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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Far East Consortium International Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

**FAR EAST CONSORTIUM INTERNATIONAL LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fecil.com.hk>

(Stock code: 35)

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
THE PROPOSED SPIN-OFF OF
HONG KONG HOTEL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF THE STOCK EXCHANGE**

Financial adviser to Far East Consortium International Limited



SOMERLEY LIMITED

**Independent Financial Adviser to
the Independent Board Committee and the Shareholders**



KingswayGroup

Kingsway Capital Limited

A letter of recommendation from the Independent Board Committee to the Shareholders and a letter of advice from Kingsway Capital to the Independent Board Committee and the Shareholders regarding the Spin-off are set out respectively on page 56 and pages 57 to 85 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on 4 February 2008 at the La Maison de l'Orient, 1/F., Cosmopolitan Hotel, 389-397 Queen's Road East, Wanchai, Hong Kong, is set out on pages 218 to 219 of this circular. Whether or not you will be able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

18 January 2008

EXPECTED TIMETABLE

2008

Last day for dealing in Shares cum-entitlement to the Preferential Offering	Monday, 28 January
First day for dealing in Shares ex-entitlement to the Preferential Offering	Tuesday, 29 January
Latest time for lodging transfer of Shares cum-entitlement to the Preferential Offering	4:30 p.m. on Wednesday, 30 January
	Thursday, 31 January to
Register of members of the Company closes	Monday, 4 February
Latest time for return of proxy forms in respect of the EGM	10:30 a.m. on Saturday, 2 February
Record Date for determining the entitlement to the Preferential Offering	Monday, 4 February
EGM	10:30 a.m. on Monday, 4 February
Register of members of the Company re-opens	Tuesday, 5 February

All times refer to Hong Kong local time.

Please be noted that the above timetable is subject to change. If there are changes to the above timetable, the Company will publish an announcement as soon as practicable.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition Fee”	acquisition fee payable to the REIT Manager not exceeding the rate of 1.0% of the acquisition price for any real estate purchased directly or indirectly by HK Hotel REIT (pro-rated if applicable to the proportion of HK Hotel REIT’s interest in the real estate acquired) or such other rates as may be fixed or determined pursuant to the Trust Deed
“Adjusted Gross Revenues”	Gross Revenues less the following revenues actually received by the relevant Hotel and included in Gross Revenues: <ul style="list-style-type: none">(a) any credits, rebates or refunds made to customers, guests or patrons in the ordinary course of business of the relevant Hotel;(b) any sums and credits received by the Lessee for lost or damaged merchandise not covered by paragraphs (f) and (g) below;(c) any indirect taxes borne by the guests or patrons of the relevant Hotel and collected by the relevant Hotel on behalf of any government or taxation authorities, including for example any sales tax, value added tax, excise tax, gross receipt tax, admission tax, entertainment tax, tourist tax or like charges, if applicable, but only to the extent that such taxes are actually paid or accounted for by the Lessee to such government or taxation authorities;(d) any proceeds from the sale or other disposition of the Lessee’s Trade Fixtures, Fittings and Equipment or other capital assets;(e) any interest received with respect to the capital replacement fund;(f) any condemnation awards;(g) any fire and extended coverage insurance proceeds;(h) any proceeds of financing or refinancing of the relevant Hotel;

DEFINITIONS

(i) any interest on the operating bank accounts of the relevant Hotel; and

(j) any gain or loss of the Lessee resulting from foreign exchange activities

“Adjustment Sum”

the aggregate amount (which may be positive, zero or negative) equivalent of Units, being all the Units to be issued and outstanding on the Listing Date, multiplied by the Offer Price:–

(a) minus the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular) multiplied by the number of Units to be issued and outstanding on the Listing Date; and

(b) (i) (where the Adjustment Sum before taking this item (b) into account is positive) minus the sum of the additional amount of fees, commissions and expenses (including, without limitation, any and all underwriting commission and additional incentive fee) payable by HK Hotel REIT or the REIT Manager as a result of the Offer Price being determined at a level above the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular); or

(ii) (where the Adjustment Sum before taking this item (b) into account is negative) plus the total reduction in the amount of fees, commission and expenses payable by HK Hotel REIT or the REIT Manager as a result of the Offer Price being finally determined at a level below the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular)

“Agreed Acquisition Value”

in respect of each Hotel, the acquisition value of such Hotel and the related prepaid lease payments and furniture, fixture and equipment, as agreed between the Vendor, the Trustee (as trustee of HK Hotel REIT) and the REIT Manager pursuant to the REIT Holdco Sale and Purchase Agreement and “Agreed Acquisition Values” means the aggregate Agreed Acquisition Value

DEFINITIONS

“Agreed Value”	the sum of Agreed Acquisition Values and the Adjustment Sum
“Appraised Value”	the value of a Hotel and the related prepaid lease payments and furniture, fixture and equipment, as at 30 November 2007, as appraised by the Independent Property Valuer as set out in Appendix III to this circular and “Appraised Values” means the aggregate Appraised Value
“Assured Entitlement”	the entitlement of Qualifying Shareholders to apply for Reserved Units under the Preferential Offering
“Authorisation”	the authorisation of HK Hotel REIT by the SFC under section 104 of the SFO
“average room rates”	room revenue of (a) hotel(s) (including related service charges) during a period divided by the number of occupied rooms of such hotel(s) during the corresponding period
“Base Fee”	a base fee payable to the REIT Manager not exceeding 0.3% per annum of the Property Value at the relevant time or such other rate as may be fixed or determined pursuant to the Trust Deed
“Board”	the board of Directors
“Business Day”	a day (excluding Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays and 9:00 a.m. and 12:00 noon on Saturdays) on which licensed banks are open for general business in Hong Kong
“Call Option(s)”	the call option(s) to be granted by the Company (on behalf of the Group) to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) under the Option Deed to require the Remaining Group to sell to the HK Hotel REIT Group each of the Retained Hotels (or the shares in and shareholders loans to the company(ies) holding the relevant Retained Hotel(s)) upon the terms of the Option Deed
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“Completion”	the completion of the sale and purchase of REIT Holdco by the Trustee (on behalf of HK Hotel REIT) pursuant to REIT Holdco Sale and Purchase Agreement
“Deed of Indemnity”	the deed of undertaking and indemnity to be entered into by the Company in favour of the Trustee (as trustee of HK Hotel REIT), REIT Holdco and The Hotel of Lan Kwai Fong Limited
“Deed of Tax Covenant”	the deed of tax covenant to be entered into by the Vendor and the Company in favour of the Trustee (as trustee of HK Hotel REIT) and REIT Holdco
“Deed of Trade Mark Licence”	the deed to be entered into among Dorsett Hotels & Resorts International Limited, the REIT Manager, the Lessors, REIT Holdco and the Finance Company relating to trademark and service mark licences to be granted to the REIT Manager, each respective Lessor, REIT Holdco and the Finance Company
“Directors”	directors of the Company
“Divestment Fee”	divestment fee payable to the REIT Manager not exceeding the rate of 0.5% of the sale price of any real estate directly or indirectly sold or divested by HK Hotel REIT (pro-rated if applicable to the proportion of HK Hotel REIT’s interest in the real estate sold) or such other rates as may be fixed or determined pursuant to the Trust Deed
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if though fit, approve the Spin-off and other related matters
“Existing Borrowings”	the aggregate amount of indebtedness (whether principal, interest or otherwise) owing and outstanding by the REIT Holdco Group to the Group (other than the REIT Holdco Group) immediately prior to Completion

DEFINITIONS

“Facility”	the proposed secured credit facility for an aggregate amount of HK\$2,000 million (subject to finalisation before the completion of the Spin-off) to be extended to the Finance Company, comprising a term loan facility and a revolving credit facility
“FEC” or “Company”	Far East Consortium International Limited, a company incorporated in the Cayman Islands with limited liabilities, the shares of which are listed on the Main Board of the Stock Exchange
“Finance Company”	Hong Kong Hotel REIT Finance Company Limited, a company incorporated in Hong Kong
“Fixed Rental”	the fixed rental payable by the Lessee to the relevant Lessor in respect of each Lease and “Fixed Rentals” means the aggregate of the fixed rental payable by the Lessee to the Lessors in respect of all Leases
“GAAPs”	generally accepted accounting principles
“General Rules of CCASS”	the general rules of CCASS, as may be amended from time to time
“Global Offering”	the Hong Kong Public Offering and the International Offering (including the Preferential Offering)
“Gross Operating Profit” or “GOP”	the amount, if any, by which the Adjusted Gross Revenues for any relevant period exceeds the total of the Operating Costs for the corresponding period
“Gross Operating Profit Margin” or “GOP Margin”	the percentage calculated by dividing GOP by Adjusted Gross Revenues

DEFINITIONS

- “Gross Revenue” as used in the Hotel Management Agreements and the Leases, means all revenues, receipts and income of any nature derived directly or indirectly from the relevant Hotel or from the use or operation thereof, including, but not limited to, total room sales, food and beverages sales, revenue from laundry and dry cleaning services, telephone, internet, other telecommunications services, facsimile services, rental (including turnover rent where applicable) or other payments from licensees, sub-lessees and concessionaires payable to the Lessee pursuant to the terms and conditions of the Permitted Underlease and concessionaire agreements, as the case may be (but not their gross receipts) and the proceeds of business interruption, public liability, automobile liability, automobile physical damage, workmen’s compensation, employer’s liability, fidelity (employee dishonesty), moneys and securities and other similar operational insurance and without prejudice to the generality of the above shall include:
- (a) all amounts received or receivable from orders which originate or are received or accepted at or from the Hotel notwithstanding that delivery or performance is made at or from any place other than the relevant Hotel;
 - (b) all service charges levied or imposed by the Lessee on services delivered to or goods sold or otherwise disposed of to and paid by customers, guests or patrons provided that in calculating the amount of the Gross Revenues no deduction shall be made for bad or doubtful debts.
- “Group” the Company and its subsidiaries
- “High Tariff B” the classification for those hotels with a composite score between 2.00 and 2.99, according to the Hong Kong Tourism Board classification system, where the score is based on facilities, location, staff to room ratio, achieved room rate and business mix of a hotel with each aspect weighted differently and the group of hotels under this classification is the group of the second best quality hotels in Hong Kong

DEFINITIONS

“HK Hotel REIT”	Hong Kong Hotel Real Estate Investment Trust, a collective investment scheme which will be constituted as a unit trust and is subject to authorisation by the SFC under section 104 of the SFO and other applicable conditions from time to time
“HK Hotel REIT Group”	HK Hotel REIT and companies to be owned and controlled by HK Hotel REIT in accordance with the REIT Code
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Financial Reporting Standards”	Hong Kong Financial Reporting Standards promulgated by Hong Kong Institute of Certified Public Accountants, as amended, supplemented or otherwise modified for the time being
“Hong Kong Public Offering”	the offer of the Units to the public in Hong Kong on and subject to the terms and conditions to be further described in the Offering Circular and the application forms
“Hotel Companies”	the respective direct owners of the Hotels on Completion (being (i) The Hotel of Lan Kwai Fong Limited, in relation to Lan Kwai Fong Hotel; (ii) Caragis Limited and Vicsley Limited, in relation to Central Park Hotel; (iii) Cosmopolitan Hotel Limited, in relation to Cosmopolitan Hotel; (iv) Grand Expert Limited, in relation to Cosmo Hotel; (v) Charter Joy Limited, in relation to Dorsett Seaview Hotel; (vi) Double Advance Group Limited, in relation to Dorsett Olympic Hotel; (vii) Complete Delight Limited, in relation Dorsett Far East Hotel) and “Hotel Company” means any one of The Hotel of Lan Kwai Fong Limited, Caragis Limited, Vicsley Limited, Cosmopolitan Hotel Limited, Grand Expert Limited, Charter Joy Limited, Double Advance Group Limited and Complete Delight Limited, each being an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Hotel Management Agreement(s)”	the agreement(s) to be entered into among the Lessee, the Hotel Manager, the respective Lessor(s) and the Company relating to the provision of certain hotel management and marketing services in respect of the Hotel(s)

DEFINITIONS

“Hotel Manager”	Dorsett Hotels & Resorts (H.K.) Limited, an indirect wholly-owned subsidiary of FEC
“Hotels”	Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel and “Hotel” means any one of them
“Income”	all rents (including Fixed Rental and Variable Rental), interest, dividends, distributions, licence fees, service charges, advertising revenue and such other receipts (including taxation rebates) considered by the REIT Manager after consulting the auditors to be in the nature of income in accordance with the Hong Kong GAAPs
“Independent Board Committee”	the independent board committee of the Company, comprising of all of the independent non-executive Directors, namely Mr. Jian Yin Jiang, Mr. Kwok Wai Chan and Mr. Peter Man Kong Wong, established to advise the Shareholders regarding the terms and conditions of the Spin-off
“Independent Financial Adviser” or “Kingsway Capital”	Kingsway Capital Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Spin-off
“Independent Property Valuer”	CB Richard Ellis Limited
“International Offering”	the proposed offer of Units to institutional, professional and other investors
“Latest Practicable Date”	14 January 2008, being the latest practicable date prior to the bulk-printing of this circular for ascertaining certain information contained in this circular
“Lease(s)”	the respective lease(s) to be entered into between the respective Lessor(s) and the Lessee in relation to leasing of the respective Hotel(s)
“Lease Guarantee(s)”	the lease guarantee(s) to be granted by the Company as guarantor in favour of the respective Lessor(s) and the Trustee (as trustee of HK Hotel REIT) in respect of the respective Lease(s)

DEFINITIONS

“Lessee”	Ondella International Limited, being the proposed sole lessee of the Hotels and is a wholly-owned subsidiary of the Company
“Lessee’s Costs”	<p>include:</p> <ul style="list-style-type: none">(a) the Hotel Manager’s fees under the relevant Hotel Management Agreement;(b) depreciation of the Lessee’s Trade Fixtures, Fittings and Equipment;(c) all taxes and assessments (including, for the avoidance of doubt, any goods and services tax but excluding income and/or withholding taxes on the Hotel Manager’s fees, such taxes being treated as Operating Costs);(d) expenditures for capital replacements;(e) audit fees;(f) reasonably incurred legal, other professional and other fees not relating to the operation of the relevant Hotel;(g) reasonably incurred insurance premiums for insurance coverage, other than for business interruption, public liability, automobile liability, automobile physical damage, workmen’s compensation, employer’s liability, fidelity (employee dishonesty), moneys and securities and other similar insurance which covers the operational aspects of the relevant Hotel and is agreed between the parties to form part of the Operating Costs in the Hotel Management Agreement;(h) the Fixed Rental and any other payments (excluding the Variable Rental) payable by the Lessee pursuant to the terms of the relevant Lease; and(i) any financing costs of the Lessee relating to the operation of the relevant Hotel

DEFINITIONS

“Lessee’s Trade Fixtures, Fittings and Equipment”	all those Lessor’s Fittings which are being renewed, upgraded, improved or replaced and any new fixtures, fittings and chattels being installed, erected or affixed by the Lessee in, on or at the relevant Hotel from time to time during the term of the relevant Lease
“Lessor(s)”	the Hotel Company(ies)
“Lessor’s Fitting”	all the loose and fixed furniture, fixtures, fittings furnishings, chattels, appliances and equipment already installed, erected, affixed and placed at the commencement of the term of the relevant Lease in, on or at the relevant Hotel to maintain the relevant Hotel at the Prescribed Standards and at the operating capacity of the Hotel and which shall from time to time be maintained by the Lessee such “Lessors Fitting” to include but are not limited to doors, light fittings, suspended ceiling, marble and hardwood floor, wall coverings, paintings, papering and all decorations, office machinery, equipment and amenities, kitchen equipment, cleaning equipment, workshop machinery, telecommunication equipment, computer equipment and vehicles
“Listing Approval”	the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Units on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Units are first listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Structure”	structural beams, structural columns, structural floor slabs, load bearing walls, roof which includes main roof, top roof and flat roof, back staircases linking each floor of the Hotel
“Medium Tariff”	the classification of those hotels with a composite score between 1.00 and 1.99, according to the Hong Kong Tourism Board classification system, where the score is based on facilities, location, staff to room ratio, achieved room rate and business mix of a hotel with each aspect weighted differently and the group of hotels under this classification is the group of the third best quality hotels in Hong Kong

DEFINITIONS

“NAV”	net asset value, which is calculated as total assets minus total liabilities
“Net Hotel Profit”	Gross Operating Profit less Lessee’s Costs
“Net Property Income”	at any time Income less Property Expenses
“Non-compete Deed”	the non-compete deed to be entered into among the Company, the REIT Manager and the Trustee (on behalf of HK Hotel REIT)
“number of room nights available”	the number of guest rooms available for letting of (a) hotel(s)
“occupancy rate”	number of occupied rooms of (a) hotel(s) during a period divided by the number of room nights available of such hotel(s) during the corresponding period
“Offer Price”	the final Hong Kong dollar price per Unit (exclusion of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) at which the Units are to be issued and allotted pursuant to the Global Offering, to be further described in the Offering Circular
“Offering Circular”	the offering circular to be issued by the REIT Manager in relation to the Global Offering
“Operating Costs”	<p>the entire cost and expense of the operation of the relevant Hotel which, for the avoidance of doubt, include:</p> <ul style="list-style-type: none">(a) all expenses disbursed by the Hotel Manager on behalf of the Lessee in operating and managing the relevant Hotel in accordance with the terms of the relevant Hotel Management Agreement;(b) the cost of Operating Equipment and Operating Supplies, utility and energy costs, operating licences and permits, grounds and landscaping maintenance costs;(c) in relation to the employees of the relevant Hotel, wages, salaries, employee fringe benefits, compensation, advertising and promotional expenses and the cost of personnel training programmes and all ancillary costs in respect of such hotel employees;

DEFINITIONS

- (d) certain travel and living expenses incurred by employees of the Hotel Manager or its affiliated companies;
- (e) all expenditures made for maintenance and repairs to keep the relevant Hotel (other than the Main Structure) in good condition and repair; and
- (f) insurance premiums for business interruption, public liability, automobile liability, automobile physical damage, workmen's compensation, employer's liability, fidelity (employee dishonesty), moneys and securities and other similar insurance which covers the operational aspects of the relevant Hotel and is agreed between the parties to form part of the Operating Costs in the Hotel Management Agreement,

but do not include the Lessee's Costs

“Operating Equipment”

as used in the Lease and the Hotel Management Agreement, means all non-capital items such as china, glassware, linen, silverware, miscellaneous serving equipment, towels, uniforms, tools, utensils, equipment and accessories and adequate spare parts for use in connection with the operation of the relevant Hotel and the term “Operating Equipment” shall include all replacements of the aforesaid by the Lessee during the term of the Lease or the Hotel Management Agreement (as applicable)

“Operating Supplies”

consumable items used in, or held in storage for use in the operation of the relevant Hotel including food, beverages, fuel, soap, cleaning materials, matches, stationery, toilet paper, kitchen supplies, paper products, menus and other similar items and the term “Operating Supplies” shall include all replacements of the aforesaid by the Lessee during the term of the Lease or the Hotel Management Agreement (as applicable)

“Option Deed”

the option deed to be entered into among the Company, the REIT Manager (on behalf of HK Hotel REIT) and the Trustee (on behalf of HK Hotel REIT), in relation to the Call Options

DEFINITIONS

“Over-allotment Option”	the option to be granted by the Company to the joint global coordinators pursuant to the international underwriting agreement to require the Company (or its subsidiaries as it directs) to make available up to a certain number of Units to be offered to investors as part of the International Offering solely to cover the over-allotment of the Units, if any
“Overseas Shareholders”	Shareholders whose addresses on the register of members of the Company are, at the close of business on the Record Date, in a place outside Hong Kong and whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider his/her/its exclusion from the definition of “Qualifying Shareholder” is necessary or expedient
“Permitted Underlease”	underleases (which word shall include sub-tenancy agreements or licence agreements or other similar agreements) in relation to any part of the Hotel permitted to be entered into under the Lease(s)
“PN15”	Practice Note 15 to the Listing Rules
“PRC”	the People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Preferential Offering”	the proposed preferential offer to Qualifying Shareholders on and subject to the terms and conditions to be further described in the Offering Circular and the blue application form
“Prescribed Standards”	the standard commensurate with the High Tariff B or Medium Tariff category (as the case may be) or such other standard as from time to time agreed in writing by all the parties to the relevant Hotel Management Agreement
“Proforma Completion Accounts”	the proforma consolidated balance sheet of the REIT Holdco Group as at the date of the Completion prepared adopting the same accounting policies, practice and principles generally applied in Hong Kong and consistent with those applied to the REIT Holdco Group in previous years

DEFINITIONS

“Property Expenses”	include direct property related expenses, including, without limitation, property insurance expenses borne by HK Hotel REIT (including, but without limitation, taxes related to real estate (including stamp duty), registration fee and business tax), expenses related to upkeep and maintenance of the main structures of the Hotels, and bad debt expenses in relation to Income
“Property Value”	the value of HK Hotel REIT’s attributable interests in all real estate properties directly held by the Trustee or indirectly held by the Trustee through one or more Special Purpose Vehicle(s)
“Qualifying Shareholders”	Shareholders, whose names appeared on the register of members of the Company as holding Shares as of the close of business on the Record Date, other than Overseas Shareholders
“Record Date”	4 February 2008 (or such other date as the Board may determine), being the record date for ascertaining the Assured Entitlement and entitlement to vote at the EGM
“Registrar”	Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, the share registrar of the Company
“REIT(s)”	real estate investment trust(s)
“REIT Code”	the Code on Real Estate Investment Trusts issued by the SFC, as the same may be modified, amended, revised or replaced from time to time, or supplemented either by published guidelines, policies, practice statements, Frequently Asked Questions Relating to Real Estate Investment Trusts or other guidance issued by the SFC or, in any particular case, by specific written guidance issued by the SFC in response to a specific request by the REIT Manager and the Trustee
“REIT Holdco”	Hong Kong Hotel REIT Holdings Limited, a company incorporated in the Cayman Islands as held by the Vendor on the Latest Practicable Date and to be directly wholly-owned by HK Hotel REIT upon Completion. Upon Completion, REIT Holdco will own the entire interests in the Hotels through the Hotel Companies
“REIT Holdco Group”	REIT Holdco and its subsidiaries, from time to time

DEFINITIONS

“REIT Holdco Sale and Purchase Agreement”	the agreement to be entered into among, amongst others, the Vendor, the Company (as guarantor) and the Trustee (on behalf of HK Hotel REIT) for the sale and purchase of the REIT Holdco Shares
“REIT Holdco Shares”	the shares of nominal value of US\$1.00 each comprising the entire issued share capital of REIT Holdco
“REIT Manager”	Hong Kong Hotel Asset Management Limited, the proposed manager of HK Hotel REIT and a wholly-owned subsidiary of FEC
“REIT Manager’s Fee”	collectively, the Base Fee, the Variable Fee, the Acquisition Fee and the Divestment Fee
“Remaining Group”	the Group after the Spin-off
“Reserved Units”	the Units offered pursuant to the Preferential Offering and which are to be allocated out of the Units to be offered under the International Offering
“Retained Hotels”	Dorsett Hong Kong Hotel, Cosmo Kowloon Hotel, Dorsett Kwun Tong Hotel, which are located in Kennedy Town, Tai Kok Tsui and Kwun Tong, Hong Kong respectively, and two other hotels, which are located at nos. 124 to 177, Yu Long West Street, Cheng Du, Sichuan Province, the PRC and no. 118, Jiang Han Street, Jiang An District, Wu Han, Hu Bei Province, the PRC respectively
“RevPAR”	room revenue of (a) hotel(s) (including related service charges) during a period divided by the number of room nights available of such hotel(s) during the corresponding period
“RM”	Malaysian Ringgit, the lawful currency of Malaysia
“RMB”	Renminbi, the lawful currency of the PRC
“Separate Listing”	the proposed separate listing of the Units on the Main Board of the Stock Exchange
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Special Purpose Vehicle(s)”	as used in the Trust Deed, means an entity whose primary purpose is to hold or own real estate or arrange financing for HK Hotel REIT
“Spin-off”	the proposed spin-off of HK Hotel REIT comprising the Global Offering and the Separate Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited or any successor hereto
“Subscription Agreement”	the subscription agreement to be entered into between the Company and the REIT Manager pursuant to which the Company will or will procure its subsidiaries to subscribe Units at the Offer Price
“Trademarks”	certain trade marks or service marks owned by Dorsett Hotels & Resorts International Limited and registered or under application for registration as at the date of the Deed of Trademark Licence
“Trust Deed”	the trust deed to be entered into between the REIT Manager and the Trustee constituting HK Hotel REIT
“Trustee”	HSBC Institutional Trust Services (Asia) Limited, the proposed trustee of HK Hotel REIT
“Underwriting Agreements”	the underwriting agreements to be entered into among the REIT Manager, the Company, the joint global coordinators and the underwriters in relation to the Global Offering
“Unit(s)”	the unit(s) of HK Hotel REIT
“Unitholder(s)”	holder(s) of the Unit(s)
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“Variable Fee”	variable fee payable to the REIT Manager of 2.5% per annum of Net Property Income (before deduction therefrom of the Variable Fee) or such other rate as may be fixed or determined pursuant to the Trust Deed

DEFINITIONS

“Variable Rental”

in respect of each Lease, the variable rent payable by the Lessee to the relevant Lessor calculated in the following manner:

- (i) where GOP Margin is less than or equal to 50%, the amount of the Variable Rental payable shall be the Net Hotel Profit for the relevant financial year, if any. For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (i) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year;

OR

- (ii) where GOP Margin is more than 50%:

the sum of the following (1) and (2) provided that in the case where the amount of the following (1) is a negative figure, then such amount shall be taken as zero for the calculation of the following (2):

- (1) the amount by which 50% of the Adjusted Gross Revenues for the relevant financial year exceeds the Lessee’s Costs for the corresponding relevant financial year, if any.

$(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}$

- (2) 50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in the above paragraph (ii)(1), if any.

$50\% \times \{\text{Net Hotel Profit} - [(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}]\}$

For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (ii) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year

and “Variable Rentals” means the aggregate of the Variable Rental payable by the Lessee to the Lessors in respect of all Leases

DEFINITIONS

“Vendor”	Ample Bonus Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“sq.ft”	square feet
“sq.m.”	square meter(s)
“%”	per cent

For illustration purposes, exchange rates of US\$1.00 to HK\$7.8, RMB1.00 to HK\$1.05 and RM1.00 to HK\$2.11 have been adopted in this circular.

LETTER FROM THE BOARD



FAR EAST CONSORTIUM INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fecil.com.hk>

(Stock code: 35)

Executive Directors:

Mr. Deacon Te Ken Chiu (*Chairman*)
Tan Sri Dato' David Chiu (*Deputy Chairman and
Chief Executive Officer*)
Mr. Dennis Chiu
Mr. Craig Grenfell Williams

Registered Office:

P.O. Box 1043, Ground Floor
Caledonian House, Mary Street
George Town
Grand Cayman, Cayman Islands
British West Indies

Non-executive Directors:

Madam Ching Lan Ju Chiu
Mr. Daniel Tat Jung Chiu

Principal Office:

16/F., Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Independent Non-executive Directors:

Mr. Jian Yin Jiang
Mr. Kwok Wai Chan
Mr. Peter Man Kong Wong

18 January 2008

*To the Shareholders, and for information only,
to the holders of the share options of the Company and
the holders of the convertible bonds of the Company*

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
THE PROPOSED SPIN-OFF OF
HONG KONG HOTEL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF THE STOCK EXCHANGE**

INTRODUCTION

As announced by the Company on 15 January 2008, the Directors have put forward a proposal in relation to the Spin-off for the Shareholders' consideration. The proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15. Further, formal application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the listing of, and permission to deal in, the Units on the Stock Exchange.

LETTER FROM THE BOARD

The Spin-off constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM. Approval from the Shareholders for the Spin-off is also required under PN15.

This circular provides you with, among other things, (i) information on the Spin-off; (ii) the accountants' report on the Group; (iii) unaudited pro forma financial information on the Remaining Group; (iv) the recommendation of the Independent Board Committee and the advice of Kingsway Capital regarding the Spin-off; (v) the valuation report on the Hotels; and (vi) a notice of the EGM.

The Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there is no assurance that the Spin-off will proceed. Accordingly, Shareholders and/or potential investors of the Company should exercise caution when dealing in the securities of the Company.

REORGANISATION

Establishment of HK Hotel REIT

The REIT Manager, a wholly owned subsidiary of the Company, and the Trustee will enter into the Trust Deed for the purpose of constituting and establishing HK Hotel REIT.

To the best of the knowledge, information and belief of the Board and having made all reasonable enquires, the Trustee is a third party independent of the Company and its connected persons, and its principal business activities are the provision of trustee and administrative services.

Internal reorganisation

(i) Incorporation of REIT Holdco

On 23 January 2007, REIT Holdco was incorporated in the Cayman Islands and held, during the reorganisation process, indirectly by the Company to serve as the holding company for the Finance Company and all the Hotel Companies through which the Hotels are to be held.

(ii) Reorganisation of the Group

Prior to Completion, various steps will be taken to reorganise the ownership structure of the Hotels and corporate entities within the Group to be acquired by HK Hotel REIT through acquisition of REIT Holdco Shares for purposes of the Global Offering, which will involve mainly the following:

- (a) the Group will conduct internal transfers of or incorporate relevant Hotel Companies (as the case may be), such that all the Hotel Companies will be wholly-owned by REIT Holdco directly;

LETTER FROM THE BOARD

- (b) the Group will transfer certain Hotels to be held under their respective Hotel Company, such that each Hotel will be wholly-owned by its respective Hotel Company or, in the case of Central Park Hotel, its respective Hotel Companies; and
- (c) through intra-group transfers or liquidation (as the case may be) of certain subsidiaries of the Group during the aforesaid reorganisation process, such that only the Finance Company and the Hotel Companies will remain under the direct ownership of REIT Holdco.

The aforesaid internal reorganisation of the Group will be completed such that all assets to be acquired by HK Hotel REIT for purposes of the Global Offering, including the Hotel Companies, the Hotels and the Finance Company, will be held under REIT Holdco immediately prior to Completion. Through the Hotel Companies, immediately prior to Completion, the material assets and liabilities of REIT Holdco are expected to include the Hotels and their related prepaid lease payments and furniture, fixture and equipment, taxation payable of the Hotel Companies (the “**Taxation Payable**”) (which amounted to approximately HK\$20 million as at 30 September 2007), net deferred tax liabilities of the Hotel Companies (the “**Deferred Tax**”) (which amounted to approximately HK\$67 million as at 30 September 2007), the Existing Borrowings (which amounted to approximately HK\$703 million as at 30 September 2007) and the mortgage loans in respect of two of the Hotels (the “**Loan**”). Immediately upon Completion, the face value of the Loan is expected to amount to approximately HK\$248 million. Other assets and liabilities which will not be acquired by HK Hotel REIT, including, among other things, inventories; debtors, deposits and prepayments; bank balances and cash; and creditors, deposits received and accruals, will be retained in the Remaining Group.

(iii) Acquisition of REIT Holdco by HK Hotel REIT

Ownership of the Hotels will be acquired by HK Hotel REIT from the Group by way of acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement. Through REIT Holdco, HK Hotel REIT will have full direct ownership of the Finance Company and all Hotel Companies and, in turn, the Hotels. The REIT Holdco Sale and Purchase Agreement will provide that the REIT Manager and the Trustee (as trustee of HK Hotel REIT) shall procure that the Existing Borrowings are repaid to the Group in full. Completion of the REIT Holdco Sale and Purchase Agreement (including repayment of the Existing Borrowings) is expected to take place on the Listing Date.

Completion of the acquisition of the REIT Holdco Shares and the repayment of the Existing Borrowings will be subject to the satisfaction of a number of conditions including, but not limited to:–

- (a) the Company having obtained the necessary approval of its Shareholders at a general meeting allowing for the execution and implementation of the REIT Holdco Sale and Purchase Agreement and the documents and transactions contemplated thereunder in accordance with the Listing Rules;

LETTER FROM THE BOARD

- (b) all approvals having been obtained from the Stock Exchange, including without limitation, the Listing Approval;
- (c) all approvals having been obtained from the SFC, including without limitation, the Authorisation and the approval of the Offering Circular and the application forms relating hereto;
- (d) the Underwriting Agreements having become unconditional (including as a result of the waiver of any conditions thereunder) and not having been terminated in each case in accordance with their respective terms and any applicable rules and law;
- (e) the Facility being available for drawdown at Completion;
- (f) there being no material adverse change to or affecting the Hotels or the conduct of the hotel business thereof and no material breach of the warranties under the REIT Holdco Sale and Purchase Agreement;
- (g) all relevant third party consents or approvals as are necessary for the purpose of transferring any of the REIT Holdco Shares and/or repayment of the Existing Borrowings in accordance with the terms of the REIT Holdco Sale and Purchase Agreement having been obtained; and
- (h) the delivery of the Proforma Completion Accounts to the REIT Manager pursuant to the REIT Holdco Sale and Purchase Agreement.

