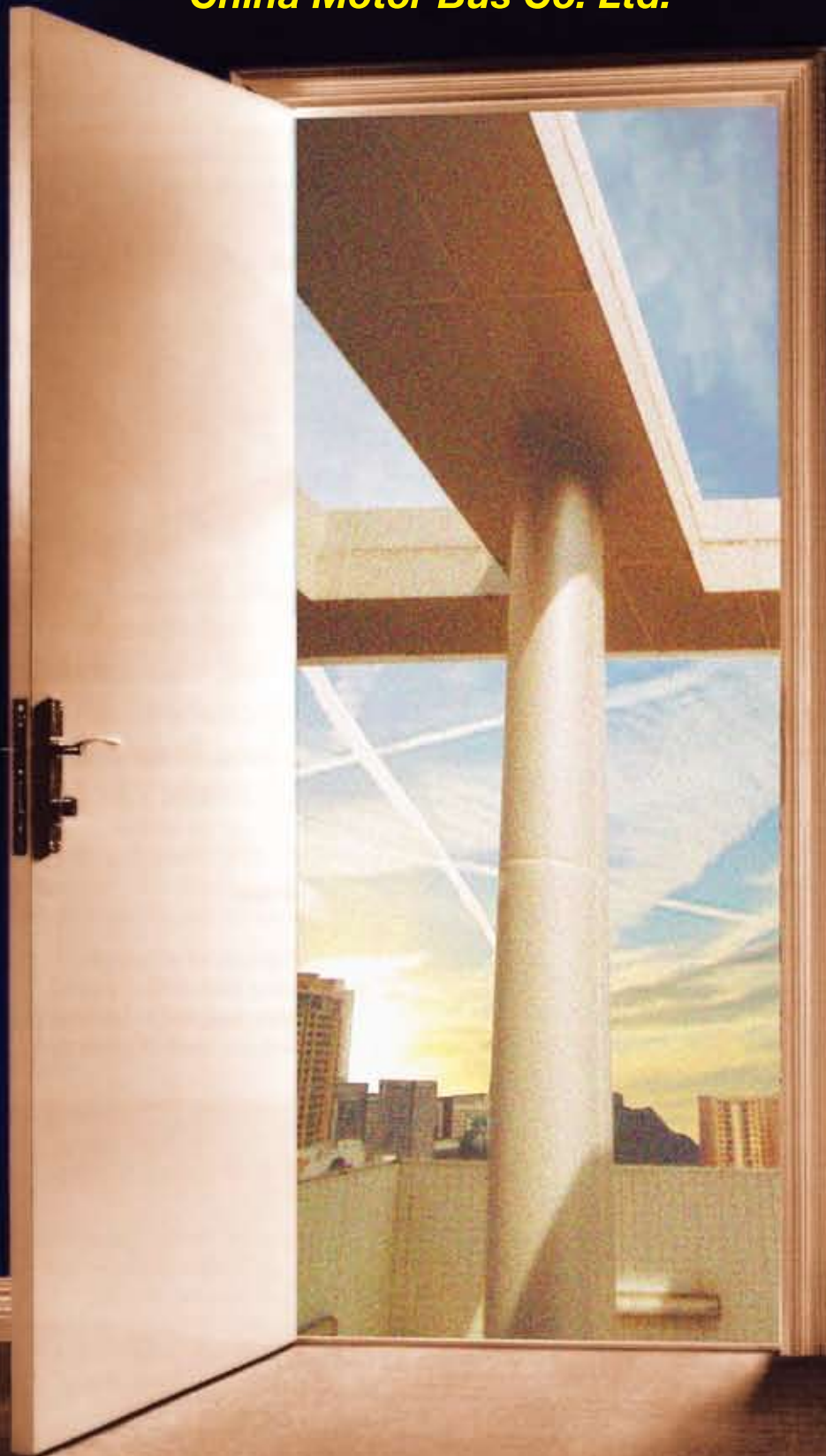




China Motor Bus Co. Ltd.



ANNUAL REPORT 2006

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Corporate Information

BOARD OF DIRECTORS

NGAN Kit-ling, J.P.
Chairman & Managing Director

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

Dr. Henry NGAN

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

Fritz HELMREICH

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

*TSE Yiu-wah

(*Independent Non-Executive Director)

SECRETARY

KWOK Pun Tak

REGISTERED OFFICE

391 Chai Wan Road, Chai Wan, Hong Kong

BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Standard Chartered Bank

SOLICITORS

Johnson, Stokes & Master
Linklaters
Ngan & Co.

AUDITORS

KPMG

REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Notice of Ordinary Yearly Meeting

NOTICE IS HEREBY GIVEN that the Sixty-eighth Ordinary Yearly Meeting of the Members of the Company will be held at its registered office at 391 Chai Wan Road, Chai Wan, Hong Kong on Friday, 8th December, 2006 at 12:00 noon for the following purposes:-

1. To receive and consider the Statement of Accounts and the Reports of the Directors and Auditors for the year ended 30th June, 2006 and to declare a final dividend.
2. To elect Directors and fix their fees.
3. To appoint Auditors and authorise the Directors to fix their remuneration.
4. As special business to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:
"THAT:
 - (A) the exercise by the Directors of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and regulations, during the Relevant Period (for the purposes of this Resolution, "Relevant Period" being the period from the passing of this Resolution until the earlier of the conclusion of the next Ordinary Yearly Meeting, or the expiration of the period within which such meeting is required by law to be held, or the revocation or variation of this Resolution by an ordinary resolution of the Shareholders of the Company in general meeting) be and is hereby generally and unconditionally approved; and
 - (B) the total number of shares of the Company purchased by the Company pursuant to paragraph (A) during the Relevant Period shall be no more than 2% of the existing issued share capital of the Company at the date of this meeting, and the authority pursuant to paragraph (A) shall be limited accordingly."
5. To transact any other competent business.

By Order of the Board

Kwok Pun Tak
Secretary

Hong Kong, 20th October, 2006

Notice of Ordinary Yearly Meeting (Continued)

Explanatory Note on Resolution 2

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

Explanatory Note on Resolution 4

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

Notice of Ordinary Yearly Meeting (Continued)

Notes:

- (1) A shareholder entitled to attend and vote at the above Meeting may appoint a proxy or proxies (not exceeding 2 in number) to attend and vote in his place and such proxy need not be a shareholder of the Company.
- (2) To be valid, forms of proxy must be deposited at the Registered Office of the Company not less than forty-eight hours before the time fixed for holding the Meeting or adjourned Meeting.
- (3) Pursuant to Articles 96 and 97 of the Articles of Association of the Company, every question submitted to a general meeting shall be decided in the first instance by a show of hands of the shareholders present in person and entitled to vote, but a poll may be demanded (before a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority) by:
 - (i) at least four shareholders; or
 - (ii) a shareholder or shareholders holding or representing by proxy or entitled to vote in respect of at least one-tenth part of the capital represented at the meeting.
- (4) To qualify for the final dividend, all unregistered transfers should be lodged at the Registrars' Office no later than 4:00 p.m. on Friday, 1st December, 2006.
- (5) The Transfer Books and Register of Members of the Company will be closed from Monday, 4th December, 2006 to Thursday, 7th December, 2006, both days inclusive.
- (6) As at the date of this Notice, the Directors of the Company are:-
Ngan Kit-ling, Dr. Ngan Kit-keung, Dr. Henry Ngan, Dr. Liu Lit-mo*, Fritz Helmreich, Anthony Grahame Stott* and Tse Yiu-wah*.
- (7) In the case of any conflict between the Chinese translation and the English text hereof, the English text will prevail.

*Independent Non-executive Director

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30th June, 2006.

GROUP'S ACTIVITIES AND OPERATIONS

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

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

JOINTLY CONTROLLED ENTITIES

Particulars of jointly controlled entities at 30th June, 2006 are set out in note 15 on the financial statements.

FINANCIAL STATEMENTS

The profit of the group for the year ended 30th June, 2006 and the state of affairs of the company and of the group at that date are set out in the financial statements on pages 20 to 56.

A first interim dividend of HK\$0.10 per share and a special dividend of HK\$0.50 per share were paid on 15th June, 2006. A second interim dividend of HK\$0.30 per share is payable on 31st October, 2006. The directors now recommend that a final dividend of HK\$0.10 per share and a special dividend of HK\$1.00 per share be paid in respect of the year ended 30th June, 2006 and that HK\$10,000,000 be transferred to general reserve.

Subject to the approval by shareholders at the forthcoming Ordinary Yearly Meeting, the final dividend will be payable on 2nd February, 2007.

FIXED ASSETS

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

DIRECTORS

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

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

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

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2006, the interests and short positions of the directors and chief executive of the company in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by directors of listed companies were as follows:

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

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

All the interests disclosed above represent long positions as at 30th June, 2006.

Save as disclosed above, as at 30th June, 2006, none of the directors or chief executive of the company or any of their spouses or children under 18 years of age had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

At no time during the year was the company or any of its subsidiaries a party to any arrangements to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Report of the Directors (Continued)

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

The company has been notified of the following interests in the company's issued shares at 30th June, 2006, amounting to 5% or more of the shares in issue:

| <u>Substantial shareholders</u> | <u>Ordinary shares held</u> | <u>Percentage of total issued shares</u> |
|----------------------------------|---------------------------------|--|
| NGAN Kit-ling | 4,881,813(note) | 10.71% |
| Dr. NGAN Kit-keung | 6,975,731(note) | 15.30% |
| Dr. Henry NGAN | 7,206,843(note) | 15.81% |
| CHAN Kwan Shat & WONG Wai Gin | 5,553,200 | 12.18% |
| <u>Other persons</u> | | |
| CHEE Ying Cheung & CHING Yung Yu | 4,474,600 | 9.81% |

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

All the interests disclosed above represent long positions as at 30th June, 2006.

Save as disclosed above, so far as the directors are aware, as at 30th June, 2006, none of the above shareholders had held any interests or short positions in the shares, underlying shares or debentures of the company or any of its associated corporations as defined in the SFO.

