1,351,028	1,247,251
Fair value changes on investment properties		342,167	12,982,057
Fair value changes on derivative financial instruments		37,206	258,944
Other income	8	208,146	42,592
Administrative expenses		(156,760)	(135,752)
Other expenses		(22,381)	(34,469)
Depreciation on hotel buildings		(148,388)	(155,481)
Amortisation on prepaid lease payments		(44,771)	(44,771)
Loss on disposal of property investment subsidiaries		(264,620)	–
Finance costs	9	(713,884)	(760,710)
Share of results of associates		14,455	9,250
Profit before tax		602,198	13,408,911
Income taxes	10	(194,674)	(2,323,495)
Profit for the year	11	407,524	11,085,416
Attributable to:			
Equity holders of the parent		405,506	10,028,139
Minority interests		2,018	1,057,277
		407,524	11,085,416
Dividends	13		
Interim, paid		3,034,267	20,801
Final, proposed		150,216	119,129
Basic earnings per share	14	HK\$0.68	HK\$16.93
Diluted earnings per share	14	HK\$0.68	HK\$16.89

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	15	7,686,901	7,302,912
Prepaid lease payments	16	1,795,955	1,840,726
Investment properties	17	14,665,992	37,049,745
Interests in associates	18	29,275	18,760
Available for sale investments	19	5,185,176	16,432
Loan receivables	20	12,377	278,344
Pledged bank deposits	21	326,465	489,346
		29,702,141	46,996,265
Current assets			
Inventories	22	86,125	75,309
Debtors, deposits and prepayments	23	441,883	407,991
Prepaid lease payments	16	44,771	44,771
Bank balances and cash	21	2,923,834	719,351
		3,496,613	1,247,422
Non-current assets classified as held for sale	24	–	253,800
		3,496,613	1,501,222
Current liabilities			
Creditors, deposits and accruals	25	1,237,867	1,532,173
Derivative financial instruments	26	8,234	44,356
Provision for taxation		86,609	92,760
Borrowings due within one year	27	538,682	1,390,620
Unsecured bank overdrafts	21	4,007	3,967
		1,875,399	3,063,876
Net current assets (liabilities)		1,621,214	(1,562,654)
Total assets less current liabilities		31,323,355	45,433,611
Non-current liabilities			
Borrowings due after one year	27	9,768,534	14,526,388
Deferred taxation	28	1,505,886	4,653,230
		11,274,420	19,179,618
NET ASSETS		20,048,935	26,253,993

	Notes	2006 HK\$'000	2005 HK\$'000
Equity			
Share capital	29	300,427	297,401
Share premium and reserves		19,748,220	24,041,690
Equity attributable to equity holders of the parent		20,048,647	24,339,091
Minority interests		288	1,914,902
TOTAL EQUITY		20,048,935	26,253,993

The consolidated financial statements on pages 43 to 97 were approved and authorised for issue by the Board of Directors on 11 April 2007 and are signed on its behalf by:

LO Ka Shui
Director

LO Kai Shui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the parent										Minority interests	Total
	Share capital	Share premium	Investment revaluation reserve	Capital redemption reserve	Contributed surplus	Exchange translation reserve	Share options reserve	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
	(Note)											
At 1 January 2005	294,883	3,185,119	5,264	1,650	402,540	111,830	3,471	10,385,792	14,390,549	857,625	15,248,174	
Surplus on revaluation of investments	-	-	1,158	-	-	-	-	-	1,158	-	1,158	
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(60,305)	-	-	(60,305)	-	(60,305)	
Net income and expense recognised directly in equity	-	-	1,158	-	-	(60,305)	-	-	(59,147)	-	(59,147)	
Profit for the year	-	-	-	-	-	-	-	10,028,139	10,028,139	1,057,277	11,085,416	
Total recognised income and expenses for the year	-	-	1,158	-	-	(60,305)	-	10,028,139	9,968,992	1,057,277	11,026,269	
Shares issued at premium	2,518	68,153	-	-	-	-	(646)	-	70,025	-	70,025	
Share issue expenses	-	(80)	-	-	-	-	-	-	(80)	-	(80)	
Recognition of equity-settled share based payments	-	-	-	-	-	-	7,255	-	7,255	-	7,255	
Dividend paid	-	-	-	-	-	-	-	(97,650)	(97,650)	-	(97,650)	
At 31 December 2005	297,401	3,253,192	6,422	1,650	402,540	51,525	10,080	20,316,281	24,339,091	1,914,902	26,253,993	
Deficit on revaluation of investments	-	-	(1,771,236)	-	-	-	-	-	(1,771,236)	-	(1,771,236)	
Exchange differences arising on translation of foreign operations	-	-	-	-	-	112,125	-	-	112,125	-	112,125	
Net income and expense recognised directly in equity	-	-	(1,771,236)	-	-	112,125	-	-	(1,659,111)	-	(1,659,111)	
Profit for the year	-	-	-	-	-	-	-	405,506	405,506	2,018	407,524	
Total recognised income and expenses for the year	-	-	(1,771,236)	-	-	112,125	-	405,506	(1,235,605)	2,018	(1,251,587)	
Shares issued at premium	3,026	115,036	-	-	-	-	(6,710)	-	111,352	-	111,352	
Share issue expenses	-	(86)	-	-	-	-	-	-	(86)	-	(86)	
Recognition of equity-settled share based payments	-	-	-	-	-	-	5,348	-	5,348	-	5,348	
Dividend paid	-	-	-	-	-	-	-	(3,153,453)	(3,153,453)	-	(3,153,453)	
Eliminated on disposal of property investment subsidiaries	-	-	-	-	-	-	-	-	-	(2,067,282)	(2,067,282)	
Contributions from minority shareholders	-	-	-	-	-	-	-	-	-	152,733	152,733	
Distribution to minority shareholders	-	-	-	-	-	-	-	-	-	(2,083)	(2,083)	
At 31 December 2006	300,427	3,368,142	(1,764,814)	1,650	402,540	163,650	8,718	17,568,334	20,048,647	288	20,048,935	