In the event that any of the conditions has not been fulfilled (or otherwise waived) on or before the Listing Date or a date to be agreed between the parties to the REIT Holdco Sale and Purchase Agreement (which date will be specified in the Offering Circular) (whichever is earlier), the REIT Holdco Sale and Purchase Agreement will cease and terminate and be of no further effect. As at the Latest Practicable Date, none of the conditions above was fulfilled.

The aggregate consideration for the acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement will be determined based on the net tangible assets of the REIT Holdco Group as at the date of Completion, of which the book value of the Hotels and their related prepaid lease payments and the furniture, fixture and equipment will be replaced by the sum of the Agreed Acquisition Values and the Adjustment Sum (i.e. the Agreed Value). The purpose of including the Adjustment Sum is to reflect the actual consideration payable to the Vendor based on the level of the Offer Price achieved in the Global Offering. The Agreed Value will not be less than HK\$4,000 million. For illustration purpose only, based on the minimum Agreed Value of HK\$4,000 million, the Existing Borrowings of approximately HK\$703 million as at 30 September 2007, the Taxation Payable of approximately HK\$20 million as at 30 September 2007 and the expected face value of the Loan of approximately HK\$248 million as at the date of the Completion, the aggregate consideration for the REIT Holdco Shares will be approximately HK\$3,029

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million (the “**Illustrative Consideration**”). As mentioned above, the REIT Manager and the Trustee (as trustee of HK Hotel REIT) will also be required to procure that the Existing Borrowings are repaid to the Group in full upon Completion.

The Company will use its best endeavor to achieve an Agreed Value of over HK\$4,000 million. The minimum Agreed Value of HK\$4,000 million is determined after reference to the Appraised Value of HK\$4,953 million of the Hotels and the market outlook of hospitality industry in Hong Kong. The Appraised Value was prepared by the Independent Property Valuer by adopting direct comparison method and income approach (details of which are set out in the valuation report included in Appendix III to this circular).

(iv) Deed of Tax Covenant

The Deed of Tax Covenant will be entered into between the Vendor and the Company in favour of the Trustee (on behalf of HK Hotel REIT) and REIT Holdco, on Completion, covenanting to pay to REIT Holdco and the Trustee (on behalf of HK Hotel REIT) in respect of certain liability to taxation falling on REIT Holdco, the Hotel Companies and/or the Finance Company including, amongst others: -

- (a) any liability to taxation including the relevant interest and penalty, if any, (other than those provided in (b) and (c) below) resulting from or by reference to any income, profits or gains earned, accrued or received or any transaction, event, matter or thing occurred or effected on or before Completion, including, any liability to taxation (including the relevant interest and penalty if any) resulting from or by reference to the amount of stamp duty or other dutiable levies in respect of or incidental to any transfer or assignment or exchange undertaken on or before Completion;
- (b) any liability to taxation including the relevant interest and penalty, if any, in respect of clawback of commercial building allowances or capital allowances granted up to Completion, resulting from any sale of the relevant Hotel or any part thereof; and
- (c) any liability to taxation including the relevant interest and penalty (if any) (other than that provided in (b) above) in respect of profits resulting from any sale of any Hotel or any part thereof by the relevant Hotel Company in future provided that for the purpose of calculating such tax liability, the profit resulting from such sale shall be calculated as if the sale proceeds were equal to whichever is the lower of (i) that part of the Agreed Value which is attributable to the relevant Hotel determined in accordance with the REIT Holdco Sale and Purchase Agreement; and (ii) the actual sale proceeds resulting from such sale of the relevant Hotel.

In this regard, the Vendor may direct the conduct of any taxation proceeding subject, amongst others, to an indemnity for costs from the Vendor and other provisions. The limitation period for claims under paragraphs (a) and (c) above will be seven years from the date of Completion. The limitation period for claims under paragraph (b) above will be seven years after the occurrence of the event giving rise to such taxation liability. Right of

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claim pursuant to such Deed of Tax Covenant will not be prejudiced by any taxation action or proceeding in respect of the relevant tax liability which is the subject matter of the claim not being finally resolved before expiry of the applicable limitation period.

The Vendor and the Company will be under no liability under the Deed of Tax Covenant to the extent that:-

- (a) (i) specific provision or reserve or allowance has been made for the taxation or claim in the audited consolidated financial statements of REIT Holdco for the period ended on the date of Completion (other than those related to deferred tax liabilities, if any), provided that if any such provision or reserve is finally established to be an over-provision or an excessive reserve, the liability of the Vendor and the Company in respect of such taxation or claim shall be reduced by an amount not exceeding such excess; or (ii) payment or discharge for the taxation or claim has been made before Completion;
- (b) the taxation or claims arises in consequence of a change in law, or arises or is increased by an increase in rates, after Completion with retrospective effect or a change in accounting policy or practice of the REIT Holdco Group except in order to comply with GAAPs or applicable legal, regulatory, financial reporting or other requirements made after Completion with retrospective effect;
- (c) the taxation or claim is the subject matter of a claim covered by and already satisfied by the Vendor or the Company under the REIT Holdco Sale and Purchase Agreement; or
- (d) the liability would not have arisen but for a voluntary act, omission or transaction after the date of Completion on the part of the REIT Holdco Group, which could reasonably have been avoided or carried out and which was not in the ordinary course of business, otherwise than (1) under a legally binding commitment created on or before the date of Completion; (2) in order to comply with any law, regulation or rule or any GAAPs applicable to a Hotel Company; or (3) at the request of or with the consent of the Vendor or the Company provided that this limitation of liability shall not apply to the liability of the Vendor and the Company provided in (b) and (c) of the first paragraph of "Deed of Tax Covenant" above.

(v) *Deed of Indemnity*

The Deed of Indemnity will be entered into, on Completion, by the Company in favour of the Trustee (as trustee of HK Hotel REIT), REIT Holdco and The Hotel of Lan Kwai Fong Limited, being the registered owner of the Lan Kwai Fong Hotel, whereby the Company shall undertake to, amongst others, (a) at its own costs and expenses, observe, perform, discharge and comply with certain obligations under the terms and conditions of the government grant document in relation to Lan Kwai Fong Hotel and provide such necessary information, materials and indemnities to the Hong Kong Government in connection therewith; and (b) indemnify The Hotel of Lan Kwai Fong Limited, REIT Holdco and the Trustee (as trustee of HK Hotel REIT) on demand from and against all liabilities and all actions, proceedings, costs, claims, expenses, charges, demands, loss and damage as a result of or in connection with observance, performance or discharge of or any non-compliance or non-observance of such matters.

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(vi) Subscription of Units by the Group

The Company and the REIT Manager will enter into the Subscription Agreement, pursuant to which the Company will, or will procure its subsidiary(ies) to subscribe the Units at the Offer Price.

Immediately following the completion of the Spin-off, it is expected that the Company will hold an interest of 50.0% to 75.0% (assuming that the Over-allotment Option is not exercised) or 42.5% to 71.3% (assuming that the Over-allotment Option is exercised in full) in HK Hotel REIT. The Company intends to hold the Units to be subscribed by the Group as long term investments. The subscription monies will be financed entirely out of the proceeds to be received pursuant to the REIT Holdco Sale and Purchase Agreement. The final amount of the subscription monies varies according to the Offer Price and the number of Units to be subscribed by the Group. For illustration purpose only, based on the minimum Agreed Value of HK\$4,000 million and assuming that the Group will subscribe and retain a maximum of 75.0% interest in HK Hotel REIT and that HK Hotel REIT will, immediately upon completion of the Spin-off, have an initial indebtedness of HK\$1,900 million (subject to finalisation before the completion of the Spin-off), the subscription monies will amount to HK\$1,575 million. The subscription monies will be paid upon Completion by cash. The additional Units to be issued by HK Hotel REIT to pay for the listing expenses and arrangement fees of the Facility are not included in this illustration.

THE SPIN-OFF OF HK HOTEL REIT

The Spin-off will comprise the Global Offering and the Separate Listing. The Global Offering will comprise an offer for subscription of Units by way of public offer in Hong Kong and international placement to professional, institutional and other investors. As part of the Global Offering, there will be a Preferential Offering to the Qualifying Shareholders.

The Separate Listing of HK Hotel REIT

The proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15. An application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the Listing Approval.

Subject to the granting of the Authorisation and the Listing Approval, and the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Shares will continue to be listed on the Stock Exchange after the implementation of the Spin-off.

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Preferential Offering

In accordance with the assured entitlement requirements under PN15, the Directors have given due regard to the interest of the Shareholders and will arrange for the REIT Manager to provide the Qualifying Shareholders with Assured Entitlement to a certain number of Reserved Units by way of the Preferential Offering, if the REIT Manager decides to proceed with the Spin-off.

It is currently proposed that approximately 5% of the Units available under the Global Offering will be allocated as the Reserved Units. Qualifying Shareholders will be entitled to subscribe for the Reserved Units based on the number of Shares held by such Qualifying Shareholder at the Record Date. Details of the mechanism of allocating the entitlement of the Reserved Units will be announced by way of an announcement after such mechanism is determined and in accordance with the Listing Rules.

Any Units to be issued pursuant to the Preferential Offering shall be fully paid, ranking *pari passu* in all respects with other Units to be issued pursuant to the Global Offering.

Shareholders should note that the entitlement of Reserved Units may represent Units not in a whole multiple of a full board lot of Units, and dealings in odd lot Units may be below their prevailing market price. Assured Entitlements of Qualifying Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Shareholders should further note that the actual total number of the Units available for subscription under the Preferential Offering will vary depending on the actual number of issued Shares at the Record Date.

Any Qualifying Shareholder who holds the Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holder. Any beneficial owner of the Shares whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Assured Entitlement. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

Overseas Shareholders will be notified by mail regarding their respective entitlements of the subscription of Units under the Preferential Offering.

Lock-up arrangement

It is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions.

Conditions precedent

Completion of the Spin-off is conditional on, among other things, the following:

- (a) Shareholders passing an ordinary resolution at a general meeting to approve the Spin-off and other related matters;

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- (b) the Listing Committee of the Stock Exchange granting the Listing Approval;
- (c) the SFC granting the Authorisation;
- (d) the obligations of the underwriters under the Underwriting Agreements becoming and remaining unconditional and the Underwriting Agreements not being terminated in accordance with their respective terms or otherwise, on or before the dates and times to be specified therein (details of the Underwriting Agreements will be set out in the Offering Circular);
- (e) the Offer Price being duly determined;
- (f) the Subscription Agreement becoming and remaining unconditional in accordance with its terms; and
- (g) the REIT Holdco Sales and Purchase Agreement becoming and remaining unconditional in accordance with its terms,

unless and to the extent any relevant condition is validly waived.

If the foregoing and any other applicable conditions are not fulfilled or waived (as the case may be) prior to the dates and times to be specified in the Offering Circular, the Global Offering will lapse and a notice will be published by the Company and/or HK Hotel REIT as soon as practicable following such lapse.

The Spin-off is subject to the foregoing and other applicable conditions and is dependent on a number of factors (including, but not limited to, the entering into definitive Underwriting Agreements and other legal documentation in respect of the Global Offering as well as market conditions at the relevant time). Shareholders should note in particular that no Underwriting Agreement was signed as at the Latest Practicable Date. Such Underwriting Agreements, if signed, will be subject to, among other things, customary conditions precedent. Accordingly, the Spin-off may or may not proceed.

INFORMATION ON HK HOTEL REIT

Background

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income producing real estate assets and uses the income to provide stable returns to its unitholders. Purchasing a unit in a REIT allows investors to share the benefits and risks of owning the real estate assets held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code.

HK Hotel REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. The REIT Manager believes that the formation of HK Hotel REIT follows a global trend to separate hotel ownership from hotel operation, allowing hotel

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managers and franchisors to focus on hotel operation and brand extension, and hotel REITs to focus on asset ownership and growth opportunities. HK Hotel REIT will focus on hotel ownership and seek hotel manager(s) and franchisor(s) to manage its hotel properties.

HK Hotel REIT's primary objectives are to provide regular and stable distributions to Unitholders and with the potential to achieve long-term capital growth in distribution and NAV per Unit. The REIT Manager intends to achieve such objectives by way of (i) internal growth through asset enhancement opportunities and operational improvements; (ii) external growth through potential acquisitions that meet the REIT Manager's investment criteria; and (iii) financing through appropriate debt and equity financing policies.

Immediately upon completion of the Spin-off, HK Hotel REIT will own seven hotels, namely, Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel, all of which will initially be leased to the Lessee and be managed by the Hotel Manager. Set out below is a table showing details of each Hotel which will be owned by HK Hotel REIT on the Listing Date:

Hotel	Location	Commencement of operations ⁽¹⁾	Gross floor area <i>sq. ft.</i>	Number of guest rooms	For the year ended 31 March 2007			Appraised Value <i>HK\$ million</i>
					Occupancy rate %	Average room rates <i>HK\$</i>	RevPAR <i>HK\$</i>	
High Tariff B								
Cosmopolitan Hotel	Wan Chai	December 2004	172,469	454	89	828	735	1,873
Cosmo Hotel	Wan Chai	October 2005	61,140	142	88	769	678	547
Lan Kwai Fong Hotel	Central	March 2006	60,773	162	71	1,098	780	939
Medium Tariff								
Central Park Hotel	Central	April 2005	51,183	142	83	661	548	412
Dorsett Far East Hotel	Tsuen Wan	October 2006	46,386	240	90	396	354	352
Dorsett Olympic Hotel	Tai Kok Tsui	May 2005	34,552	141	98	458	449	265
Dorsett Seaview Hotel	Yau Ma Tei	January 2001 ⁽²⁾	59,884	268	99	469	462	565
Total/average/overall			486,387	1,549	89	680	605	4,953

Notes:

- (1) Subject to note 2, commencement of operations refers to the date when the Hotel opened for business.
- (2) Dorsett Seaview Hotel was acquired by the Group in January 2001, while it has been in operation since 1994.
- (3) Dorsett Far East Hotel is included in a building, which consists a hotel portion and a non-hotel portion. Only Dorsett Far East Hotel, being the hotel portion of the building, will be acquired by HK Hotel REIT, while the non-hotel portion will be retained by the Remaining Group. Dorsett Far East Hotel represents more than 50% of the entire building in terms of gross floor area. One of the

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reasons for the Company to exclude the non-hotel portion of the building from HK Hotel REIT is that the valuation of the non-hotel portion, if, include in HK Hotel REIT, will represent a significant portion of the overall valuation of HK Hotel REIT, accordingly the exclusion of the non-hotel portion enables potential investors and financiers of HK Hotel REIT to evaluate HK Hotel REIT as a pure hotel REIT.

In addition to the Hotels, the Group also owns the following three Retained Hotels in Hong Kong and has entered into agreements to acquire the two Retained Hotels in the PRC, namely

- (i) Cosmo Kowloon Hotel in Tai Kok Tsui, Hong Kong, which is being developed as a High Tariff B hotel with approximately 280 rooms, located a block away from the existing Dorsett Olympic Hotel. Scheduled completion is late 2008;
- (ii) Dorsett Hong Kong Hotel in Kennedy Town, Hong Kong, which is intended to be developed as a High Tariff B hotel with approximately 220 rooms. Scheduled completion is mid-2009;
- (iii) Dorsett Kwun Tong Hotel in Kwun Tong, Hong Kong, which is intended to be developed as a Medium Tariff hotel with approximately 390 rooms. The site at 84 Hung To Road, Kwun Tong was acquired by the Group in September 2006. Completion of the project is expected to be in 2010.
- (iv) a property in Cheng Du, the PRC, which is intended to be developed as a four-star hotel with approximately 420 rooms. The site is located in Nos. 124 to 177, Yu Long West Street, Cheng Du, Sichuan Province, the PRC. It is the Group's plan to complete the project in late 2008; and
- (v) a hotel in Wu Han, the PRC, in respect of which the Group intends to carry out refurbishment work and upon completion of the refurbishment, the hotel will be a four-star hotel with approximately 350 rooms. The site is located in No. 118, Jiang Han Street, Jiang An District, Wu Han, Hu Bei Province, the PRC. It is the Group's plan to complete the project in 2008.

Under note (2) to Code 7.1 of the REIT Code, a REIT shall not acquire uncompleted units in a building which is unoccupied and non-income producing or in the course of substantial development, redevelopment or refurbishment, if the aggregate contract value of such real estate exceeds 10% of the total net asset value of the REIT at the time of acquisition. Accordingly, HK Hotel REIT will not own any of the Retained Hotels as at the Listing Date. However, as detailed below, the Call Options will be granted to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) to acquire each of the Retained Hotels.

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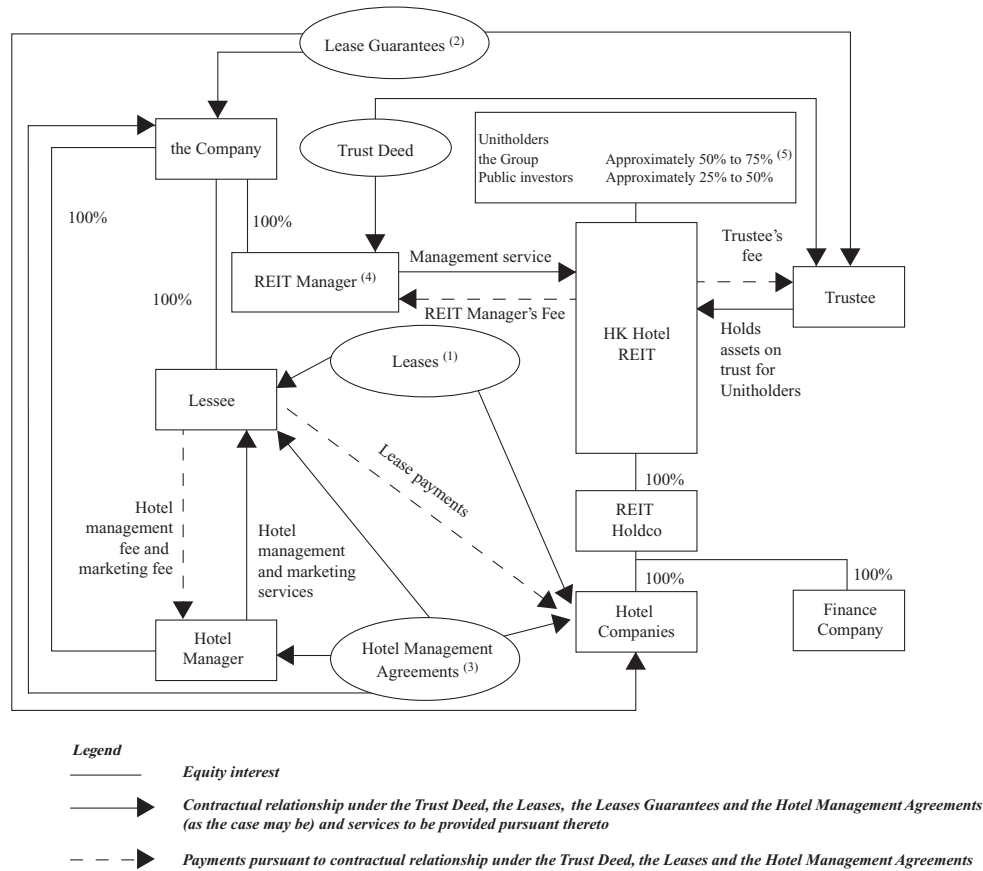
Set out below are the unaudited combined turnover, profit/(loss) before taxation and profit/(loss) attributable to the equity holders of the holding companies of the Hotels for the three-year ended 31 March 2007 and six-month ended 30 September 2007 based on Hong Kong Financial Reporting Standards:

	For the six-month ended 30 September 2007 <i>HK\$'million</i>	For the year ended 31 March		
	2007	2007	2006	2005
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Revenue	180	297	169	15
(Loss)/profit before taxation	37	91	30	(9)
(Loss)/profit attributable to the equity holders	26	87	21	(31)

Unaudited combined net assets of the holding companies of the Hotels as at 30 September 2007 amounted to approximately HK\$349 million. Unaudited combined total carrying value of the Hotels and their related prepaid lease payments and furniture, fixture and equipment (which will be acquired by HK Hotel REIT) as at 30 September 2007 amounted to approximately HK\$1,609 million, whereas the Appraised Value of the Hotels as at 30 November 2007 amounted to HK\$4,953 million.

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Set out below is a simplified proposed structure of HK Hotel REIT and its relationships, amongst others, with the Company, the REIT Manager, the Lessee, the Hotel Manager and the Trustee upon the Separate Listing:



Notes:

- (1) The Lessee will enter into separate Leases with each of the Lessors. The Lessee will pay the Fixed Rentals and the Variable Rentals to the Lessors.
- (2) The Company will enter into separate Lease Guarantees with the Trustee (on behalf of HK Hotel REIT) and each of the Lessors pursuant to which the Company will guarantee the Lessee's contractual obligations (including but not limited to the payment of the Fixed Rentals and the Variable Rentals) under the Leases.
- (3) The Hotel Manager will provide hotel management and marketing services to the Lessee pursuant to the Hotel Management Agreements. The Hotel Manager, in return, will receive management fees and marketing fees from the Lessee.
- (4) The REIT Manager will provide management services to HK Hotel REIT. In return, the REIT Manager will receive fees for such services from HK Hotel REIT.
- (5) Assuming that the Over-allotment Option is not exercised.

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The REIT Manager

The REIT Manager, Hong Kong Hotel Asset Management Limited, is a wholly-owned subsidiary of the Company and has applied to the SFC for a licence to conduct the regulated activity of asset management as required by the REIT Code.

Pursuant to the Trust Deed, the REIT Manager will have a general power of management over the assets of HK Hotel REIT. The REIT Manager's main responsibility is to manage the assets of HK Hotel REIT for the benefit of the Unitholders and the REIT Manager will not involve in the management of any other REIT. The REIT Manager will set the strategic direction and risk management policies of HK Hotel REIT on the acquisition, divestment or enhancement of the assets of HK Hotel REIT in accordance with its investment strategy (details of which will be disclosed in the Offering Circular).

The REIT Manager will be entitled to the following fees from HK Hotel REIT:

- (i) Base Fee: which is intended to be up to 0.3% per annum of the Property Value;
- (ii) Variable Fee: which is intended to be 2.5% per annum of the Net Property Income (before deduction therefrom of the Variable Fee);
- (iii) Acquisition Fee: which is intended to be up to 1.0% of the acquisition price of real estate acquired (other than the acquisition described in paragraph (iii) of the section headed "Reorganisations – Internal reorganisation" above); and
- (iv) Divestment Fee: which is intended to be up to 0.5% of the sale price of real estate divested.

Delineation of business between the Remaining Group and HK Hotel REIT

The Group is principally engaged in property development and investment, hotel operations and treasury management.

After the Spin-off, there will be a clear delineation of business between the Remaining Group and HK Hotel REIT. Although the Retained Hotels may continue to be owned by the Remaining Group if the Retained Hotels are not to be acquired by HK Hotel REIT pursuant to the Option Deed, the Remaining Group will focus on property development and investment, treasury management, hotel operations, hotel development, hotel redevelopment and (outside Hong Kong and the PRC only) hotel owning business, while HK Hotel REIT will focus on the hotel owning business in Hong Kong and the PRC.

There may be circumstances where HK Hotel REIT competes directly with the Company and/or its subsidiaries or associates for acquisition of hotels as well as for hotel operations within the Hong Kong and the PRC markets as the Company, its subsidiaries and associates are engaged in and/or may engage in, among other things, investment in, and the development and management of, properties in the hospitality industry in Hong Kong, the PRC and elsewhere.

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In addition, there may be potential conflict of interests between the Company and HK Hotel REIT in respect of the performance of estate management services in relation to the Hotels or other properties that may be acquired by HK Hotel REIT, as the REIT Manager, the Lessee and the Hotel Manager are each a subsidiary of the Company and two members of the board of directors of the REIT Manager are directors of the Company's affiliated companies (except for the REIT Manager).

The REIT Manager will institute procedures to deal with conflict of interests issues, such as:

- (i) the REIT Manager will be a dedicated manager to HK Hotel REIT and will not manage any other REIT or be involved in any other aspects of the hospitality industry;
- (ii) the majority of the board of directors of the REIT Manager is not related to the Company and the independent non-executive directors of the REIT Manager will act independently for the interests of HK Hotel REIT. Furthermore, the management structure of the REIT Manager will include audit committee, disclosures committee, finance and investment committee, and remuneration and nomination committee to promote a high level of corporate governance and address any potential conflict of interests with the Company. In addition, the REIT Manager will adopt a compliance manual which sets out detailed compliance procedures in connection with its operations and potential conflict of interests;
- (iii) the REIT Manager will have a team of full-time senior management and employees that operates independently of the Company; and
- (iv) all connected party transactions between the Group and HK Hotel REIT will be managed in accordance with the compliance manual of HK Hotel REIT, the REIT Code and the procedures to be set out in the Offering Circular.

To prevent any conflict of interests or any competition, the Company will also enter into the Non-compete Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) under which the Group may acquire existing hotels for upgrading and redevelopment or other types of premises for conversion into hotels provided that the Completed Hotels (as defined below), if located in Hong Kong or the PRC, will be subject to a right of first refusal in favour of the REIT Manager and the Trustee (both on behalf of HK Hotel REIT). In addition, Call Options will be granted to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) in respect of each of the five Retained Hotels. Please refer to the paragraph headed "(v) Non-compete Deed" under the subsection headed "Material agreements and other documents to be entered into by HK Hotel REIT" of this letter from the Board below.

The Remaining Group does not intend to engage in hotel ownership business in Hong Kong or the PRC. However, there are certain circumstances which may lead to ownership of hotel assets by the Remaining Group such as immediately after the completion of the development or re-development work of hotel properties located in Hong Kong or the PRC.

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The Directors intend to, after the completion of the Spin-off, dispose of the Retained Hotels and the Completed Hotels (as defined below) to HK Hotel REIT or any other parties within an appropriate timeframe at reasonable prices and terms. The Directors envisage that only in extreme circumstances where such developed or redeveloped hotel properties cannot be disposed of at reasonable prices and terms or cannot be disposed of because of legal or regulatory restrictions, the Remaining Group will retain ownership of those developed or redeveloped hotel properties and operate them through separate hotel management teams.

Notwithstanding the foregoing, as one of its principal business activities, the Remaining Group may manage and provide marketing services to any hotel not owned by the HK Hotel REIT Group (including the Retained Hotels if the Call Options are not exercised) provided that the teams and systems for the management and marketing of hotels owned by the HK Hotel REIT Group are separate from those for the management and marketing of hotels not owned by the HK Hotel REIT Group, which shall be demonstrated to the reasonable satisfaction of the REIT Manager.

Distribution policy of HK Hotel REIT

The REIT Manager's proposed policy is to distribute to Unitholders 100% (subject to the requirements of the Trust Deed and the REIT Code or the SFC) of the Total Distributable Income (as defined below) for each financial year. Pursuant to the Trust Deed, HK Hotel REIT will be required to distribute at least 90% (or such other percentage specified by the REIT Code from time to time) of the Total Distributable Income for each financial year to Unitholder. It is possible that the Total Distributable Income accruing to Unitholders may exceed total cash available for distribution for HK Hotel REIT as a result of funding items such as capital expenditure. Accordingly, distributions may need to be funded out of sources other than net operating profit, including borrowings made in accordance with the REIT Code.

"Total Distributable Income" means the consolidated audited net profit after tax of HK Hotel REIT and each Special Purpose Vehicle for the relevant financial year adjusted to eliminate the effects of certain Adjustments (as defined below) which have been recorded in the income statement for the relevant financial year. After eliminating these Adjustments, Total Distributable Income may be different from the net profit recorded for the relevant financial year.

"Adjustments" means significant adjustments which are charged or credited to the income statement for the relevant financial year or the relevant distribution period, as the case may be, including:

- (i) unrealised property revaluation gains, including reversals of impairment provisions;
- (ii) impairment loss of goodwill/recognition of negative goodwill;
- (iii) differences between cash and accounting finance costs;
- (iv) realised gains on disposal of properties;

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- (v) deferred tax charges/credits in respect of property valuation movements, fair value changes on financial instruments and commercial building allowances/capital allowances claimed;
- (vi) the portion of the remuneration of the REIT Manager provided for under the Trust Deed that shall be paid in the form of Units;
- (vii) costs of any new issue of Units that are expensed through the income statement but are funded by proceeds from the issuance of such Units;
- (viii) the effect of any reversal under Hong Kong GAAPs in the consolidated income statement for the relevant financial year of any material non-cash expense or loss charged to the income statement of any entity controlled by HK Hotel REIT (or by the Trustee or the REIT Manager on behalf of HK Hotel REIT) and included in the consolidation, to the extent the relevant non-cash expense or loss impairs remittance to HK Hotel REIT of cash accrual or accruing to such entity in respect of that financial year; and
- (ix) other material non-cash gains.

In addition, the REIT Manager will also have the discretion to distribute any additional amounts (including capital). In determining whether to distribute any additional amounts (including capital), the REIT Manager will consider a range of factors including but not limited to HK Hotel REIT's funding requirements, HK Hotel REIT's financial position, compliance with relevant laws, regulations and covenants (including existing limitations on borrowings as prescribed in the REIT Code), other capital management considerations, the overall stability of distributions and prevailing industry practice. In particular, the REIT Manager will consider exercising such discretion to distribute any amounts equivalent to any property revaluation losses having regards to the foregoing. However, no amount of revaluation surplus on real estate credited to income, or gains on disposal of real estate, whether directly or indirectly through the disposal of any Special Purpose Vehicle, shall form part of any distribution to Unitholders unless the REIT Manager shall have obtained the Trustee's prior consent.

Material agreements and other documents to be entered into by HK Hotel REIT

(i) the Leases

For each Hotel, a Lease will be entered into between the relevant Lessor and the Lessee on the Listing Date. The term of the Lease for each Hotel will be 15 years commencing on and inclusive of the Listing Date and for each Lease a cash deposit of an amount equivalent to six months' Fixed Rental shall be paid by the Lessee to the relevant Lessor upon the signing of the Lease.

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The rent for each Hotel will comprise the Fixed Rental and the Variable Rental. The Fixed Rentals for all Hotels will be HK\$280 million for the financial year 2009 and as from the financial year 2010, be adjusted upwards or downwards for inflation or deflation on the commencement date of each relevant financial year of the term of each Lease based on the composite consumer price index for the year immediately preceding the relevant year of adjustment stated in the annual report on the consumer price index published by the Consensus and Statistics Department. The Fixed Rentals for the period from the Listing Date to 31 March 2008 will be determined based on the appropriate proportion of the Fixed Rentals for the financial year ending 2009 adjusted on a time basis.

Under the current proposal, the Fixed Rental for each individual Hotel for the financial year 2009 will be the following fixed amount per annum (subject to finalisation) and will be payable quarterly in advance on the first day of January, April, July and October throughout the term of the Leases:

	Fixed Rental per annum (HK\$ million)
High Tariff B	
Cosmopolitan Hotel	114.6
Cosmo Hotel	31.3
Lan Kwai Fong Hotel.	53.4
Medium Tariff	
Central Park Hotel	23.6
Dorsett Far East Hotel	13.9
Dorsett Olympic Hotel	15.0
Dorsett Seaview Hotel	28.2
	<u>280.0</u>

The Fixed Rental per annum for each individual Hotel is subject to finalisation and the final amount may or may not be the same as the amount stated in the table above. However, it is expected that the aggregate amount of Fixed Rentals for all Hotels for the financial year 2009 will be HK\$280 million.

The Variable Rental in respect of any relevant financial year shall be paid annually in arrears by the Lessee to the Lessor within 90 days immediately following the end of the relevant financial year. The Variable Rental, which shall be calculated on a Hotel-by-Hotel basis, in respect of each relevant financial year for the term of each Lease shall be:

- (i) where GOP Margin is less than or equal to 50%, the amount of the Variable Rental payable shall be the Net Hotel Profit for the relevant financial year, if any. For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (i) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year;

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OR

(ii) where GOP Margin is more than 50%, the sum of the following (1) and (2) provided that in the case where the amount of the following (1) is a negative figure, then such amount shall be taken as zero for the calculation of the following (2):

(1) the amount by which 50% of the Adjusted Gross Revenues for the relevant financial year exceeds the Lessee's Costs for the corresponding relevant financial year, if any.