Apart from the foregoing, as at 30th June, 2006, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

DIRECTORS' INTEREST IN CONTRACTS

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

Apart from the foregoing, no contract of significance, to which the company or any of its subsidiaries was a party and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

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

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

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

SHARE CAPITAL

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

Report of the Directors (Continued)

EMPLOYEES' RETIREMENT SCHEMES

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

The actuarial valuation of the two defined benefit retirement schemes as at 30th June, 2006 showed that there were sufficient assets in each of the two schemes to cover the on-going liabilities of the schemes. The actuary of these schemes is Watson Wyatt Hong Kong Limited. In the actuarial valuations, the aggregate cost valuation method was used. The major assumptions used in these valuations were: Investment Return at 2.5% per annum; Salary Escalation at 2.5% per annum; and Normal Retirement Age 65. Other relevant information extracted from the valuations pertaining to these schemes is set out below:-

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

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

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

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

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

Report of the Directors (Continued)

COMMENTARY ON ANNUAL RESULTS

Revenue and Operating Profit

Turnover of the group for the year under review comprising rental income from its investment properties amounted to HK\$68 million (2005: HK\$67 million). Operating profit of the group increased to HK\$117.6 million from HK\$77 million in the previous year primarily due to the increase in finance income and other net income. The profit after taxation attributable to shareholders of HK\$395 million (2005: HK\$438 million (as restated)) reflects a reduction in the valuation gains of investment properties for the year in line with prevailing market trends.

Liquidity and Financial Resources

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

For the year under review, net cash inflow from operating activities was HK\$56 million (2005: HK\$28 million). Payment for capital investment amounted to HK\$582 million (2005: HK\$10 million). Repayment of loans by and dividends from jointly controlled entities amounted to HK\$15 million and HK\$93 million respectively (2005: HK\$16 million and HK\$29 million respectively). The consolidated cash flow statement for the group for the year ended 30th June, 2006 is set out on pages 24 and 25 of this annual report.

Capital Expenditure and Commitments

Capital expenditure incurred during the year amounted to HK\$582 million.

MAJOR CUSTOMERS AND SUPPLIERS

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

| | <i>Percentage of the Group's total</i> | |
|-------------------------------------|--|------------------|
| | <i>Turnover</i> | <i>Purchases</i> |
| The largest customer | 47% | |
| Five largest customers in aggregate | 79% | |
| The largest supplier | | 29% |
| Five largest suppliers in aggregate | | 68% |

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

Report of the Directors (Continued)

DISCLOSURE PURSUANT TO LISTING RULE 13.22

At 30th June 2006, the group had the following loans to its affiliated companies (as defined by the Listing Rules):

| | Note | Amount HK\$000's | Type | Tenure |
|-----------------------------|------|---------------------|----------------------------------|--------------------------------|
| Island Land Development Ltd | | 532,350 | Interest free, unsecured loan | No fixed terms of repayment |
| Hareton Ltd | | 207,707 | Interest free, unsecured loan | No fixed terms of repayment |
| | 15 | <u>740,057</u> | | |

Combined balance sheet of the above affiliated companies at 30th June, 2006 is as follows:

| | HK\$000's |
|---------------------------|------------------|
| Fixed assets | 1,072,000 |
| Retirement benefit assets | <u>161</u> |
| | 1,072,161 |
| Current assets | 116,539 |
| Current liabilities | <u>(16,929)</u> |
| | 99,610 |
| Non-current liabilities | <u>(37,074)</u> |
| | <u>1,134,697</u> |

Attributable interest to the group at 30th June, 2006 in the above affiliated companies amounted to HK\$567,349,000 (2005 (restated): HK\$463,182,000).

SUMMARY OF FINANCIAL DATA

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

PROPERTIES

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

PUBLIC FLOAT

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

AUDITORS

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

By order of the board

NGAN Kit-ling
Chairman

Hong Kong, 20th October, 2006

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the year ended 30th June, 2006, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Code") which became applicable to the Company in respect of the year under review were applied by the Company, and the relevant Code provisions in the Code were met by the Company, with the exception of the deviations as set out in this report.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry of all the directors of the Company, the Company has been advised that all of its directors have complied with the required standard as set out in the Model Code applicable during the year ended 30th June, 2006.

(C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Five board meetings were held during the financial year ended 30th June, 2006. The composition of the Board and attendance of the directors are set out below:

| Directors | Attendance at Meetings |
|--|-------------------------------|
| Executive directors | |
| NGAN Kit-ling (Chairman & Managing Director) | 5 |
| Dr. NGAN Kit-keung (Assistant Managing Director) | 4 |
| Dr. Henry NGAN | 5 |
| Non-executive director | |
| Fritz HELMREICH | 5 |
| Independent non-executive directors | |
| Dr. LIU Li-mo | 2 |
| Anthony Grahame STOTT | 4 |
| TSE Yiu-wah | 4 |

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

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

Corporate Governance Report (Continued)

(C) BOARD OF DIRECTORS (Continued)

(ii) Operation of the Board

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

(E) ROTATION OF DIRECTORS

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

Corporate Governance Report (Continued)

(F) REMUNERATION OF DIRECTORS

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

(G) NOMINATION OF DIRECTORS

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

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and taxation services provided by KPMG, the external auditors of the Company, amounted to HK\$2.37 million and HK\$0.53 million respectively.

(I) AUDIT COMMITTEE

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

Code C3.3 provides that the Company's Audit Committee should have a set of written terms of reference which should include minimum duties as set out in the Code. On 9th December, 2005 the written terms of reference of the Company's Audit Committee were revised to incorporate the provisions set out in the Code.

The Audit Committee met twice in the year ended 30th June, 2006. The composition and attendance of individual members of the Audit Committee at Audit Committee meetings in the year ended 30th June, 2006 are set out below:

| Members | Attendance at Meetings |
|---|------------------------|
| Anthony Grahame STOTT (Chairman) | 2 |
| Dr. LIU Lit-mo (resigned during the year) | 0 |
| Fritz HELMREICH | 2 |
| TSE Yiu-wah (appointed during the year) | 1 |

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

The work performed by the Audit Committee during the financial year ended 30th June, 2006 included the review of the effectiveness of the group's internal control systems and the review of the interim report and annual report before submission to the Board.

Corporate Governance Report (Continued)

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the Group's financial statements. A statement by the auditors of their reporting responsibilities for the year ended 30th June, 2006 is set out in the Auditors' Report on page 19 of this Annual Report.

Chairman's Statement

GROUP RESULTS AND DIVIDENDS

The Board of Directors announces that the operating profit of the Group for the year ended 30th June, 2006 increased to HK\$117.58 million from HK\$77 million in the previous year primarily due to the increase in finance income and other net income. The audited consolidated profit of the Group for the year amounted to HK\$395.21 million, compared with HK\$438.37 million (restated) for the previous year. The decrease in profit mainly reflects a reduction in the valuation gains of investment properties for the year in line with prevailing market trends.

The Directors will recommend to shareholders at the forthcoming Ordinary Yearly Meeting to be held on Friday, 8th December 2006 the payment of a final dividend of HK\$0.10 per share. The Directors will also recommend to the shareholders the payment of a special dividend of HK\$1.00 per share. These two dividends, together with the first interim dividend of HK\$0.10 per share, a special dividend of HK\$0.50 per share, and a second interim dividend of HK\$0.30 per share payable on 31st October 2006, will make a total dividend for the year of HK\$2.00 per share, compared with HK\$2.00 per share for the previous year.

HIGHLIGHTS OF PROPERTY DEVELOPMENT AND INVESTMENTS ARE SUMMARISED BELOW:-

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

The 26-storey building on the above site has been completed and the 48 apartments are fully furnished. Leasing of the furnished apartment units is progressing well.

INLAND LOT 7105, KAM HONG STREET, NORTH POINT

The property has a site area of approximately 17,870 sq.ft. Your Company has completed negotiations with Government on the modification to the Government Lease, including payment of a premium of HK\$568.3 million. Your Company has transferred the site to a wholly-owned subsidiary of the Company (CMB Sub) to enable the site to be redeveloped into a commercial and residential complex with a total gross floor area not exceeding 16,866.6 square metres (of which the gross floor area for non-industrial use and for private residential use shall not exceed 800 square metres and 16,066.6 square metres respectively) together with car parking spaces to be provided at a certain specified rate. CMB Sub has appointed a wholly-owned subsidiary of Swire Properties Limited (the Developer) to design and build the development on the site and to market and sell the units on behalf of CMB Sub. The site formation works are in progress and scheduled for completion in the fourth quarter of 2006, after which the superstructure contract will be awarded.

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

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

Chairman's Statement (Continued)

U.K. PROPERTIES

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

FUTURE OUTLOOK

The group's policy to seek investment opportunities, both locally and overseas, has been proven to be very successful. With its strong financial position, the group intends to continue with this policy in the future in its customary prudent manner.

NGAN Kit-ling
Chairman

Hong Kong, 20th October, 2006

INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

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

(* Independent Non-Executive Director)

Senior Management

Victor WONG, ACIS, ACIM, (61), Personnel & Administration Manager. Was Company Secretary of CMB from 1982 to 1989 and rejoined CMB in 1993. Has 36 years experience in administration, personnel management and company secretary fields with 28 years in Senior Management post.

Y.T. YUEN, BBA(Hons), FCCA, CPA, (44), Chief Accountant. Joined CMB in 1999. Has 21 years experience in accounting field.

KWOK Pun Tak, FCIS, FCS, (53), Company Secretary. Joined CMB in 2002. Has 25 years company secretarial experience.