Note: Contributed surplus represents the surplus arising under the Scheme of Arrangement undertaken by the Group in 1989/90. Under the Bermuda Companies Act, the contributed surplus of the Company is available for distribution to shareholders.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Operating activities			
Profit before tax		602,198	13,408,911
Adjustments for:			
Share of results of associates		(14,455)	(9,250)
Loss on disposal of property investment subsidiaries		264,620	–
Gain on disposal of a listed investment		(7,691)	–
Gain on partial disposal of an associate		(387)	–
Gain on disposal of property, plant and equipment		(56)	–
Loss on disposal of property, plant and equipment		–	130
Interest income		(177,995)	(32,386)
Interest expenses		696,984	748,799
Dividend received from an unlisted investment		(1,118)	–
Dividends received from listed investments		(809)	(717)
Allowance for doubtful debts		–	13,325
Depreciation on other property, plant and equipment		80,921	48,109
Depreciation on hotel buildings		148,388	155,481
Amortisation on prepaid lease payments		44,771	44,771
Share based payments		5,348	7,255
Deferred initial direct cost		–	(6,240)
Fair value changes on investment properties		(342,167)	(12,982,057)
Fair value changes on derivative financial instruments		(37,206)	(258,944)
Fitting-out works of investment properties and hotel buildings written off		8,227	11,865
Operating cash flows before movements in working capital		1,269,573	1,149,052
(Increase) decrease in inventories		(10,816)	8,062
Increase in debtors, deposits and prepayments		(69,945)	(105,718)
Increase in creditors, deposits and accruals		7,831	222,329
Cash generated from operations		1,196,643	1,273,725
Hong Kong Profits Tax paid		(36,046)	(53,317)
Other jurisdictions tax paid		(33,467)	(27,812)
Hong Kong Profits Tax refunded		1,129	–
Other jurisdictions tax refunded		6,669	1,778
Net cash from operating activities		1,134,928	1,194,374

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Investing activities			
Interest received		176,336	30,970
Dividend received from an unlisted investment		1,118	–
Dividends received from listed investments		809	717
Dividends received from an associate		3,780	–
Additions of investment properties		(190,428)	(134,141)
Additions of property, plant and equipment		(259,938)	(408,402)
Additions of listed investment		(71,550)	–
Advance to minority shareholders		–	(8,107)
Proceeds on disposal of non-current assets classified as held for sale		253,800	–
Proceeds on disposal of investment properties		–	291,849
Proceeds on disposal of property investment subsidiaries	32	10,127,891	–
Proceeds on partial disposal of an associate		547	–
Proceeds on disposal of property, plant and equipment		60	29
Decrease in loan receivables		265,967	–
Decrease (increase) in pledged bank deposits		162,881	(485,742)
Net cash from (used in) investing activities		10,471,273	(712,827)
Financing activities			
Interest paid		(732,839)	(737,519)
Issue of shares		27,197	18,607
Share issue expenses		(86)	(80)
New bank loans raised		–	5,188,186
Repayments of bank loans		(5,809,391)	(5,551,170)
Dividends paid to shareholders		(3,069,298)	(46,232)
Dividend paid to minority shareholders		(2,083)	–
Contribution from minority shareholders		152,733	–
Net cash used in financing activities		(9,433,767)	(1,128,208)
Increase (decrease) in cash and cash equivalents		2,172,434	(646,661)
Effect of foreign exchange rates changes		32,009	(748)
Cash and cash equivalents at the beginning of the year		715,384	1,362,793
Cash and cash equivalents at the end of the year		2,919,827	715,384
Analysis of the balance of cash and cash equivalents			
Being:			
Bank balances and cash		2,923,834	719,351
Bank overdrafts		(4,007)	(3,967)
		2,919,827	715,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