$(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}$

(2) 50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in the above paragraph (ii)(1), if any.

$50\% \times \{\text{Net Hotel Profit} - [(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}]\}$

For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (ii) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year.

Set out below are examples showing the calculation mechanism of the Variable Rental. Shareholders and prospective investors of the Company should be aware that the examples are not intended to be exhaustive and are for illustration purpose only and no representation is made that the amount of Variable Rental could be achieved at the levels as shown in the examples or at any other level or at all:

(i) Scenario one

In case GOP Margin is more than 50% and Net Hotel Profit is larger than zero (A GOP Margin of 60% is used for illustration purpose).

	<u>Ref</u>	<u>HK\$'million</u>
Adjusted Gross Revenues		100
GOP		60
Fixed Rental		40
Lessee's Costs (excluding Fixed Rental)		5
Net Hotel Profit		15

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	Ref	HK\$'million
The amount by which 50% of the Adjusted Gross Revenues exceeds the Lessee's Costs, if any	A	(100 x 50%) – 40 – 5 = 5, A = 5
50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in A above, if any	B	50% x (15 – 5) = 5, B = 5
Variable Rental		A + B = 5 + 5 = 10

(ii) Scenario two

In case GOP Margin is more than 50% and Net Hotel Profit is negative (A GOP Margin of 60% is used for illustration purpose).

	Ref	HK\$'million
Adjusted Gross Revenues		100
GOP		60
Fixed Rental		40
Lessee's Costs (excluding Fixed Rental)		25
Net Hotel Profit		(5)
The amount by which 50% of the Adjusted Gross Revenues exceeds the Lessee's Costs, if any	A	(100 x 50%) – 40 – 25 = (15), A = 0
50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in A above, if any	B	50% x ((5) – 0) = (2.5), B = (2.5)
Variable Rental		A + B = 0 + (2.5) = (2.5), Variable Rental = 0

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(iii) Scenario three

In case GOP Margin is less than or equals to 50% (A GOP Margin of 50% is used for illustration purpose).

	<u>HK\$ million</u>
Adjusted Gross Revenues	100
GOP	50
Fixed Rental	40
Lessee's Costs (excluding Fixed Rental)	5
Net Hotel Profit	5
Variable Rental	Variable Rental equals to Net Hotel Profit, Variable Rental = 5

The Lessee will (or will procure the Hotel Manager to) at the cost of the Lessee, be responsible for the upkeep, maintenance and repair of all the non-structural parts, fixtures and fittings of the Hotel. The Lessee will (or will procure the Hotel Manager to), maintain the Main Structure of the Hotel throughout the term of the Leases at the cost of the Lessor.

Unless with the prior written consent of the Lessor and subject to any conditions which the Lessor may in its absolute discretion impose in granting such consent, the Lessee shall not assign, transfer, mortgage, charge, underlet, sub-lease, licence or hold upon trust for another, share or otherwise part with possession of the Hotel or any part thereof save and except for the agreements for occupation of the hotel rooms in the normal course of the business of the Hotel either by way of underleasing, sub-letting, lending, sharing or other means whereby any person or persons not a party to the Lease obtains the use or possession of the Hotel or any part thereof for all or any part of the term of the Leases and irrespective of whether any rental or other consideration is given for such use or possession.

The stamp duty and registration fee payable on the Leases or their respective counterparts shall be paid by the Lessee absolutely.

(ii) the Lease Guarantees

In order to protect HK Hotel REIT from potential non-receipt of the Fixed Rentals and the Variable Rentals, separate Lease Guarantees will be entered into by the Company as the guarantor in favour of the respective Lessors and the Trustee (as trustee of HK Hotel REIT) on the Listing Date. Pursuant to the terms of the Lease Guarantees, the Company shall guarantee the performance and observance by the Lessee of all its contractual obligations under the Leases, including but not limited to the obligation to pay rent to the Lessors.

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(iii) the Hotel Management Agreements

In respect of each hotel of HK Hotel REIT, a hotel manager will be appointed to manage the day-to-day operations and marketing of such hotel. For the Hotels, Dorsett Hotels & Resorts (H.K.) Limited will be appointed as the hotel manager. In order to ensure continuity in operations for the Hotels with minimal disruption, the Hotel Manager will continue to employ the existing hotel management team to manage the Hotels following the Separate Listing. Pursuant to the Hotel Management Agreements, the Hotel Manager will, as the sole and exclusive operator and manager of the Hotels, provide hotel management and marketing services for the Hotels.

Set out below is the summary of fees expected to be chargeable by the Hotel Manager pursuant to each Hotel Management Agreement:

(a) Hotel management services

1. a basic management fee equal to 2.0% of the Adjusted Gross Revenues of the relevant Hotel for each month payable monthly in arrears; and
2. an incentive management fee equal to 4.0% of the GOP of the relevant Hotel for each month payable monthly in arrears.

(b) Marketing services

For marketing services which will be provided by the Hotel Manager, the relevant Lessee is expected to pay the Hotel Manager a marketing fee equal to 1% of GOP of the relevant Hotel for each month payable monthly in arrears.

(iv) Deed of Trade Mark Licence

Pursuant to the Deed of Trade Mark Licence, Dorsett Hotels & Resorts International Limited, a wholly-owned subsidiary of the Company, will grant, free of any royalty or other payments, to the REIT Manager, the respective Lessors, REIT Holdco and the Finance Company a non-exclusive and non-transferable right and licence to use the relevant Trademarks for the purpose of describing the ownership of the relevant Hotel and/or use in connection with the business of the relevant Hotel.

In addition, Dorsett Hotels & Resorts International Limited will not object to the use by the REIT Manager or any Lessor or REIT Holdco or the Finance Company in any jurisdiction of (a) the Trademarks for the purpose of describing the ownership of each relevant Hotel and/or in connection with the business of each relevant Hotel; (b) the Trademarks as part of its corporate, business and domain name(s); and (c) any intellectual property right that Dorsett Hotels & Resorts International Limited may have in relation to any other marks, logos or styles used in connection with the Hotels.

Dorsett Hotels & Resorts International Limited will retain the right to grant licences to other persons to use such trade marks or service marks. If Dorsett Hotels & Resorts International Limited obtains any trade mark registration for any other mark, logo or style

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(other than the trade marks) in connection with the business of the Hotels after the date of the Deed of Trade Mark Licence, Dorsett Hotels & Resorts International Limited will be required to promptly enter into a deed in substantially the same form as the Deed of Trade Mark Licence for the purpose of granting a licence to the REIT Manager, the Lessors, REIT Holdco and the Finance Company in respect of the newly registered trade mark.

Each licence is expected to commence on the Listing Date and is expected to continue in full force until termination of (a) in respect of the licence granted to each Lessor, the relevant Hotel Management Agreement, (b) in respect of the licence granted to the REIT Manager, REIT Holdco and the Finance Company of the Trademarks other than the “Dorsett” mark, the relevant Hotel Management Agreement, and (c) in respect of the licence granted to the REIT Manager, REIT Holdco and the Finance Company of the “Dorsett” mark (including the relevant device), the Hotel Management Agreements in respect of Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel. Notwithstanding the early termination of the licence granted to the REIT Manager, REIT Holdco and the Finance Company, Dorsett Hotels & Resorts International Limited will not object to (a) the REIT Manager’s use of the trade marks or service marks as part of the corporate, business or domain name(s) of HK Hotel REIT or (b) use by REIT Holdco and the Finance Company of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager shall determine to change such name(s).

(v) Non-compete Deed

The Company will enter into the Non-compete Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT).

The Non-compete Deed will remain in effect until the earlier of:

- (a) the date on which the Units cease to be listed on the Stock Exchange; and
- (b) the date on which the Group ceases to beneficially own and/or control 10% or more of the outstanding Units,

provided that in the event the Group ceases to beneficially own and/or control 10% or more of the outstanding Units, the Company will continue to grant the right of first refusal (as detailed below) for 12 months from the date of cessation.

The Company will undertake to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) that it will not, and that it will procure and ensure that none of the members of the Group will, directly or indirectly participate in, hold any right or interest in or otherwise be involved in hotel projects involving the ownership of hotel operations and properties in Hong Kong or the PRC other than subject to the provisions of the Non-compete Deed.

Pursuant to the Non-compete Deed, the Company will, on behalf of the Group, grant Call Options to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) in respect of each of the Retained Hotels upon the terms of the Option Deed.

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Under the Non-compete Deed, the Group may acquire existing hotels for upgrading and redevelopment or other types of premises for conversion into hotels provided that the completed hotels, if located in Hong Kong or the PRC (the “**Completed Hotels**”), shall be subject to a right of first refusal on the following terms:

- (a) If any member of the Group wishes to sell any majority ownership and control (or such level as HK Hotel REIT is permitted to acquire from time to time) interest in any Completed Hotel (the “**FEC Existing Interest**”) pursuant to an offer or genuine indication of an offer (i) from a third party prospective purchaser or (ii) by any member of the Group to a third party prospective purchaser, it shall notify the REIT Manager (on behalf of HK Hotel REIT) in writing within seven Business Days after receiving or giving such offer, and offer or procure an offer to the REIT Manager (on behalf of HK Hotel REIT) on the same or better terms than those proposed to the Company, and subject to such confidentiality restrictions or requirements as may be applicable or reasonably necessary, provide to the REIT Manager (on behalf of HK Hotel REIT) all information and documents in respect of the FEC Existing Interest and the offer as may be reasonably required by the REIT Manager (on behalf of HK Hotel REIT) to evaluate such offer.
- (b) If the REIT Manager (on behalf of HK Hotel REIT) notifies the Company in writing that it will not accept the offer, or fails to provide any written acceptance within two months after receiving all the relevant information, the Group will, in the following 120 Business Days (the “**FEC Existing Interest Offer Period**”), be free to dispose of the FEC Existing Interest to any purchaser on the same terms as (or on terms no more favorable to the purchaser than) those offered by the Group to the REIT Manager (on behalf of HK Hotel REIT).
- (c) Notwithstanding the foregoing,
 - 1. the Group cannot dispose of the FEC Existing Interest to any purchaser on terms more favorable than those offered to the REIT Manager (on behalf of HK Hotel REIT), unless a first right to acquire such an interest has been offered to HK Hotel REIT in accordance with the procedures in (a) and (b) above; and
 - 2. the terms of any new offer made by a potential purchaser upon the expiry of the FEC Existing Interest Offer Period must be first offered to HK Hotel REIT in accordance with the procedures in (a) and (b) above.
- (d) FEC shall use its reasonable endeavors to obtain any consent required if the relevant FEC Existing Interest is held by FEC or its subsidiaries through or subject to any partnership, joint venture or other shareholding or contractual arrangements.

Any board meeting of the REIT Manager to be convened for the purpose of considering whether to exercise the right of first refusal on behalf of HK Hotel REIT will, unless all independent non-executive directors of the REIT Manager have an interest in the

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transaction, have at least one independent non-executive director of the REIT Manager who does not have an interest in the transaction present and all directors of the REIT Manager (including the independent non-executive directors of the REIT Manager) who do not have an interest in the transaction will have a right to attend and vote at such meeting. In accordance with the constitutive documents of the REIT Manager, the decision as to whether to exercise each of the right of first refusal on behalf of HK Hotel REIT shall be decided by a majority of votes of the directors of the REIT Manager present at the relevant duly convened and properly constituted board meeting.

The Group may manage and provide marketing services to any hotels not owned by the HK Hotel REIT Group provided that the teams and systems for the management and marketing of hotels owned by the HK Hotel REIT Group are separate from those for the management and marketing of hotels not owned by the HK Hotel REIT Group, which shall be demonstrated to the reasonable satisfaction of the REIT Manager.

(vi) Option Deed

The Company will enter into the Option Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) pursuant to which the Company (on behalf of the Group) will grant to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) the Call Options to require the Group to sell to the HK Hotel REIT Group each of the Retained Hotels (or the shares in and shareholders loans to the company(ies) holding the relevant Retained Hotel (the “**Option Shares and Loans**”)) upon the terms of the Option Deed.

The Option Deed will remain in effect until the earlier of:

- (a) the date on which the Units cease to be listed on the Stock Exchange; and
- (b) the date on which the Company ceases to beneficially own and/or control 10% or more of the outstanding Units.

The Call Option in respect of each Retained Hotel and the Option Shares and Loans will be exercisable by the REIT Manager or the Trustee (both on behalf of HK Hotel REIT) at any time within two years from the date on which the Company notifies the REIT Manager and the Trustee of whichever is the later of the issuance of the occupation permit and the grant of the hotel licence under the Hotel and Guesthouse Accommodation Ordinance (Cap. 349 of the Laws of Hong Kong) for the relevant Retained Hotel located in Hong Kong (and for those Retained Hotels located in the PRC, of the issuance of equivalent or similar permits and licences under PRC laws), after which time the Call Option in respect of that Retained Hotel will lapse. Pursuant to the Option Deed, the Company will undertake with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) that it will notify the REIT Manager (on behalf of HK Hotel REIT) in writing of (i) the issuance of the occupation permit, and (ii) the grant of a hotel licence, in respect of a relevant Retained Hotel, as soon as practicable after it becomes aware of such issuance or grant (as the case may be) (and in any event within seven Business Days after such event).

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The consideration payable by HK Hotel REIT (a) for each of the Retained Hotels, shall be the average of the values determined by two independent valuers, one appointed by the Company and the other appointed by the Trustee (on behalf of HK Hotel REIT); and (b) (where applicable) for the Option Shares and Loans in respect thereof shall be the net asset value of the entire issued share capital of the relevant company(ies) (taking into account the average value of the relevant Retained Hotel determined by the two independent valuers) together with (if applicable) the face value of the relevant shareholders loans (if any) to the relevant company(ies).

Completion of sale and purchase of the relevant Retained Hotel or (where applicable) the Option Shares and Loans in respect thereof under the Call Options will be conditional upon the compliance of the relevant requirements of the Listing Rules and the REIT Code, including, among other things, the Shareholders (other than those who are required to abstain from voting) passing at a general meeting of the Company of ordinary resolution(s) approving the relevant sale and purchase if so required under the Listing Rules and the Unitholders (other than those prohibited from voting under the REIT Code) passing at a general meeting of the Unitholders of ordinary resolution(s), approving the relevant sale and purchase if so required under the REIT Code.

REASONS FOR AND BENEFITS OF THE SPIN-OFF

The Directors consider that the Spin-off has the following benefits:

- (i) Shareholders will benefit from the enhancement in the net asset value of the Group as a result of the Spin-off. The Company will recognise a substantial gain from the Separate Listing.
- (ii) The separation of hotel development/redevelopment and management from hotel ownership is a business model that is common in the international hospitality industry, and is, as such, more familiar to international investors. The Spin-off will also bring the Company in line with global best practices.
- (iii) For the Hong Kong and the PRC operations of the Group, the proposed structure essentially separates the business of real estate development (including hotel development/redevelopment and management) from the business of hotel ownership and leasing. Such segregation enables investors and financiers to appraise the strategies, functional exposure, risks and returns of the two businesses separately and to make their investment decisions accordingly. Investors will have the choice to invest in either one or both of the business models.
- (iv) HK Hotel REIT, as a separate listed entity, will have its own separate management structure focusing on hotel properties investments so as to ensure it capitalises on the opportunities in this area.

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- (v) The Separate Listing will provide separate fund raising platform for HK Hotel REIT thereby enabling it to raise capital required to finance its future expansion. The Directors believe that HK Hotel REIT is poised for significant growth and it would be both effective and prudent for HK Hotel REIT to support this growth independently through the Separate Listing.
- (vi) The Company intends to hold not less than 50.0% of the Units (assuming that the Over-allotment Option is not exercised), accordingly the Company will continue to benefit from the stable Fixed Rentals to be earned by HK Hotel REIT (and thus enable HK Hotel REIT to make stable distributions) and any upside potential in hotel properties held by HK Hotel REIT through the sharing of the Variable Rentals with HK Hotel REIT which would be based on the achievement of certain GOP Margin benchmarks.
- (vii) The Group will receive REIT Manager's Fee, hotel management fee and marketing fee from HK Hotel REIT.

USE OF PROCEEDS

Set out below is, for illustration purpose only, the expected net cash inflow from the Spin-off (based on the Illustrative Consideration):

Illustrative Consideration	HK\$3,029 million
Less:	
Expected transaction costs to be incurred for the Spin-off	<u>HK\$8 million</u>
Expected net proceeds from the Spin-off	HK\$3,021 million
Add:	
Repayment of the Existing Borrowings by HK Hotel REIT (based on the amount as at 30 September 2007)	<u>HK\$703 million</u>
Expected net cash inflow from the Spin-off	<u>HK\$3,724 million</u>

Assuming that the Group will subscribe and retain a maximum of 75.0% interest in HK Hotel REIT and that HK Hotel REIT will immediately upon the completion of the Spin-off have an initial indebtedness of HK\$1,900 million (which is subject to finalisation before the Spin-off), the Company will apply approximately HK\$1,575 million for subscription of Units, approximately HK\$574 million for the repayment of the mortgage loans of certain Hotels, approximately HK\$700 million for potential property projects in the PRC, approximately HK\$700 million for potential hotel projects in Hong Kong, the PRC and other South East Asia countries, and the balance for general working capital.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE SPIN-OFF ON THE GROUP

Pursuant to the Trust Deed, the REIT Manager will have the power to govern the financial and operating policies of HK Hotel REIT. Despite the fact that the REIT Manager is a wholly-owned subsidiary of the Company, the Company will not have unilateral power to retain or remove the REIT Manager. Accordingly, the Company is considered not to have unilateral power to govern the financing and operating policies of HK Hotel REIT and therefore the financial statements of HK Hotel REIT should not be consolidated into those of the Company. However, the Remaining Group is considered to have significant influence over HK Hotel REIT, and therefore will account for its investment in HK Hotel REIT using the equity method in accordance with Hong Kong Accounting Standard 28.

Set out in Appendix II to this circular is the unaudited pro forma financial information on the Remaining Group which illustrates the financial impact of the Spin-off on the results and cash flows of the Remaining Group assuming the Spin-off was completed on 1 April 2007 and the financial impact of the Spin-off on the assets and liabilities of the Remaining Group assuming the Spin-off was completed on 30 September 2007.

Based on the unaudited pro forma income statement of the Remaining Group, the Remaining Group would recognise a gain of approximately HK\$1,217 million as a result of the Spin-off. The expected gain of approximately HK\$1,217 million is calculated based on a set of assumptions as set out in Appendix II to this circular and is for illustration purpose only, the actual gain to be recognised by the Remaining Group as a result of the Spin-off will depend on, among other things, the Offer Price and the number of Units to be subscribed the Group.

Based on the unaudited pro forma balance sheet of the Remaining Group, as at 30 September 2007, the total assets of the Remaining Group will increase from approximately HK\$9,460 million to approximately HK\$10,199 million, representing an increase of approximately 7.8%, and its total liabilities will drop from approximately HK\$4,770 million to HK\$4,283 million, representing a decrease of approximately 10.2%, as a result of the Spin-off.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

Business review

(i) Property development division – the PRC

Despite the weak sentiment in Shanghai's property market in general, the property sales of California Garden have been doing well. About 1,100 residential units were sold up to 30 September 2007. Apart from California Garden, the Remaining Group has also three property development projects, namely New Time Plaza, Gantangyuan, and Huadijiayuen, in Guangzhou with a total attributable gross floor area of over 1.3 million sq.ft.. All three projects consist of residential and commercial development and are scheduled to be completed by 2008 and 2009.

LETTER FROM THE BOARD

(ii) Property development division – Hong Kong

As at 30 September 2007, the Remaining Group had six property projects under development with a total gross floor area of approximately 2.4 million sq.ft..

(iii) Property development division – Australia

The Remaining Group has two property development projects in Melbourne, namely Royal Domain Tower and Northbank Place.

Royal Domain Tower is a 42-level high rise complex comprises 133 luxury residential apartments with a gross floor area of approximately 700,000 sq.ft.. The construction work was completed in early 2006. Up to 30 September 2007, over 83% of the 133 units were sold. The Group has a 90% interest in this project.

Northbank Place consists of an office building with a net lettable area of approximately 110,000 sq.ft. which has been pre-sold to an investor. As of 30 September 2007, all the units of the two residential towers, which consist of 384 apartments were sold. The Group has a 45% share in this project.

(iv) Hotel division

The Remaining Group operates seven hotels in Hong Kong, namely Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel with a total number of guest rooms of 1,549. The Remaining Group also owns Sheraton Subang Hotel, Dorsett Regency Hotel and Grand Dorsett Labuan Hotel (formerly known as Sheraton Labuan Hotel), all of which are located in Malaysia. The Remaining Group also operates Dorsett Penang Hotel in Malaysia.

As at 30 September 2007, the Remaining Group had three hotels under development in Hong Kong, two in Malaysia and two in the PRC. When all these hotels are completed over the next two-year, the size of the hotel portfolio will be more than double in terms of the number of guest rooms. Apart from expanding the hotel portfolio, the Directors also focus on establishing the hotel brands. For example, Lan Kwai Fong Hotel was awarded as “The Best Boutique Hotel in Asia” by TravelWeekly Asia Industry Awards 2007.

Financial review

(i) Results of operations

Revenue of the Remaining Group for the three-year ended 31 March 2007 were approximately HK\$546 million, HK\$684 million and HK\$875 million, representing a growth rate of approximately 25% and 28% respectively. Whereas the revenue of the Remaining Group for the six-month ended 30 September 2007 amounted to approximately HK\$693 million, representing a growth of approximately 43% when comparing with that for the same period last year. The increase in revenue during the period under review is mainly contributed by the strong performance of the hotel operations, increase in property sales and sales of financial instruments.

LETTER FROM THE BOARD

Gross profit of the Remaining Group for the three-year ended 31 March 2007 were approximately HK\$185 million, HK\$341 million and HK\$462 million, representing a growth rate of approximately 84% and 35% respectively. Whereas the gross profit of the Remaining Group for the six-month ended 30 September 2007 amounted to approximately HK\$402 million, representing a growth of approximately 76% when comparing with that for the same period last year. The significant increase in the gross profit of the Remaining Group during the period under review is mainly caused by the strong operating performance of the hotel operations and the expansion of the Remaining Group's hotel portfolio.

(ii) Financial resources and liquidity

(a) Borrowings

Set out below are the borrowings of the Remaining Group as at 31 March 2005, 2006 and 2007 and 30 September 2007:

	As at 31 March			As at 30
	2005	2006	2007	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2007</i> <i>HK\$'000</i>
Financial liabilities at fair value through profit and loss	–	914,969	838,336	491,995
Obligations under finance leases	726	1,068	1,836	1,750
Convertible bonds	765,134	–	–	–
Bank and other borrowings	1,267,121	1,516,394	2,042,226	2,191,602
Bank overdrafts	2,898	285	6,582	186
	<u>2,035,879</u>	<u>2,432,716</u>	<u>2,888,980</u>	<u>2,685,533</u>
Analysed as:				
Secured	1,184,579	1,506,269	2,050,644	2,193,538
Unsecured	851,300	926,447	838,336	491,995
	<u>2,035,879</u>	<u>2,432,716</u>	<u>2,888,980</u>	<u>2,685,533</u>
The above borrowings are repayable as follows:				
On demand or within one year	1,344,037	1,805,128	1,970,267	1,756,914
More than one year	691,842	627,588	918,713	928,619
	<u>2,035,879</u>	<u>2,432,716</u>	<u>2,888,980</u>	<u>2,685,533</u>

LETTER FROM THE BOARD

(b) Contingent liabilities

The Remaining Group had the following contingent liabilities as at 31 March 2005, 2006 and 2007 and 30 September 2007:

- (i) The Group has given guarantees to bankers to secure banking and other facilities made available to an investee company of HK\$102,536,000 and HK\$154,322,000 as at 31 March 2005 and 2006 respectively. No such guarantees were given by the Remaining Group as at 31 March 2007 and 30 September 2007. The fair values of the guarantees issued in 2005 and 2006 have not been recognised as the Directors considered that the amounts involved were insignificant.
- (ii) The Remaining Group has given guarantees in respect of mortgage loans provided to the home buyers of a property project in the PRC. The total amounts of mortgages outstanding which are subject to these guarantees were HK\$115,539,000, HK\$2,769,000, HK\$40,406,060 and HK\$198,706,000 as at 31 March 2005, 2006 and 2007 and 30 September 2007 respectively. The Directors considered that the fair values of these financial guarantee contracts as at 31 March 2005, 2006 and 2007 and 30 September 2007 are insignificant on the basis of short guarantee periods and low applicable default rates.
- (iii) In previous years, a subsidiary of the Company (the “Subsidiary”) was sued by two consultants providing management, consulting and advisory service concerning business strategy and corporate finance activities of the Subsidiary. The two consultants entered into a consulting contract with the Subsidiary in 1999 in lieu of cash for services rendered. The two consultants alleged that the Subsidiary fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claimed compensation for damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also alleged that the Subsidiary owed them salaries, payment in lieu of notice for early termination of the contract and the reimbursement for expenses regarding the employment as the board of directors of the Subsidiary amounting to approximately HK\$5,865,000. A motion of dismissing the claims was filed in the United States court and the claims are still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, the Directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial positions of the Remaining Group.

LETTER FROM THE BOARD

(c) Capital commitments

	At 31 March			At 30
	2005	2006	2007	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2007</i> <i>HK\$'000</i>
Capital expenditures contracted for but not provided in respect of:				
Properties under				
development for sale	1,015,761	469,271	1,136,198	1,562,649
Hotel properties	6,826	2,781	–	4,510
Others	–	–	4,329	889
	<u>1,022,587</u>	<u>472,052</u>	<u>1,140,527</u>	<u>1,568,048</u>
Capital expenditures authorised but not contracted for in respect of:				
Hotel properties under				
development	–	–	426,090	–
Hotel properties	–	8,400	11,315	11,400
	<u>–</u>	<u>8,400</u>	<u>437,405</u>	<u>11,400</u>
Total	<u><u>1,022,587</u></u>	<u><u>480,452</u></u>	<u><u>1,577,932</u></u>	<u><u>1,579,448</u></u>

(d) Gearing ratios

The gearing ratios (calculated based on financial liabilities at fair value through profit and loss, obligations under finance leases, convertible bonds, bank and other borrowings and bank overdrafts over shareholders' equity) of the Remaining Group were 66%, 72%, 78% and 62% as at 31 March 2005, 2006 and 2007 and 30 September 2007 respectively.

(e) Current ratios

The current ratios of the Remaining Group were 1.52, 1.15, 1.10 and 1.13 as at 31 March 2005, 2006 and 2007 and 30 September 2007 respectively.

(f) Exchange rate risk

The of the Remaining Group was not exposed to material exchange rate fluctuations during the period under review.

LETTER FROM THE BOARD

(g) Pledge of assets

As at 31 March 2005, 2006 and 2007 and 30 September 2007,

- (i) The Remaining Group had pledged the following assets together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and properties of associates and third parties to the Remaining Group's bankers and loan creditors to secure banking and loan facilities granted to the Remaining Group and an associate as at 31 March 2005, 2006 and 2007 and 30 September 2007 to the extent of approximately HK\$1,986,480,000, HK\$2,256,947,000, HK\$3,228,548,000 and HK\$3,824,828,000 respectively and banking and loan facilities granted to an associate as at 31 March 2005, 2006 and 2007 and 30 September 2007 to the extent of approximately HK\$5,000,000, HK\$5,000,000. No such guarantees were given to secure banking and loan facilities granted to an associate as at 31 March 2007 and 30 September 2007.

	At 31 March			At 30
	2005	2006	2007	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties	1,178,048	2,265,233	2,762,572	3,131,103
Bank deposits	6,901	50,585	76,662	60,138
Investments held for trading	<u>1,556</u>	<u>1,576</u>	<u>731</u>	<u>748</u>
	<u><u>1,186,505</u></u>	<u><u>2,317,394</u></u>	<u><u>2,839,965</u></u>	<u><u>3,191,989</u></u>

- (ii) At 31 March 2005, 2006 and 2007 and 30 September 2007, the Remaining Group's held for trading investments, available-for-sale investments and derivative financial instruments, other financial assets and deposits with an aggregate carrying amount of approximately HK\$237,746,000, HK\$414,182,000, HK\$365,640,000 and HK\$355,478,000 respectively were pledged to the financial institutions to secure margin trading facilities granted to the Remaining Group in respect of securities transactions to the extent of approximately HK\$37,613,000, HK\$645,095,000, HK\$1,011,087,000 and HK\$1,028,304,000, of which HK\$32,449,000, HK\$54,427,000, HK\$83,621,000 and HK\$413,049,000 were utilised respectively.
- (iii) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Remaining Group.

LETTER FROM THE BOARD

- (iv) The Remaining Group subordinated its amount due from an investee company of approximately HK\$119,995,000 to a financial institution to secure general credit facility granted to the investee company throughout the period under review.

FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

After the Spin-off, although the Retained Hotels may continue to be owned by the Remaining Group if the Retained Hotels are not acquired by HK Hotel REIT pursuant to the Option Deed, the Remaining Group will focus on property development and investment, treasury management, hotel operations, hotel development, hotel redevelopment and (outside Hong Kong and the PRC only) hotel owning business.

The Directors are of the view that the demand for four-star hotels will increase substantially as there is an exponential growth of the middle-class domestic leisure and business travelers. Accordingly, the Remaining Group is determined to develop its four-star hotel chain in the PRC. On the basis that the land and labour costs are relatively low in the PRC, the Directors are of the view that the Remaining Group will be able to control the development costs and enjoy high profit margins in the long run.

Property sales at California Garden, Shanghai, which targets at the middle- and upper middle-class markets were strong despite monetary-based tightening measures and newly introduced macro economic control policies in the PRC. With over 6,000 residential units in the pipeline, the Directors are of the view that California Garden will continue to be the Remaining Group's major profit contributor for the next four to five years. Further, the three residential and commercial projects in Guangzhou are under development and on course for completion.

The Remaining Group has also decided to actively expand the hotel portfolio in Malaysia through acquisitions.

LISTING RULES IMPLICATIONS

The Spin-off constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM. Approval from the Shareholders for the Spin-off is also required under PN15. As far as the Directors are aware, none of the Shareholder has a material interest in the Spin-off which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Spin-off and other related matters at the EGM.

HK Hotel REIT may or may not be a connected person (as defined in the Listing Rules) of the Company subsequent to the Spin-off. Accordingly, the Directors confirm that if HK Hotel REIT becomes a connected person of the Company for whatever reasons subsequent to the Spin-off, the Company undertakes that it will comply with relevant requirements under the Listing Rules, in particular Chapter 14A of the Listing Rules, from time to time.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

Based on the expected timetable, the register of members of the Company will be closed from Thursday, 31 January 2008 to Monday, 4 February 2008 (both days inclusive) for the purpose of determining the Assured Entitlement and entitlement to vote at the EGM. No transfer of the Shares may be registered during such book close period. In order to qualify for the Assured Entitlement and to vote at the EGM, all forms for transfers of Shares duly accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on Wednesday, 30 January 2008, and all documents for exercise of any conversion rights attaching to the outstanding convertible bonds and/or exercise of share options under the share option scheme of the Company duly accompanied by the relevant convertible bond certificates and/or exercise notices must be lodged with the Company by no later than 4:00 p.m. on Wednesday, 30 January 2008.

The last day of dealing in the Shares cum-Assured Entitlement is expected to be on Monday, 28 January 2008 and the Shares will then be traded ex-Assured Entitlement from Tuesday, 29 January 2008. However, if the Global Offering and the Separate Listing are postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purpose of determining the Assured Entitlement and entitlement to vote at the EGM and further announcement(s) will be made to inform the Shareholders and other investors in due course.

Shareholders should note that the implementation of the Preferential Offering is conditional upon the satisfaction of the conditions of the Spin-off as set out in the sub-section headed “The Spin-off of HK Hotel REIT – Conditions” in this letter from the Board above. If any of such conditions is not fulfilled by such time set out therein, the Preferential Offering will not be made and, in such case, no Qualifying Shareholders may subscribe for any Reserved Units thereunder.

EGM

A notice convening the EGM, at which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Spin-off and other related matters is set out on pages 218 to 219 to this circular.