Auditors' report to the shareholders of China Motor Bus Company, Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 20 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30th June, 2006 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 20th October, 2006

Consolidated Profit and Loss Account for the Year Ended 30th June, 2006

(Expressed in Hong Kong dollars)

| | NOTE | 2006 | 2005 |
|--|--------|----------|-----------------------|
| | | \$000's | \$000's (restated) |
| TURNOVER | 3 | 68,018 | 67,378 |
| FINANCE INCOME | 4 | 59,348 | 27,810 |
| OTHER NET INCOME | 5 | 11,682 | 3,076 |
| STAFF COSTS | 6(a) | (7,705) | (8,107) |
| DEPRECIATION | | (1,140) | (1,041) |
| OTHER OPERATING EXPENSES | | (12,619) | (12,116) |
| OPERATING PROFIT | 3, 6 | 117,584 | 77,000 |
| SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES | | 173,997 | 202,059 |
| VALUATION GAINS ON INVESTMENT PROPERTIES | | 148,726 | 186,517 |
| PROFIT BEFORE TAXATION | | 440,307 | 465,576 |
| TAXATION | 8 | (45,094) | (27,211) |
| PROFIT AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS | 10, 25 | 395,213 | 438,365 |
| DIVIDENDS ATTRIBUTABLE TO THE YEAR | 9(a) | 91,189 | 91,189 |
| EARNINGS PER SHARE | 11 | | |
| BASIC AND DILUTED | | \$8.67 | \$9.61 |

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

Consolidated Balance Sheet at 30th June, 2006

(Expressed in Hong Kong dollars)

| | NOTE | 2006 \$000's | 2005 \$000's (restated) |
|--|-------|------------------|-------------------------------|
| NON-CURRENT ASSETS | | | |
| FIXED ASSETS | 13 | 1,848,115 | 1,689,545 |
| INTEREST IN JOINTLY CONTROLLED ENTITIES | 15 | 833,752 | 767,655 |
| OTHER INVESTMENTS | 16 | 11,876 | 11,786 |
| DEFINED BENEFIT ASSET | 17 | 803 | 1,144 |
| | | <u>2,694,546</u> | <u>2,470,130</u> |
| CURRENT ASSETS | | | |
| PROPERTY UNDER DEVELOPMENT FOR SALE | 18 | 587,862 | – |
| DEBTORS, DEPOSITS AND PREPAYMENTS | 19 | 4,905 | 3,761 |
| DEPOSITS WITH BANKS | 20 | 1,237,471 | 1,686,628 |
| CASH AT BANK AND IN HAND | 20 | 11,477 | 14,424 |
| | | <u>1,841,715</u> | <u>1,704,813</u> |
| CURRENT LIABILITIES | | | |
| CREDITORS AND ACCRUALS | 21 | 42,256 | 28,097 |
| TAXATION | 23 | 3,944 | 4,903 |
| | | <u>46,200</u> | <u>33,000</u> |
| NET CURRENT ASSETS | | <u>1,795,515</u> | <u>1,671,813</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>4,490,061</u> | <u>4,141,943</u> |
| Representing:- | | | |
| SHARE CAPITAL | 24 | 91,189 | 91,189 |
| RESERVES | 25 | 3,828,919 | 3,507,566 |
| | | 3,920,108 | 3,598,755 |
| DEFERRED PROFITS | 26 | 441,197 | 451,198 |
| CONTINGENCY RESERVES | 27 | – | 3,600 |
| DEFERRED TAXATION | 23(b) | 128,756 | 88,390 |
| | | <u>4,490,061</u> | <u>4,141,943</u> |

Approved and authorised for issue by the board of directors on 20th October, 2006

NGAN Kit-ling)
Director)

Dr. NGAN Kit-keung)
Director)

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

Balance Sheet at 30th June, 2006

(Expressed in Hong Kong dollars)

| | NOTE | 2006 \$000's | 2005 \$000's (restated) |
|--|-------|------------------|-------------------------------|
| NON-CURRENT ASSETS | | | |
| FIXED ASSETS | 13 | 325,363 | 333,236 |
| INTEREST IN SUBSIDIARIES | 14 | 1,018,356 | 1,018,356 |
| DEFINED BENEFIT ASSET | 17 | 803 | 1,144 |
| | | <u>1,344,522</u> | <u>1,352,736</u> |
| CURRENT ASSETS | | | |
| DEBTORS, DEPOSITS AND PREPAYMENTS | 19 | 414 | 801 |
| AMOUNTS DUE FROM SUBSIDIARIES | 22 | 840,114 | 4 |
| DEPOSITS WITH BANKS | | 5,712 | 271,347 |
| CASH AT BANK AND IN HAND | | 4,611 | 7,934 |
| | | <u>850,851</u> | <u>280,086</u> |
| CURRENT LIABILITIES | | | |
| CREDITORS AND ACCRUALS | 21 | 10,326 | 6,711 |
| TAXATION | 23 | – | 1,349 |
| AMOUNT DUE TO A SUBSIDIARY | 22 | 510,259 | 108,177 |
| | | <u>520,585</u> | <u>116,237</u> |
| NET CURRENT ASSETS | | | |
| | | <u>330,266</u> | <u>163,849</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>1,674,788</u> | <u>1,516,585</u> |
| Representing:- | | | |
| SHARE CAPITAL | 24 | 91,189 | 91,189 |
| RESERVES | 25 | 1,301,878 | 1,132,976 |
| | | 1,393,067 | 1,224,165 |
| DEFERRED PROFITS | 26 | 230,132 | 237,225 |
| CONTINGENCY RESERVES | 27 | – | 3,600 |
| DEFERRED TAXATION | 23(b) | 51,589 | 51,595 |
| | | <u>1,674,788</u> | <u>1,516,585</u> |

Approved and authorised for issue by the board of directors on 20th October, 2006

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

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

Consolidated Statement of Changes in Equity for the Year Ended 30th June, 2006

(Expressed in Hong Kong dollars)

| | 2006 | 2005 |
|--|------------------|-----------------------|
| | \$000's | \$000's (restated) |
| SHAREHOLDERS' EQUITY AT 1ST JULY | | |
| – AS PREVIOUSLY REPORTED | 3,691,415 | 3,365,276 |
| – PRIOR PERIOD ADJUSTMENTS ARISING FROM CHANGE IN ACCOUNTING POLICY FOR DEFERRED TAXATION | <u>(92,660)</u> | <u>(68,076)</u> |
| – AS RESTATED | 3,598,755 | 3,297,200 |
| EXCHANGE DIFFERENCES ARISING ON CONSOLIDATION | 17,329 | <u>(9,599)</u> |
| SURPLUS ON REVALUATION CREDITED TO INVESTMENT PROPERTIES REVALUATION RESERVE | | |
| – AS PREVIOUSLY REPORTED | | 266,522 |
| – PRIOR PERIOD ADJUSTMENTS ARISING FROM CHANGES IN ACCOUNTING POLICY FOR INVESTMENT PROPERTIES | | <u>(266,522)</u> |
| – AS RESTATED | <u>-----</u> | <u>-----</u> |
| NET GAINS/(LOSSES) NOT RECOGNISED IN THE PROFIT AND LOSS ACCOUNT (2005: AS RESTATED) | <u>17,329</u> | <u>(9,599)</u> |
| NET PROFIT FOR THE YEAR | | |
| – AS PREVIOUSLY REPORTED | | 196,427 |
| – PRIOR PERIOD ADJUSTMENTS IN RESPECT OF | | |
| – INVESTMENT PROPERTIES | | 266,522 |
| – RELATED DEFERRED TAXATION | | <u>(24,584)</u> |
| – AS RESTATED | <u>395,213</u> | <u>438,365</u> |
| DIVIDENDS APPROVED AND PAID DURING THE YEAR | <u>(91,189)</u> | <u>(127,665)</u> |
| UNCLAIMED DIVIDENDS FORFEITED IN ACCORDANCE WITH ARTICLE 166 | <u>-----</u> | <u>454</u> |
| SHAREHOLDERS' EQUITY AT 30TH JUNE | <u>3,920,108</u> | <u>3,598,755</u> |

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

Consolidated Cash Flow Statement for the Year Ended 30th June, 2006

(Expressed in Hong Kong dollars)

| | 2006 | 2005 |
|--|-----------|-----------------------|
| | \$000's | \$000's (restated) |
| OPERATING ACTIVITIES | | |
| Operating profit | 117,584 | 77,000 |
| Adjustments for: | | |
| – Depreciation | 1,140 | 1,041 |
| – Dividend income from other investments | (517) | (490) |
| – Interest income | (54,780) | (32,667) |
| – Recognition of deferred profits | (10,001) | – |
| – Net unrealised gain on other investments carried at fair value | (90) | (985) |
| – Loss on disposal of fixed assets | – | 4 |
| – Foreign exchange (gain)/loss | (2,363) | 4,119 |
| OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL | 50,973 | 48,022 |
| Decrease in defined benefit asset | 341 | 496 |
| Decrease/(increase) in debtors, deposits and prepayments | 22 | (222) |
| Increase/(decrease) in creditors and accruals | 10,888 | (9,872) |
| Write back of provision for third party claims | – | (1,903) |
| Payment made for third party claims | (329) | (97) |
| CASH GENERATED FROM OPERATIONS | 61,895 | 36,424 |
| Tax paid | | |
| – Hong Kong Profits Tax paid | (1,349) | (2,993) |
| – Overseas tax paid | (4,338) | (5,188) |
| NET CASH FROM OPERATING ACTIVITIES | 56,208 | 28,243 |
| INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (663) | (10,450) |
| Proceeds from sale of fixed assets | – | 1 |
| Expenditure on development project | (580,854) | – |
| Dividends from jointly controlled entities | 93,400 | 28,800 |
| Dividends from other investments | 517 | 490 |
| Interest received | 53,614 | 31,549 |
| Repayment of loans by jointly controlled entities | 14,500 | 16,350 |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | (419,486) | 66,740 |

Consolidated Cash Flow Statement for the Year Ended 30th June, 2006 (Continued)

(Expressed in Hong Kong dollars)

| | 2006 | 2005 |
|--|---------------------|-----------------------|
| | \$000's | \$000's (restated) |
| FINANCING ACTIVITIES | | |
| Unclaimed dividends forfeited | - | 454 |
| Dividends paid | <u>(91,189)</u> | <u>(127,665)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | <u>---</u> (91,189) | <u>---</u> (127,211) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (454,467) | (32,228) |
| EFFECT OF FOREIGN EXCHANGE RATES | 2,363 | (4,119) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 1,701,052 | 1,737,399 |
| CASH AND CASH EQUIVALENTS AT 30TH JUNE | <u>1,248,948</u> | <u>1,701,052</u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Deposits with banks | 1,237,471 | 1,686,628 |
| Cash at bank and in hand | <u>11,477</u> | <u>14,424</u> |
| | <u>1,248,948</u> | <u>1,701,052</u> |

Notes on The Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

- (a) **Statement of compliance**
These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below. The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1st January, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.
- (b) **Basis of preparation of financial statements**
The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.
The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 33.
- (c) **Subsidiaries and controlled enterprises**
A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.
An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.
Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.
In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).
- (d) **Jointly controlled entities**
A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.
An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account reflects the group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year.
Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments in securities

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

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

(f) Fixed assets

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(r)(i).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(ii) Other properties and fixed assets

Other properties are stated at valuation less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(i)).