The Company is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The principal activity of the Company is investment holding.

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

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

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

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ⁸
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2-Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

Basis of consolidation

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

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

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

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

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

Investments in associates

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

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

3. Significant Accounting Policies (continued)

Revenue recognition

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

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

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

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

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

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

Service income is recognised when services are provided.

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

Agency commission income is recognised when services are rendered.

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

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

Property, plant and equipment

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

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

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

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

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

Prepaid lease payments

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

Investment properties

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

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

Leasing

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

The Group as lessor

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

3. Significant Accounting Policies (continued)

Leasing (continued)

The Group as lessee

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Borrowing costs

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

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

3. Significant Accounting Policies (continued)

Retirement benefit costs

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

Taxation

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

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

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

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

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies (continued)

Inventories

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

Non-current assets held for sale

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Derecognition

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

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

Equity-settled share-based payment transactions

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

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

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

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

Investment properties

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

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

Fair value

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

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

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include loans receivable, pledged bank deposits, trade debtors, bank balances and cash, trade creditors, derivative financial instruments, unsecured bank overdrafts and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

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

(ii) Currency risk

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

(iii) Other price risk

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

5. Financial Risk Management Objectives and Policies (continued)

Credit risk

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

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

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

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

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

6. Revenue

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Business and Geographical Segments

Business segments

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

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

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

Segment information about these businesses is presented below:

2006

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

7. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

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

BALANCE SHEET

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Business and Geographical Segments (continued)

Business segments (continued)

2005

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

7. Business and Geographical Segments (continued)

Business segments (continued)

OTHER INFORMATION

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

BALANCE SHEET

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Business and Geographical Segments (continued)

Geographical segments

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

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

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

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

8. Other Income

Included in other income are:

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

2006 HK\$'000	2005 HK\$'000
1,118	–
809	717
387	–
56	–
7,691	–
177,995	32,386
12,044	120
745	–

9. Finance Costs

Interest on bank borrowings not wholly repayable within five years	91,157	78,204
Interest on bank borrowings wholly repayable within five years	488,211	573,592
Interest on other loans not wholly repayable within five years	–	20,160
Interest on other loans wholly repayable within five years	117,616	76,843
Other borrowing costs	16,900	11,911

2006 HK\$'000	2005 HK\$'000
91,157	78,204
488,211	573,592
–	20,160
117,616	76,843
16,900	11,911
713,884	760,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes

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

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

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

10. Income Taxes (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Profit for the Year

Profit for the year has been arrived at after charging:

Staff costs

Share based payments

Depreciation on

– hotel buildings

– other property, plant and equipment

Allowance for doubtful debts

Auditors' remuneration

Loss on disposal of property, plant and equipment

Fitting-out works of investment properties and

hotel buildings written off

Operating lease payments on rented premises

Cost of inventories recognised as an expense

Share of tax of associates

(included in the share of results of associates)

and after crediting:

Rental income from investment properties less related
outgoings of HK\$253,420,000 (2005: HK\$276,908,000)

2006 HK\$'000	2005 HK\$'000
980,528	887,286
5,348	7,255
985,876	894,541
148,388	155,481
80,921	48,109
229,309	203,590
–	13,325
6,435	4,563
–	130
8,227	11,865
3,491	2,485
364,151	320,421
1,923	275
568,313	682,629

12. Directors' and Employees' Emoluments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Directors' and Employees' Emoluments (continued)

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

Employees' emoluments

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

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

12. Directors' and Employees' Emoluments (continued)

Employees' emoluments (continued)

Bands:

HK\$2,500,001 – HK\$3,000,000

HK\$3,000,001 – HK\$3,500,000

HK\$3,500,001 – HK\$4,000,000

2006 Number of employees	2005 Number of employees
1	1
1	–
1	1
3	2

13. Dividends

Dividends paid:

- Final dividend of HK20 cents in respect of 2005
(2005: HK13 cents in respect of 2004) per ordinary share