Whether or not you will be able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s Hong Kong branch share registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

LETTER FROM THE BOARD

Pursuant to Article 71 of the articles of association of the Company, every question submitted to a general meeting shall be determined in the first instance by a show of hands of the members present in person, unless a poll is taken as may from time to time be required under the rules of the Stock Exchange but a poll may be demanded (before or upon the declaration of the result of the show of hands) by the chairman of the meeting or by:

- (i) not less than three members present in person or by proxy having the right to vote at the meeting; or
- (ii) a member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman of the meeting that a resolution has been carried or lost or has or has not been carried by any particular majority and an entry to that effect in the minutes book of the Company shall be conclusive evidence of the fact without proof of the number, proportion or validity of the votes recorded in favour of or against such resolution.

RECOMMENDATIONS

The Directors (other than the independent non-executive Directors whose views are given separately in the letter from the Independent Board Committee as referred to below) are of the view that the terms of the Spin-off are fair and reasonable as far as the Shareholders are concerned and the Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, they recommend the Shareholders to vote in favour of the ordinary resolution to approve the Spin-off and other matters in relation thereto at the EGM.

The Independent Board Committee comprising all of the three independent non-executive Directors has been established to advise the Shareholders regarding the Spin-off. Your attention is drawn to its letter of recommendation set out on page 56 of this circular.

Kingsway Capital has been appointed to advise the Independent Board Committee and the Shareholders in the same regard. Your attention is drawn to their letter of advice set out on pages 57 to 85 of this circular.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

The Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there is no assurance that the Spin-off will proceed. Accordingly, Shareholders and/or potential investors of the Company should exercise caution when dealing in the securities of the Company.

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board of
Far East Consortium International Limited

David Chiu

*Deputy Chairman and
Chief Executive Officer*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:



FAR EAST CONSORTIUM INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fecil.com.hk>

(Stock code: 35)

18 January 2008

To the Shareholders

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
THE PROPOSED SPIN-OFF OF
HONG KONG HOTEL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF THE STOCK EXCHANGE**

We refer to the circular of the Company dated 18 January 2008 (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Spin-off. Kingsway Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 57 to 85 of the Circular. Your attention is also drawn to the letter from the Board and the letter from Kingsway Capital in the Circular and the additional information set out the appendices thereto.

Having considered the terms of the Spin-off and taking into account the independent advice of Kingsway Capital, in particular the principal factors, reasons and recommendation as set out in their letter on pages 57 to 85 of the Circular, we consider that (i) the terms of the Spin-off are fair and reasonable as far as the Shareholders are concerned; and (ii) the Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Spin-off and other related matters.

Yours faithfully,

Independent Board Committee of

Far East Consortium International Limited

Mr. Jian Yin Jiang

Mr. Kwok Wai Chan

Mr. Peter Man Kong Wong

Independent Non-executive Directors

LETTER FROM KINGSWAY CAPITAL

The following is the text of the letter of advice to the Independent Board Committee and the Shareholders from Kingsway Capital prepared for incorporation in this circular:



5/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong.

18 January 2008

*To the Independent Board Committee and the Shareholders of
Far East Consortium International Limited*

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
THE PROPOSED SPIN-OFF OF
HK HOTEL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF THE STOCK EXCHANGE**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Spin-off. Details of the Spin-off are set out in a circular (the “Circular”) of the Company to the Shareholders dated 18 January 2008, of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Company announced on 15 January 2008 that the Directors have put forward a proposal in relation to the Spin-off for the Shareholders’ consideration and formal application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the listing of, and permission to deal in, the Units on the Stock Exchange. Further, the proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15.

The Spin-off constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM. Approval from the Shareholders for the Spin-off is also required under PN15. As far as the Directors are aware, there are no Shareholders having a material interest in the Spin-off which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Spin-off and other related matters at the EGM.

The Independent Board Committee comprising all of the three independent non-executive Directors, being Mr. Jian Yin JIANG, Mr. Kwok Wai CHAN and Mr. Peter Man Kong WONG, has been established to advise the Shareholders as to whether the terms

LETTER FROM KINGSWAY CAPITAL

of the Spin-off are fair and reasonable and are in the interests of the Shareholders and the Company as a whole. We have been appointed to advise the Independent Board Committee and the Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our view and recommendation to the Independent Board Committee and the Shareholders in relation to the Spin-off, we have relied on the information and representations provided to us by the Directors, which the Directors consider to be complete and relevant.

We have also relied on the information and representations contained in the Circular and have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate on the date of the Circular. We have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided by the management of the Company and the Directors, nor have we conducted any independent investigation into the business and affairs of the Group or the HK Hotel REIT Group, or any of their respective subsidiaries or associates.

PRINCIPAL REASONS AND FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Shareholders in respect of the Spin-off, we have considered the following principal reasons and factors:

A. Background to and reasons for the Proposed Spin-off

1. Business of the Group

The Group is principally engaged in property development and investment, hotel operations and treasury management. For the three financial years ended 31 March 2007 and the six months ended 30 September 2007, the Group has recorded revenue of approximately HK\$546 million, HK\$684 million, HK\$875 million and HK\$693 million respectively and profits attributable to Shareholders of approximately HK\$405 million, HK\$335 million, HK\$539 million and HK\$255

LETTER FROM KINGSWAY CAPITAL

million respectively. The table below sets out the breakdown of the revenue of the Group by business segment for the three financial years ended 31 March 2007 and the six months ended 30 September 2007:

	For the financial year ended 31 March						For the six months ended	
	Percentage of total revenue		Percentage of total revenue		Percentage of total revenue		Percentage of total revenue	
	Revenue <i>HK\$ million</i>	%	Revenue <i>HK\$ million</i>	%	Revenue <i>HK\$ million</i>	%	Revenue <i>HK\$ million</i>	%
Sales of properties	318,501	58.33	270,081	39.47	339,420	38.78	312,119	45.05
Hotel operations	59,108	10.82	204,041	29.82	342,901	39.18	265,024	38.26
Hotel loan financing income	61,560	11.27	70,178	10.26	63,580	7.26	–	–
Interest income from financial instruments	12,623	2.31	68,862	10.07	60,441	6.91	79,104	11.42
Rental income and management fee income	68,609	12.56	51,515	7.53	59,315	6.78	36,226	5.23
Others	<u>25,719</u>	<u>4.71</u>	<u>19,467</u>	<u>2.85</u>	<u>9,519</u>	<u>1.09</u>	<u>286</u>	<u>0.04</u>
Total	<u>546,120</u>	<u>100</u>	<u>684,144</u>	<u>100</u>	<u>875,176</u>	<u>100</u>	<u>692,759</u>	<u>100</u>

As illustrated in the table above, the hotel operations segment accounted for approximately 10.8%, 29.8%, 39.2% and 38.3% of the Group's total revenue for each of the three financial years ended 31 March 2007 and the six months ended 30 September 2007 respectively.

Except for the Retained Hotels, immediately upon completion of the Spin-off, the Remaining Group will not own hotel properties in Hong Kong and the PRC but will continue to engage in property development and investment, treasury management, hotel operations, hotel development, hotel redevelopment and (outside Hong Kong and the PRC only) hotel owning business. Pursuant to the terms of the Leases which will be effective upon the Listing Date, the Lease rentals payable by the Lessee, a wholly-owned subsidiary of the Company, will become a new expense of the Remaining Group. On the other hand, the Remaining Group will receive REIT Manager's Fee from HK Hotel REIT and the Hotels and distributions of HK Hotel REIT according to its holding of the Units, these combined new sources of income will mitigate the effect of a decrease in the bottom line due to the Lease rentals.

LETTER FROM KINGSWAY CAPITAL

2. *Reasons for and benefits of the Spin-off*

The Directors consider that the Spin-off has the following benefits:

- (i) Shareholders will benefit from the enhancement in the NAV of the Group as a result of the Spin-off. The Company will recognise a substantial gain from the Separate Listing.
- (ii) The separation of hotel development/redevelopment and management from hotel ownership is a business model that is common in the international hospitality industry, and is, as such, more familiar to international investors. The Spin-off will also bring the Company in line with global best practices.
- (iii) For the Hong Kong and the PRC operations of the Group, the proposed structure essentially separates the business of real estate development (including hotel development/redevelopment and management) from the business of hotel ownership and leasing. Such segregation enables investors and financiers to appraise the strategies, functional exposure, risks and returns of the two businesses separately and to make their investment decisions accordingly. Investors will have the choice to invest in either one or both of the business models.
- (iv) HK Hotel REIT, as a separate listed entity, will have its own separate management structure focusing on hotel properties investments so as to ensure it capitalises on the opportunities in this area.
- (v) The Separate Listing will enable HK Hotel REIT to raise capital required to finance its future expansion. The Directors believe that HK Hotel REIT is poised for significant growth and it would be both effective and prudent for HK Hotel REIT to support this growth independently through the Separate Listing.
- (vi) The Company intends to hold not less than 50% of the Units (assuming the Over-allotment Option is not exercised), accordingly the Company will continue to benefit from the stable Fixed Rentals to be earned by HK Hotel REIT (and thus enable HK Hotel REIT to make stable distributions) and any upside potential in the hotel properties held by HK Hotel REIT through the sharing of the Variable Rentals from HK Hotel REIT which would be based on the achievement of certain GOP Margin benchmarks.
- (vii) The Group will receive REIT Manager's Fee, hotel management fee and marketing fee from HK Hotel REIT.

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3. *Use of proceeds*

As stated in the letter from the Board in the Circular, based on the Illustrative Consideration for the REIT Holdco Shares of HK\$3,029 million (calculated based on the Agreed Value of not less than HK\$4,000 million less the Existing Borrowings as at 30 September 2007, the expected face value of the Loan as at the date of the Completion and the Taxation Payable as at 30 September 2007), the cash receipt from the full repayment of the Existing Borrowings by HK Hotel REIT of approximately HK\$703 million as at 30 September 2007 and the deduction of expected transaction costs to be incurred, the Remaining Group will receive a net proceed of approximately HK\$3,724 million. Assuming that the Remaining Group will subscribe and retain a maximum of 75% interest in HK Hotel REIT and assuming HK Hotel REIT will, immediately upon completion of the Spin-off, have an initial indebtedness of HK\$1,900 million (which is subject to finalisation before completion of the Spin-off), the Company will apply approximately HK\$1,575 million for subscription of Units, approximately HK\$574 million for the repayment of mortgage loans of certain Hotels, approximately HK\$700 million for potential property projects in the PRC, approximately HK\$700 million for potential hotel projects in Hong Kong, the PRC and other South East Asia countries, and the remaining amount as working capital.

Immediately following completion of the Spin-off, it is expected that the Company will hold an interest from approximately 50% to approximately 75% (assuming that the Over-allotment Option is not exercised) in HK Hotel REIT. As advised by the Directors, the Company intends to hold its interest in HK Hotel REIT as long-term investment.

We understand that it is a global trend of separating hotel ownership from hotel operation which allow hotel managers to focus on hotel operation and brand extension, and hotel operators to focus on asset ownership and growth opportunities; we are of the view that the Spin-off would bring the Company in line with global practices of separating hotel development/redevelopment and management from hotel ownership. Taking into account (i) the growth of, and the future prospect of, the hotel industry in Hong Kong; (ii) the benefits of the Spin-off; (iii) the estimated net proceeds of approximately HK\$3,724 million to be received by the Company from the Spin-off as stated above; (iv) the Company's intention to hold not less than 50% of the Units (assuming that the Over-allotment Option is not exercised), accordingly the Company will continue to benefit from any upside potential in hotel properties held by HK Hotel REIT; and (v) the management arrangement of HK Hotel REIT, we are of the view that the Spin-off is in the interest of the Company and the Shareholders as a whole.

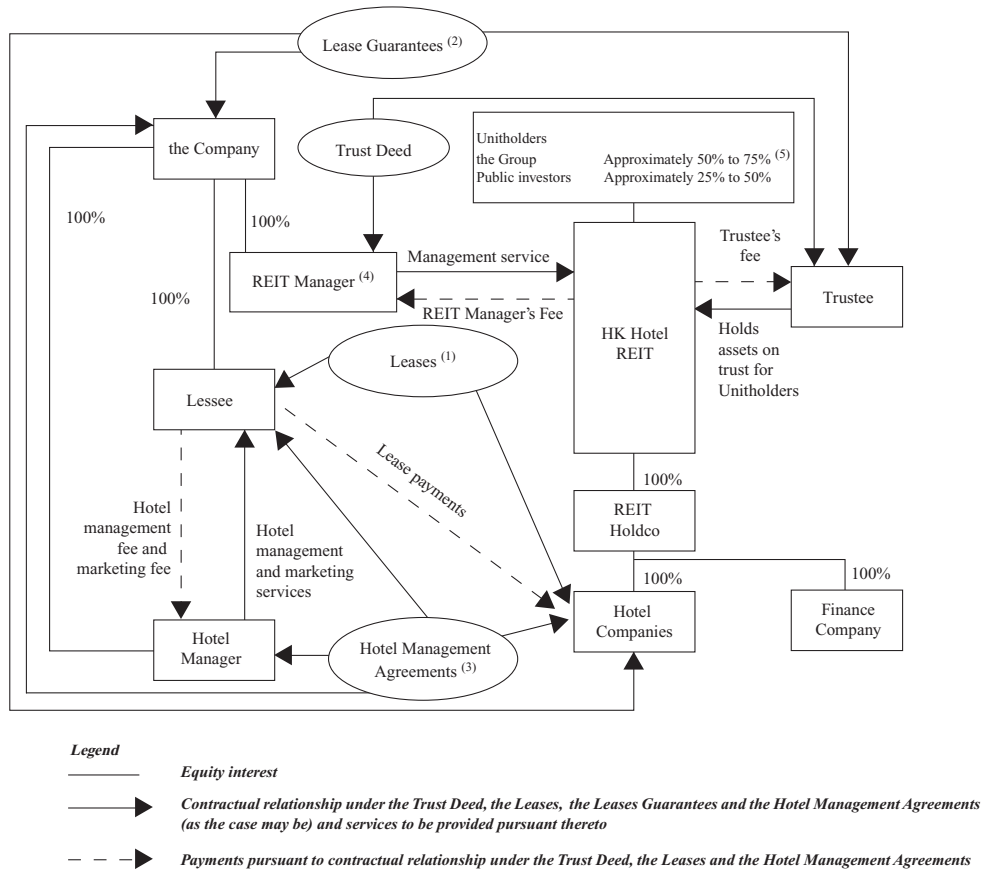
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B. Business of HK Hotel REIT and relationship with the Group

1. HK Hotel REIT

HK Hotel REIT will be established to own an investment portfolio of hotel properties initially in Hong Kong. HK Hotel REIT will focus on hotel ownership and seek hotel managers and franchisors to manage its hotel properties. HK Hotel REIT’s primary objectives will be to provide regular and stable distributions to Unitholders and with the potential to achieve long-term capital growth in NAV per Unit by way of (i) internal growth through asset enhancement opportunities and operational improvements; (ii) external growth through potential acquisitions that meet the REIT Manager’s investment criteria; and (iii) financing through appropriate debt and equity financing policies.

Set out below is the simplified proposed structure of HK Hotel REIT and its relationships, among others, with the Company, the REIT Manager, the Lessee, the Hotel Manager and the Trustee upon the Separate Listing:



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Notes:

- (1) The Lessee will enter into separate Leases with each of the Lessors. The Lessee will pay the Fixed Rentals to the Lessors and the Variable Rentals. For further details, please refer to the section headed “Information on HK Hotel REIT” in the letter from the Board of the Circular.
- (2) The Company will enter into separate Lease Guarantees with the Trustee on behalf of HK Hotel REIT) and each of the Lessors pursuant to which the Company will guarantee the Lessee’s contractual obligations (including but not limited to the payment of the Fixed Rentals and the Variable Rentals) under the Leases. For further details, please refer to the section headed “Information on HK Hotel REIT” in the letter from the Board of the Circular.
- (3) The Hotel Manager will provide hotel management and marketing services to the Lessee pursuant to the Hotel Management Agreements. The Hotel Manager, in return, will receive management fees and marketing fees from the Lessee. For further details, please refer to the section headed “Information on HK Hotel REIT” in the letter from the Board of the Circular.
- (4) The REIT Manager will provide management services to HK Hotel REIT. In return, the REIT Manager will receive fees for such services from HK Hotel REIT. For further details, please refer to the section headed “Information on HK Hotel REIT” in the letter from the Board of the Circular.
- (5) Assuming that the Over-allotment Option is not exercised.

Upon completion of the Spin-off, HK Hotel REIT will own seven hotel properties in Hong Kong, details of which are set out in the sub-paragraph headed “2. The Hotels” below. The Hotels will be leased to the Lessee for a term of 15 years commencing from the Listing Date. The Lessee is an indirect wholly-owned subsidiary of the Company. HK Hotel REIT, as the ultimate owner of the Hotels, will, through the Lessors, receive the Fixed Rentals and the Variable Rentals. Details of the Fixed Rentals and the Variable Rentals are set out in the sub-paragraph headed “1. The Leases” in the section headed “D. Other material agreements to be entered into by HK Hotel REIT” below.

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2. *The Hotels*

Upon completion of the Spin-off, HK Hotel REIT will own seven hotel properties in Hong Kong, namely Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel. HK Hotel REIT will also have the option to acquire the Retained Hotels to be redeveloped, renovated or converted by the Group in Hong Kong and the PRC.

The Hotels are strategically located across different districts in Hong Kong, and currently have an aggregate of 1,549 guest rooms. They offer a diverse range of accommodation to various market segments. The table below sets forth details of the Hotels:

Hotel	Location	Commencement of operations ⁽²⁾	Gross Floor Area sq.f.	Number of guest rooms	For the year ended March 2007		Appraised value as at 30 November 2007 HK\$ million	
					Occupancy rate %	Average room rates HK\$		
High Tariff B⁽¹⁾								
Cosmopolitan Hotel	Wan Chai	December 2004	172,469	454	89	828	735	1,873
Cosmo Hotel	Wan Chai	October 2005	61,140	142	88	769	678	547
Lan Kwai Fong Hotel	Central	March 2006	60,773	162	71	1,098	780	939
Medium Tariff⁽¹⁾								
Central Park Hotel	Central	April 2005	51,183	142	83	661	548	412
Dorsett Far East Hotel	Tsuen Wan	October 2006	46,386	240	90	396	354	352
Dorsett Olympic Hotel	Tai Kok Tsui	May 2005	34,552	141	98	458	449	265
Dorsett Seaview Hotel	Yau Ma Tei	January 2001 ⁽³⁾	59,884	268	99	469	462	565
Total/average			<u>486,387</u>	<u>1,549</u>	<u>89</u>	<u>680</u>	<u>605</u>	<u>4,953</u>

Notes:

- (1) The Hong Kong Tourism Board classifies hotels into High Tariff A, High Tariff B, Medium Tariff and unclassified, based on facilities, location, staff-to-room ratio, achieved room rate and business mix of the hotels.
- (2) Subject to note 3 below, commencement of operations refers to the date which the Hotel opened for business.
- (3) The hotel was acquired by the Group in January 2001, while the hotel has been in operation since 1994.
- (4) Dorsett Far East Hotel is included in a building, which consists a hotel portion and a non-hotel portion. Only Dorsett Far East Hotel, being the hotel portion of the building, will be acquired by HK Hotel REIT, while the non-hotel portion will be retained by the Remaining Group.

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3. *The REIT Manager*

The REIT Manager, Hong Kong Hotel Asset Management Limited, was incorporated in Hong Kong for the sole purpose of managing the assets of HK Hotel REIT and is a wholly-owned subsidiary of the Company.

The REIT Manager will have a general power of management over the assets of HK Hotel REIT. The REIT Manager's main responsibility will be to manage the assets of HK Hotel REIT for the benefit of the Unitholders. The REIT Manager will not involve in the management of any other REIT. The REIT Manager will set the strategic direction and risk management policies of HK Hotel REIT on the acquisition, divestment or enhancement of assets of HK Hotel REIT in accordance with its stated investment strategy.

The REIT Manager will be responsible for ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Listing Rules, the Trust Deed and all relevant contracts. The REIT Manager will also be responsible for all regular communications between HK Hotel REIT and its Unitholders.

The following is a summary of the fees payable by HK Hotel REIT to the REIT Manager:

- (i) the Base Fee which is intended to be up to 0.3% per annum of the Property Value;
- (ii) the Variable Fee which is intended to be 2.5% per annum of Net Property Income (before deduction therefrom of the Variable Fee);
- (iii) the Acquisition Fee which is intended to be up to 1.0% of the acquisition price for real estate acquired (other than the acquisition described in paragraph (iii) of the section headed "Reorganisations – Internal reorganisation" in the letter from the Board of the Circular); and
- (iv) the Divestment Fee which is intended to be up to 0.5% of the sale price of real estate divested.

The REIT Manager will be required to make the elections for the payment of the Base Fee and the Variable Fee in cash and/or Units and (if applicable) the respective percentages of the relevant fee to be paid in cash and in Units annually. The Acquisition Fee and the Divestment Fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager and with prior approval of the Unitholders, entirely in the form of Units or partly in cash and partly in the form of Units.

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In order to assess the reasonableness of the fees payable by HK Hotel REIT to the REIT Manager, we have compared such fees with the relevant fees of the REIT managers of other comparable REITs (the “Comparable REITs”). These Comparable REITs were selected on the bases that (i) it is listed on the Stock Exchange or on Singapore Exchange Limited (“SGX”) which we consider is of similar market conditions; (ii) it has market capitalisation of at least US\$300 million which is similar to the expected market capitalisation of HK Hotel REIT; and (iii) its underlying assets comprises mainly hotels or hospitality-related properties. As HK Hotel REIT is to be listed on the Stock Exchange, we have also compared HK Hotel REIT with other REITs which are also listed on the Stock Exchange (the “Hong Kong REITs”) in order to provide a more comprehensive analysis.

To the best of our knowledge, we have identified 3 Comparable REITs (of which 2 are listed on SGX and 1 is listed on the Stock Exchange) and 6 Hong Kong REITs (excluding the Regal REIT which is also a Comparable REIT), details of which are set out in the table below:

REIT	Base fee	Performance/ Variable fee	Acquisition fee	Divestment fee
Comparable REITs				
Regal REIT (listed in Hong Kong)	0.3% per annum, subject to a maximum cap of 0.5% per annum of the value of all the gross assets	3.0% per annum, subject to a maximum cap of 5.0% per annum of the net property income	1.0% of the purchase price of property acquired	0.5% of the sale price of property divested
Ascott Residence Trust (listed on SGX)	0.3% per annum of the property values	4.0% per annum of gross profit	1.0% of the purchase price of property acquired, 0.5% if payment is made to third party agents or brokers	0.5% of the sale price of property divested
CDL Hospitality Trusts (listed on SGX)	0.25% per annum of the value of the deposited property	5.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Hong Kong REITs				
Champion	Nil	12.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested

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REIT	Base fee	Performance/ Variable fee	Acquisition fee	Divestment fee
GZI	0.3% per annum of the value of the deposited property	3.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Link	Nil	An amount equal to the costs and expenses reasonably incurred by the manager in managing Link, subject to a minimum of HK\$15 million per month	Nil	Nil
Prosperity	0.4% per annum of the property values (maximum 0.4% per annum of the property values)	3.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
RREEF China Commercial Trust	0.4% per annum (maximum 0.4% per annum of the property values)	3.0 %per annum of net property income	1.0% of the acquisition price of any real estate acquired	Maximum of 0.5% of the sale price of any real estate sold or divested
Sunlight	0.4% per annum of the property values (maximum 0.4% per annum of the property values)	3.0 % per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
HK Hotel REIT	0.3% per annum of the Property Value	2.5% per annum of Net Property Income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested

Shareholders should note that HK Hotel REIT will own hotel properties primarily in Hong Kong; whereas the comparable Hong Kong REITs listed above, except Regal REIT, owns mainly properties other than hotels and hence, they may not be directly comparable to HK Hotel REIT. Accordingly, the relevant data of these Hong Kong REITs are intended to set out for reference only.

We note from the above table that the REIT Manager's Base Fee, Acquisition Fee and Divestment Fee are in line with the respective fees charged by the REIT managers of the Comparable REITs, and are within the range of the respective fees charged by the REIT managers of the Hong Kong REITs. We also

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note that the Variable Fee payable to the REIT Manager is lower than that of the Comparable REITs and the Hong Kong REITs. We have discussed with the Directors and have been advised that the purpose of the Variable Fee is mainly to incentivise the REIT Manager to enhance the performance of HK Hotel REIT, and the relatively lower Variable Fee as compared with the Comparable REITs and Hong Kong REITs is determined in view of maximizing the interests of the Unitholders while at the same time serving the purpose of incentivising the REIT Manager.

Having considered the abovementioned, we believe that the REIT Manager will not be under-remunerated. In this regard, the fees payable to the REIT Manager by HK Hotel REIT are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

4. The Hotel Manager

The Hotel Manager, Dorsett Hotels & Resorts (H.K.) Limited, was incorporated in Hong Kong on 2 July 1992 and is a wholly-owned subsidiary of the Company.

The Hotel Manager will, as the sole and exclusive operator and manager of the Hotels, provide hotel management and marketing services for the Hotels, subject to the overall management and supervision of the REIT Manager. The Hotel Manager will also assess the Hotels' needs for repairs and maintenance and submit an annual operating budget which includes an estimate of such repairs and maintenance for approval by the Lessee and the Lessor. The Hotel Manager will be responsible for carrying out such repairs and maintenance upon approval of the budget.

For hotel management services, the Lessee is expected to pay the Hotel Manager:

- (i) a basic management fee equal to 2.0% of the Adjusted Gross Revenue of the relevant Hotel for each month payable monthly in arrears; and
- (ii) an incentive management fee equal to 4.0% of the GOP of the relevant Hotel for each month payable monthly in arrears.

For marketing services which will be provided by the Hotel Manager, the relevant Lessee is expected to pay the Hotel Manager a marketing fee equal to 1% of GOP of the relevant Hotel for each month payable monthly in arrears.

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To analyse the fairness and reasonableness of the fees payable to the Hotel Manager, we have compared such fees with the relevant property/hotel management fees payable by the Comparable REITs and the Hong Kong REITs, the details of which are set out in the table below:

REIT	Property/hotel management fee
Comparable REITs	
Regal REIT (listed in Hong Kong)	(i) a hotel management base fee of 1% to 2% of gross revenues of the properties (ii) a hotel management incentive fee of an amount equal to 1% to 5% of the excess of the gross operating profit plus net rental income of the properties (iii) marketing fee of not more than 1% of the total property revenue
Ascott Residence Trust (listed on SGX)	(i) 2%-3% per annum of total property revenue (ii) incentive management fee of 5% to 10% per annum of gross operating profit of each property
CDL Hospitality Trusts (listed on SGX)	(i) 10% of profit before interest and tax
Hong Kong REITs	
Champion	(i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a licence for a duration of less than 12 months
GZI	(i) 4% per annum of the rental fee income from three of its property projects (ii) 3% per annum of the rental fee income from one of its property projects

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REIT	Property/hotel management fee
Link	Not applicable
Prosperity	<ul style="list-style-type: none"> (i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a license for a duration of less than 12 months
RREEF China Commercial Trust	<ul style="list-style-type: none"> (i) a property management fee of 6.0% per annum of the operating expenses of the property, subject to a minimum of RMB40,000 (equivalent to approximately HK\$42,000) per month
Sunlight	<ul style="list-style-type: none"> (i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a license for a duration of less than 12 months
HK Hotel REIT	<ul style="list-style-type: none"> (i) a basic management fee equal to 2% of the Adjusted Gross Revenue (ii) an incentive management fee equal to 4% of the GOP (iii) marketing fee equal to 1% of GOP

As illustrated in the table above, we note that the Hotel Manager would, similar to market practice, receive hotel management fee and marketing fee. However, the benchmark by which the hotel/property management fee and marketing fee of the Comparable REITs and the Hong Kong REITs was determined varies on a case-by-case basis and hence, they are not directly comparable to the relevant fees to be received by the Hotel Manager. Nevertheless, both the Lessee and the Hotel Manager are wholly-owned subsidiaries of the Company and the relevant hotel management fee and marketing fee are in the nature of intra-group transactions for the Remaining Group, we are therefore of the view that such hotel management fee and marketing fee would

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not impact the revenue and profit of the Group as a whole. The proposed remuneration to the Hotel Manager during the term of the Hotel Management Agreements is in line with the market level.

In light of the above, we are of the view that the fees payable to the Hotel Manager are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

C. Reorganisation of the Group and Acquisition of REIT Holdco by HK Hotel REIT

1. The Reorganisation

The REIT Manager, a wholly owned subsidiary of the Company, and the Trustee will enter into the Trust Deed for the purpose of constituting and establishing HK Hotel REIT.

On 23 January 2007, REIT Holdco was incorporated in the Cayman Islands and held, during the reorganisation process, indirectly by the Company to serve as the holding company for the Finance Company and all the Hotel Companies through which the Hotels are to be held.

In preparing for the acquisition of the REIT Holdco Shares by HK Hotel REIT, the ownership structure of the Hotels and corporate entities within the Group will be reorganised which will involve mainly the following steps:

- (i) the Group will conduct internal transfers of or incorporate relevant Hotel Companies (as the case may be), such that all the Hotel Companies will be wholly-owned by REIT Holdco directly;
- (ii) the Group will transfer certain Hotels to be held under their respective Hotel Company, such that each Hotel will be wholly-owned by its respective Hotel Company or, in the case of Central Park Hotel, its respective Hotel Companies; and
- (iii) through intra-group transfers or liquidation (as the case may be) of certain subsidiaries of the Group during the aforesaid reorganisation process, such that only the Finance Company and the Hotel Companies will remain under the direct ownership of REIT Holdco.

As a result of the abovementioned internal reorganisation of the Group, the assets to be acquired by HK Hotel REIT for purposes of the Global Offering comprising the Hotel Companies, the Hotels and the Finance Company, will be held under REIT Holdco immediately prior to Completion.

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2. *Acquisition of REIT Holdco by HK Hotel REIT*

Ownership of the Hotels will be acquired by HK Hotel REIT from the Group by way of acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement. Through REIT Holdco, HK Hotel REIT will have full direct ownership of the Finance Company and all Hotel Companies and, in turn, the Hotels.

Completion of the acquisition of the REIT Holdco Shares and the repayment of the Existing Borrowings will be subject to the satisfaction of a number of conditions including, but not limited to:

- (i) the Company having obtained the necessary approval of the Shareholders at a general meeting allowing for the execution and implementation of the REIT Holdco Sale and Purchase Agreement and the documents and transactions contemplated thereunder in accordance with the Listing Rules;
- (ii) all approvals having been obtained from the Stock Exchange, including without limitation, the Listing Approval;
- (iii) all approvals having been obtained from the SFC, including without limitation, the Authorisation and the approval of the Offering Circular and the application forms relating hereto;
- (iv) the Underwriting Agreements having become unconditional (including as a result of the waiver of any conditions thereunder) and not having been terminated in each case in accordance with their respective terms and any applicable rules and law;
- (v) the Facility being available for drawdown at Completion;
- (vi) there being no material adverse change to or affecting the Hotels or the conduct of the hotel business thereof and no material breach of the warranties under the REIT Holdco Sale and Purchase Agreement;
- (vii) all relevant third party consents or approvals as are necessary for the purpose of transferring any of the REIT Holdco Shares and/or repayment of the Existing Borrowings in accordance with the terms of the REIT Holdco Sale and Purchase Agreement having been obtained; and
- (viii) the delivery of the Proforma Completion Accounts to the REIT Manager pursuant to the REIT Holdco Sale and Purchase Agreement.

The Agreed Value for the acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement will not be less than HK\$4,000 million, payable in cash upon Completion, subject to the deduction of the face

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value of the Loan, the Existing Borrowings and the Taxation Payable as at the date of the Completion. As advised by the Directors, the Company will use best endeavour to achieve an Agreed Value of over HK\$4,000 million. As stated in the letter from the Board of the Circular, such consideration is determined after reference to the Appraised Value of HK\$4,953 million of the Hotels and the market outlook of hospitality industry in Hong Kong.