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

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

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

(g) Depreciation

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

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

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets

(i) Classification of assets leased to the group

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

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in other receivables

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

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

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

Notes on The Financial Statements (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

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

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(j) Inventories

Property under development for sale

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

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

(k) Trade and other receivables

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

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution plans and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The group's net obligations in respect of defined benefit retirement schemes are calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of the scheme's assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the profit and loss account. In calculating the group's obligation in respect of a scheme, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(o) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (o) Income tax (continued)
- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.
- (p) Deferred profits
- Profits from the sale of land and buildings to jointly controlled entities for development for resale and investment are deferred to the extent of the group's attributable interest in the jointly controlled entities. The deferred profits will be recognised and taken to the profit and loss account as and when the properties are sold by the jointly controlled entities.
- (q) Provisions and contingent liabilities
- Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.
- Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.
- (r) Revenue recognition
- Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:
- (i) Rental income from operating leases
- Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.
- (ii) Dividends
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (iii) Interest income
- Interest income is recognised as it accrues using the effective interest method.
- (s) Translation of foreign currencies
- Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date and the exchange gains and losses arising are dealt with in the profit and loss account. Exchange differences arising on consolidation are taken directly to reserves.
- Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.
- (t) Related parties
- For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005. The changes in accounting policies, which have significant impacts on the group's financial statements are summarised as follows:

(a) Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes - Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the profit and loss account

In prior years, movements in the fair value of the group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account.

Upon adoption of HKAS 40 as from 1st July, 2005, all changes in the fair value of investment properties are recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as of 1st July, 2005 has increased by \$266,522,000 (2004: \$Nil) to include all of the group's previous investment properties revaluation reserve. In addition, the group's profit attributable to shareholders for the year ended 30th June, 2006 has increased by \$260,672,000 (2005: \$266,522,000).

There is no impact on the group's net assets in the balance sheets as a result of the adoption of this new policy.

Notes on The Financial Statements (Continued)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes - Recovery of revalued non-depreciable assets) (continued)

(ii) Measurement of deferred tax on movements of fair value

In prior years, the group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the group's investment properties, no deferred tax was provided in prior years.

As from 1st July, 2005, in accordance with HK(SIC) Interpretation 21, the group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the group has no intention to sell it and the property would have been depreciable had the group not adopted the fair value model. This is notwithstanding that any gain on disposal of Hong Kong investment properties would be considered to be capital in nature and not be subject to tax.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as at 1st July, 2005 has reduced by \$92,660,000 (2004: \$68,076,000), deferred tax liabilities have increased by \$80,491,000 (2004: \$59,988,000), and interest in jointly controlled entities has decreased by \$12,169,000 (2004: \$8,088,000). In addition, the group's profit attributable to shareholders for the year ended 30th June, 2006 has decreased by \$32,326,000 (2005: \$24,584,000).

(b) Share of profits less losses of jointly controlled entities (HKAS 1, Presentation of financial statements)

In prior periods, the group's share of taxation of jointly controlled entities accounted for using the equity method was included as part of the group's taxation in the consolidated profit and loss account. With effect from 1st July, 2005, in accordance with the implementation guidance in HKAS 1, the group has changed the presentation and includes the share of taxation of jointly controlled entities accounted for using the equity method in the respective shares of profit or loss in the consolidated profit and loss account. These changes in presentation have been applied retrospectively with comparatives restated and have no effect on net assets in either period.

The group's share of profits less losses of jointly controlled entities has decreased by \$12,844,000 (2005: \$4,578,000) as a result of this new presentation.

3. TURNOVER

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

Turnover represents rental income from investment properties.

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

| | Group turnover | | Operating profit | |
|--------------------------------------|----------------|---------------|------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's | \$000's | \$000's |
| Geographical locations of operations | | | | |
| Hong Kong | 15,214 | 11,448 | 60,340 | 21,350 |
| United Kingdom | 52,804 | 55,930 | 57,244 | 55,650 |
| | <u>68,018</u> | <u>67,378</u> | <u>117,584</u> | <u>77,000</u> |

The turnover of the jointly controlled entities attributable to the group for the year amounted to \$125,745,000 (2005: \$65,977,000).

Notes on The Financial Statements (Continued)

4. FINANCE INCOME

| | <u>2006</u> | <u>2005</u> |
|---|---------------|---------------|
| | \$000's | \$000's |
| Interest income | 54,780 | 32,667 |
| Dividend income from other investments | 517 | 490 |
| Exchange gains/(losses) | 3,961 | (6,332) |
| Net unrealised gains on other investments | 90 | 985 |
| | <u>59,348</u> | <u>27,810</u> |

5. OTHER NET INCOME

| | <u>2006</u> | <u>2005</u> |
|--|---------------|--------------|
| | \$000's | \$000's |
| Recognition of deferred profits | 10,001 | – |
| Management fee | 496 | 496 |
| Unclaimed dividends forfeited | 359 | – |
| Write back of provision for third party claims | – | 1,903 |
| Loss on disposal of fixed assets | – | (4) |
| Sundry income | 826 | 681 |
| | <u>11,682</u> | <u>3,076</u> |

6. OPERATING PROFIT

| | <u>2006</u> | <u>2005</u> |
|--|---------------|---------------|
| | \$000's | \$000's |
| Operating profit is arrived at | | |
| after charging:- | | |
| (a) Staff costs: | | |
| Contributions to defined contribution retirement scheme | 85 | 68 |
| Decrease in asset for defined benefit retirement schemes (note 17) | 341 | 496 |
| Salaries, wages and other benefits | <u>7,279</u> | <u>7,543</u> |
| | <u>7,705</u> | <u>8,107</u> |
| (b) Other items: | | |
| Auditors' remuneration | | |
| – audit services (Note) | 2,582 | 2,222 |
| – tax services | 528 | 557 |
| Legal and professional fees | 2,935 | 2,026 |
| Property expenses | <u>2,958</u> | <u>3,862</u> |
| Note: including under/overprovision in respect of previous years | | |
| and after crediting:- | | |
| Rental income less outgoings | 65,060 | 63,516 |
| which includes | | |
| – gross rental income from investment properties | <u>68,018</u> | <u>67,378</u> |

Notes on The Financial Statements (Continued)

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

(a) Directors

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

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

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

| Name | Fees \$000's | Salaries, allowances and benefits in kind \$000's | Bonus in accordance with article 155 \$000's | Group's contributions to retirement scheme \$000's | Total \$000's |
|-----------------------|-----------------|---|--|--|------------------|
| <i>2006</i> | | | | | |
| Ngan Kit-ling | 45 | 2,336 | - | - | 2,381 |
| Dr. Ngan Kit-keung | 45 | 1,219 | - | - | 1,264 |
| Dr. Henry Ngan | 45 | 240 | - | - | 285 |
| Fritz Helmreich | 45 | 240 | - | - | 285 |
| Dr. Liu Lit-mo | 40 | - | - | - | 40 |
| Anthony Grahame Stott | 40 | - | - | - | 40 |
| Tse Yiu-wah | 40 | - | - | - | 40 |
| | <u>300</u> | <u>4,035</u> | <u>-</u> | <u>-</u> | <u>4,335</u> |
| <i>2005</i> | | | | | |
| Ngan Kit-ling | 45 | 2,343 | - | - | 2,388 |
| Dr. Ngan Kit-keung | 45 | 1,219 | - | - | 1,264 |
| Dr. Henry Ngan | 45 | 240 | - | - | 285 |
| Fritz Helmreich | 45 | 240 | - | - | 285 |
| Dr. Liu Lit-mo | 40 | - | - | - | 40 |
| Anthony Grahame Stott | 40 | - | - | - | 40 |
| Tse Yiu-wah | 31 | - | - | - | 31 |
| | <u>291</u> | <u>4,042</u> | <u>-</u> | <u>-</u> | <u>4,333</u> |

Fees and other emoluments in respect of independent non-executive directors for the year ended 30th June, 2006 amounted to \$120,000 (2005: \$111,000).

(b) Employees

Set out below are analyses of the emoluments for the year ended 30th June, 2006 of three employees (2005: three) of the group who, not being directors of the company, are among the top five highest paid individuals (including directors of the company and other employees of the group) employed by the group.

| | | | |
|--|--|---------------|---------------|
| (i) Aggregate emoluments | | <u>2006</u> | <u>2005</u> |
| | | \$000's | \$000's |
| Basic salary, housing allowance and other benefits | | 1,425 | 1,653 |
| Retirement scheme contribution | | 24 | 24 |
| | | <u>1,449</u> | <u>1,677</u> |
| (ii) Bandings | | | |
| <i>Bands (in HK\$)</i> | | <i>Number</i> | <i>Number</i> |
| \$Nil – \$1,000,000 | | <u>3</u> | <u>3</u> |

Notes on The Financial Statements (Continued)

8. TAXATION

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year ended 30th June, 2006. Taxation for overseas subsidiaries is similarly calculated at the appropriate current rates of taxation ruling in the relevant countries.

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

| | 2006 | 2005 |
|--|---------------|-----------------------|
| | \$000's | \$000's (restated) |
| Current tax – Provision for Hong Kong Profits Tax | | |
| Tax for the year | 93 | 104 |
| (Over)/underprovision in respect of prior years | (1) | 299 |
| | <u>92</u> | <u>403</u> |
| Current tax – Overseas | | |
| Tax for the year | 4,953 | 4,737 |
| (Over)/underprovision in respect of prior years | (317) | 28 |
| | <u>4,636</u> | <u>4,765</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | | |
| – relating to property valuation | 29,840 | 20,503 |
| – others | 10,526 | 1,540 |
| | <u>40,366</u> | <u>22,043</u> |
| | <u>45,094</u> | <u>27,211</u> |

Share of taxation of jointly controlled entities for the year ended 30th June, 2006 amounting to \$12,844,000 (2005: \$4,578,000 (restated)) is included in share of results of jointly controlled entities in the consolidated profit and loss account.