– Interim:

Dividend of HK5 cents in respect of 2006

(2005: HK3.5 cents) per ordinary share

Special dividend of HK\$5 in respect of 2006

(2005: nil) per ordinary share

2006 HK\$'000	2005 HK\$'000
119,186	76,849
30,042	20,801
3,004,225	–
3,034,267	20,801
3,153,453	97,650
150,216	119,129

Dividends proposed:

- Proposed final dividend of HK25 cents in respect of 2006
(2005: HK20 cents) per ordinary share

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Earnings Per Share

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

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

15. Property, Plant and Equipment

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

15. Property, Plant and Equipment (continued)

At 31 December 2006, hotel buildings with carrying amounts of HK\$2,995,916,000 (2005: 3,037,267,000) were situated in Hong Kong under medium-term leases. The remaining balance of HK\$4,168,837,000 (2005: HK\$3,891,011,000) represents hotel buildings on freehold land outside Hong Kong.

Owner occupied land and buildings situated in Hong Kong which are held under long-term and medium-term leases amounted to HK\$37,123,000 (2005: HK\$9,092,000) and HK\$249,322,000 (2005: HK\$203,975,000), respectively.

16. Prepaid Lease Payments

The Group's prepaid lease payments comprise:

Leasehold land in Hong Kong:

Long lease

Medium-term lease

Analysed for reporting purposes as:

Non-current asset

Current asset

	2006 HK\$'000	2005 HK\$'000
Long lease	20,197	20,363
Medium-term lease	1,820,529	1,865,134
	1,840,726	1,885,497
Non-current asset	1,795,955	1,840,726
Current asset	44,771	44,771
	1,840,726	1,885,497

17. Investment Properties

FAIR VALUE

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

- (a) The Group's property interests of HK\$12,839,600,000 (2005: HK\$35,340,485,000) which are held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.
- (b) The fair value of the Group's investment properties at 31 December 2006 have been arrived at on a basis of valuation carried out by independent professional property valuers not connected with the Group:

Investment properties in Hong Kong – Knight Frank Petty Limited.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Interests in Associates

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

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

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

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

19. Available for Sale Investments

Available for sale investments comprise:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Loan Receivables

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

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

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

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

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

Bank balances and pledged bank deposits

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

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

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

Unsecured bank overdrafts

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

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

22. Inventories

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

23. Debtors, Deposits and Prepayments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Non-current Assets Classified as Held for Sale

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

25. Creditors, Deposits and Accruals

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

The aged analysis of trade creditors is as follows:

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

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

26. Derivative Financial Instruments

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

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

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

27. Borrowings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Borrowings (continued)

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

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

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

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

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

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

27. Borrowings (continued)

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

28. Deferred Taxation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Share Capital

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

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

30. Share Option

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

Summary of the Scheme

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

30. Share Option (continued)

Summary of the Scheme (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Share Option (continued)

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

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

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

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

30. Share Option (continued)

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

In 2006

Year of grant of options	Number of shares				
	Outstanding options at	Options granted	Options exercised	Options cancelled	Options lapsed on
	1 January				16 January
	2006				2006
2001 – 2006	2,290,000	–	(1,520,000)	(50,000)	–
					Outstanding options at 31 December 2006
					720,000

In 2005

Year of grant of options	Number of shares				
	Outstanding options at	Options granted	Options exercised	Options cancelled	Options lapsed on
	1 January				14 February
	2005				2005
2000 – 2005	2,920,000	770,000	(1,400,000)	–	–
					Outstanding options at 31 December 2005
					2,290,000

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

Details of Options granted in each year are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Share Option (continued)

Notes:

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

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

Notes:

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

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

31. Retirement Benefit Schemes

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

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

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

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

32. Disposal of Property Investment Subsidiaries

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

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

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

32. Disposal of Property Investment Subsidiaries (continued)

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

33. Major Non-cash Transaction

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

34. Pledge of Assets

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

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

35. Commitments and Contingent Liabilities

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

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

36. Operating Lease Arrangements

The Group as lessor

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

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

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

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

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

The Group as lessee

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

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

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

37. Related Party Transactions

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

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

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Particulars of Principal Subsidiaries

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

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

38. Particulars of Principal Subsidiaries (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Particulars of Principal Subsidiaries (continued)