As HK Hotel REIT is to be listed in Hong Kong, we consider the Hong Kong REITs which are under the same market environment and face the same market condition to be the best comparables when assessing the fairness and reasonableness of the consideration of HK Hotel REIT. We have reviewed valuation parameters including (a) the premium/discount of the consideration to the valuation of the underlying properties as at the respective initial listing dates of the Hong Kong REITs; and (b) the price to book ratios (“PBR”) of the Hong Kong REITs as represented by their respective unit closing prices as at the Latest Practicable Date and their respective latest audited net asset values which is considered to be an appropriate methodology for companies that engage in the business of investment properties holdings. As at the Latest Practicable Date, only Regal REIT has underlying properties comprising of hotel properties, we have sort to include all Hong Kong REITs as comparables in order to form a more comprehensive analysis. The table below sets out the aforesaid valuation parameters of the Hong Kong REITs:

REIT	Valuation of the underlying properties (HK\$ million)	Consideration (HK\$ million)	Premium/ (Discount) to the valuation (Note 3)	PBR as at the Latest Practicable Date (times)
Champion	22,670	19,301 ^(Note1)	(14.9)	0.80
GZI	4,005	4,089 ^(Note2)	2.1	0.96
Link	33,802	34,185 ^(Note2)	1.1	1.54
Prosperity	4,538	4,193 ^(Note2)	(7.6)	0.73
Regal REIT	15,900	12,500 ^(Note2)	(21.4)	1.01
RREEF China				
Commercial Trust	3,978	3,875 ^(Note1)	(2.1)	0.72
Sunlight	9,090	7,275 ^(Note2)	(20.0)	0.78

Notes:

- (1) The consideration of each of these comparable Hong Kong REITs is calculated prorata to the implied purchase prices, which are based on the minimum and maximum offer price, stated in their respective prospectus.
- (2) The consideration of each of these comparable Hong Kong REITs is extracted based on the offer price of the respective comparable Hong Kong REITs.
- (3) The premium/discount represents the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of the comparable Hong Kong REITs.

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Based on the minimum Agreed Value of HK\$4,000 million, which represented a discount of approximately 19.2% to the Appraised Value of the Hotels and the unaudited combined carrying value of the Hotels in the book of the Company as at 30 September 2007, the PBR is approximately 2.5 times.

We have considered the discounts/premium at which underlying properties were injected into the Hong Kong REITs in preparation for their respective listings, which ranged from a discount of 21.4% to a premium of 2.1%. The consideration at which the Hotels will be injected into HK Hotel REIT represented a smaller discount than the maximum discount as observed from the Hong Kong REITs and is within the upper end of the range of discounts as illustrated in the table above. Pricing the consideration and the Global Offering at a discount to the Appraised Value is necessary in order to structure terms for the Global offering, in particular a stable distribution for the Units, so as to enable the Global Offering to be successfully launched in the capital markets.

The PBR of the above comparables range from approximately 0.72 times to 1.54 times with an average of approximately 0.93 times. The PBR at which the Hotels to be acquired by HK Hotel REIT is above the average and the maximum PBR of the comparables. It is widely accepted that lead managers and underwriters of an initial public offering would negotiate a lower PBR for properties holding companies in order to enhance the appeal to the investors. In the case of HK Hotel REIT, a higher PBR would mean that the Company has successfully strive for a better price which will be beneficial to the Company and its shareholders. In light of the above and also taking into account that the Spin-off is going to bring a number of benefits to the Remaining Group and significantly strengthen its financial position as analysed in the section headed "E. Financial effects of the Spin-off on the Group" below. On that basis, we consider that a higher PBR is acceptable.

Having considered the above and the overall benefits of the Spin-off to the Group as a whole, we consider the discount to be acceptable and the PBR in which the Hotels to be acquired by HK Hotel REIT to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. Other material agreements to be entered into by HK Hotel REIT

1. The Leases

As stated in the letter from the Board of the Circular, a Lease for each Hotel will be entered into between the relevant Lessor and the Lessee, a wholly owned subsidiary of the Company, on the Listing Date. The term of the Lease for each Hotel will be 15 years commencing on and inclusive of the Listing Date. The rent for each Hotel will comprise the Fixed Rental and the Variable Rental.

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Set out below is the Fixed Rental currently proposed for the financial year 2009. The Fixed Rental will be payable quarterly in advance on the first day of January, April, July and October throughout the term of the Leases:

	Fixed Rental per annum (HK\$ million)
High Tariff B	
Cosmopolitan Hotel	114.6
Cosmo Hotel	31.3
Lan Kwai Fong Hotel	53.4
Medium Tariff	
Central Park Hotel	23.6
Dorsett Far East Hotel	13.9
Dorsett Olympic Hotel	15.0
Dorsett Seaview Hotel	28.2
	<hr/>
	280.0
	<hr/> <hr/>

The Fixed Rental will, as from the financial year 2010, be adjusted upwards or downwards for inflation or deflation on the commencement date of each relevant financial year of the term of each Leases based on the composite consumer price index for the year immediately preceding the relevant year of adjustment stated in the annual report on the consumer price index published by the Consensus and Statistics Department.

The Variable Rental shall be:

- (i) where GOP Margin is less than or equal to 50%, the amount of the Variable Rental payable shall be the Net Hotel Profit for the relevant financial year, if any. In the case where the amount of the Variable Rental calculated in this paragraph (i) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for the relevant financial year; or
- (ii) where GOP Margin is more than 50%, the sum of (1) the amount by which 50% of the Adjusted Gross Revenues for the relevant financial year exceeds the Lessee's Costs for the corresponding relevant financial year, if any and (2) 50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in the above item (1), if any. If the amount calculated in the above item (1) is a negative figure, then such amount shall be taken as zero for the calculation of item (2).

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In the case where the amount of Variable Rental calculated in this paragraph (ii) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for the relevant financial year.

The Variable Rental in respect of any relevant financial year shall be paid annually in arrears by the Lessee to the Lessors within 90 days immediately following the end of the relevant financial year. The Variable Rental, which shall be calculated on a Hotel-by-Hotel basis, in respect of each relevant financial year for the term of each Leases.

As advised by the Directors, the initial expected Fixed Rentals will amount to HK\$280 million, being the aggregate of the Fixed Rental for each Hotel for the financial year 2009, are determined after arm's length negotiation based upon what the REIT Manager feels is the minimum income which should be achieved under its assessment of the performance of the underlying Hotel assets. Based on our discussions with the management of the Company, we understand that the REIT Manager, when assessing the performance of the underlying Hotel assets, has referenced to (i) the anticipated growth in the hospitality industry and demand for hotel rooms; (ii) the location of each of the Hotels and their operating environment; (iii) the projections on occupancy rates, average room rates and RevPAR of each Hotel; and (iv) the average room rates of the competitor hotels of each of the Hotels. We were also advised by the REIT Manager that the abovementioned bases used in assessing the performance of the Hotels are in line with common market practice. Having considered the aforesaid, we are of the view that the bases and assumptions used by the REIT Manager in projecting the income of the Hotels are fair and reasonable.

We were further advised by the Directors that the Variable Rental is essentially a profit sharing mechanism between HK Hotel REIT and the Lessee which incentivises the Lessee and the Hotel Manager to perform at optimal levels, and the Variable Rental formula is determined based on arm's length negotiations. The Variable Rental's effect is that any surplus after payment of the Fixed Rental in circumstances where the GOP Margin is less than or equal to 50% will be received by HK Hotel REIT. Only where there is incremental profit (i.e. when GOP Margin is over 50%), will there be profit sharing.

Having considered the basis upon which the REIT Manager determined the Fixed Rental, in particular, (i) the Fixed Rental and the Variable Rental formula are determined on arm's length basis; (ii) the bases upon which the REIT Manager assesses the performance of the Hotels are in line with common market practice; (iii) the bases and assumptions used in projecting the income of the Hotels are fair and reasonable; (iv) the Variable Rental is essentially a profit sharing mechanism to incentivize the Lessee to perform at optimal levels, we are of the view that the bases and assumptions used by the REIT Manager in determining the Fixed Rental and the Variable Rental are fair and reasonable and the Variable Rental should create incentive for the Lessee/Hotel Manager to maximize the GOP Margin of the Hotels so as to increase the income generated for both HK Hotel REIT and the Lessee. By giving out the income generated by

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the underlying hotel assets in the form of Fixed Rentals and Variable Rentals, the Company would only entitle to the distributions on its holding in the Units and the REIT Manager's Fee subsequent to the Spin-off, this arrangement fits into the delineation essence of the Spin-off. We also consider that the Fixed Rental after the financial year 2009 will be adjusted fairly in accordance with the composite consumer price index for the year immediately preceding the relevant year of adjustment stated in the annual report on the consumer price index published by the Consensus and Statistics Department. In light of the above, we consider the Fixed Rentals and Variable Rentals contemplated under the Leases, are determined on the reasonable bases and assumptions as stated above, are fair and reasonable.

In assessing the fairness and reasonableness of the lease term, we have made a comparison of HK Hotel REIT with the Comparable REITs which have similar leasing arrangements. We have identified two hotel REITs within the Comparable REITs with similar leasing arrangements, and set out in the table below is the durations of the lease agreements of such Comparable REITs:

REIT	Duration of the lease agreement
Hong Kong Regal REIT	approximately 9 years
Singapore CDL Hospitality Trusts	20 years

We note from the above table that the term of the Lease for each Hotel of 15 years is within the range of the durations of the lease agreements of the Comparable REITs and hence, we are of the view that such term of the Lease is fair and reasonable.

2. *The Lease Guarantees*

It is stated in the letter from the Board of the Circular that in order to protect HK Hotel REIT from potential non-receipt of the Fixed Rentals and the Variable Rentals, the Company shall guarantee the performance and observance by the Lessee of all its contractual obligations under the Leases, including but not limited to the obligation to pay rent to the Lessors.

We understand from the Directors that for other REITs which have similar lease arrangements, it is not uncommon for the lessee to provide guarantees of similar nature. We have reviewed the relevant circulars of the relevant Comparable REITs and note that both CDL Hospitality Trusts and Regal REIT have similar lease structures whereby the lessee or the lessee's parent companies has or have given guarantee in respect of payment of rents to the relevant lessor. Taken into consideration (i) the amount of contractual rental payable by the Lessee to the Lessor; (ii) the Lessee is a newly established single purpose vehicle; and (iii) the lessee of the relevant Comparable REITs has similar leasing of its

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hotel assets whereby the lessee or the lessee's parent companies has or have given guarantee(s) of similar nature to the respective lessor, we concur with the view of the Directors that such arrangement is not uncommon and we consider the Lease Guarantees to be acceptable.

3. *Deed of Trade Mark Licence*

Pursuant to the Deed of Trade Mark Licence, Dorsett Hotels & Resorts International Limited, a wholly-owned subsidiary of the Company, will grant, free of any royalty or other payments, to the REIT Manager, the respective Lessors, REIT Holdco and the Finance Company a non-exclusive and non-transferable right and licence to use the relevant Trademarks for the purpose of describing the ownership of each relevant Hotel and/or use in connection with the business of each relevant Hotel.

In addition, Dorsett Hotels & Resorts International Limited will not object to the use by the REIT Manager or any Lessor or REIT Holdco or the Finance Company in any jurisdiction of (a) the Trademarks for the purpose of describing the ownership of each relevant Hotel and/or in connection with the business of each relevant Hotel; (b) the Trademarks as part of its corporate, business and domain names(s); and (c) any intellectual property right that Dorsett Hotels & Resorts International Limited may have in relation to any other marks, logos or styles used in connection with the Hotels. Further details of the Deed of Trade Mark Licence are set out in the letter from the Board of the Circular.

As advised by the Directors, it is the intention of the Company to effect a separation of hotel ownership from hotel operation through the Spin-off with a view of allowing the Hotel Manager to focus on hotel operation and brand extension. Each of the Lessee, the Hotel Manager, the Lessor and the Company will enter into a Hotel Management Agreement relating to the provision of certain hotel management and marketing services in respect of all the Hotels of HK Hotel REIT located in Hong Kong; and the Deed of Trade Mark Licence is consistent with the Hotel Management Agreement whereby the Hotel Manager would be responsible for the management of the Hotels. Having considered the aforesaid, we are of the view that the entering into of the Deed of Trade Mark Licence is in the interest of the Company and the Shareholders as a whole.

4. *Non-compete Deed*

As stated in the letter from the Board of the Circular, the Company will enter into the Non-compete Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) under which the Group may acquire existing hotels for upgrading and redevelopment or other types of premises for conversion into hotels provided that the completed hotels, if located in Hong Kong or the PRC, shall be subject to a right of first refusal in favour of the REIT Manager and the Trustee (both on behalf of HK Hotel REIT). For details of the Non-compete Deed, please refer to the letter from the Board of the Circular.

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We were advised by the Directors that entering into of the Non-compete Deed not only facilitates the delineation of business between the Remaining Group and HK Hotel REIT, but also minimizes any conflict of interests or any competition. Although we understand that there may still be potential conflict of interests and/or competition between the Company and HK Hotel REIT in the event that the right of first refusal and the Call Options (details of which is set out in the sub-paragraph headed “5. Option Deed” below) is not exercised by the REIT Manager and the Trustee for whatever reason, we are of the view that the Non-compete Deed (i) serves the purpose of delineating the business between the Remaining Group and HK Hotel REIT; and (ii) minimizes the potential business competition and conflict between the Company and HK Hotel REIT.

5. *Option Deed*

The Company, the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) will enter into the Option Deed pursuant to which the Company on behalf of the Group will grant to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) the call options to require the Group to sell to the HK Hotel REIT Group each of the Retained Hotels (or the shares in and the shareholders loans to the company(ies) holding the relevant Retained Hotel (the “Option Shares and Loans”)) upon the terms of the Option Deed.

The Call Option in respect of each Retained Hotel and the Option Shares and Loans will be exercisable by the REIT Manager or the Trustee (both on behalf of HK Hotel REIT) at any time within two years from the date on which the Company notifies the REIT Manager and the Trustee of whichever is the later of the issuance of the occupation permit and the grant of the hotel licence under the Hotel and Guesthouse Accommodation Ordinance (Cap. 349 of the Laws of Hong Kong) for the relevant Retained Hotel located in Hong Kong (and for those Retained Hotels located in the PRC, of the issuance of equivalent or similar permits and licences under PRC laws), after which time the Call Option in respect of that Retained Hotel will lapse. Pursuant to the Option Deed, the Company will undertake to notify the REIT Manager (on behalf of HK Hotel REIT) in writing of (i) the issuance of the occupation permit, and (ii) the grant of a hotel licence, in respect of a relevant Retained Hotel, as soon as practicable after it becomes aware of such issuance or grant (as the case may be) (and in any event within seven Business Days after such event). We understand from the Directors that such exercisable period is determined after arm’s length negotiation to allow the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) reasonable time to observe the operation and performance of the Retained Hotels so as to determine whether to exercise the Call Option or not. This time frame is also flexible for the Company to operate the Retained Hotels and deliver a proven track record of the Retained Hotels. After the Spin-off, HK Hotel REIT would be run by a management team delineated from the Company, we are of the view that it would require considerable time for the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) to make the decision to exercise the Call Option and such exercise period is considered reasonable.

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The consideration payable by HK Hotel REIT (a) for each of the Retained Hotels, shall be the average of the values determined by two independent valuers, one appointed by the Company and the other appointed by the Trustee (as trustee of HK Hotel REIT); and (b) (where applicable) for the Option Shares and Loans in respect thereof shall be the net asset value of the entire issued share capital of the relevant company(ies) (taking into account the average value of the relevant Retained Hotel determined by the two independent valuers) together with (if applicable) the face value of the relevant shareholders loans (if any) to the relevant company(ies).

Completion of sale and purchase of the relevant Retained Hotel or (where applicable) the Option Shares and Loans in respect thereof under the Call Options will be conditional upon the compliance of the relevant requirements of the Listing Rules and the REIT Code, including, among other things, the Shareholders (other than those who are required to abstain from voting) passing at a general meeting of the Company of the necessary resolution(s) approving the sale and purchase if so required under the Listing Rules.

As advised by the Directors, the granting of the Call Options is primarily because the Retained Hotels cannot be injected into HK Hotel REIT at this stage as they are currently under actual or planned development/redevelopment. We were further advised by the Directors that the exercise period of the Call Options (being any time within two years from the date on which the Company notifies the REIT Manager and the Trustee of whichever is the later of the issue of the occupation permit and the grant of the hotel licence under the Hotel and Guesthouse Accommodation Ordinance for the relevant Retained Hotel located in Hong Kong) is determined on the basis of providing sufficient time for the relevant Retained Hotel to prove the ability of generating re-current income.

We note that pursuant to the REIT Code, a REIT is prohibited from investing in vacant land or engaging or participating in property development activities; and a REIT may acquire uncompleted units in a building which is unoccupied and non-income producing or in the course of substantial development, redevelopment or refurbishment only if the aggregate contract value of such real estate is not exceeding 10% of the total net asset value of the scheme at the time of acquisition. Taking into consideration (i) the investment restrictions under the REIT Code; (ii) the granting of the Call Options is primarily because the Retained Hotels cannot be injected into HK Hotel REIT at this stage as they are currently under actual or planned development; (iii) the exercise period of the Call Options is determined on the basis of providing sufficient time for the relevant Retained Hotel to prove its ability of generating re-current income which is in line with the investment requirements under the REIT Code; and (iv) the possible growth opportunities of HK Hotel REIT derived from the Call Options which will enhance the attractiveness of the Global Offering and may possibly maximize the net proceeds generated therefrom, we are of the view that the granting of the Call Options is acceptable and is in line with the reasons for the Spin-off, and hence, we consider the entering into of the Option Deed to be in the interest of the Company and the Shareholders as a whole.

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As the price payable for each Retained Hotel will be the average of the values of the relevant Retained Hotel as determined by two independent valuers, one appointed by the Trustee and the other by the Company, we concur with the Directors that such price would be fair and objective. In addition, if any of the Call Options is exercised, completion of sale and purchase of the relevant Retained Hotel will be conditional upon, among other things, the approval of the Shareholders (other than those who are required to abstain from voting) at a general meeting of the Company of the necessary resolution(s) approving the sale and purchase if so required under the Listing Rules. As such, the interest of the Shareholders could be further safeguarded.

E. Financial effects of the Spin-off on the Group

1. Effect on NAV

Since the aggregate carrying value of the Hotels as at 30 September 2007 was approximately HK\$1,609 million and the Agreed Value will be no less than approximately HK\$4,000 million, the unaudited consolidated NAV of the Remaining Group, based on the unaudited pro forma consolidated balance sheet of the Remaining Group as set out in Appendix II of the Circular, is expected to increase from approximately HK\$4,690 million as at 30 September 2007 to approximately HK\$5,915 million following the Spin-off, as the Group will derive a substantial gain from the disposal of REIT Holdco. In this regard, we believe the Shareholders will benefit from the enhancement in the NAV per Share resulting from the Spin-off.

2. Effect on earnings

As set out in the unaudited pro forma consolidated income statement of the Remaining Group as set out in Appendix II of the Circular, the profit attributable to the Shareholders of the Remaining Group, assuming the Spin-off was completed on 1 April 2007, would increase from approximately HK\$255 million to approximately HK\$1,821 million for the six months ended 30 September 2007. Such increase is mainly due to the gain resulted from the Spin-off of approximately HK\$1,217 million, which is an one-off item. Furthermore, following the Spin-off, the bank borrowings attributable to the Hotel Companies will be released from the Group which is expected to reduce the interest expenses of the Group. In addition, the Remaining Group will receive distributions on its holding in the Units and the management fee income of the REIT Manager subsequent to the Spin-off. As stated in the letter from the Board in the Circular, it is the REIT Manager's current proposed policy to distribute to the Unitholders 100% (subject to the requirements of the Trust Deed and the REIT Code or the SFC) of the Total Distributable Income (as defined in the letter from the Board in the Circular) as dividends for each financial year. However, the Remaining Group will forgo the consolidation of results from the operation of the Hotels and also has to pay Lease rentals to the Lessors which would deprive the bottom line of the Group.

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On this basis, and taking into account the improvement in the net assets position of the Group after the proposed Global Offering, on balance, we consider the possible decrease in the profit of the Group attributable to the Shareholders as illustrated above to be acceptable.

3. *Effect on gearing*

As disclosed in the annual report of the Company for the three years ended 2007, the gearing ratio of the Group (being total bank and other borrowings and financial liabilities at fair value through profit or loss and convertible bonds to shareholders' equity) for the last three years ended 31 March 2007 has been climbing from 77% in 2005 to 87% in 2007. With reference to the unaudited pro forma consolidated balance sheet of the Remaining Group as set out in Appendix II of the Circular, the gearing ratio of the Remaining Group will decrease after the release of bank borrowings and the enhancement of NAV of the Remaining Group as a result of the Spin-off. We are of the view that a lower gearing and a lower level of interest expenses are favourable and in the interest of the Company and the Shareholders as a whole.

F. Other features of the Spin-off and the Separate Listing of HK Hotel REIT

1. *Preferential Offering*

In accordance with the assured entitlement requirements under PN15, the Directors have given due regard to the interest of the Shareholders and will arrange for the REIT Manager to provide the Qualifying Shareholders with Assured Entitlement to a certain number of Reserved Units by way of the Preferential Offering, if the REIT Manager decides to proceed with the Spin-off.

It is currently proposed that approximately 5% of the Units available under the Global Offering will be allocated as the Reserved Units. Qualifying Shareholders will be entitled to subscribe for the Reserved Units based on the number of Shares held by such Qualifying Shareholder at the Record Date. Details of mechanism of allocating the entitlement of the Reserved Units will be announced by way of an announcement after such mechanism is determined and in accordance with the Listing Rules.

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We have reviewed the Hong Kong REITs and identified five REITs among the Hong Kong REITs which involved a spin-off and a separate listing, details of which are set out in the table below:

Stock Code	Hong Kong REITs	Parent company	Total size of the offering (HK\$ million)	Size of assured entitlements (HK\$ million)	Assured entitlements as a percentage of the total size of the offering
2778	Champion	Great Eagle Holdings Limited	6,294	274	4.4%
405	GZI	Guangzhou Investment Company Limited	1,793	52	2.9%
808	Prosperity	Cheung Kong (Holdings) Limited	1,918	96	5.0%
435	Sunlight	Henderson Land Development Company Limited	2,718	164	6.0%
1881	Regal REIT	Regal Hotels International holdings Limited	2,330	134	5.7%
		Average	3,011	144	4.8%
	HK Hotel REIT	The Company	1,000	50	5.0%

As compared to the assured entitlements for other Hong Kong REITs which also involves a separate listing, the assured entitlement of the Spin-off fall within the percentage range and represent a large dollar amount as compared to other issues we have considered.

Shareholders should note that the entitlement to Reserved Units may represent Units not in a whole multiple of a full board lot of Units, and dealings in odd lot Units may be below their prevailing market price. Entitlements to Reserved Units are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Shareholders should further note that the actual total number of the Reserved Units available for subscription under the Preferential Offering will vary depending on the actual number of issued Shares at the Record Date.

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2. *Lock-up arrangement*

It is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions. We note that such lock-up arrangement is in line with market practice for initial public offerings in Hong Kong and is more than what must be abided by controlling shareholders of all new listing applicants on the Stock Exchange which is perceived to ease the concern of selling pressure from the Group immediately after the completion of the Global Offering. We are therefore of the view that such lock up arrangement is in compliance with the Listing Rules and is also a common arrangement between underwriters and listed issuers in the case of an initial public offering, which is appropriate.

3. *Subscription of Units*

The Company and the REIT Manager will enter into the Subscription Agreement pursuant, to which the Company will, or will procure its subsidiary(ies) to subscribe the Units at the Offer Price. Immediately following completion of the Spin-off, it is expected that the Company will hold an interest of 50% to 75% (assuming the Over-allotment Option is not exercised) in HK Hotel REIT. We note that such subscription arrangement is in line with market practice for spin off or listing of REITs in Hong Kong and all the Hong Kong REITs have a similar subscription arrangement which is perceived as one of the feature of REITs listed on the Stock Exchange. We are of the view that the subscription of Units by the Company is appropriate.

4. *Conditions precedent of the Spin-off*

Shareholders' attention is also drawn to the paragraph headed "Conditions precedent" in the letter from the Board of the Circular which sets out the conditions to the completion of the Spin-off. Accordingly, the Spin-off and the Global Offering may or may not proceed subject to the conditions precedent being fulfilled or waived (as the case may be).

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RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, have taken into account the following factors in arriving at our opinion:

- the benefits to be brought by the Spin-off to the Group;
- the clear delineation of businesses between the Remaining Group and HK Hotel REIT;
- the consideration in which the REIT Holdco will be transferred to HK Hotel REIT is fair and reasonable;
- the Fixed Rentals and the Variable Rentals contemplated under the Leases are appropriate, fair and reasonable;
- the relevant guarantees to be provided by the Company under the Lease Guarantees are not uncommon;
- the REIT Manager's Fee payable by HK Hotel REIT are fair and reasonable;
- the fees payable to the Hotel Manager under the Hotel Management Agreement are fair and reasonable; and
- the overall positive financial impact of the Spin-off to the Group.

Having considered the above principal factors and reasons, we consider that the Spin-off is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Shareholders, and advise the Independent Board Committee to recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Spin-off.

Yours faithfully,

For and on behalf of

Kingsway Capital Limited

Byron Tan

Chu Tat Hoi

Head of Investment Banking & Managing Director *Executive Director*

1. ACCOUNTANTS' REPORT ON THE GROUP

The following is the text of the report from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for incorporation in this circular:

Deloitte.
德勤

18th January 2008

The Directors
Far East Consortium International Limited

Dear Sirs,

We set out below our report on the financial information including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the three years ended 31st March, 2005, 2006, 2007 and six months period ended 30th September, 2007 (the "Relevant Periods") and the consolidated balance sheets as at 31st March, 2005, 2006, 2007 and 30th September, 2007 and the notes thereto (the "Financial Information") of Far East Consortium International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), for inclusion in the circular (the "Circular") of the Company dated 18th January 2008 in connection with the conditional very substantial disposal of the entire interest in certain subsidiaries to Hong Kong Hotel Real Estate Investment Trust (the "Very Substantial Disposal") which is proposed to be listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Cayman Islands with limited liability with its shares listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activity of the Company is investment holding whereas those of its subsidiaries set out in Section II are property development and investment, hotel operations, and loan financing and treasury management.

At the date of this report, the Company had direct and indirect interests in the principal subsidiaries and associates set out in Section II and III, respectively.

We have acted as auditor of the Company throughout the Relevant Periods and details of the auditors of the principal subsidiaries and associates are set out in Section II and III respectively.

We have examined the audited consolidated financial statements of the Group for each of the three years ended 31st March, 2005, 2006 and 2007 and the consolidated management accounts of the Group for the six months period ended 30th September, 2007, (hereinafter

collectively referred to the “Underlying Financial Statements”), in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Underlying Financial Statements is the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion, based on our examination and review, on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st March, 2005, 2006, 2007 and 30th September, 2007, and of the profit and cash flows of the Group for each of the three years ended 31st March, 2007 and the six months ended 30th September, 2007.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the six months ended 30th September, 2006 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “30th September, 2006 Financial Information”) which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30th September, 2006 Financial Information in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the HKICPA. Our review consisted principally of making enquiries of the Group’s management and applying analytical procedures to the 30th September, 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30th September, 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30th September, 2006 Financial Information.

(I) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31st March,			Six months ended 30th September,	
		2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
					(unaudited)	
Revenue	6	546,120	684,144	875,176	483,097	692,759
Depreciation on hotel properties and equipment		(5,294)	(15,835)	(30,045)	(12,956)	(25,469)
Other cost of sales		<u>(363,953)</u>	<u>(346,058)</u>	<u>(412,384)</u>	<u>(255,885)</u>	<u>(283,709)</u>
Gross profit		176,873	322,251	432,747	214,256	383,581
Other income		92,533	15,475	20,236	13,923	11,396
Doubtful loan receivable recovered	46(b)	–	–	57,443	–	–
Administrative expenses		(164,937)	(166,245)	(294,120)	(64,808)	(127,468)
Gain on disposal of available-for-sale investments		–	25,895	113,755	19,140	40,998
Increase (decrease) in fair value of financial assets at fair value through profit or loss		–	2,067	(12,926)	5,978	4,146
(Increase) decrease in fair value of financial liabilities at fair value through profit or loss		–	(113,160)	68,839	52,809	(67,754)
Change in fair value of derivative financial instruments		–	(40,281)	10,402	(56,857)	221
Change in fair value of investments held for trading		–	1,898	7,916	17,521	35,480
Net realised and unrealised gain on trading securities		1,081	–	–	–	–
Increase in fair value of investment properties		368,314	414,740	59,841	–	4,440
Discount on acquisitions	46 (a)	–	–	44,208	–	66,140
Gain on disposal of a subsidiary	47	–	–	225,200	–	–
Share of results of associates		12,154	6,818	28,970	9,217	7,934
Share of results of jointly controlled entities		(792)	1,379	(771)	(1,789)	6,285
Finance costs	8	<u>(38,741)</u>	<u>(52,759)</u>	<u>(67,917)</u>	<u>(31,385)</u>	<u>(61,137)</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	<i>Notes</i>	Year ended 31st March,			Six months ended 30th September,	
		2005	2006	2007	2006	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation		446,485	418,078	693,823	178,005	304,262
Taxation	9	<u>(36,814)</u>	<u>(85,867)</u>	<u>(157,394)</u>	<u>(27,054)</u>	<u>(49,488)</u>
Profit for the year/period	10	<u>409,671</u>	<u>332,211</u>	<u>536,429</u>	<u>150,951</u>	<u>254,774</u>
Attributable to:						
– Equity holders of the Company		404,562	335,124	538,955	152,878	255,199
– Minority interests		<u>5,109</u>	<u>(2,913)</u>	<u>(2,526)</u>	<u>(1,927)</u>	<u>(425)</u>
		<u>409,671</u>	<u>332,211</u>	<u>536,429</u>	<u>150,951</u>	<u>254,774</u>
Dividends	12					
– Interim, paid		41,766	42,926	58,196	–	–
– Final, paid		<u>35,053</u>	<u>70,929</u>	<u>86,533</u>	<u>–</u>	<u>126,496</u>
		<u>76,819</u>	<u>113,855</u>	<u>144,729</u>	<u>–</u>	<u>126,496</u>
Earnings per share	13	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
– Basic		<u>32.3</u>	<u>23.6</u>	<u>37.2</u>	<u>10.6</u>	<u>16.9</u>
– Diluted		<u>31.0</u>	<u>23.4</u>	<u>27.6</u>	<u>6.4</u>	<u>16.8</u>

CONSOLIDATED BALANCE SHEETS

		At 31st March,			At 30th
	Notes	2005	2006	2007	September,
		HK\$'000	HK\$'000	HK\$'000	2007
					HK\$'000
Non-current assets					
Investment properties	14	800,955	1,297,427	1,371,722	1,382,302
Property, plant and equipment	15	1,140,138	1,210,504	2,040,663	2,159,447
Prepaid lease payments	16	299,958	374,965	680,236	831,767
Negative goodwill		(23,081)	–	–	–
Interests in associates	17	144,286	141,694	165,094	164,642
Interests in jointly controlled entities	18	73,238	74,617	73,846	80,131
Investments in securities	19	452,805	–	–	–
Available-for-sale investments	21	–	598,758	245,289	124,718
Financial assets at fair value through profit or loss	22	–	99,783	673,188	645,636
Deposit for acquisition of properties		–	–	12,146	448,006
Amounts due from associates	23	129,178	129,559	78,542	79,460
Amount due from an investee company	24	119,995	119,995	119,995	119,995
Amount due from a minority shareholder	25	563	563	563	563
Loans receivable	26	364,167	417,257	7,480	3,334
Pledged bank deposits	32	3,000	2,765	3,165	–
		<u>3,505,202</u>	<u>4,467,887</u>	<u>5,471,929</u>	<u>6,040,001</u>
Current assets					
Inventories	27	894	1,581	1,269	1,472
Completed properties for sale		197,210	181,046	710,922	584,211
Properties under development for sale	28	1,349,278	1,729,107	1,428,063	1,687,029
Investments in securities	19	446,494	–	–	–
Investments held for trading	20	–	7,724	50,764	95,019
Available-for-sale investments	21	–	103,611	171,615	144,942
Financial assets at fair value through profit or loss	22	–	171,697	180,825	106,770
Derivative financial instruments	29	–	5,319	2,411	–
Loans receivable	26	2,576	3,679	1,022	844
Debtors, deposits and prepayments	30	238,824	241,415	138,266	158,005
Prepaid lease payments	16	7,468	8,239	11,904	12,449
Amount due from a jointly controlled entity	31	2,936	9,652	12,270	13,077
Amounts due from associates	23	3,040	3,437	2,331	1,343
Taxation recoverable		9,257	7,995	11,194	9,593
Pledged bank deposits	32	3,901	52,338	98,656	62,191
Deposits with investment banks	32	106,143	31,000	154,891	208,554
Bank balances and cash	32	361,625	114,581	264,024	334,511
		<u>2,729,646</u>	<u>2,672,421</u>	<u>3,240,427</u>	<u>3,420,010</u>