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

| | 2006 | 2005 |
|---|---------------|-----------------------|
| | \$000's | \$000's (restated) |
| Profit before taxation | 440,307 | 465,576 |
| Notional tax on profit before taxation calculated at applicable tax rates | 83,113 | 83,556 |
| Tax effect of non-deductible expenses | 160 | 1,319 |
| Tax effect of non-taxable revenue | (39,243) | (60,525) |
| (Over)/underprovision in respect of prior years | (318) | 327 |
| Tax effect of tax losses not recognised | 2,198 | 2,534 |
| Tax losses utilised | (276) | – |
| Tax effect of previously unrecognised tax losses now recognised | (540) | – |
| Actual total tax charge | <u>45,094</u> | <u>27,211</u> |

Notes on The Financial Statements (Continued)

9. DIVIDENDS

(a) Dividends attributable to the year:

| | <u>2006</u> | <u>2005</u> |
|--|---------------|---------------|
| | \$000's | \$000's |
| First interim dividend declared and paid of \$0.10 per share (2005: \$0.10) | 4,559 | 4,559 |
| Special dividend declared and paid of \$0.50 per share (2005: \$0.50) | 22,798 | 22,798 |
| Second interim dividend declared after the balance sheet date of \$0.30 per share (2005: \$0.30) | 13,678 | 13,678 |
| Final dividend proposed after the balance sheet date of \$0.10 per share (2005: \$0.10) | 4,559 | 4,559 |
| Special dividend proposed after the balance sheet date of \$1.00 per share (2005: \$1.00) | <u>45,595</u> | <u>45,595</u> |
| | <u>91,189</u> | <u>91,189</u> |

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

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

| | <u>2006</u> | <u>2005</u> |
|---|---------------|----------------|
| | \$000's | \$000's |
| Second interim dividend declared in respect of previous financial year of \$0.30 per share (2005: \$0.30) | 13,678 | 13,678 |
| Final dividend approved in respect of previous financial year of \$0.10 per share (2005: \$0.10) | 4,559 | 4,559 |
| Special dividend approved in respect of previous financial year of \$1.00 per share (2005: \$1.80) | <u>45,595</u> | <u>82,071</u> |
| | <u>63,832</u> | <u>100,308</u> |

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders, \$260,091,000 (2005 (restated): \$6,834,000) is dealt with in the financial statements of the company.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of \$395,213,000 (2005 (restated): \$438,365,000) and the weighted average of 45,594,656 (2005: 45,594,656) shares in issue during the year.

Notes on The Financial Statements (Continued)

12. SEGMENT REPORTING

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

(a) Business segments

The group comprises the following main business segments:

| | Property investment and development | | Treasury management | | Unallocated | | Consolidated | |
|---|-------------------------------------|--------------------|---------------------|-----------|-------------|--------------------|--------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's (restated) | \$000's | \$000's | \$000's | \$000's (restated) | \$000's | \$000's (restated) |
| Turnover | 68,018 | 67,378 | - | - | - | - | 68,018 | 67,378 |
| Finance income | - | - | 59,348 | 27,810 | - | - | 59,348 | 27,810 |
| Other income | 10,001 | - | - | - | 1,681 | 3,076 | 11,682 | 3,076 |
| Total revenue | 78,019 | 67,378 | 59,348 | 27,810 | 1,681 | 3,076 | 139,048 | 98,264 |
| Segment results | 74,821 | 63,051 | 59,348 | 27,810 | - | - | 134,169 | 90,861 |
| Unallocated expenses | - | - | - | - | - | - | (16,585) | (13,861) |
| Operating profit | - | - | - | - | - | - | 117,584 | 77,000 |
| Share of results of jointly controlled entities | 173,997 | 202,059 | - | - | - | - | 173,997 | 202,059 |
| Valuation gains on investment properties | 148,726 | 186,517 | - | - | - | - | 148,726 | 186,517 |
| Taxation | - | - | - | - | - | - | (45,094) | (27,211) |
| Profit attributable to shareholders | - | - | - | - | - | - | 395,213 | 438,365 |
| Depreciation for the year | (255) | (142) | - | - | (885) | (899) | (1,140) | (1,041) |
| Fixed assets | 1,827,876 | 1,661,433 | - | - | 20,239 | 28,112 | 1,848,115 | 1,689,545 |
| Other investments | - | - | 11,876 | 11,786 | - | - | 11,876 | 11,786 |
| Defined benefit asset | - | - | - | - | 803 | 1,144 | 803 | 1,144 |
| Property under development for sale | 587,862 | - | - | - | - | - | 587,862 | - |
| Debtors, deposits and prepayments | 1,270 | 1,187 | 3,192 | 2,025 | 443 | 549 | 4,905 | 3,761 |
| Cash balances | - | - | 1,248,948 | 1,701,052 | - | - | 1,248,948 | 1,701,052 |
| Segment assets | 2,417,008 | 1,662,620 | 1,264,016 | 1,714,863 | 21,485 | 29,805 | 3,702,509 | 3,407,288 |
| Interest in jointly controlled entities | 833,752 | 767,655 | - | - | - | - | 833,752 | 767,655 |
| Total assets | - | - | - | - | - | - | 4,536,261 | 4,174,943 |
| Deferred profits | 441,197 | 451,198 | - | - | - | - | 441,197 | 451,198 |
| Creditors and accruals | 29,308 | 20,707 | - | - | 12,948 | 7,390 | 42,256 | 28,097 |
| Contingency reserves | - | - | - | - | - | 3,600 | - | 3,600 |
| Taxation | - | - | - | - | 3,944 | 4,903 | 3,944 | 4,903 |
| Deferred taxation | - | - | - | - | 128,756 | 88,390 | 128,756 | 88,390 |
| Segment liabilities | 470,505 | 471,905 | - | - | 145,648 | 104,283 | 616,153 | 576,188 |
| Capital expenditure incurred during the year | 581,497 | 8,834 | - | - | 20 | 1,616 | 581,517 | 10,450 |

(b) Geographical segments

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

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

| | Hong Kong | | United Kingdom | |
|--|-----------|-----------|----------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's | \$000's | \$000's |
| Turnover | 15,214 | 11,448 | 52,804 | 55,930 |
| Segment assets | 2,565,124 | 2,430,577 | 1,137,385 | 976,711 |
| Capital expenditure incurred during the year | 581,517 | 10,450 | - | - |

Notes on The Financial Statements (Continued)

13. FIXED ASSETS

| | Investment properties | Other properties | Property held for redevelopment | Motor buses | Plant, fixtures and equipment | Total |
|--------------------------------|--------------------------|---------------------|---------------------------------------|----------------|-------------------------------------|-----------|
| | \$000's | \$000's | \$000's | \$000's | \$000's | \$000's |
| (a) The group | | | | | | |
| Cost or valuation: | | | | | | |
| At 1st July, 2004 | 1,364,847 | 25,514 | 110,882 | 8,565 | 6,928 | 1,516,736 |
| Exchange adjustment | (9,599) | - | - | - | - | (9,599) |
| Additions | - | 1,586 | 8,106 | - | 758 | 10,450 |
| Transfer in/(out) | 118,988 | - | (118,988) | - | - | - |
| Disposal | - | - | - | - | (9) | (9) |
| Revaluation surplus | 186,517 | - | - | - | - | 186,517 |
| At 30th June, 2005 | 1,660,753 | 27,100 | - | 8,565 | 7,677 | 1,704,095 |
| Representing: | | | | | | |
| Cost | - | 4,624 | - | 8,565 | 7,677 | 20,866 |
| 2002 valuation | - | 22,476 | - | - | - | 22,476 |
| 2005 valuation | 1,660,753 | - | - | - | - | 1,660,753 |
| | 1,660,753 | 27,100 | - | 8,565 | 7,677 | 1,704,095 |
| At 1st July, 2005 | 1,660,753 | 27,100 | - | 8,565 | 7,677 | 1,704,095 |
| Exchange adjustment | 17,329 | - | - | - | - | 17,329 |
| Additions | - | 568,300 | - | - | 663 | 568,963 |
| Transfer out | - | (575,324) | - | - | - | (575,324) |
| Revaluation surplus | 148,726 | - | - | - | - | 148,726 |
| At 30th June, 2006 | 1,826,808 | 20,076 | - | 8,565 | 8,340 | 1,863,789 |
| Representing: | | | | | | |
| Cost | - | - | - | 8,565 | 8,340 | 16,905 |
| 2002 valuation | - | 20,076 | - | - | - | 20,076 |
| 2006 valuation | 1,826,808 | - | - | - | - | 1,826,808 |
| | 1,826,808 | 20,076 | - | 8,565 | 8,340 | 1,863,789 |
| Accumulated depreciation: | | | | | | |
| At 1st July, 2004 | - | 224 | - | 6,714 | 6,575 | 13,513 |
| Charge for the year | - | 66 | - | 758 | 217 | 1,041 |
| Written back on disposal | - | - | - | - | (4) | (4) |
| At 30th June, 2005 | - | 290 | - | 7,472 | 6,788 | 14,550 |
| At 1st July, 2005 | - | 290 | - | 7,472 | 6,788 | 14,550 |
| Charge for the year | - | 66 | - | 758 | 316 | 1,140 |
| Written back on transfer out | - | (16) | - | - | - | (16) |
| At 30th June, 2006 | - | 340 | - | 8,230 | 7,104 | 15,674 |
| Net book value: | | | | | | |
| At 30th June, 2006 | 1,826,808 | 19,736 | - | 335 | 1,236 | 1,848,115 |
| At 30th June, 2005 | 1,660,753 | 26,810 | - | 1,093 | 889 | 1,689,545 |
| Tenure of title to properties: | | | | | | |
| 2006 | | | | | | |
| Held in Hong Kong | | | | | | |
| - Long leases | 443,000 | 19,736 | - | - | - | 462,736 |
| - Medium term leases | 446,124 | - | - | - | - | 446,124 |
| | 889,124 | 19,736 | - | - | - | 908,860 |
| Held outside Hong Kong | | | | | | |
| - Freehold | 937,684 | - | - | - | - | 937,684 |
| | 1,826,808 | 19,736 | - | - | - | 1,846,544 |
| 2005 | | | | | | |
| Held in Hong Kong | | | | | | |
| - Long leases | 437,000 | 26,810 | - | - | - | 463,810 |
| - Medium term leases | 388,124 | - | - | - | - | 388,124 |
| | 825,124 | 26,810 | - | - | - | 851,934 |
| Held outside Hong Kong | | | | | | |
| - Freehold | 835,629 | - | - | - | - | 835,629 |
| | 1,660,753 | 26,810 | - | - | - | 1,687,563 |