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

38. Particulars of Principal Subsidiaries (continued)

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

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

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

39. Particulars of Principal Associates

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

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

APPENDIX I LIST OF MAJOR PROPERTIES

At 31 December 2006

Properties held for long-term investment

Name and location	Use	Approximate floor area (sq.ft.)	Group's interests
ON LAND UNDER LONG LEASE			
Apartment Tower on the Western Side of Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong	Apartments	10,000	100%
Eaton House, Nos. 3 – 5 Wanchai Gap Road, Hong Kong	Furnished apartments	35,000	100%
Eaton House, 100 Blue Pool Road, Hong Kong	Furnished apartments	34,000	100%
Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong	Commercial/Office	270,000	100%
ON LAND UNDER MEDIUM-TERM LEASE			
Eaton House, 4H Village Road, Hong Kong	Furnished apartments	23,000	100%
Eaton Hotel, 380 Nathan Road, Kowloon, Hong Kong	Hotel/Commercial	312,000	100%
Langham Hotel, Hong Kong 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong	Hotel/Commercial	364,000	100%
Langham Place 8 Arygle Street, Mongkok, Kowloon, Hong Kong	Commercial/Office	1,293,000	100%
Langham Place Hotel 555 Shanghai Street, Mongkok, Kowloon, Hong Kong	Hotel	508,000	100%
ON FREEHOLD LAND			
Langham Hotel, London 1 and 1B Portland Place, Regent Street, London, W1N 4JA, United Kingdom	Hotel/Commercial	390,000	100%

Properties held for long-term investment (continued)

Name and location	Use	Approximate floor area (sq.ft.)	Group's interests
Delta Chelsea Hotel 33 Gerrard Street West, Toronto, Ontario M5G 1Z4, Canada	Hotel/Commercial	1,130,000	100%
Langham Hotel, Melbourne One Southgate Avenue, Southbank, Melbourne, Victoria 3006, Australia	Hotel/Commercial	385,000	100%
Langham Hotel, Auckland 83 Symonds Street, Auckland 1, New Zealand	Hotel/Commercial	309,000	100%
Pacific Ygnacio Plaza 500 Ygnacio Valley Road, Walnut Creek, CA 94596, USA	Office	121,000	100%
2700 Ygnacio Valley Road 2700 Ygnacio Valley Road, Walnut Creek, Contra Costa Country, CA 94598 USA	Office	106,000	100%
Langham Hotel, Boston 250 Franklin Street, Boston, MA 02110, USA	Hotel/Commercial	281,000	100%
353 Sacramento Street 353 Sacramento Street, San Francisco, CA 94111, USA	Commercial/Office	307,000	100%
150 Spear Street 150 Spear Street, San Francisco, CA 94105, USA	Commercial/Office	257,000	100%

APPENDIX II FIVE YEARS' FINANCIAL SUMMARY

	For the year ended 31 December				
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
Revenue	2,664,541	2,522,965	2,830,822	3,521,201	3,772,253
(Loss) Profit before tax	(711,929)	(77,218)	4,037,820	13,408,911	602,198
Income taxes	60,416	(128,755)	(746,011)	(2,323,495)	(194,674)
(Loss) Profit for the year	(651,513)	(205,973)	3,291,809	11,085,416	407,524
Attributable to:					
Equity holders of the parent	(597,736)	(173,607)	3,103,952	10,028,139	405,506
Minority interests	(53,777)	(32,366)	187,857	1,057,277	2,018
	(651,513)	(205,973)	3,291,809	11,085,416	407,524
(Loss) Earnings per share					
Basic	HK\$(1.03)	HK\$(0.30)	HK\$5.28	HK\$16.93	HK\$0.68
Diluted	HK\$(1.03)	HK\$(0.30)	HK\$5.27	HK\$16.89	HK\$0.68
ASSETS AND LIABILITIES					
Total assets	27,803,508	29,572,019	35,990,283	48,497,487	33,198,754
Total liabilities	(15,483,991)	(17,411,789)	(20,492,188)	(22,243,494)	(13,149,819)
	12,319,517	12,160,230	15,498,095	26,253,993	20,048,935
Equity attributable to equity holders of the parent	11,617,383	11,490,462	14,640,470	24,339,091	20,048,647
Minority interests	702,134	669,768	857,625	1,914,902	288
	12,319,517	12,160,230	15,498,095	26,253,993	20,048,935

SHAREHOLDERS' CALENDAR

- **Closure of Transfer Books:**
 - from 18 May 2007 to 25 May 2007 (both days inclusive)
- **2007 Annual General Meeting:**
 - 25 May 2007
- **Dividends:**
 - Interim : HK5 cents per share
Special Interim : HK\$5 per share
Date of Payment : 26 October 2006
 - Final : HK25 cents per share
– scrip dividend with cash option
Date of Payment : 28 June 2007