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FINANCIAL INFORMATION ON THE GROUP

	Notes	At 31st March,			At 30th
		2005	2006	2007	September,
		HK\$'000	HK\$'000	HK\$'000	2007
					HK\$'000
Current liabilities					
Creditors and accruals	33	306,736	285,468	401,153	295,798
Customers' deposits received		19,078	14,492	171,785	622,206
Amounts due to directors	34	11,825	12,468	7,070	2,539
Amounts due to related companies	35	13,635	38,854	162,867	148,015
Amounts due to associates	36	24,785	23,479	11,885	12,049
Amounts due to minority shareholders	36	28,124	28,326	28,763	29,057
Financial liabilities at fair value through profit or loss	37	–	914,969	838,336	491,995
Derivative financial instruments	29	–	63,551	1,925	780
Taxation payable		56,130	33,124	151,730	164,076
Obligations under finance leases	38	268	352	766	816
Convertible bonds	39	765,134	–	–	–
Bank and other borrowings	40	612,102	999,925	1,233,225	1,434,170
Bank overdrafts, secured		<u>2,898</u>	<u>285</u>	<u>6,582</u>	<u>186</u>
		<u>1,840,715</u>	<u>2,415,293</u>	<u>3,016,087</u>	<u>3,201,687</u>
Net current assets		<u>888,931</u>	<u>257,128</u>	<u>224,340</u>	<u>218,323</u>
Total assets less current liabilities		<u>4,394,133</u>	<u>4,725,015</u>	<u>5,696,269</u>	<u>6,258,324</u>
Capital and reserves					
Share capital	41	141,426	144,108	146,761	159,988
Reserves		<u>3,047,030</u>	<u>3,400,425</u>	<u>3,875,187</u>	<u>4,502,591</u>
Equity attributable to equity holders of the Company		3,188,456	3,544,533	4,021,948	4,662,579
Minority interests		<u>31,789</u>	<u>27,250</u>	<u>26,148</u>	<u>27,591</u>
Total equity		3,220,245	3,571,783	4,048,096	4,690,170
Non-current liabilities					
Amount due to a minority shareholder	43	35,964	35,240	43,079	29,301
Amount due to a jointly controlled entity	43	10,801	10,801	12,552	12,552
Deferred taxation	44	50,147	124,395	188,206	194,120
Obligations under finance leases	38	458	716	1,070	934
Bank and other borrowings	40	<u>1,076,518</u>	<u>982,080</u>	<u>1,403,266</u>	<u>1,331,247</u>
		<u>1,173,888</u>	<u>1,153,232</u>	<u>1,648,173</u>	<u>1,568,154</u>
Total equity and non-current liabilities		<u>4,394,133</u>	<u>4,725,015</u>	<u>5,696,269</u>	<u>6,258,324</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Assets revaluation reserve HK\$'000	Special reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st April, 2004	116,846	863,783	253	-	869,357	169,352	(102,513)	(39,963)	-	440,589	2,317,704	26,593	2,344,297
Revaluation increase	-	-	-	-	-	-	-	16,856	-	-	16,856	-	16,856
Exchange difference on translation of overseas operations	-	-	-	-	-	-	1,992	-	-	-	1,992	87	2,079
Total income recognised directly in equity	-	-	-	-	-	-	1,992	16,856	-	-	18,848	87	18,935
Profit for the year	-	-	-	-	-	-	-	-	-	404,562	404,562	5,109	409,671
Total recognised income for the year	-	-	-	-	-	-	1,992	16,856	-	404,562	423,410	5,196	428,606
Shares issued pursuant to scrip dividend scheme	1,916	37,942	-	-	-	-	-	-	-	-	39,858	-	39,858
Shares issued upon exercise of share options	50	987	-	-	-	-	-	-	-	-	1,037	-	1,037
Shares issued upon conversion of convertible bonds	22,614	460,664	-	-	-	-	-	-	-	-	483,278	-	483,278
Share issue expenses	-	(12)	-	-	-	-	-	-	-	-	(12)	-	(12)
Amortisation of deferred expenditure of convertible bonds	-	(2,814)	-	-	-	-	-	-	-	2,814	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(76,819)	(76,819)	-	(76,819)
At 31st March, 2005	141,426	1,360,550	253	-	869,357	169,352	(100,521)	(23,107)	-	771,146	3,188,456	31,789	3,220,245
Effect of changes in accounting policies on													
- negative goodwill	-	-	-	-	-	-	-	-	-	23,081	23,081	-	23,081
- convertible bonds	-	-	-	-	-	-	-	-	-	(51,366)	(51,366)	-	(51,366)
	-	-	-	-	-	-	-	-	-	(28,285)	(28,285)	-	(28,285)
At 1st April, 2005	141,426	1,360,550	253	-	869,357	169,352	(100,521)	(23,107)	-	742,861	3,160,171	31,789	3,191,960
Revaluation increase	-	-	-	8,761	-	-	-	105,941	-	-	114,702	-	114,702
Deferred tax liability on asset revaluation	-	-	-	(1,533)	-	-	-	-	-	-	(1,533)	-	(1,533)
Exchange difference on translation of foreign operations	-	-	-	-	-	-	(23,709)	-	-	-	(23,709)	(1,626)	(25,335)
Net income (expense) recognised directly in equity	-	-	-	7,228	-	-	(23,709)	105,941	-	-	89,460	(1,626)	87,834
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	335,124	335,124	(2,913)	332,211
Total recognised income and expense for the year	-	-	-	7,228	-	-	(23,709)	105,941	-	335,124	424,584	(4,539)	420,045
Share issued pursuant to scrip dividend scheme	1,806	53,189	-	-	-	-	-	-	-	-	54,995	-	54,995
Shares issued upon exercise of share options	197	3,891	-	-	-	-	-	-	-	-	4,088	-	4,088
Shares issued upon conversion of convertible bonds	679	14,126	-	-	-	-	-	-	-	-	14,805	-	14,805
Shares issue expenses	-	(255)	-	-	-	-	-	-	-	-	(255)	-	(255)
Dividends paid	-	-	-	-	-	-	-	-	-	(113,855)	(113,855)	-	(113,855)
At 31st March, 2006	144,108	1,431,501	253	7,228	869,357	169,352	(124,230)	82,834	-	964,130	3,544,533	27,250	3,571,783

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FINANCIAL INFORMATION ON THE GROUP

	Attributable to equity holders of the Company												Total	Minority interests	Total
	Share capital	Share premium	Capital redemption reserve	Assets revaluation reserve	Special reserve	Other reserve	Exchange reserve	Investment revaluation reserve	Share options reserve	Retained profits	Total	Minority interests			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Revaluation increase	-	-	-	-	-	-	-	173,249	-	-	173,249	-	173,249	-	173,249
Exchange difference on translation of foreign operations	-	-	-	-	-	-	84,071	-	-	-	84,071	1,424	85,495	-	85,495
Total income recognised directly in equity	-	-	-	-	-	-	84,071	173,249	-	-	257,320	1,424	258,744	-	258,744
Transfer to profit or loss on disposal on available-for-sale investments	-	-	-	-	-	-	-	(256,308)	-	-	(256,308)	-	(256,308)	-	(256,308)
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	538,955	538,955	(2,526)	536,429	-	536,429
Total recognised income and expense for the year	-	-	-	-	-	-	84,071	(83,059)	-	538,955	539,967	(1,102)	538,865	-	538,865
Share issued pursuant to scrip dividend scheme	2,002	65,180	-	-	-	-	-	-	-	-	67,182	-	67,182	-	67,182
Shares issued upon exercise of share options	278	5,491	-	-	-	-	-	-	-	-	5,769	-	5,769	-	5,769
Shares issued upon conversion of convertible bonds	373	7,420	-	-	-	-	-	-	-	-	7,793	-	7,793	-	7,793
Shares issue expenses	-	(31)	-	-	-	-	-	-	-	-	(31)	-	(31)	-	(31)
Recognition of the equity-settled share based payments	-	-	-	-	-	-	-	-	1,464	-	1,464	-	1,464	-	1,464
Dividends paid	-	-	-	-	-	-	-	-	-	(144,729)	(144,729)	-	(144,729)	-	(144,729)
At 31st March, 2007	146,761	1,509,561	253	7,228	869,357	169,352	(40,159)	(225)	1,464	1,358,356	4,021,948	26,148	4,048,096	-	4,048,096
Revaluation increase	-	-	-	-	-	-	-	5,809	-	-	5,809	-	5,809	-	5,809
Exchange difference on translation of foreign operations	-	-	-	-	-	-	36,365	-	-	-	36,365	1,868	38,233	-	38,233
Total income recognised directly in equity	-	-	-	-	-	-	36,365	5,809	-	-	42,174	1,868	44,042	-	44,042
Transfer to profit or loss on disposal on available-for-sale investments	-	-	-	-	-	-	-	(7,447)	-	-	(7,447)	-	(7,447)	-	(7,447)
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	255,199	255,199	(425)	254,774	-	254,774
Total recognised income and expense for the period	-	-	-	-	-	-	36,365	(1,638)	-	255,199	289,926	1,443	291,369	-	291,369
Share issued pursuant to scrip dividend scheme	1,868	58,054	-	-	-	-	-	-	-	-	59,922	-	59,922	-	59,922
Shares issued upon exercise of share options	130	2,568	-	-	-	-	-	-	-	-	2,698	-	2,698	-	2,698
Shares issued upon conversion of convertible bonds	11,229	402,866	-	-	-	-	-	-	-	-	414,095	-	414,095	-	414,095
Recognition of the equity-settled share based payments	-	-	-	-	-	-	-	-	486	-	486	-	486	-	486
Dividends paid	-	-	-	-	-	-	-	-	-	(126,496)	(126,496)	-	(126,496)	-	(126,496)
At 30th September, 2007	159,988	1,973,049	253	7,228	869,357	169,352	(3,794)	(1,863)	1,950	1,487,059	4,662,579	27,591	4,690,170	-	4,690,170

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FINANCIAL INFORMATION ON THE GROUP

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Assets revaluation reserve HK\$'000	Special reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
UNAUDITED													
At 1st April, 2006	144,108	1,431,501	253	7,228	869,357	169,352	(124,230)	82,834	-	964,130	3,544,533	27,250	3,571,783
Revaluation increase	-	-	-	-	-	-	-	58,280	-	-	58,280	-	58,280
Exchange difference on translation of foreign operations	-	-	-	-	-	-	10,809	-	-	-	10,809	(372)	10,437
Net income (expense) recognised directly in equity	-	-	-	-	-	-	10,809	58,280	-	-	69,089	(372)	68,717
Transfer to profit or loss on disposal on available-for-sale investments	-	-	-	-	-	-	-	(33,205)	-	-	(33,205)	-	(33,205)
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	152,878	152,878	(1,927)	150,951
Total recognised income and expense for the period	-	-	-	-	-	-	10,809	25,075	-	152,878	188,762	(2,299)	186,463
Shares issued upon exercise of share options	113	2,232	-	-	-	-	-	-	-	-	2,345	-	2,345
Shares issue expenses	-	(30)	-	-	-	-	-	-	-	-	(30)	-	(30)
Recognition of the equity-settled share based payments	-	-	-	-	-	-	-	-	639	-	639	-	639
At 30th September, 2006	144,221	1,433,703	253	7,228	869,357	169,352	(113,421)	107,909	639	1,117,008	3,736,249	24,951	3,761,200

Special reserve represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium of the subsidiaries acquired pursuant to the group reorganisation in 1991.

Other reserve represents share premium attributable to subsidiaries pursuant to the group reorganisation in 1991.

CONSOLIDATED CASH FLOW STATEMENTS

	<i>Note</i>	Year ended 31st March,			Six months ended 30th September,	
		2005	2006	2007	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities						
Profit before taxation		446,485	418,078	693,823	178,005	304,262
Adjustments for:						
Share of results of jointly controlled entities		792	(1,379)	771	1,789	(6,285)
Share of results of associates		(12,154)	(6,818)	(28,970)	(9,217)	(7,934)
Depreciation		11,670	20,987	35,884	14,562	27,625
Dividend income from listed investments		(1,262)	(2,304)	(4,307)	(3,078)	(2,311)
Interest income		(1,448)	(4,115)	(4,645)	(4,516)	(4,393)
Interest expenses		40,110	57,670	72,007	33,807	61,086
Allowance for bad and doubtful debts		12,084	5,009	36,193	–	3,071
Allowance for loans receivable		5,810	11,004	3,088	–	3,900
Allowance for amount due from an associate		16,000	–	51,923	–	–
Increase in fair value of investment properties		(368,314)	(414,740)	(59,841)	–	(4,440)
Gain on disposal of available-for-sales investments		–	(25,895)	(113,755)	(19,140)	(40,998)
Doubtful loan receivable recovered		–	–	(57,443)	–	–
(Decrease) increase in fair value of financial liabilities through profit or loss		–	113,160	(68,839)	(52,809)	67,754
Gain on disposal of a subsidiary	47	–	–	(225,200)	–	–
Gain on disposal of an associate		(451)	–	–	–	–
Discount on acquisitions		–	–	(44,208)	–	(66,140)
Recognition of share-based payments		–	–	1,464	639	486
Amortisation of prepaid lease payments		2,009	5,223	6,609	2,675	5,162
Amortisation of goodwill arising on acquisition of associates		582	–	–	–	–
(Gain) loss on disposal of property, plant and equipment		(37,182)	(225)	16	–	–
Release of negative goodwill		(7,693)	–	–	–	–
Effect on foreign exchange		(1,008)	4,569	(24,113)	(10,020)	(1,925)

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FINANCIAL INFORMATION ON THE GROUP

	Year ended 31st March,			Six months ended 30th September,		
	Note	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Operating activities						
Operating cash flows before movements in working capital		106,030	180,224	270,457	132,697	338,920
Decrease (increase) in completed properties for sale		28,944	16,164	(399,814)	(95,992)	162,230
(Increase) decrease in properties under development for sale		(587,534)	(414,273)	342,807	91,872	(218,187)
Decrease (increase) in debtors, deposits and prepayments		153,982	(7,600)	82,968	7,422	(19,232)
(Increase) decrease in investments held for trading		(438,983)	13,316	(43,040)	(15,589)	(44,255)
(Increase) decrease in financial assets at fair value through profit or loss		–	(6,655)	(582,533)	(7,022)	101,607
Increase (decrease) in derivative financial instruments		–	58,232	(58,718)	52,088	1,266
(Increase) decrease in loans receivable		(61,123)	(65,197)	(62,978)	(37,419)	424
Decrease (increase) in inventories		1,130	(687)	1,016	631	242
(Increase) decrease in amounts due from associates		(4,334)	(397)	200	–	70
Increase in amounts due from jointly controlled entities		(2,936)	(6,716)	(2,618)	(1,969)	(807)
Increase (decrease) in creditors and accruals		47,188	(21,267)	175,233	143,088	(109,939)
Increase (decrease) in customers' deposits received		2,909	(4,586)	151,201	1,318	441,447
Increase in amount due to a jointly controlled entity		–	–	1,751	–	–
(Decrease) increase in amounts due to associates		(8)	(1,306)	(11,594)	(13,476)	164
Cash (used in) from operations		(754,735)	(260,748)	(135,662)	257,649	653,950
Hong Kong Profits Tax paid		(919)	(2,530)	(14,783)	(3,481)	(16,358)
Tax paid in other jurisdictions		(29,825)	(32,366)	(4,289)	–	(16,167)
Tax refunded		4,284	–	–	–	2,898
Net cash (used in) from operating activities		(781,195)	(295,644)	(154,734)	254,168	624,323

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	<i>Note</i>	Year ended 31st March,			Six months ended 30th September,	
		2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Investing activities						
Purchase of property, plant and equipment		(132,124)	(166,336)	(163,326)	(43,993)	(31,274)
Purchase of investment properties		(2,015)	–	–	–	–
Purchase of subsidiaries, net of bank balances and cash equivalents acquired	46(a)	(239,844)	–	(252,478)	–	(70,099)
Purchase of businesses, net of bank balances and cash acquired	46(b)	–	–	555	–	–
Proceeds from disposal of a subsidiary, net of bank balances and cash disposal of	47	–	–	294,834	–	–
Investment in a jointly controlled entity		(1,500)	–	–	–	–
Proceeds from disposal of an associate		3,306	–	–	–	–
Purchase of investment in securities		(327,628)	–	–	–	–
Proceeds from disposal of investment properties		481,599	10,689	–	–	–
Proceeds from disposal of property, plant and equipment		144,153	470	130	–	178
Purchase of available-for-sale investments		–	(525,534)	(609,297)	(107,556)	(957,035)
Proceeds from disposal of available-for-sale investments		–	568,435	855,824	228,590	1,143,639
Increase in prepaid lease payments		(3,785)	(81,000)	(194,871)	(141,938)	(130,405)
Advance to associates		(4,482)	(381)	–	–	–
Deposit paid on acquisition of properties		–	–	(12,146)	–	(429,218)
Decrease (increase) in pledged bank deposits		1,583	(48,202)	(46,718)	44,810	39,630
Dividend received from associates		6,577	9,410	5,570	2,018	8,386
Dividend received from listed investments		1,262	2,304	4,307	3,078	2,311
Interest received		1,448	4,115	4,645	4,516	4,393
Net cash used in investing activities		<u>(71,450)</u>	<u>(226,030)</u>	<u>(112,971)</u>	<u>(10,475)</u>	<u>(419,494)</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Year ended 31st March,			Six months ended 30th September,		
	Note	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Financing activities						
Proceeds from issue of convertible bonds, net of issue expenses		1,240,991	–	–	–	–
Proceeds from issue of shares, net of issue expenses		1,025	3,833	5,738	2,315	2,942
New bank and other borrowings raised		646,449	839,446	1,489,354	382,034	5,245,373
Repayments of bank and other borrowings		(603,654)	(534,770)	(887,261)	(505,738)	(5,152,960)
Repayments of obligations under finance leases		(580)	(268)	(362)	–	(339)
(Repayment to) advance from directors		225	643	(5,398)	(445)	(4,531)
Advance from (repayment to) minority shareholders		23,068	22,710	8,276	42	(13,484)
Advance from a jointly controlled entity		3,067	–	–	–	–
(Repayment to) advance from related companies		(16,312)	1,987	117,610	(8,475)	(14,852)
Dividends paid		(36,961)	(58,860)	(77,547)	–	(66,574)
Interest paid		(58,878)	(72,603)	(120,723)	(33,807)	(76,351)
Net cash from (used in) financing activities		<u>1,198,440</u>	<u>202,118</u>	<u>529,687</u>	<u>(164,074)</u>	<u>(80,776)</u>
Net increase (decrease) in cash and cash equivalents		345,795	(319,556)	261,982	79,619	124,053
Cash and cash equivalents brought forward		119,426	464,870	145,296	145,296	412,333
Effect of foreign exchange rate changes		<u>(351)</u>	<u>(18)</u>	<u>5,055</u>	<u>1,287</u>	<u>6,493</u>
Cash and cash equivalents carried forward		<u>464,870</u>	<u>145,296</u>	<u>412,333</u>	<u>226,202</u>	<u>542,879</u>
Analysis of the balances of cash and cash equivalents						
Deposits with investment banks		106,143	31,000	154,891	31,120	208,554
Bank balances and cash		361,625	114,581	264,024	195,288	334,511
Bank overdrafts		(2,898)	(285)	(6,582)	(206)	(186)
		<u>464,870</u>	<u>145,296</u>	<u>412,333</u>	<u>226,202</u>	<u>542,879</u>

NOTES TO THE FINANCIAL INFORMATION**1. BASIS OF PREPARATION**

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Financial Information has been prepared in accordance with the significant accounting policies as set out in note 3 which conform with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

During the Relevant Periods, the Group has applied, for the first time, a number of new standards, amendments and interpretations (collectively referred to as “new HKFRSs”) issued by the HKICPA which are effective during the Relevant Periods. The new HKFRSs had been applied retrospectively and consistently throughout the Relevant Periods except for HKFRS 2 “Share-based Payment”, HKFRS 3 “Business Combinations”, Hong Kong Accounting Standard (“HKAS”) 39 “Financial Instruments: Recognition and Measurement”, HKAS 39 and HKFRS 4 (Amendments) “Financial Guarantee Contracts” and HKAS 39 (Amendment) “The Fair Value Option”.

Share-based payment

In the year ended 31st March, 2006, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. For the options granted after 7th November, 2002 but not vested on 1st April, 2005, the Group has not recognised the relevant share-based payment upon adoption of HKFRS 2 as the amount involved was insignificant.

Business combinations

From 1st April, 2005, the Group has applied HKFRS 3 “Business Combinations” which was effective for business combinations for which the agreement date was on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2005 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3, under which the Group has discontinued amortising goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually in the financial period in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 was measured at cost less accumulated impairment losses (if any) after initial recognition. Comparative figures have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") was recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st April, 2005 amounting to HK\$23,081,000 which was previously presented as a deduction from assets, with a corresponding increase to retained profits.

Financial instruments

From 1st April, 2005, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement", which was effective for annual periods beginning on or after 1st January, 2005 and, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Convertible bonds denominated in United States dollars and Hong Kong dollars

Previously, two convertible bonds denominated in United States dollars and Hong Kong dollars were classified as liabilities and recorded at the proceeds received, net of premium payable on redemption and direct issue costs, on the balance sheet. Such convertible bonds contain a liability component and an embedded conversion option, which are required to be accounted for separately in accordance with HKAS 39. On 1st April, 2005, the Group designated such convertible bonds as a whole as "financial liabilities at fair value through profit or loss" in accordance with the transitional provisions in HKAS 39. The fair value of convertible bonds designated as "financial liabilities at fair value through profit or loss at 1st April, 2005 was HK\$816,500,000 and the difference between the carrying amount of convertible bonds as at 31st March, 2005 of HK\$765,134,000 and the fair value at 1st April, 2005, amounted to HK\$51,366,000, was adjusted to the Group's retained profit at 1st April, 2005.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Investments in Securities". Under SSAP 24, investments in debt or equity securities are classified as "trading securities" and "non-trading securities" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity was included in profit and loss for that period. From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

On 1st April, 2005, the Group designated all equity-linked notes with carrying amount of HK\$340,836,000 which was previously classified as “non-trading securities” under SSAP 24 as “financial assets at fair value through profit or loss”. The cumulative unrealised gains or losses of such equity-linked notes previously reported in equity at 1st April, 2005 of HK\$23,107,000 continue to be held in equity. On subsequent decognition or impairment of the investment, the unrealised gain or loss remaining in equity will be transferred to profit or loss.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets of fair value through profit or loss”, “available-for-sale financial assets”, loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Derivatives

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Financial guarantee contracts

In the year ended 31st March, 2007, the Group has applied HKAS 39 and HKFRS 4 (Amendments) “Financial Guarantee Contracts” which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 “Financial Instruments: Recognition and Measurement” as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

The adoption of this amendment has no material impact on the Group’s results for the Relevant Periods.

Fair value option

In the year ended 31st March, 2007, the Group has applied HKAS 39 (Amendment) “The Fair Value Option” which is effective for annual periods beginning on or after 1st January, 2006.

Prior to 1st April, 2006, the Group designated certain financial instruments as at fair value through profit or loss. The amendment prohibits designating a financial asset or financial liability as at fair value through profit or loss only when certain conditions are met. The adoption of this amendment has no impact on the previous designation.

At the date of this report, the following HKFRS, HKAS and Interpretations (“HK(IFRIC)”) were issued but not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ²
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1st January, 2009

² Effective for annual periods beginning on or after 1st March, 2007

³ Effective for annual periods beginning on or after 1st January, 2008

⁴ Effective for annual periods beginning on or after 1st July, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company, its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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

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

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

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

Goodwill

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1st January, 2005, representing the excess of the cost of an acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition, was capitalised and amortised on a straight-line basis over its useful economic life.

The Group has discontinued amortising such goodwill from 1st April, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January, 2005, representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition, is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition with an agreement date before 1st January, 2005 was presented as deduction from assets. To the extent that the negative goodwill was attributable to losses or expenses anticipated at the date of acquisition, it was released to income in the period in which those losses or expenses arise. The remaining negative goodwill was recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciated assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it was recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity was deducted from the carrying value of that associate or jointly controlled entity.

Excess of acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on acquisition of subsidiary, associate or jointly controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of associate or jointly controlled entity is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any

identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provided evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Investments in jointly controlled assets

When a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of jointly controlled assets and share of any liabilities incurred jointly with other venturers are recognised in the Financial Information and classified according to their nature. Expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of jointly controlled assets, together with its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group.

Investment properties

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

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

Transfer from investment property to property, plant and equipment will be made when there is a change in use, evidenced by commencement of owner occupation. Property interests held under operating lease previously classified as an investment property is accounted for as if it were a finance lease and measured under the fair value model. The Group shall continue to account for the lease as a finance lease, even if subsequent event changes the nature of the property interest so that it is no longer classified as investment property.

Property, plant and equipment

Property, plant and equipment other than buildings under development are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than buildings under development over their estimated useful lives and after taking into account of their estimated residual value, items of property, plant and equipment other than properties under development using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

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

When an item of property, plant and equipment is transferred to investment property carried at fair value, if the carrying amount is decreased as a result of a revaluation at the date of transfer, any resulting decrease in the carrying amount of the property is recognised in profit or loss. If the carrying amount is increased, to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised. Any remaining part of the increase is credited directly to equity (assets revaluation reserve). On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated profits. The transfer from revaluation surplus to accumulated profits is not made through profit or loss.

Buildings under development for own use

Buildings under development held for own use are stated at cost less any impairment loss recognised. Cost comprises development costs including attributable interest and professional charges capitalised during the development period.

No depreciation is provided in respect of buildings under development held for own use. Depreciation of building commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

When the building on the leasehold land is in the course of development for production, rental or for administrative purposes, the leasehold land component is amortised on a straight-line basis over the lease term. The amortisation charge for the leasehold land is included as part of costs of buildings under construction during the construction period.

Prepaid lease payments

The prepaid lease payments represented upfront payment for land use rights and leasehold land are initially recognised at cost and amortised to income statement over the lease term on a straight-line basis.

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of properties under development for sale includes land cost, construction cost, borrowing costs capitalised and other direct development expenditure.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sale proceeds less estimated selling expenses.

Investments in securities

Prior to 1st April, 2005, investments in securities were recognised on a trade-date basis and were initially measured at cost. All securities other than held-to-maturity debt securities were measured at subsequent reporting dates at fair value. Where securities were held for trading purposes, unrealised gains and losses were included in net profit or loss for the year. For other securities, unrealised gains and losses were dealt with in equity, until the security was disposed of or was determined to be impaired, at which time the cumulative gain or loss previously recognised in equity was included in net profit or loss for the period.

Financial instruments

From 1st April, 2005, financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from associates, a jointly controlled entity, an investee company and a minority shareholder, loans receivable, debtors and deposits with banks or investment banks) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective

evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition, if it forms part of a contract containing one or more embedded derivatives, HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Available-for-sale financial assets

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

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available-for-sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Conversion option of convertible bonds issued by the Group which is settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity instruments is a conversion option derivative which is not closely related to the liability component of the convertible bonds. The Group has designated the entire instrument as financial liability carried at fair value through profit or loss. At initial recognition and in subsequent periods, the convertible bonds is measured at fair value through profit or loss with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities include creditors, amounts due to directors, related companies, associates, minority shareholders and a jointly controlled entity and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivatives

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within creditors and accruals. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to the relevant asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accruals in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Derecognition

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

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

The principal effects resulting from the implementation and application of HKAS 32 and HKAS 39 on 1st April, 2005 by the Group are summarised below:

Convertible bonds

Prior to 1st April, 2005, convertible bonds were classified as liabilities and recorded at the proceeds received, net of premium payable on redemption and direct issue costs, on the balance sheet. On application of the HKAS 32 and HKAS 39, such convertible bonds contain a liability component and an embedded conversion option are required to be accounted for separately in accordance with HKAS 39. On 1st April, 2005, the Group designated such convertible bonds as a whole as “financial liabilities at fair value through profit or loss” in accordance with the transitional provisions in HKAS 39 (see note 2 for the financial impact).

Impairment

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

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

Inventories

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from sale of properties in the ordinary course of business (including revenue from pre-completion contracts for the sale of development properties entered into on or after 1st January, 2005) is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Revenue from hotel operations is recognised when the relevant services are provided.

Rental income from properties under operating leases is recognised on a straight-line basis over the periods of the respective tenancies.

Building management fee income is recognised when the relevant services are provided.

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

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

Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Borrowing costs

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

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefits schemes

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

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

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

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

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Equity-settled share-based payment transactions

Share options granted to employees after 7th November, 2002 and vested on or after 1st April, 2005

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

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

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

Share options granted to employees on or before 7th November, 2002, or granted after 7th November, 2002 and vested before 1st April, 2005.

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts when there is objective evidence that debtors balances are impaired. The balances of the debtors are based on the present value of estimated future cash flows discounted at the effective rate computed at initial recognition. The directors involved a considerable amount of judgement in assessing the ultimate realisation of these receivables including the current creditworthiness and the past collection history of each debtor. If the financial credit of debtors of the Group were to deteriorate, resulting in an impairment of their activity to make payments and therefore affect the estimated future cash flow, additional allowance may be required.

Taxation

The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors of the Company determine the deferred tax assets based on the enacted or substantially enacted tax rates and laws and the best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. The directors of the Company will review the assumptions and profit projections by respective balance sheet dates. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a recognition or reversal takes place.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include debtors, loans receivables, investments held for trading, available-for-sale investments, financial assets at fair value through profit or loss, derivative financial instruments, amounts due from a minority shareholder, a jointly controlled entity, an investee company and associates, deposits with banks or investments banks, creditors, amounts due to directors, related companies, associates, a jointly controlled entity and minority shareholders, financial liabilities at fair value through profit or loss and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments under HKAS 39

	At 31st March,		At 30th
	2006	2007	September,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2007</i>
			<i>HK\$'000</i>
Financial assets			
Fair value through profit or loss			
Held for trading	7,724	50,764	95,019
Designated as fair value through profit or loss	271,480	854,013	752,406
Derivative financial instruments	5,319	2,411	–
Available-for-sale investments	702,369	416,904	269,660
Loans and receivables (including cash and cash equivalents)	1,126,241	881,205	981,877
Financial liabilities			
Amortised cost	2,431,418	3,482,227	3,917,120
Fair value through profit or loss			
Designated as at fair value through profit or loss	914,969	838,336	491,995
Derivative financial instruments	63,551	1,925	780
Financial liabilities designated as at fair value through profit or loss			
	At 31st March,	2007	At 30th
	2006	2007	September,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2007</i>
			<i>HK\$'000</i>
Cumulative changes in fair value attributable to changes in credit risk	175	15,520	18,605
Changes in fair value attributable to changes in credit risk recognised during the year/period	152	15,345	3,085
Difference between carrying amount and maturity amount			
Convertible bonds at fair value	914,969	838,336	491,995
Amount payable at maturity	763,742	755,948	411,228
	<u>151,227</u>	<u>82,388</u>	<u>80,767</u>

Capital risk

It is the Group's policy to maintain a strong capital base so as to safeguard the Group's ability to continue as a going concern and to sustain future development of the Group's business. The Group defines the owner's equity as the capital of the Group.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to the capital structure in light of changes in economic conditions.

The Group's overall strategy remains unchanged over the Relevant Periods.

Interest rate risk

The Group is exposed to cash flow interest rate risk primarily to the Group's floating rate borrowings and loans receivables. The Group does not have an interest rate hedging policy. However, the management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short term.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings and loans receivables. The analysis is prepared assuming that the change in interest rate had occurred at respective balance sheet date and had been applied to the exposure to interest rate risk for financial assets and liabilities in existence at that date. The 200 basis points represent the best estimation of the possible change in the interest rates over the period until the next balance sheet date.

At the respective balance sheet dates, if interest rates had been increased/decreased by 200 basis points and all other variables were held constant the Group's profit after taxation would decrease/increase by approximately HK\$27,388,000, HK\$39,252,000, HK\$39,044,000 and HK\$52,284,000 for the year ended 31st March, 2005, 2006, 2007 and the six months ended 30th September, 2007 respectively.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuation arises. The Group currently does not use any derivatives contract to hedge against its exposure to currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

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The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follow:

	2005	At 31st March, 2006	2007	At 30th September, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets				
United States Dollar	217,777	354,306	200,650	60,823
Australian Dollar	52	50	52	31,413
Japanese Yen	179	14,109	13,908	5,091
Liabilities				
United States Dollar	153,902	7,608	52,574	319,952
Euro	–	–	–	2,788
Japanese Yen	–	178	176	6,735

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 1% increase and decrease in the HKD against the relevant foreign currencies, while all other variables are held constant. Sensitivity rate of 1% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 1% change in foreign currency rates.