Notes on The Financial Statements (Continued)

13. FIXED ASSETS (Continued)

| | Investment properties | Other properties | Motor buses | Plant, fixtures and equipment | Total |
|--------------------------------|-----------------------|------------------|--------------|-------------------------------|----------------|
| | \$000's | \$000's | \$000's | \$000's | \$000's |
| (b) The company | | | | | |
| Cost or valuation: | | | | | |
| At 1st July, 2004 | 285,124 | 25,514 | 8,565 | 6,513 | 325,716 |
| Additions | – | 1,586 | – | 30 | 1,616 |
| Disposal | – | – | – | (9) | (9) |
| Revaluation surplus | 20,000 | – | – | – | 20,000 |
| At 30th June, 2005 | <u>305,124</u> | <u>27,100</u> | <u>8,565</u> | <u>6,534</u> | <u>347,323</u> |
| Representing: | | | | | |
| Cost | – | 4,624 | 8,565 | 6,534 | 19,723 |
| 2002 valuation | – | 22,476 | – | – | 22,476 |
| 2005 valuation | 305,124 | – | – | – | 305,124 |
| | <u>305,124</u> | <u>27,100</u> | <u>8,565</u> | <u>6,534</u> | <u>347,323</u> |
| At 1st July, 2005 | 305,124 | 27,100 | 8,565 | 6,534 | 347,323 |
| Additions | – | 568,300 | – | 20 | 568,320 |
| Transfer out | – | (575,324) | – | – | (575,324) |
| At 30th June, 2006 | <u>305,124</u> | <u>20,076</u> | <u>8,565</u> | <u>6,554</u> | <u>340,319</u> |
| Representing: | | | | | |
| Cost | – | – | 8,565 | 6,554 | 15,119 |
| 2002 valuation | – | 20,076 | – | – | 20,076 |
| 2006 valuation | 305,124 | – | – | – | 305,124 |
| | <u>305,124</u> | <u>20,076</u> | <u>8,565</u> | <u>6,554</u> | <u>340,319</u> |
| Accumulated depreciation: | | | | | |
| At 1st July, 2004 | – | 224 | 6,714 | 6,254 | 13,192 |
| Charge for the year | – | 66 | 758 | 75 | 899 |
| Written back on disposal | – | – | – | (4) | (4) |
| At 30th June, 2005 | <u>–</u> | <u>290</u> | <u>7,472</u> | <u>6,325</u> | <u>14,087</u> |
| At 1st July, 2005 | – | 290 | 7,472 | 6,325 | 14,087 |
| Charge for the year | – | 66 | 758 | 61 | 885 |
| Written back on transfer out | – | (16) | – | – | (16) |
| At 30th June, 2006 | <u>–</u> | <u>340</u> | <u>8,230</u> | <u>6,386</u> | <u>14,956</u> |
| Net book value: | | | | | |
| At 30th June, 2006 | <u>305,124</u> | <u>19,736</u> | <u>335</u> | <u>168</u> | <u>325,363</u> |
| At 30th June, 2005 | <u>305,124</u> | <u>26,810</u> | <u>1,093</u> | <u>209</u> | <u>333,236</u> |
| Tenure of title to properties: | | | | | |
| 2006 | | | | | |
| Held in Hong Kong | | | | | |
| – Long leases | 300,000 | 19,736 | – | – | 319,736 |
| – Medium term leases | 5,124 | – | – | – | 5,124 |
| | <u>305,124</u> | <u>19,736</u> | <u>–</u> | <u>–</u> | <u>324,860</u> |
| 2005 | | | | | |
| Held in Hong Kong | | | | | |
| – Long leases | 300,000 | 26,810 | – | – | 326,810 |
| – Medium term leases | 5,124 | – | – | – | 5,124 |
| | <u>305,124</u> | <u>26,810</u> | <u>–</u> | <u>–</u> | <u>331,934</u> |

- (i) The group's investment properties which are situated in Hong Kong and held under long and medium term leases, have been revalued at 30th June, 2006 by Professional Property Services Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for development potential or reversionary potential as appropriate.
- (ii) The group's investment properties which are situated in the United Kingdom and are freehold properties, have been revalued at 30th June, 2006 by SAVILLS Commercial Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for reversionary potential.
- (iii) The gross carrying amounts of investment properties of the group held for use in operating leases were \$1,826,808,000 (2005: \$1,660,753,000). Further details of the leasing arrangements are contained in note 30(a).
- (iv) The carrying amount of other properties of the group at 30th June, 2006 would have been \$11,575,000 (2005: \$13,888,000) had they been carried at cost less accumulated depreciation.

Notes on The Financial Statements (Continued)

14. INTEREST IN SUBSIDIARIES

| | The company | |
|--------------------------|-------------|-----------|
| | 2006 | 2005 |
| | \$000's | \$000's |
| Unlisted shares, at cost | 1,018,356 | 1,018,356 |

Details of the subsidiaries are as follows:-

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

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES

| | The group | |
|--------------------------------------|----------------|-----------------------|
| | 2006 | 2005 |
| | \$000's | \$000's (restated) |
| Share of net assets | 93,695 | 13,098 |
| Loans to jointly controlled entities | <u>740,057</u> | <u>754,557</u> |
| | <u>833,752</u> | <u>767,655</u> |

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

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

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

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The following supplementary financial information is disclosed relating to the group's effective share of the four principal jointly controlled entities based on the management accounts of the respective jointly controlled entities at 30th June:

(i) Swire and Island Communication Developments Limited

| | 2006 | 2005 |
|-----------------------------|----------------|-----------------------|
| | \$000's | \$000's (restated) |
| (a) Profit and loss account | | |
| Income (Note) | 110,838 | 62,781 |
| Expenses | (45,431) | (10,026) |
| Profit before taxation | 65,407 | 52,755 |
| Taxation | (11,404) | (5,718) |
| Profit after taxation | <u>54,003</u> | <u>47,037</u> |
| (b) Balance sheet | | |
| Fixed assets | 291,602 | 282,803 |
| Current assets | 6,686 | 40,319 |
| Current liabilities | (14,974) | (9,029) |
| Deferred taxation | (17,176) | (14,758) |
| Net assets | <u>266,138</u> | <u>299,335</u> |

(ii) Island Land Development Limited

| | 2006 | 2005 |
|-----------------------------|-----------------|-----------------------|
| | \$000's | \$000's (restated) |
| (a) Profit and loss account | | |
| Income (Note) | 127,144 | 156,126 |
| Expenses | (7,716) | (7,614) |
| Profit before taxation | 119,428 | 148,512 |
| Taxation | (1,198) | (1,367) |
| Profit after taxation | <u>118,230</u> | <u>147,145</u> |
| (b) Balance sheet | | |
| Fixed assets | 536,000 | 432,500 |
| Deferred expenditure | - | 61 |
| Retirement benefit assets | 80 | 64 |
| Current assets | 7,567 | 3,983 |
| Current liabilities | (540,676) | (553,065) |
| Deferred taxation | (18,537) | (17,339) |
| Net liabilities | <u>(15,566)</u> | <u>(133,796)</u> |

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

(iii) Hareton Limited

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|-------------------------|-------------------------|
| | \$000's | \$000's |
| (a) Profit and loss account | | |
| Income | 470 | 484 |
| Expenses | <u>(34)</u> | <u>(125)</u> |
| Profit before taxation | 436 | 359 |
| Taxation | <u>—</u> | <u>—</u> |
| Profit after taxation | <u><u>436</u></u> | <u><u>359</u></u> |
| (b) Balance sheet | | |
| Current assets | 50,703 | 50,443 |
| Current liabilities | <u>(207,845)</u> | <u>(208,021)</u> |
| Net assets | <u><u>(157,142)</u></u> | <u><u>(157,578)</u></u> |

(iv) Uttoxeter Limited

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|---------------------|---------------------|
| | \$000's | \$000's |
| (a) Profit and loss account | | |
| Income | 1,585 | 17,142 |
| Expenses | <u>(14)</u> | <u>(8,050)</u> |
| Profit before taxation | 1,571 | 9,092 |
| Taxation | <u>(243)</u> | <u>(1,575)</u> |
| Profit after taxation | <u><u>1,328</u></u> | <u><u>7,517</u></u> |
| (b) Balance sheet | | |
| Current assets | 3,423 | 9,872 |
| Current liabilities | <u>(3,158)</u> | <u>(4,735)</u> |
| Net assets | <u><u>265</u></u> | <u><u>5,137</u></u> |

Note: Income includes revaluation gains on investment properties.

16. OTHER INVESTMENTS

| | <u>The group</u> | |
|--|----------------------|----------------------|
| | <u>2006</u> | <u>2005</u> |
| | \$000's | \$000's |
| Equity securities listed in Hong Kong, at fair value | <u><u>11,876</u></u> | <u><u>11,786</u></u> |

Notes on The Financial Statements (Continued)

17. DEFINED BENEFIT RETIREMENT SCHEMES

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

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

| | 2006 | 2005 |
|---|--------------|----------------|
| | \$000's | \$000's |
| Present value of the funded obligations | 9,498 | 9,488 |
| Fair value of scheme assets | (11,319) | (11,220) |
| Net unrecognised actuarial gains | 1,018 | 588 |
| | <u>(803)</u> | <u>(1,144)</u> |

(b) Movements in net assets recognised in the balance sheets are as follows:

| | 2006 | 2005 |
|---|--------------|----------------|
| | \$000's | \$000's |
| Balance brought forward | (1,144) | (1,640) |
| Expenses for the year recognised in the profit and loss account | 341 | 496 |
| | <u>(803)</u> | <u>(1,144)</u> |

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

| | 2006 | 2005 |
|----------------------------------|------------|------------|
| | \$000's | \$000's |
| Current service cost | 261 | 320 |
| Interest cost | 356 | 363 |
| Expected return on scheme assets | (280) | (187) |
| Actuarial gain recognised | 4 | - |
| | <u>341</u> | <u>496</u> |

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

| | 2006 | 2005 |
|--------------------------------|------------|--------------|
| | \$000's | \$000's |
| Actual return on scheme assets | <u>250</u> | <u>(129)</u> |

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

| | 2006 | 2005 |
|--|------------|------------|
| Discount rate | 4.75% p.a. | 3.75% p.a. |
| Expected rate of return on scheme assets | 2.50% p.a. | 2.50% p.a. |
| Future salary increases | 2.50% p.a. | 2.50% p.a. |

18. PROPERTY UNDER DEVELOPMENT FOR SALE

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

Notes on The Financial Statements (Continued)

19. DEBTORS, DEPOSITS AND PREPAYMENTS

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

| | <u>2006</u> | <u>2005</u> |
|---------------------|-------------|-------------|
| | \$000's | \$000's |
| Current | 393 | 247 |
| 1 - 3 months | <u>–</u> | <u>91</u> |
| Total trade debtors | <u>393</u> | <u>338</u> |

A defined credit policy is maintained within the Group.

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

| | <u>The group</u> | | <u>The company</u> | |
|-----------------------------------|------------------|--------------|--------------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| | \$000's | \$000's | \$000's | \$000's |
| Debtors, deposits and prepayments | <u>1,126</u> | <u>1,121</u> | <u>165</u> | <u>165</u> |

20. CASH AND CASH EQUIVALENTS

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

| | <u>The group</u> | |
|-----------------------|------------------|------------------|
| | <u>2006</u> | <u>2005</u> |
| | \$000's | \$000's |
| United States dollars | USD 129,935 | USD 124,798 |
| Sterling Pounds | <u>GBP 6,764</u> | <u>GBP 4,726</u> |

Notes on The Financial Statements (Continued)

21. CREDITORS AND ACCRUALS

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

| | <u>2006</u> | <u>2005</u> |
|------------------------|-------------|-------------|
| | \$000's | \$000's |
| Due within 1 month | 29 | – |
| Due from 1 to 3 months | 56 | – |
| Due after 3 months | <u>201</u> | <u>201</u> |
| | <u>286</u> | <u>201</u> |

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

| | <u>The group</u> | | <u>The company</u> | |
|------------------------|------------------|--------------|--------------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| | \$000's | \$000's | \$000's | \$000's |
| Creditors and accruals | <u>18,948</u> | <u>2,959</u> | <u>3,480</u> | <u>208</u> |

22. AMOUNTS DUE FROM/DUE TO SUBSIDIARIES

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

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Notes on The Financial Statements (Continued)

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

| | The group | | The company | |
|--|-----------|---------|-------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's | \$000's | \$000's |
| Provision for Hong Kong Profits Tax for the year | 93 | 104 | - | - |
| Provisional Profits Tax paid | - | (57) | - | - |
| | 93 | 47 | - | - |
| Balance of profits tax payable relating to prior years | 46 | 1,349 | - | 1,349 |
| | 139 | 1,396 | - | 1,349 |
| Overseas taxation | 3,805 | 3,507 | - | - |
| | 3,944 | 4,903 | - | 1,349 |

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

| | The group | | The company | |
|--------------------------|-----------|---------|-------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's | \$000's | \$000's |
| Deferred tax assets | - | - | - | - |
| Deferred tax liabilities | 128,756 | 88,390 | 51,589 | 51,595 |
| | 128,756 | 88,390 | 51,589 | 51,595 |

(i) The group

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

| | Depreciation allowances in excess of the related depreciation | Revaluation of investment properties | Contingency reserves and other provisions | Future benefit of tax losses | Total |
|--|---|--------------------------------------|---|------------------------------|--------------------|
| | \$000's | \$000's | \$000's | \$000's | \$000's (restated) |
| Balance at 1st July, 2004 | | | | | |
| - as previously reported | 7,967 | - | (994) | (614) | 6,359 |
| - prior period adjustment | - | 59,988 | - | - | 59,988 |
| | 7,967 | 59,988 | (994) | (614) | 66,347 |
| Charged to the consolidated profit and loss account | 954 | 20,503 | 364 | 222 | 22,043 |
| Balance at 30th June, 2005 | 8,921 | 80,491 | (630) | (392) | 88,390 |
| Balance at 1st July, 2005 | | | | | |
| - as previously reported | 8,921 | - | (630) | (392) | 7,899 |
| - prior period adjustment | - | 80,491 | - | - | 80,491 |
| | 8,921 | 80,491 | (630) | (392) | 88,390 |
| (Credited)/charged to the consolidated profit and loss account | 10,888 | 29,840 | 58 | (420) | 40,366 |
| Balance at 30th June, 2006 | 19,809 | 110,331 | (572) | (812) | 128,756 |

Notes on The Financial Statements (Continued)

23. INCOME TAX IN THE BALANCE SHEET (Continued)

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

(ii) The company

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

| | Depreciation allowances in excess of the related depreciation | Revaluation of investment properties | Contingency reserves and other provisions | Total |
|---|---|--|--|-----------------------|
| | \$000's | \$000's | \$000's | \$000's (restated) |
| Balance at 1st July, 2004 | | | | |
| – as previously reported | 2,781 | – | (980) | 1,801 |
| – prior period adjustment | – | 46,013 | – | 46,013 |
| | <u>2,781</u> | <u>46,013</u> | <u>(980)</u> | <u>47,814</u> |
| (Credited)/charged to the profit and loss account | (69) | 3,500 | 350 | 3,781 |
| Balance at 30th June, 2005 | <u>2,712</u> | <u>49,513</u> | <u>(630)</u> | <u>51,595</u> |
| Balance at 1st July, 2005 | | | | |
| – as previously reported | 2,712 | – | (630) | 2,082 |
| – prior period adjustment | – | 49,513 | – | 49,513 |
| | <u>2,712</u> | <u>49,513</u> | <u>(630)</u> | <u>51,595</u> |
| (Credited)/charged to the profit and loss account | (64) | – | 58 | (6) |
| Balance at 30th June, 2006 | <u>2,648</u> | <u>49,513</u> | <u>(572)</u> | <u>51,589</u> |

(c) Deferred tax assets not recognised

The group has not recognised deferred tax assets in respect of tax losses of \$29,713,000 (2005: \$19,188,000). The tax losses do not expire under current tax legislation.

24. SHARE CAPITAL

| | 2006 | | 2005 | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | No. of shares | Amount \$000's | No. of shares | Amount \$000's |
| Authorised: | | | | |
| Ordinary shares of \$2 each | <u>50,000,000</u> | <u>100,000</u> | <u>50,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | | | |
| At 1st July and 30th June | <u>45,594,656</u> | <u>91,189</u> | <u>45,594,656</u> | <u>91,189</u> |

Notes on The Financial Statements (Continued)

25. RESERVES

| | Capital redemption reserve | Investment properties revaluation reserve | Other properties revaluation reserve | General reserve | Retained profits | Total |
|--|----------------------------------|--|---|--------------------|---------------------|------------------|
| | \$000's | \$000's | \$000's | \$000's | \$000's | \$000's |
| The group | | | | | | |
| At 1st July, 2004 | | | | | | |
| – as previously reported | 1,348 | – | 5,998 | 270,000 | 2,996,741 | 3,274,087 |
| – prior period adjustments in respect of deferred taxation | – | – | – | – | (68,076) | (68,076) |
| – as restated | 1,348 | – | 5,998 | 270,000 | 2,928,665 | 3,206,011 |
| Dividends declared/approved in respect of the previous year (note 9(b)) | – | – | – | – | (100,308) | (100,308) |
| Realisation of other properties revaluation reserve | – | – | (27) | – | 27 | – |
| Profit for the year (as restated) | – | – | – | – | 438,365 | 438,365 |
| Unclaimed dividends forfeited in accordance with article 166 | – | – | – | – | 454 | 454 |
| Transfer to general reserve | – | – | – | 10,000 | (10,000) | – |
| Exchange differences arising on consolidation | – | – | – | – | (9,599) | (9,599) |
| Dividends declared and paid in respect of the current year (note 9(a)) | – | – | – | – | (27,357) | (27,357) |
| At 30th June, 2005 | <u>1,348</u> | <u>–</u> | <u>5,971</u> | <u>280,000</u> | <u>3,220,247</u> | <u>3,507,566</u> |
| At 1st July, 2005 | | | | | | |
| – as previously reported | 1,348 | 266,522 | 5,971 | 280,000 | 3,046,385 | 3,600,226 |
| – prior period adjustments in respect of – investment properties | – | (266,522) | – | – | 266,522 | – |
| – related deferred taxation | – | – | – | – | (92,660) | (92,660) |
| – as restated | 1,348 | – | 5,971 | 280,000 | 3,220,247 | 3,507,566 |
| Dividends declared/approved in respect of the previous year (note 9(b)) | – | – | – | – | (63,832) | (63,832) |
| Realisation of other properties revaluation reserve | – | – | (138) | – | 138 | – |
| Profit for the year | – | – | – | – | 395,213 | 395,213 |
| Transfer to general reserve | – | – | – | 10,000 | (10,000) | – |
| Exchange differences arising on consolidation | – | – | – | – | 17,329 | 17,329 |
| Dividends declared and paid in respect of the current year (note 9(a)) | – | – | – | – | (27,357) | (27,357) |
| At 30th June, 2006 | <u>1,348</u> | <u>–</u> | <u>5,833</u> | <u>290,000</u> | <u>3,531,738</u> | <u>3,828,919</u> |

Notes on The Financial Statements (Continued)