Increase (decrease) in profit for the year/period

	2005	At 31st March, 2006	2007	At 30th September, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– if HKD weaken against foreign currencies	9,959	3,616	2,670	(2,315)
– if HKD strengthen against foreign currencies	(9,959)	(3,616)	(2,670)	2,315
	<u>(9,959)</u>	<u>(3,616)</u>	<u>(2,670)</u>	<u>2,315</u>

Other price risk

The Group is exposed to equity price risk and market price risk because the Group's available-for-sale investments, financial assets at fair value through profit or loss, investments held for trading, derivative financial instruments and financial liabilities at fair value through profit or loss are required to state at fair value. Details of the above financial assets and liabilities are set out in respective notes.

The Group is also exposed to market price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair value of the derivative liabilities of the Group. As at each balance sheet date, the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company as disclosed in note 37.

The following tables show the sensitivity to equity price risk on the trading securities under SSAP 24 and available-for-sale investments and investments held for trading under HKAS 39 at each balance sheet date while all other variables were held constant. Sensitivity rate of 5% represents management's assessment of the reasonably possible change in equity price.

Increase (decrease) in profit for the year/period

	2005	At 31st March, 2006	2007	At 30th September, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– as a result of increase in equity price	1,052	386	2,538	4,751
– as a result of decrease in equity price	<u>(1,052)</u>	<u>(386)</u>	<u>(2,538)</u>	<u>(4,751)</u>

Increase (decrease) in other component of equity

	2005	At 31st March, 2006	2007	At 30th September, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– as a result of increase in equity price	8,361	31,659	20,844	13,483
– as a result of decrease in equity price	<u>(8,361)</u>	<u>(31,659)</u>	<u>(20,844)</u>	<u>(13,483)</u>

The following tables show the sensitivity to market price risk on the financial assets at fair value through profit or loss and derivative financial instruments (asset) under HKAS 39 at each balance sheet date. Sensitivity rate of 5% represents management's assessment of the reasonably possible change in market price.

Increase (decrease) in profit for the year/period

	At 31st March, 2006	2007	At 30th September, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
– as a result of increase in market price	13,840	42,821	37,620
– as a result of decrease in market price	<u>(13,840)</u>	<u>(42,821)</u>	<u>(37,620)</u>

The following tables show the sensitivity to market price risk on the financial liabilities at fair value through profit or loss and derivative financial instruments (liability) under HKAS 39 at each balance sheet date. Sensitivity rate of 5% represents management's assessment of the reasonably possible change in market price.

Increase (decrease) in profit for the year/period

	At 31st March,		At 30th
	2006	2007	September,
	HK\$'000	HK\$'000	2007
			HK\$'000
– as a result of increase in market price	(48,926)	(42,013)	(24,639)
– as a result of decrease in market price	48,926	42,013	24,639
	<u>48,926</u>	<u>42,013</u>	<u>24,639</u>

Certain available-for-sale investments, financial assets at fair value through profit or loss, investments held for trading and derivative financial instruments held by the Group are denominated in foreign currencies, hence exposure to exchange rate fluctuation arises. The carrying amounts of these financial instruments denominated in foreign currencies at the respective balance sheet dates are as follows:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Assets				
United States Dollars	136,176	161,946	1,080,448	745,827
Japanese Yen	–	10,269	64,521	7,196
Euro	–	–	2,334	21,150
British Pound	–	–	7,611	–
Liabilities				
United States Dollars	–	27,284	–	–
Japanese Yen	–	2,839	–	–
	<u>–</u>	<u>2,839</u>	<u>–</u>	<u>–</u>

The following table details the Group's sensitivity to a 1% increase and decrease in the HKD against the relevant foreign currencies, while all other variables are held constant. Sensitivity rate of 1% represents management's assessment of the reasonably possible change in foreign exchange rates.

Increase (decrease) in profit for the year/period

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
– if HKD weaken against foreign currencies	73	4,199	10,831	7,879
– if HKD strengthen against foreign currencies	(73)	(4,199)	(10,831)	(7,879)
	<u>73</u>	<u>4,199</u>	<u>10,831</u>	<u>7,879</u>

Increase (decrease) in other component of equity

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
– if HKD weaken against foreign currencies	6,751	2,903	2,143	1,898
– if HKD strengthen against foreign currencies	(6,751)	(2,903)	(2,143)	(1,898)
	<u>6,751</u>	<u>2,903</u>	<u>2,143</u>	<u>1,898</u>

Credit risk management

At each balance date, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets as stated in the consolidated balance sheets and the amount of contingent liabilities as disclosed in note 52. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. The Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk for bank deposits and deposits with investment banks is limited because the counterparties are banks or financial institutions with high credit ratings.

Liquidity risk

The Group's liquidity position and its compliance with lending covenants is monitored closely by the management of the Company, to ensure that it maintains sufficient reserve of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirement in the short and longer term. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of financial liabilities on each balance sheet date.

	Weighted average effective interest rate %	0-180 days HK\$'000	181-365 days HK\$'000	One to Three years HK\$'000	Over Three years HK\$'000	Total HK\$'000	Carrying amount HK\$'000
At 31st March, 2005							
Non-interest bearing	N/A	392,635	11,548	10,801	35,964	450,948	414,984
Fixed interest rate instruments	3.58	159	136	389	39,591	40,275	36,690
Variable interest rate instruments	2.95	258,236	421,129	528,106	649,317	1,856,788	1,691,518
Convertible bonds	N/A	—	—	—	843,274	843,274	765,134
		<u>651,030</u>	<u>432,813</u>	<u>539,296</u>	<u>1,568,146</u>	<u>3,191,285</u>	<u>2,908,326</u>
At 31st March, 2006							
Non-interest bearing	N/A	313,167	81,286	10,801	7,566	412,820	412,820
Fixed interest rate instruments	3.32	214	204	798	40,123	41,339	36,308
Variable interest rate instruments	4.9	155,876	1,090,448	293,742	710,739	2,250,805	1,982,290
Derivative financial instruments	N/A	63,551	—	—	—	63,551	63,551
Financial liabilities at fair value through profit or loss	N/A	—	—	—	843,274	843,274	914,969
		<u>532,808</u>	<u>1,171,938</u>	<u>305,341</u>	<u>1,601,702</u>	<u>3,611,789</u>	<u>3,409,938</u>

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	Weighted average effective interest rate %	0-180 days HK\$'000	181-365 days HK\$'000	One to Three years HK\$'000	Over Three years HK\$'000	Total HK\$'000	Carrying amount HK\$'000
At 31st March, 2007							
Non-interest bearing	N/A	705,273	82,996	13,809	–	802,078	794,239
Fixed interest rate instruments	4.57	539	328	1,141	47,114	49,122	44,915
Variable interest rate instruments	6.2	666,478	835,699	644,082	937,245	3,083,504	2,643,073
Derivative financial instruments	N/A	1,925	–	–	–	1,925	1,925
Financial liabilities at fair value through profit or loss	N/A	–	–	843,274	–	843,274	838,336
		<u>1,374,215</u>	<u>919,023</u>	<u>1,502,306</u>	<u>984,359</u>	<u>4,779,903</u>	<u>4,322,488</u>
At 30th September, 2007							
Non-interest bearing	N/A	1,028,938	77,188	14,340	–	1,120,466	1,120,466
Fixed interest rate instruments	4.82	485	399	1,017	31,829	33,730	31,051
Variable interest rate instruments	5.96	914,922	690,012	595,949	894,015	3,094,898	2,765,603
Derivative financial instruments	N/A	–	780	–	–	780	780
Financial liabilities at fair value through profit or loss	N/A	–	–	457,739	–	457,739	491,995
		<u>1,944,345</u>	<u>768,379</u>	<u>1,069,045</u>	<u>925,844</u>	<u>4,707,613</u>	<u>4,409,895</u>

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of listed available-for-sale investments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.
- the fair value of financial assets and liabilities at fair value through profit or loss traded through investment banks are determined with reference to latest market bid and ask prices respectively.
- the fair value of derivative financial instruments are determined in accordance with generally accepted pricing models based on data obtained in current market.
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

6. REVENUE

Revenue represents the aggregate amount of proceeds from sale of properties, gross rental and management fee income, income from hotel operations, loan interest income, sale of and interest income from financial instruments and less returns and discounts, during the year/period are set out as follows:

	Year ended 31st March,			Six months ended 30th September,	
	2005	2006	2007	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Sale of properties	318,501	270,081	339,420	254,236	312,119
Hotel operations	59,108	204,041	342,901	137,967	265,024
Hotel loan financing income	61,560	70,178	63,580	34,563	–
Interest income from financial instruments	12,623	68,862	60,441	23,989	79,104
Rental income and management fee income	68,609	51,515	59,315	26,258	36,226
Other operations	<u>25,719</u>	<u>19,467</u>	<u>9,519</u>	<u>6,084</u>	<u>286</u>
	<u>546,120</u>	<u>684,144</u>	<u>875,176</u>	<u>483,097</u>	<u>692,759</u>

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – property development and investment, hotel operations and loan financing, and treasury management. These divisions are the basis on which the Group reports its primary segment information. Other operations mainly include sale of boiler products and other interest income.

Principal activities are as follows:

Property development and investment	–	properties development, letting and sale
Hotel operations	–	hotel operations and management
Loan financing	–	loan financing for hotel operations
Treasury management	–	investment and trading in securities

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FINANCIAL INFORMATION ON THE GROUP
Year ended 31st March, 2005

	Property development and investment <i>HK\$'000</i>	Hotel Operations <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Treasury management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	387,110	59,108	61,560	12,623	25,719	–	546,120
Inter-segment sales	33,090	–	–	–	–	(33,090)	–
Total revenue	<u>420,200</u>	<u>59,108</u>	<u>61,560</u>	<u>12,623</u>	<u>25,719</u>	<u>(33,090)</u>	<u>546,120</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	364,060	39,837	59,281	7,363	3,323	–	473,864
Share of results of associates	21,240	–	–	–	(9,086)	–	12,154
Share of results of jointly controlled entities	–	–	–	–	(792)	–	(792)
Finance costs	–	–	–	–	–	–	<u>(38,741)</u>
Profit before taxation	–	–	–	–	–	–	446,485
Taxation	–	–	–	–	–	–	<u>(36,814)</u>
Profit for the year	–	–	–	–	–	–	<u>409,671</u>

	Property development and investment <i>HK\$'000</i>	Hotel Operations <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Treasury management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
Segment assets	4,131,006	769,054	340,623	421,065	197,340	5,859,088
Interests in associates	100,018	–	–	–	44,268	144,286
Interests in jointly controlled entities	–	–	–	–	73,238	73,238
Amounts due from associates	60,267	–	–	–	71,951	132,218
Amounts due from jointly controlled entities	–	–	–	–	2,936	2,936
Taxation recoverable	–	–	–	–	–	9,257
Unallocated corporate assets	–	–	–	–	–	<u>13,825</u>
Consolidated total assets	–	–	–	–	–	<u>6,234,848</u>

LIABILITIES						
Segment liabilities	272,185	23,860	35,048	34,292	5,310	370,695
Amounts due to associates	24,687	–	–	–	98	24,785
Amount to a jointly controlled entity	–	–	–	–	10,801	10,801
Borrowings	–	–	–	–	–	2,457,378
Taxation payable	–	–	–	–	–	56,130
Deferred taxation	–	–	–	–	–	50,147
Unallocated corporate liabilities	–	–	–	–	–	<u>44,667</u>
Consolidated total liabilities	–	–	–	–	–	<u>3,014,603</u>

OTHER INFORMATION							
Capital additions	5,564	190,809	–	–	99	–	196,472
Depreciation and amortisation	6,936	6,123	–	–	620	–	<u>13,679</u>

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FINANCIAL INFORMATION ON THE GROUP
Year ended 31st March, 2006

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	321,596	204,041	70,178	68,862	19,467	-	684,144
Inter-segment sales	35,517	-	-	-	-	(35,517)	-
Total revenue	<u>357,113</u>	<u>204,041</u>	<u>70,178</u>	<u>68,862</u>	<u>19,467</u>	<u>(35,517)</u>	<u>684,144</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	379,230	83,673	67,851	63,020	(17,974)		575,800
Increase in fair value of financial liabilities at fair value through profit or loss							(113,160)
Share of results of associates	5,741	-	-	-	1,077		6,818
Share of results of jointly controlled entities	-	-	-	-	1,379		1,379
Finance costs							<u>(52,759)</u>
Profit before taxation							418,078
Taxation							<u>(85,867)</u>
Profit for the year							<u>332,211</u>

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	1,534,938	1,426,508	408,744	575,114	2,813,730	6,759,034
Interests in associates	1,839	-	-	-	139,855	141,694
Interests in jointly controlled entities	-	-	-	-	74,617	74,617
Amounts due from associates	60,658	-	-	-	72,338	132,996
Amounts due from a jointly controlled entity	-	-	-	-	9,652	9,652
Taxation recoverable						7,995
Unallocated corporate assets						<u>14,320</u>
Consolidated total assets						<u>7,140,308</u>

LIABILITIES						
Segment liabilities	222,302	25,940	59,943	92,090	52,522	452,797
Amounts due from associates	23,315	-	-	-	164	23,479
Amounts due from jointly controlled entity	-	-	-	-	10,801	10,801
Borrowings						2,898,327
Taxation payable						33,124
Deferred taxation						124,395
Unallocated corporate liabilities						<u>25,602</u>
Consolidated total liabilities						<u>3,568,525</u>

OTHER INFORMATION						
Capital additions	16,500	233,395	-	-	63	249,958
Depreciation and amortisation	5,816	20,085	-	-	309	<u>26,210</u>

Year ended 31st March, 2007

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	394,217	347,419	63,580	60,441	9,519	–	875,176
Inter-segment sales	29,237	654	88,490	–	–	(118,381)	–
Total revenue	<u>423,454</u>	<u>348,073</u>	<u>152,070</u>	<u>60,441</u>	<u>9,519</u>	<u>(118,381)</u>	<u>875,176</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	79,999	202,912	59,377	182,956	(129,950)	–	395,294
Discount on acquisition	–	44,208	–	–	–	–	44,208
Decrease in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	–	–	68,839
Gain on disposal of a subsidiary	–	–	–	–	225,000	–	225,200
Share of results of associates	26,475	–	–	–	2,495	–	28,970
Share of results of jointly controlled entities	–	–	–	–	(771)	–	(771)
Finance costs	–	–	–	–	–	–	(67,917)
Profit before taxation	–	–	–	–	–	–	693,823
Taxation	–	–	–	–	–	–	(157,394)
Profit for the year	–	–	–	–	–	–	<u>536,429</u>

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	3,914,257	2,631,717	–	1,543,112	174,071	8,263,157
Interests in associates	31,864	–	–	–	133,230	165,094
Interests in jointly controlled entities	–	–	–	–	73,846	73,846
Amounts due from associates	160	–	–	–	80,713	80,873
Amount due from a jointly controlled entity	–	–	–	–	12,270	12,270
Taxation recoverable	–	–	–	–	–	11,194
Unallocated corporate assets	–	–	–	–	–	105,922
Consolidated total assets	–	–	–	–	–	<u>8,712,356</u>
LIABILITIES						
Segment liabilities	602,033	41,519	–	112,935	15,438	771,925
Amounts due to associates	11,787	–	–	–	98	11,885
Amounts due to jointly controlled entity	–	–	–	–	12,552	12,552
Borrowings	–	–	–	–	–	3,483,245
Taxation payable	–	–	–	–	–	151,730
Deferred taxation	–	–	–	–	–	188,206
Unallocated corporate liabilities	–	–	–	–	–	44,717
Consolidated total liabilities	–	–	–	–	–	<u>4,664,260</u>
OTHER INFORMATION						
Capital additions	71,649	1,076,393	–	–	–	1,148,042
Depreciation and amortisation	5,899	36,442	–	152	–	42,493

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FINANCIAL INFORMATION ON THE GROUP
Six months ended 30th September, 2006 (unaudited)

	Property development and investment <i>HK\$'000</i>	Hotel Operations <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Treasury management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External sales	278,475	139,986	34,563	23,989	6,084	–	483,097
Inter-segment sales	<u>15,962</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(15,962)</u>	<u>–</u>
Total revenue	<u>294,437</u>	<u>139,986</u>	<u>34,563</u>	<u>23,989</u>	<u>6,084</u>	<u>(15,962)</u>	<u>483,097</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	59,755	60,177	35,609	1,539	(7,927)		149,153
Decrease in fair value of financial liabilities at fair value through profit or loss							52,809
Share of results of associates	7,768	–	–	–	1,449		9,217
Share of results of jointly controlled entities	–	–	–	–	(1,789)		(1,789)
Finance costs							<u>(31,385)</u>
Profit before taxation							178,005
Taxation							<u>(27,054)</u>
Profit for the period							<u>150,951</u>

	Property development and investment <i>HK\$'000</i>	Hotel Operations <i>HK\$'000</i>	Loan financing <i>HK\$'000</i>	Treasury management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION						
Capital additions		914	39,936	–	–	1,690
Depreciation and amortisation		3,062	13,836	–	–	339
						<u>17,237</u>

Six months ended 30th September, 2007

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	345,163	268,206	–	79,104	286	–	692,759
Inter-segment sales	14,618	–	–	–	–	(14,618)	–
Total revenue	<u>359,781</u>	<u>268,206</u>	<u>–</u>	<u>79,104</u>	<u>286</u>	<u>(14,618)</u>	<u>692,759</u>

Inter-segment sales are charged at prevailing market rates.

RESULTS							
Segment results	96,101	102,377	–	163,028	(8,712)	–	352,794
Discount on acquisitions	–	66,140	–	–	–	–	66,140
Increase in fair value of financial liabilities at fair value through profit or loss	–	–	–	–	–	–	(67,754)
Share of results of associates	7,889	–	–	–	45	–	7,934
Share of results of jointly controlled entities	–	–	–	–	6,285	–	6,285
Finance costs	–	–	–	–	–	–	(61,137)
Profit before taxation	–	–	–	–	–	–	304,262
Taxation	–	–	–	–	–	–	(49,488)
Profit for the period	–	–	–	–	–	–	<u>254,774</u>

	Property development and investment HK\$'000	Hotel Operations HK\$'000	Loan financing HK\$'000	Treasury management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	4,217,910	2,938,406	–	1,352,608	133,819	8,642,743
Deposit for acquisition of properties	–	448,006	–	–	–	448,006
Interests in associates	37,580	–	–	–	127,062	164,642
Interests in jointly controlled entities	–	–	–	–	80,131	80,131
Amounts due from associates	60,704	–	–	–	20,099	80,803
Amount due from a jointly controlled entity	–	–	–	–	13,077	13,077
Taxation recoverable	–	–	–	–	–	9,593
Unallocated corporate assets	–	–	–	–	–	21,016
Consolidated total assets	–	–	–	–	–	<u>9,460,011</u>
LIABILITIES						
Segment liabilities	1,016,599	29,195	–	20,557	15,955	1,082,306
Amounts due to associates	11,952	–	–	–	97	12,049
Amount due to a jointly controlled entity	–	–	–	–	12,552	12,552
Borrowings	–	–	–	–	–	3,259,348
Taxation payable	–	–	–	–	–	164,076
Deferred taxation	–	–	–	–	–	194,120
Unallocated corporate liabilities	–	–	–	–	–	45,390
Consolidated total liabilities	–	–	–	–	–	<u>4,769,841</u>
OTHER INFORMATION						
Capital additions	15,482	270,108	–	–	628	286,218
Depreciation and amortisation	4,109	28,339	–	–	339	32,787

Geographic segments

A geographical analysis of the Group's turnover by location of market is as follows:

	Year ended 31st March,			Six months ended	
	2005	2006	2007	30th September,	
	HK\$'000	HK\$'000	HK\$'000	2006	2007
				HK\$'000	HK\$'000
				(unaudited)	
Hong Kong	211,396	381,245	456,753	191,535	399,969
Australia	206,440	227,189	302,167	194,349	180,086
Malaysia	34,694	37,507	50,703	20,657	89,679
Other regions in the People's Republic of China ("PRC")	80,454	24,728	50,211	69,307	14,294
Singapore	13,136	13,475	15,342	7,249	8,731
	<u>546,120</u>	<u>684,144</u>	<u>875,176</u>	<u>483,097</u>	<u>692,759</u>

The following is an analysis of the carrying amount of segment assets and capital additions by geographical area in which the assets are located:

	Carrying amount of segment assets				Capital additions				
	At 31st March,		At 30th		Year ended 31st March,			Six months ended	
	2005	2006	2007	2007	2005	2006	2007	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	3,705,814	4,193,771	5,147,700	4,969,202	419,151	155,750	526,340	42,452	32,216
Malaysia	387,092	406,106	723,874	920,394	419	240	301,299	66	108,656
Other regions in the PRC	541,082	797,197	1,363,226	2,172,399	159	105	599	-	575
Australia	752,771	882,140	558,846	570,189	99	864	53	22	4,230
United States of America ("USA")	210,628	207,913	141,431	155,122	-	-	-	-	-
Singapore	246,822	252,366	305,228	298,638	55	17	7	-	4
Others	14,879	19,541	22,852	4,805	-	11,982	4,199	-	74
	<u>5,859,088</u>	<u>6,759,034</u>	<u>8,263,157</u>	<u>9,090,749</u>	<u>419,883</u>	<u>168,958</u>	<u>832,497</u>	<u>42,540</u>	<u>145,755</u>

8. FINANCE COSTS

	Year ended 31st March,			Six months ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000 (unaudited)	2007 HK\$'000
Interests on:					
Bank loans and overdrafts					
– wholly repayable within five years	33,602	30,762	29,917	32,304	44,376
– not wholly repayable within five years	24,733	36,501	71,296	15,162	18,390
Other loans					
– wholly repayable within five years	1,496	2,679	18,071	12,650	13,501
– not wholly repayable within five years	459	2,635	1,416	709	70
Finance leases	32	26	23	11	14
Amortisation of deferred expenditure on convertible bonds	2,814	–	–	–	–
Premium payable on redemption of convertible bonds	4,460	–	–	–	–
Others	910	125	113	165	51
	<u>68,506</u>	<u>72,728</u>	<u>120,836</u>	<u>61,001</u>	<u>76,402</u>
Total borrowing costs					
Less: Amounts capitalised in respect of:					
– properties under development for sale	(20,361)	(12,921)	(41,763)	(26,074)	(11,004)
– buildings under development	(7,125)	(2,012)	–	–	–
– hotel properties under development	–	–	(6,953)	(955)	(4,261)
	<u>41,020</u>	<u>57,795</u>	<u>72,120</u>	<u>33,972</u>	<u>61,137</u>
Analysed into:					
Amounts included in cost of sales	2,279	5,036	4,203	2,587	–
Amounts included in finance costs	38,741	52,759	67,917	31,385	61,137
	<u>41,020</u>	<u>57,795</u>	<u>72,120</u>	<u>33,972</u>	<u>61,137</u>

9. TAXATION

	Year ended 31st March,			Six months ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
				(unaudited)	
The taxation charges comprises:					
Current year:					
Hong Kong	–	11,872	64,473	9,075	36,804
Other jurisdictions	857	263	10,110	3,859	1,525
	<u>857</u>	<u>12,135</u>	<u>74,583</u>	<u>12,934</u>	<u>38,329</u>
Prior years under(over)provision:					
Hong Kong	6,823	553	15,183	6,275	3,410
Other jurisdictions	(171)	464	46,317	(454)	1,835
	<u>6,652</u>	<u>1,017</u>	<u>61,500</u>	<u>5,821</u>	<u>5,245</u>
Deferred taxation (<i>note 44</i>)	<u>29,305</u>	<u>72,715</u>	<u>21,311</u>	<u>8,299</u>	<u>5,914</u>
	<u><u>36,814</u></u>	<u><u>85,867</u></u>	<u><u>157,394</u></u>	<u><u>27,054</u></u>	<u><u>49,488</u></u>

Included in taxation for the year ended 31st March, 2007, the Group has provided Land Appreciation Tax (“LAT”) of HK\$60,000,000. The State Administration of Taxation (“SAT”) of the PRC issued Guoshuifa [2006] No.187 dated 28th December, 2006, which has become effective from 1st February, 2007, announcing its intention to strengthen the mechanism for collection of LAT from property developers, and authorising the local tax bureaux to issue detailed implementation rules and procedures appropriate to local environment. In order to minimise the uncertainties in the accounts due to exposure to the additional LAT liabilities, the Group has provided for LAT fully from the year ended 31st March, 2007 in accordance with the requirements of SAT even though detailed implementation rules and procedures have not yet been issued by the relevant local tax bureau.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the Relevant Period. Taxation arising in other regions in the PRC or other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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The taxation charge for the Relevant Periods can be reconciled to profit before taxation per the consolidated income statement as follows:

	Hong Kong <i>HK\$'000</i>	Other regions in the PRC <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Australia <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st March, 2005						
Profit (loss) before taxation	<u>410,572</u>	<u>16,982</u>	<u>20,318</u>	<u>18,195</u>	<u>(19,582)</u>	<u>446,485</u>
Applicable income tax rate	17.5%	33%	28%	30%		
Tax at the applicable income tax rate	71,850	5,604	5,689	5,459	(7,362)	81,240
Tax effect of expenses not deductible for tax purpose	28,823	12,510	(526)	6,171	10,513	57,491
Tax effect of income not taxable for tax purpose	(64,627)	(10,993)	(2,960)	(7,072)	(3,236)	(88,888)
Tax effect of tax losses not recognised	7,756	328	–	–	25	8,109
Utilisation of tax losses not previously recognised	(7,864)	(6,556)	(3,203)	(3,413)	–	(21,036)
Tax effect of share of results of associates	(2,127)	–	–	–	–	(2,127)
Under(over)provision in prior years	6,823	–	(219)	–	48	6,652
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	–	–	(448)	–	(448)
Others	<u>(4,511)</u>	<u>(893)</u>	<u>1,044</u>	<u>55</u>	<u>126</u>	<u>(4,179)</u>
Taxation charge (credit) for the year	<u>36,123</u>	<u>–</u>	<u>(175)</u>	<u>752</u>	<u>114</u>	<u>36,814</u>

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	Hong Kong	Other regions in the PRC	Malaysia	Australia	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31st March, 2006						
Profit (loss) before taxation	415,885	(8,056)	9,662	4,018	(3,431)	418,078
Applicable income tax rate	17.5%	33%	28%	30%		
Tax at the applicable income tax rate	72,780	(2,659)	2,705	1,205	(1,116)	72,915
Tax effect of expenses not deductible for tax purpose	20,083	1,705	1,245	2,937	1,070	27,040
Tax effect of income not taxable for tax purpose	(411)	–	(981)	–	(255)	(1,647)
Tax effect of tax losses not recognised	4,485	1,501	–	–	–	5,986
Utilisation of tax loss not previously recognised	(8,613)	–	(20)	(4,129)	–	(12,762)
Tax effect of share of results of associates	(1,444)	–	–	–	–	(1,444)
Tax effect of share of results of jointly controlled entity	–	(455)	–	–	–	(455)
Underprovision in prior years	553	464	–	–	–	1,017
Others	(4,989)	(556)	(219)	601	380	(4,783)
Taxation charge for the year	82,444	–	2,730	614	79	85,867

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	Hong Kong	Other regions in the PRC	Malaysia	Australia	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31st March, 2007						
Profit (loss) before taxation	<u>705,246</u>	<u>(48,331)</u>	<u>52,913</u>	<u>24,358</u>	<u>(40,363)</u>	<u>693,823</u>
Applicable income tax rate	17.5%	33%	27%	30%		
Tax at the applicable income tax rate	123,418	(15,949)	14,286	7,307	(4,793)	124,269
Tax effect of expenses not deductible for tax purpose	15,852	14,883	1,495	559	10,697	43,486
Tax effect of income not taxable for tax purpose	(68,231)	(548)	(12,099)	(879)	(6,229)	(87,986)
LAT						
– underprovision in prior years	–	50,000	–	–	–	50,000
– provision in current year	–	10,000	–	–	–	10,000
Tax effect of LAT	–	(19,800)	–	–	–	(19,800)
Tax effect of tax losses not recognised	17,729	21,655	15	–	–	39,399
Utilisation of tax loss not previously recognised	(4,770)	–	–	(5,610)	189	(10,191)
Tax effect of share of results of associates	(5,070)	–	–	–	–	(5,070)
Tax effect of change in tax rate	–	–	248	–	–	248
Tax effect of share of results of jointly controlled entity	263	(241)	–	–	–	22
(Over)underprovision in prior years	15,183	5	3	(454)	(3,237)	11,500
Others	<u>2,670</u>	<u>–</u>	<u>20</u>	<u>(1,378)</u>	<u>205</u>	<u>1,517</u>
Taxation charge (credit) for the year	<u>97,044</u>	<u>60,005</u>	<u>3,968</u>	<u>(455)</u>	<u>(3,168)</u>	<u>157,394</u>

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	Hong Kong	Other regions in the PRC	Malaysia	Australia	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended						
30th September, 2006						
(unaudited)						
Profit (loss) before taxation	<u>123,908</u>	<u>35,466</u>	<u>4,363</u>	<u>14,551</u>	<u>(283)</u>	<u>178,005</u>
Applicable income tax rate	17.5%	33%	28%	30%		
Tax at the applicable income tax rate	21,684	11,704	1,222	4,365	(57)	38,918
Tax effect of expenses not deductible for tax purpose	10,553	2,031	1,145	1,908	1,507	17,144
Tax effect of income not taxable for tax purpose	(13,330)	(9,282)	(21)	–	(1,450)	(24,083)
Tax effect of tax losses not recognised	3,852	–	–	–	–	3,852
Utilisation of tax loss not previously recognised	(1,604)	–	(2,235)	(6,296)	–	(10,135)
Tax effect of share of results of associates	(1,613)	–	–	–	–	(1,613)
Tax effect of change in tax rate	–	–	–	–	–	–
Tax effect of share of results of jointly controlled entity	–	(590)	–	–	–	(590)
(Over)underprovision in prior years	6,275	–	–	(454)	–	5,821
Others	<u>(2,395)</u>	<u>206</u>	<u>(94)</u>	<u>23</u>	<u>–</u>	<u>(2,260)</u>
Taxation charge (credit) for the period	<u>23,422</u>	<u>4,069</u>	<u>17</u>	<u>(454)</u>	<u>–</u>	<u>27,054</u>

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	Hong Kong	Other regions in the PRC	Malaysia	Australia	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended						
30th September, 2007						
Profit (loss) before taxation	<u>157,842</u>	<u>(1,824)</u>	<u>83,459</u>	<u>64,693</u>	<u>92</u>	<u>304,262</u>
Applicable income tax rate	17.5%	33%	27%	30%		
Tax at the applicable income tax rate	27,622	(602)	22,534	19,408	23	68,985
Tax effect of expenses not deductible for tax purpose	23,923	3,935	903	1,812	253	30,826
Tax effect of income not taxable for tax purpose	(11,994)	(576)	(20,811)	(19,925)	(169)	(53,475)
Tax effect of tax losses not recognised	2,800	–	91	–	–	2,891
Utilisation of tax loss not previously recognised	(766)	–	–	(1,172)	(94)	(2,032)
Tax effect of share of results of associates	(1,388)	–	–	–	–	(1,388)
Tax effect of change in tax rate	–	–	–	–	–	–
Tax effect of share of results of jointly controlled entity	–	(2,074)	–	–	–	(2,074)
(Over)underprovision in prior years	3,410	–	4	–	1,831	5,245
Others	<u>3,215</u>	<u>4</u>	<u>(2,574)</u>	<u>(123)</u>	<u>(12)</u>	<u>510</u>
Taxation charge for the period	<u>46,822</u>	<u>687</u>	<u>147</u>	<u>–</u>	<u>1,832</u>	<u>49,488</u>

Details of the deferred taxation are set out in note 44.