25. RESERVES (Continued)

| | Capital redemption reserve | Investment properties revaluation reserve | Other properties revaluation reserve | General reserve | Retained profits | Total |
|--|----------------------------------|--|---|--------------------|---------------------|-----------------------|
| | \$000's | \$000's | \$000's | \$000's | \$000's | \$000's (restated) |
| The company | | | | | | |
| At 1st July, 2004 | | | | | | |
| – as previously reported | 1,348 | 262,933 | 5,998 | 270,000 | 759,087 | 1,299,366 |
| – prior period adjustments in respect of | | | | | | |
| – investment properties | – | (262,933) | – | – | 262,933 | – |
| – related deferred taxation | – | – | – | – | (46,013) | (46,013) |
| – as restated | 1,348 | – | 5,998 | 270,000 | 976,007 | 1,253,353 |
| Dividends declared/approved in respect of the previous year (note 9(b)) | – | – | – | – | (100,308) | (100,308) |
| Realisation of other properties revaluation reserve | – | – | (27) | – | 27 | – |
| Profit for the year (as restated) | – | – | – | – | 6,834 | 6,834 |
| Unclaimed dividends forfeited in accordance with article 166 | – | – | – | – | 454 | 454 |
| Transfer to general reserve | – | – | – | 10,000 | (10,000) | – |
| Dividends declared and paid in respect of the current year (note 9(a)) | – | – | – | – | (27,357) | (27,357) |
| At 30th June, 2005 (as restated) | <u>1,348</u> | <u>–</u> | <u>5,971</u> | <u>280,000</u> | <u>845,657</u> | <u>1,132,976</u> |
| At 1st July, 2005 | | | | | | |
| – as previously reported | 1,348 | 282,933 | 5,971 | 280,000 | 612,237 | 1,182,489 |
| – prior period adjustments in respect of | | | | | | |
| – investment properties | – | (282,933) | – | – | 282,933 | – |
| – related deferred taxation | – | – | – | – | (49,513) | (49,513) |
| – as restated | 1,348 | – | 5,971 | 280,000 | 845,657 | 1,132,976 |
| Dividends declared/approved in respect of the previous year (note 9(b)) | – | – | – | – | (63,832) | (63,832) |
| Realisation of other properties revaluation reserve | – | – | (138) | – | 138 | – |
| Profit for the year | – | – | – | – | 260,091 | 260,091 |
| Transfer to general reserve | – | – | – | 10,000 | (10,000) | – |
| Dividends declared and paid in respect of the current year (note 9(a)) | – | – | – | – | (27,357) | (27,357) |
| At 30th June, 2006 | <u>1,348</u> | <u>–</u> | <u>5,833</u> | <u>290,000</u> | <u>1,004,697</u> | <u>1,301,878</u> |

Notes on The Financial Statements (Continued)

25. RESERVES (Continued)

The directors consider that all of the general reserve and \$727,492,000 (2005 (restated): \$568,452,000) of the retained profits of the company, totalling \$1,017,492,000 (2005 (restated): \$848,452,000), are distributable.

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

26. DEFERRED PROFITS

| | The group | | The company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000's | \$000's | \$000's | \$000's |
| At 1st July | 451,198 | 451,198 | 237,225 | 237,225 |
| Realised during the year | (10,001) | — | (7,093) | — |
| At 30th June | <u>441,197</u> | <u>451,198</u> | <u>230,132</u> | <u>237,225</u> |

27. CONTINGENCY RESERVES

| | Group and company | |
|--|-------------------|--------------|
| | 2006 | 2005 |
| | \$000's | \$000's |
| Third party claims | | |
| At 1st July | 3,600 | 5,600 |
| Payments during the year | (329) | (97) |
| Provision written back for the year | — | (1,903) |
| Reclassified to creditors and accruals | (3,271) | — |
| At 30th June | <u>—</u> | <u>3,600</u> |

Notes on The Financial Statements (Continued)

28. FINANCIAL INSTRUMENTS

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

(a) Credit risk

The group's credit risk is primarily attributable to bank deposits, rental, other trade and accounts receivables. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. There are no significant concentrations of credit risk within the group.

(b) Liquidity risk

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

(c) Interest rate risk

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

| | 2006 | | 2005 | |
|------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Effective interest rate (%) | Within one year \$000's | Effective interest rate (%) | Within one year \$000's |
| Cash and bank balances | 3.61-5.17 | 1,248,948 | 3.01-4.5625 | 1,701,052 |

(d) Foreign currency risk

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

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

(e) Fair value

Financial instruments are carried at amounts not materially different from their fair values as at 30th June, 2006 and 2005.

Notes on The Financial Statements (Continued)

29. CAPITAL COMMITMENTS

Contracted for capital commitments outstanding at 30th June, 2006 amounted to \$12,591,000 (2005: \$Nil).

30. OPERATING LEASES

(a) Significant leasing arrangements

The group leases out investment properties in Hong Kong and United Kingdom under operating leases. The leases for investment properties in Hong Kong typically run for an initial period of one to three years. The leases for investment properties in United Kingdom run for an initial period of fourteen to twenty five years. Lease payments are subject to upward only rent review for every 5 years for investment properties in United Kingdom. One of the leases in United Kingdom is subject to upward only rent review in September 2006 and 2011. One of the leases includes contingent rentals. Further details of the carrying value of the investment properties are contained in note 13.

\$68,018,000 (2005: \$67,378,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

(b) Future operating lease income

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

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|----------------|----------------|
| | \$000's | \$000's |
| Within one year | 68,897 | 65,908 |
| After one but within five years | 226,565 | 226,707 |
| After five years | <u>539,550</u> | <u>582,127</u> |
| | <u>835,012</u> | <u>874,742</u> |

31. MATERIAL RELATED PARTY TRANSACTIONS

Loans to the jointly controlled entities at 30th June, 2006 are disclosed in note 15. The loans are unsecured, interest-free and have no fixed terms of repayment.

Notes on The Financial Statements (Continued)

32. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Valuation of investment properties

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

(b) Properties under development for sale

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

Notes on The Financial Statements (Continued)

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 30TH JUNE, 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 30th June, 2006 and which have not been adopted in these financial statements:

| | | Effective for accounting periods beginning on or after |
|---|--|--|
| HK(IFRIC) 4 | Determining whether an arrangement contains a lease | 1st January, 2006 |
| Amendments to HKAS 19 | Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures | 1st January, 2006 |
| Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to: | | |
| - HKAS 1 | Presentation of financial statements | 1st January, 2006 |
| - HKAS 27 | Consolidated and separate financial statements | 1st January, 2006 |
| - HKFRS 3 | Business combinations | 1st January, 2006 |
| HKFRS 7 | Financial instruments: disclosures | 1st January, 2007 |
| Amendments to HKAS 1 | Presentation of financial statements: capital disclosures | 1st January, 2007 |

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1st December, 2005 and would be first applicable to the group's financial statements for the period beginning 1st July, 2006.

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

Financial Summary

(Expressed in Hong Kong dollars)

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | \$000's | \$000's (restated) | \$000's (restated) | \$000's (restated) | \$000's (restated) |
| CONSOLIDATED PROFIT AND LOSS ACCOUNT | | | | | |
| Turnover | <u>68,018</u> | <u>67,378</u> | <u>93,844</u> | <u>87,987</u> | <u>71,684</u> |
| Operating profit | 117,584 | 77,000 | 100,665 | 114,617 | 104,556 |
| Share of results of jointly controlled entities (notes 2, 3 and 4) | 173,997 | 202,059 | 57,889 | 16,715 | 28,519 |
| Valuation gains/(losses) on investment properties (note 2) | <u>148,726</u> | <u>186,517</u> | <u>91,762</u> | <u>(19,310)</u> | <u>(47,722)</u> |
| Profit before taxation | 440,307 | 465,576 | 250,316 | 112,022 | 85,353 |
| Taxation (notes 1, 3 and 4) | <u>(45,094)</u> | <u>(27,211)</u> | <u>(20,670)</u> | <u>(18,363)</u> | <u>(3,746)</u> |
| Profit after taxation and attributable to the group | <u><u>395,213</u></u> | <u><u>438,365</u></u> | <u><u>229,646</u></u> | <u><u>93,659</u></u> | <u><u>81,607</u></u> |
| CONSOLIDATED BALANCE SHEET | | | | | |
| Fixed assets | 1,848,115 | 1,689,545 | 1,503,223 | 1,310,592 | 1,075,449 |
| Interest in jointly controlled entities (notes 1 and 3) | 833,752 | 767,655 | 610,746 | 689,307 | 786,591 |
| Other investments | 11,876 | 11,786 | 10,801 | 3,512 | 4,009 |
| Defined benefit asset | 803 | 1,144 | 1,640 | 2,105 | - |
| Net current assets | <u>1,795,515</u> | <u>1,671,813</u> | <u>1,693,935</u> | <u>1,597,856</u> | <u>2,514,404</u> |
| | <u><u>4,490,061</u></u> | <u><u>4,141,943</u></u> | <u><u>3,820,345</u></u> | <u><u>3,603,372</u></u> | <u><u>4,380,453</u></u> |
| Representing:- | | | | | |
| Share capital | 91,189 | 91,189 | 91,189 | 91,189 | 91,482 |
| Reserves (notes 1 and 3) | <u>3,828,919</u> | <u>3,507,566</u> | <u>3,206,011</u> | <u>2,995,454</u> | <u>3,754,956</u> |
| Shareholders' funds | 3,920,108 | 3,598,755 | 3,297,200 | 3,086,643 | 3,846,438 |
| Deferred profits | 441,197 | 451,198 | 451,198 | 451,198 | 451,198 |
| Contingency reserves | - | 3,600 | 5,600 | 10,700 | 42,400 |
| Deferred taxation (notes 1 and 3) | <u>128,756</u> | <u>88,390</u> | <u>66,347</u> | <u>54,831</u> | <u>40,417</u> |
| | <u><u>4,490,061</u></u> | <u><u>4,141,943</u></u> | <u><u>3,820,345</u></u> | <u><u>3,603,372</u></u> | <u><u>4,380,453</u></u> |
| Earnings per share | <u>\$8.67</u> | <u>\$9.61</u> | <u>\$5.04</u> | <u>\$2.05</u> | <u>\$1.79</u> |
| Dividends per share | <u>\$2.00</u> | <u>\$2.80</u> | <u>\$2.00</u> | <u>\$19.50</u> | <u>\$2.90</u> |

Notes:

1. These figures in 2003 and 2002 have been restated pursuant to the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) "Income taxes".
2. These figures in 2005, 2004, 2003 and 2002 have been restated pursuant to the adoption of Hong Kong Accounting Standard 40, "Investment property".
3. These figures in 2005, 2004, 2003 and 2002 have been restated pursuant to the adoption of HK(SIC) Interpretation 21 "Income taxes - Recovery of revalued non-depreciable assets".
4. These figures in 2005, 2004, 2003 and 2002 have been restated pursuant to the adoption of HKAS 1, "Presentation of financial statements".

Group Properties

Properties held for investment

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

Property under development held for sale

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