10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31st March,			Six months ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Profit for the year/period has been arrived at after charging:					
Amortisation of goodwill on acquisition of associate	582	–	–	–	–
Amortisation of investment in a jointly controlled entity	2,904	2,904	2,904	1,452	1,452
Amortisation of prepaid lease payments	2,009	5,223	6,609	2,675	5,162
Allowance for bad and doubtful debts	12,084	5,009	36,193	–	3,071
Allowance for loans receivable	5,810	11,004	3,088	–	3,900
Allowance for amount due from an associate	16,000	–	51,923	–	–
Auditor's remuneration	2,071	2,850	4,538	352	1,647
Cost of completed properties for sale recognised as an expense	292,418	253,431	290,150	203,812	188,240
Cost of inventories recognised as an expense	21,285	14,659	5,716	1,127	9,675
Depreciation	11,670	20,987	35,884	14,562	27,625
Directors' remuneration and other staff costs	40,930	57,102	108,931	49,130	85,175
Loss on disposal of property, plant and equipment	–	–	16	–	–
Operating lease rentals in respect of motor vehicles	18	–	–	–	–
Share of taxation of associates (included in share of results of associates)	<u>4,240</u>	<u>1,431</u>	<u>69</u>	<u>–</u>	<u>427</u>
and after crediting:					
Dividend income from listed investments	1,262	2,304	4,307	3,078	2,311
Bank interest income	1,448	4,115	4,645	4,516	4,393
Net foreign exchange gains	7,378	484	4,187	1,248	3,910
Share of taxation of associates (included in share of results of associates)	–	–	–	5,304	–
Gain on disposal of property, plant and equipment	37,182	225	–	–	–
Rental income, net of outgoings of HK\$19,685,000, HK\$10,342,000, HK\$11,908,000, HK\$3,774,000 and HK\$4,250,000 for the year ended 31st March 2005, 2006, 2007 and six months ended 30th September, 2006 and 2007 respectively	40,488	36,019	40,950	21,105	28,844
Release of negative goodwill	7,693	–	–	–	–
Gain on disposal of an associate	<u>451</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

11. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the directors of the Company were as follows:

For the year ended 31st March, 2005

	Deacon Te Ken Chiu	Tan Sri Dato' David Chiu	Craig Grenfell Williams	Dennis Chiu	Ching Lan Ju Chiu	Dick Tat Sang Chiu	Daniel Tat Jung Chiu	David Kwok Kwei Lo	Jian Yin Jiang	Datuk Kee Leong Chee	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	25	25	25	25	25	25	25	25	17	25	242
Other emoluments											
Salaries and other benefits	2,040	2,280	1,220	-	500	-	-	-	-	-	6,040
Contributions to retirement benefits scheme	-	12	-	-	5	-	-	-	-	-	17
Total emoluments	<u>2,065</u>	<u>2,317</u>	<u>1,245</u>	<u>25</u>	<u>530</u>	<u>25</u>	<u>25</u>	<u>25</u>	<u>17</u>	<u>25</u>	<u>6,299</u>

For the year ended 31st March, 2006

	Deacon Te Ken Chiu	Tan Sri Dato' David Chiu	Craig Grenfell Williams	Dennis Chiu	Ching Lan Ju Chiu	Dick Tat Sang Chiu	Daniel Tat Jung Chiu	David Kwok Kwei Lo	Jian Yin Jiang	Kwok Wai Chan	Datuk Kee Leong Chee	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
									(note a)	(note b)		
Fees	25	25	25	25	25	25	25	38	25	22	10	270
Other emoluments												
Salaries and other benefits	1,788	2,280	1,437	594	510	-	-	-	-	-	-	6,609
Contributions to retirement benefits schemes	-	12	-	-	-	-	-	-	-	-	-	12
Total emoluments	<u>1,813</u>	<u>2,317</u>	<u>1,462</u>	<u>619</u>	<u>535</u>	<u>25</u>	<u>25</u>	<u>38</u>	<u>25</u>	<u>22</u>	<u>10</u>	<u>6,891</u>

For the year ended 31st March, 2007

	Deacon Te Ken Chiu	Tan Sri Dato' David Chiu	Craig Grenfell Williams	Dennis Chiu	Ching Lan Ju Chiu	Dick Tat Sang Chiu	Daniel Tat Jung Chiu	David Kwok Kwei Lo	Jian Yin Jiang	Kwok Wai Chan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	25	25	25	25	25	25	25	150	25	150	500
Other emoluments											
Salaries and other benefits	2,055	2,530	1,535	557	520	-	-	-	-	-	7,197
Contributions to retirement benefits schemes	-	12	-	-	-	-	-	-	-	-	12
Total emoluments	<u>2,080</u>	<u>2,567</u>	<u>1,560</u>	<u>582</u>	<u>545</u>	<u>25</u>	<u>25</u>	<u>150</u>	<u>25</u>	<u>150</u>	<u>7,709</u>

For the six months ended 30th September, 2006 (unaudited)

	Deacon Te Ken Chiu	Tan Sri Dato David Chiu	Craig Grenfell Williams	Dennis Chiu	Ching Lan Ju Chiu	Dick Tat Sang Chiu	Daniel Tat Jung Chiu	David Kwok Kwei Lo	Jian Yin Jiang	Kwok Wai Chan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	13	13	13	13	13	13	13	75	13	75	254
Other emoluments											
Salaries and other benefits	894	1,140	734	272	255	-	-	-	-	-	3,295
Contributions to retirement benefits schemes	-	6	-	-	-	-	-	-	-	-	6
Total emoluments	907	1,159	747	285	268	13	13	75	13	75	3,555

For the six months ended 30th September, 2007

	Deacon Te Ken Chiu	Tan Sri Dato David Chiu	Craig Grenfell Williams	Dennis Chiu	Ching Lan Ju Chiu	Dick Tat Sang Chiu	Daniel Tat Jung Chiu	David Kwok Kwei Lo	Jian Yin Jiang	Peter Man Kong Wong	Kwok Wai Chan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	13	13	13	13	13	13	13	38	13	62	75	279
Other emoluments												
Salaries and other benefits	1,027	1,270	1,708	291	260	-	-	-	-	-	-	4,556
Contributions to retirement benefits schemes	-	6	-	-	-	-	-	-	-	-	-	6
Total emoluments	1,040	1,289	1,721	304	273	13	13	38	13	62	75	4,841

No directors waived any emoluments for the Relevant Periods.

Notes:

- Mr. Kwok Wai Chan was appointed as a director of the Company on 18th November, 2005.
- Datuk Kee Leong Chee retired as a director of the Company on 19th August, 2005.
- Mr. Peter Man Kong Wong was appointed as a director of the Company on 2nd May, 2007.
- Mr. David Kwok Kwei Lo retired as a director of the Company on 3rd July, 2007.

Of the five individuals with the highest emoluments in the Group, three were directors whose emoluments for the Relevant Period are disclosed above. The remuneration of the remaining two individuals were as follows:

	Year ended 31st March,			Six months ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Salaries and other benefits	1,548	1,526	1,693	742	852
Contributions to retirement benefits scheme	23	24	24	12	12
	1,571	1,550	1,717	754	864

The remuneration of each of the remaining two individuals were less than HK\$1,000,000.

No emolument was paid to the directors and the two highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the Relevant Periods.

12. DIVIDENDS

	Year ended 31st March,			Six months ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
				(unaudited)	
Interim, paid for 2005, 2006 and 2007 at HK3 cents, HK3 cents and HK4 cents per share respectively:					
Cash	23,112	18,418	30,193	–	–
Share alternative under scrip dividend scheme	<u>18,654</u>	<u>24,508</u>	<u>28,003</u>	<u>–</u>	<u>–</u>
	<u>41,766</u>	<u>42,926</u>	<u>58,196</u>	<u>–</u>	<u>–</u>
Final, paid for 2004, 2005, 2006 and 2007 at HK3 cents, HK5 cents, HK6 cents and HK8 cents per share respectively:					
Cash	13,849	40,442	47,354	–	66,574
Share alternative under scrip dividend scheme	<u>21,204</u>	<u>30,487</u>	<u>39,179</u>	<u>–</u>	<u>59,922</u>
	<u>35,053</u>	<u>70,929</u>	<u>86,533</u>	<u>–</u>	<u>126,496</u>
	<u><u>76,819</u></u>	<u><u>113,855</u></u>	<u><u>144,729</u></u>	<u><u>–</u></u>	<u><u>126,496</u></u>

14. INVESTMENT PROPERTIES

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
FAIR VALUE				
At beginning of the year/period	1,064,481	800,955	1,297,427	1,371,722
Exchange adjustments	2,744	3,779	23,240	6,140
Acquired on acquisition of subsidiaries	239,875	–	–	–
Additions	2,015	–	–	–
Disposals	(280,237)	(10,689)	–	–
Transfer (to) from property, plant and equipment	(394,875)	88,642	(8,786)	–
Increase in fair value	<u>166,952</u>	<u>414,740</u>	<u>59,841</u>	<u>4,440</u>
At end of the year/period	<u><u>800,955</u></u>	<u><u>1,297,427</u></u>	<u><u>1,371,722</u></u>	<u><u>1,382,302</u></u>

The carrying amount of investment properties comprises:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Investment properties in Hong Kong:				
Long lease	165,650	205,270	204,485	207,524
Medium-term lease	362,831	814,746	835,746	837,146
Investment properties outside				
Hong Kong:				
Freehold	40,940	40,786	45,731	47,022
Long lease	<u>231,534</u>	<u>236,625</u>	<u>285,760</u>	<u>290,610</u>
	<u><u>800,955</u></u>	<u><u>1,297,427</u></u>	<u><u>1,371,722</u></u>	<u><u>1,382,302</u></u>

The fair values of the investment properties in Hong Kong, Malaysia and Singapore at the respective balance sheet dates have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, Raine & Horne International Zaki + Partners Sdn. Bhd., and Jones Lang LaSalle Property Consultants Pte Limited, independent qualified professional valuers not connected with the Group, respectively. They have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Buildings HK\$'000	Buildings under development HK\$'000	Hotel properties HK\$'000	Hotel properties under development HK\$'000	Others HK\$'000	Total HK\$'000
COST							
At 1st April, 2004	125,596	72,029	4,128	426,859	17,944	57,070	703,626
Exchange adjustments	-	(706)	-	(1,601)	-	(227)	(2,534)
Additions	-	99	1,976	76,946	52,267	7,686	138,974
Transfer from investment properties	-	-	-	117,958	276,917	-	394,875
Transfer from properties under development	-	-	-	74,712	-	-	74,712
Disposals	-	-	-	(110,483)	-	(3,971)	(114,454)
At 31st March, 2005	125,596	71,422	6,104	584,391	347,128	60,558	1,195,199
Exchange adjustments	-	2,117	-	1,042	-	692	3,851
Additions	-	-	12,977	42,669	98,500	14,812	168,958
Transfer to investment properties	-	-	-	-	(79,881)	-	(79,881)
Reclassification	-	-	-	259,770	(259,770)	-	-
Disposals	-	(303)	-	-	-	(818)	(1,121)
At 31st March, 2006	125,596	73,236	19,081	887,872	105,977	75,244	1,287,006
Exchange adjustments	4,148	2,628	-	18,353	-	2,772	27,901
Additions	-	-	67,428	51,166	43,121	9,694	171,409
Acquired through business combinations	53,033	-	-	599,016	-	9,039	661,088
Transfer from investment properties	-	8,786	-	-	-	-	8,786
Reclassification	-	-	-	125,359	(125,359)	-	-
Disposals	-	-	-	-	-	(1,970)	(1,970)
At 31st March, 2007	182,777	84,650	86,509	1,681,766	23,739	94,779	2,154,220
Exchange adjustments	(5)	2,105	-	302	-	453	2,855
Additions	-	-	13,833	-	15,818	7,576	37,227
Acquired through business combinations	-	-	-	104,000	-	4,528	108,528
Disposals	-	-	-	-	-	(792)	(792)
At 30th September, 2007	182,772	86,755	100,342	1,786,068	39,557	106,544	2,302,038

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	Freehold land HK\$'000	Buildings HK\$'000	Buildings under development HK\$'000	Hotel properties HK\$'000	Hotel properties under development HK\$'000	Others HK\$'000	Total HK\$'000
DEPRECIATION							
At 1st April, 2004	-	6,846	-	-	-	40,515	47,361
Exchange adjustments	-	(133)	-	-	-	(446)	(579)
Provided for the year	-	3,812	-	3,933	-	3,925	11,670
Eliminated on disposals	-	-	-	-	-	(3,391)	(3,391)
At 31st March, 2005	-	10,525	-	3,933	-	40,603	55,061
Exchange adjustments	-	435	-	358	-	537	1,330
Provided for the year	-	3,162	-	13,280	-	4,545	20,987
Eliminated on disposals	-	(58)	-	-	-	(818)	(876)
At 31st March, 2006	-	14,064	-	17,571	-	44,867	76,502
Exchange adjustments	-	749	-	548	-	1,698	2,995
Provided for the year	-	3,287	-	25,546	-	7,051	35,884
Eliminated on disposals	-	-	-	-	-	(1,824)	(1,824)
At 31st March, 2007	-	18,100	-	43,665	-	51,792	113,557
Exchange adjustments	-	1,619	-	17	-	387	2,023
Provided for the period	-	1,686	-	20,736	-	5,203	27,625
Eliminated on disposals	-	-	-	-	-	(614)	(614)
At 30th September, 2007	-	21,405	-	64,418	-	56,768	142,591
CARRYING VALUES							
At 31st March, 2005	<u>125,596</u>	<u>60,897</u>	<u>6,104</u>	<u>580,458</u>	<u>347,128</u>	<u>19,955</u>	<u>1,140,138</u>
At 31st March, 2006	<u>125,596</u>	<u>59,172</u>	<u>19,081</u>	<u>870,301</u>	<u>105,977</u>	<u>30,377</u>	<u>1,210,504</u>
At 31st March, 2007	<u>182,777</u>	<u>66,550</u>	<u>86,509</u>	<u>1,638,101</u>	<u>23,739</u>	<u>42,987</u>	<u>2,040,663</u>
At 30th September, 2007	<u>182,772</u>	<u>65,350</u>	<u>100,342</u>	<u>1,721,650</u>	<u>39,557</u>	<u>49,776</u>	<u>2,159,447</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings on:

Freehold land or land held under long lease	2%
Land held under medium-term lease	Shorter of lease terms or 50 years
Other assets	10% – 20%

No depreciation is provided in respect of freehold land.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

The Group's property interests shown above comprises:

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties in Hong Kong:				
Long lease	13,885	13,843	45,084	58,942
Medium-term lease	788,243	834,358	1,306,416	1,304,454
Properties outside Hong Kong:				
Freehold	274,585	274,686	586,105	578,243
Long lease	–	–	–	108,528
Medium-term lease	43,470	57,240	60,071	59,504
	<u>1,120,183</u>	<u>1,180,127</u>	<u>1,997,676</u>	<u>2,109,671</u>

Included in the carrying values of other assets is an amount of HK\$871,000, HK\$653,000, HK\$2,584,000 and HK\$1,837,000 in respect of assets held under finance leases as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively.

16. PREPAID LEASE PAYMENTS

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group's prepaid lease payments comprise:				
Leasehold land in Hong Kong:				
Medium-term lease	294,182	370,933	680,842	805,174
Leasehold land outside Hong Kong:				
Medium-term lease	13,244	12,271	11,298	10,770
Long lease	–	–	–	28,272
	<u>307,426</u>	<u>383,204</u>	<u>692,140</u>	<u>844,216</u>
Analysed for reporting purposes as:				
Current asset	7,468	8,239	11,904	12,449
Non-current asset	299,958	374,965	680,236	831,767
	<u>307,426</u>	<u>383,204</u>	<u>692,140</u>	<u>844,216</u>

17. INTERESTS IN ASSOCIATES

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Unlisted investments, at cost	86,761	86,761	86,761	86,761
Share of post-acquisition reserves, net of dividends received	<u>57,525</u>	<u>54,933</u>	<u>78,333</u>	<u>77,881</u>
	<u>144,286</u>	<u>141,694</u>	<u>165,094</u>	<u>164,642</u>

Details of the Group's principal associates as at the date of this report are set out in Section III.

Included in the cost of investments in associates is goodwill of HK\$10,601,000 arising on acquisitions of associates in prior years as at respective balance sheet dates.

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

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Total assets	943,588	961,860	1,067,163	1,068,834
Total liabilities	<u>(623,025)</u>	<u>(646,525)</u>	<u>(671,236)</u>	<u>(672,669)</u>
	<u>320,563</u>	<u>315,335</u>	<u>395,927</u>	<u>396,165</u>
Group's share of net assets	<u>133,685</u>	<u>131,093</u>	<u>154,493</u>	<u>154,041</u>

	Year ended 31st March,			Six month
	2005	2006	2007	ended 30th
	HK\$'000	HK\$'000	HK\$'000	September,
				2007
				HK\$'000
Revenue	<u>349,095</u>	<u>347,935</u>	<u>404,036</u>	<u>199,712</u>
Profit for the year/period	<u>91,966</u>	<u>34,759</u>	<u>95,757</u>	<u>39,070</u>
Group's share of results of associates for the year/period	<u>12,154</u>	<u>6,818</u>	<u>28,970</u>	<u>7,934</u>

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of losses of those associates, extracted from the relevant management accounts of associates, are as follows:

	Year ended 31st March,			Six month ended 30th September, 2007
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	HK\$'000
Unrecognised share of losses of associates for the year/period	<u>136</u>	<u>24</u>	<u>23</u>	<u>14</u>
	At 31st March,			At 30th September, 2007
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	HK\$'000
Accumulated unrecognised share of losses of associates	<u>50,077</u>	<u>50,101</u>	<u>50,124</u>	<u>50,138</u>

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	At 31st March,			At 30th September, 2007
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	HK\$'000
Unlisted investments, at cost less amortisation	47,968	45,064	42,160	40,708
Share of post-acquisition reserves net of dividends received	<u>25,270</u>	<u>29,553</u>	<u>31,686</u>	<u>39,423</u>
	<u>73,238</u>	<u>74,617</u>	<u>73,846</u>	<u>80,131</u>

Details of the Group's jointly controlled entities at the date of this report are as follows:

Name of entity	Country of registration and operations	Proportion of nominal value of registered/ ordinary share capital held by the Group	Principal activities
商丘永遠公路有限公司 Shangqiu Yongyuan Development Company Limited	PRC	68%	Construction and operation of highway
Dorvic Hotel F & B Limited	Hong Kong	60%	Restaurant operations

Although the Group holds more than 50% of the equity interests in the above entities, they are classified as jointly controlled entities as under the respective joint venture agreements, all the operating and financial decisions have to be jointly approved by the Group and the joint venture partners.

Under a joint venture agreement with a PRC party, the Group is required to contribute 68% of total capital in Shangqiu Yongyuan Development Company Limited, an equity joint venture company established for the construction and operation of highway for a term of 21 years commencing from 31st July, 1997. Upon the completion of the construction work, the Group is entitled to 85% of the profits of the joint venture until the Group has received dividends to an amount equivalent to its contributions. Thereafter, the Group is entitled to 25% of the profits whereas the joint venture partner is entitled to the remaining 75% until it has effectively received dividends equivalent to all its contributions for the relevant highway at an agreed valuation. Thereafter the Group and the joint venture partner will share the profits of the jointly controlled entity in proportion to their respective contribution. At the end of the 21 years, the joint venture will be dissolved and the Group's interest in the joint venture will be surrendered to the joint venture partner. Therefore, the Group's investment cost in the jointly controlled entity of HK\$60,990,000 is amortised annually over the joint venture period. The Group's share of profit of the joint venture entity for the years ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007 are HK\$2,112,000, HK\$4,283,000, HK\$2,133,000 and HK\$7,737,000 respectively.

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Total assets	131,094	134,604	104,470	111,188
Total liabilities	(6,779)	(6,151)	(7,266)	(12,967)
	<u>124,315</u>	<u>128,453</u>	<u>97,204</u>	<u>98,221</u>
Group's share of net assets	<u>2,583</u>	<u>6,866</u>	<u>8,999</u>	<u>16,736</u>
	Year ended 31st March,			Six month
	2005	2006	2007	ended 30th
	HK\$'000	HK\$'000	HK\$'000	September,
				2007
				HK\$'000
Revenue	11,705	8,206	37,324	27,165
Expenses	(9,220)	(3,168)	(35,549)	(25,286)
Profit for the year/period	<u>2,485</u>	<u>5,038</u>	<u>1,775</u>	<u>1,879</u>
Group's share of results of jointly controlled entities for the year/period	<u>2,112</u>	<u>4,283</u>	<u>2,133</u>	<u>7,737</u>

19. INVESTMENTS IN SECURITIES

Investments in securities as at 31st March, 2005 are set out below.

	Trading securities <i>HK\$'000</i>	Non-trading securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Equity securities:			
Listed – Hong Kong	13,784	64,819	78,603
Listed – Overseas	7,256	102,403	109,659
Unlisted	–	69,549	69,549
	<u>21,040</u>	<u>236,771</u>	<u>257,811</u>
Debt securities:			
Unlisted	–	83,094	83,094
Equity-linked notes:			
Unlisted	–	340,836	340,836
Quoted fund:			
Unlisted	–	217,558	217,558
	<u>21,040</u>	<u>878,259</u>	<u>899,299</u>
Market value of listed securities	<u>21,040</u>	<u>167,222</u>	<u>188,262</u>
Carrying amount analysed for reporting purposes as:			
Non-current	–	452,805	452,805
Current	21,040	425,454	446,494
	<u>21,040</u>	<u>878,259</u>	<u>899,299</u>

Upon the application of HKAS 39 on 1st April, 2005, investments in securities were reclassified to appropriate categories under HKAS 39 as follows:

	<i>HK\$'000</i>
Investments held for trading	21,040
Financial assets at fair value through profit or loss	340,836
Available-for-sale investments	<u>537,423</u>
	<u>899,299</u>

20. INVESTMENTS HELD FOR TRADING

	At 31st March, 2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	At 30th September, 2007 <i>HK\$'000</i>
Listed equity investments at fair value:			
In Hong Kong	7,724	24,428	79,697
Overseas	–	26,336	15,322
	<u>7,724</u>	<u>50,764</u>	<u>95,019</u>

21. AVAILABLE-FOR-SALE INVESTMENTS

	At 31st March,		At 30th
	2006	2007	September,
	HK\$'000	HK\$'000	2007
			HK\$'000
Listed equity investments:			
In Hong Kong	164,947	91,834	93,009
Overseas	304,782	98,863	65,579
	<u>469,729</u>	<u>190,697</u>	<u>158,588</u>
Unlisted investments:			
Equity securities (<i>Note</i>)	69,194	26	–
Debt securities with fixed interest rates	93,400	70,166	5,434
Quoted fund	70,046	156,015	105,638
	<u>232,640</u>	<u>226,207</u>	<u>111,072</u>
	<u>702,369</u>	<u>416,904</u>	<u>269,660</u>
Analysed for reporting purposes as:			
Non-current assets	598,758	245,289	124,718
Current assets	103,611	171,615	144,942
	<u>702,369</u>	<u>416,904</u>	<u>269,660</u>

All available-for-sale investments are stated at fair value, except that the unlisted equity securities were measured at cost less impairment as the directors were of the opinion that the range of reasonable fair value estimates is so significant that their fair values could not be measured reliably.

Note: The amount at 31st March, 2006 represented an 5% equity investment in the contributed capital of Hudson Waterfront Associates, L. P. (“Hudson”), a limited partnership established in the United States of America. Hudson is an investment vehicle principally engaged in property development and investment in the New York City, the USA. During the year ended 31st March, 2007, this investment was sold through disposal of a subsidiary, Shelborn Enterprises, Inc. (see note 47).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The amount represents investments in unlisted equity-linked notes with conversion option which is not closely related to the host contract and are measured at fair value.

Equity-linked notes are classified into the current and non-current portions based on the respective maturity dates of the notes.

23. AMOUNTS DUE FROM ASSOCIATES

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Unsecured and interest free advances to associates, net of allowance	132,218	132,996	80,873	80,803
Less: Amount due within one year shown as current assets	<u>(3,040)</u>	<u>(3,437)</u>	<u>(2,331)</u>	<u>(1,343)</u>
Amount due after one year	<u>129,178</u>	<u>129,559</u>	<u>78,542</u>	<u>79,460</u>

The amount is unsecured, interest free and the Group will not demand repayment within next twelve months from the respective balance sheet dates, except for HK\$3,040,000, HK\$3,437,000, HK\$2,331,000 and HK\$1,343,000 which are repayable on demand at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively.

Movement in the allowance for doubtful debt

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Balance at beginning of the year/period	–	16,000	16,000	–
Impairment losses recognised on receivable	16,000	–	51,923	–
Amounts written off as uncollectible	<u>–</u>	<u>–</u>	<u>(67,923)</u>	<u>–</u>
Balance at end of the year/period	<u>16,000</u>	<u>16,000</u>	<u>–</u>	<u>–</u>

In determining the recoverability of amounts due from associates, the Group have assessed the underlying assets held by the associates. As the assets held are not able to generate positive cashflow in the future, and accordingly the impairment loss has been recognised.

24. AMOUNT DUE FROM AN INVESTEE COMPANY

The amount is unsecured and interest free. The Group will not demand repayment within next twelve months from the respective balance sheet dates and, accordingly, the amount is shown as non-current.

25. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount is unsecured and interest free. The Group will not demand repayment within next twelve months from the respective balance sheet dates and, accordingly, the amount is shown as non-current.

26. LOANS RECEIVABLE

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Secured loans receivable at commercial interest rates	366,743	420,936	8,502	4,178
Less: Amount due within one year shown as current assets	(2,576)	(3,679)	(1,022)	(844)
Amount due after one year	<u>364,167</u>	<u>417,257</u>	<u>7,480</u>	<u>3,334</u>

The loans receivables are secured by certain properties of the borrowers. Loans receivables of HK\$28,177,000, HK\$12,192,000, HK\$8,502,000 and HK\$4,178,000 as at 31st March, 2005, 2006, 2007 and 30th September, 2007 carry interest at 5.88%, 7.63%, 7.75% and 7.73% while the remaining balances carry effective interest rate at 12.88%, 14.38%, 15.01% and 15.23% for the respective year.

Aging of past due but not impaired

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
31 – 60 days	–	481	79	11
61 – 90 days	468	1,126	33	5
Over 90 days	942	380	1,850	1,208
	<u>1,410</u>	<u>1,987</u>	<u>1,962</u>	<u>1,224</u>

Movements in the allowance for doubtful debt

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Balance at beginning of the year/period	164,872	170,299	181,303	19,914
Impairment losses recognised on receivable	6,113	11,004	3,970	3,900
Amounts written off as uncollectible	(383)	–	(107,034)	–
Amounts recovered during the year/period	(303)	–	(58,325)	–
Balance at end of the year/period	<u>170,299</u>	<u>181,303</u>	<u>19,914</u>	<u>23,814</u>

In determining the recoverability of a loan receivable, the Group considers any change in the credit quality of the loans receivable from the date credit was initially granted up to the reporting date. The concentration of risk is limited due to the loans receivables are secured by certain properties of the borrowers, and the directors believe that there is no further credit provision required in excess of allowance for doubtful debts.

27. INVENTORIES

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Raw materials	345	392	282	10
Work in progress	346	612	–	–
Finished goods	203	577	987	1,462
	<u>894</u>	<u>1,581</u>	<u>1,269</u>	<u>1,472</u>

28. PROPERTIES UNDER DEVELOPMENT FOR SALE

Included in properties under development for sale as at 31st March, 2005, 2006, 2007 and 30th September, 2007 are properties with a carrying value of HK\$254,453,000, HK\$876,264,000, HK\$662,564,000 and HK\$765,457,847 respectively, which represent the carrying value of properties not expected to be realised within twelve months from the balance sheet date.

29. DERIVATIVE FINANCIAL INSTRUMENTS

The amount represents call/put options on overseas listed equity securities, with maturity dates ranging from three months to one year, and were measured at fair value at each balance sheet date.

30. DEBTORS, DEPOSITS AND PREPAYMENTS

The debtors, deposits and prepayments include trade debtors of HK\$43,300,000, HK\$26,624,000, HK\$56,191,000 and HK\$49,202,000 as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively. The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet dates:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
0 – 60 days	34,236	24,094	48,081	34,881
61 – 90 days	287	931	2,062	2,564
Over 90 days	8,777	1,599	6,048	11,757
	<u>43,300</u>	<u>26,624</u>	<u>56,191</u>	<u>49,202</u>

Included in debtors, deposits and prepayments is amount due from a minority shareholder of HK\$45,877,000, HK\$41,658,000, HK\$681,000 and HK\$829,000 as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively which is unsecured, interest free and repayable on demand.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. The Group does not hold any collateral over these balances.

Aging of past due but not impaired

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
61 – 90 days	208	709	350	1,054
Over 90 days	2,077	1,518	3,806	5,436
	<u>2,285</u>	<u>2,227</u>	<u>4,156</u>	<u>6,490</u>

Movements in the allowance for doubtful debt

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Balance at beginning of the year/ period	21,953	33,721	33,275	69,165
Impairment loss recognised on receivables	12,084	5,009	36,193	3,071
Amounts written off as uncollectible	(316)	(5,455)	(303)	–
Balance at end of the year/period	<u>33,721</u>	<u>33,275</u>	<u>69,165</u>	<u>72,236</u>

31. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest free and repayable on demand.

32. PLEDGED BANK DEPOSITS, DEPOSITS WITH INVESTMENT BANKS AND BANK BALANCES AND CASH

Pledged bank deposits included in non-current assets were time deposits carried fixed interest rates ranging from 0.05% to 2.46%, 0.7% to 4.49% and 0.02% to 5.21% respectively with the maturity dates ranging from 1 to 6 months as at 31st March, 2005, 2006 and 2007 respectively. They are pledged to secure bank borrowings repayable after one year.

Pledged bank deposits included in current assets were time deposits carried at fixed interest rates ranging from 0.05% to 2.46%, 0.7% to 4.49%, 0.02% to 5.21% and 0.64% to 5.83% respectively with the maturity dates ranging from 1 to 6 months as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively. They were pledged to secure bank borrowings repayable within one year.

Deposits with investment banks comprised time deposits with the maturity dates ranging from 1 to 6 months carried fixed interest rate ranging from of 6% to 6.75%, 2.83% to 8.6%, 2.25% to 5.2% and 0.32% to 5.4% as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively.

Bank balances and cash comprised time deposits of HK\$158,119,000, HK\$96,635,000, HK\$148,990,000 and HK\$132,958,000 carried fixed interest rate ranging from 1.23% to 2.29%, 1.35% to 4.58%, 2.5% to 5.14% and 1.82% to 5.67% as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively. For other deposits of HK\$203,506,000, HK\$17,946,000, HK\$115,034,000 and HK\$201,553,000 carried at floating average market interest rate of 0.1%, 0.3%, 2.5% and 2.75% as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively.

33. CREDITORS AND ACCRUALS

The creditors and accruals include trade creditors of HK\$76,931,000, HK\$109,911,000, HK\$292,260,000 and HK\$191,766,000 as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively.

The following is an aged analysis of trade creditors at the balance sheet dates:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
0 – 60 days	52,344	87,724	123,890	29,702
61 – 90 days	867	995	5,959	3,210
Over 90 days	23,720	21,192	162,411	158,854
	<u>76,931</u>	<u>109,911</u>	<u>292,260</u>	<u>191,766</u>

34. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, repayable on demand and interest free except for interest bearing balances of HK\$7,797,000, HK\$7,797,000, HK\$3,726,000 carried interest at 5% per annum as at 31st March, 2005, 2006, 2007. The interest bearing balances were fully repaid during the six months period ended 30th September, 2007.

35. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest free and repayable on demand. Certain directors have beneficial interests in these companies.

36. AMOUNTS DUE TO ASSOCIATES AND MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and repayable on demand.

37. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31st March,		At 30th
	2006	2007	September,
	HK\$'000	HK\$'000	2007
			HK\$'000
Convertible bonds denominated in:			
– Hong Kong dollars (<i>note i</i>)	905,280	836,388	490,047
– United States dollars (<i>note ii</i>)	<u>9,689</u>	<u>1,948</u>	<u>1,948</u>
	<u>914,969</u>	<u>838,336</u>	<u>491,995</u>

- (i) In December 2004, the Company issued zero coupon convertible bonds with a principal amount of HK\$754,000,000 (the “HK\$ Bonds”). The holders of the HK\$ Bonds are entitled to convert the convertible bonds into ordinary shares of the Company at an initial conversion price of HK\$4.10 (subsequently adjusted to HK\$3) per share, during the period from 11th January, 2005 to 10th November, 2009, or to require the Company to redeem all or some of the HK\$ Bonds on 10th December, 2006 at 104.58% of their principal amount. The Company may redeem all but not some of the HK\$ Bonds on or at any time after 10th June, 2005 and prior to 10th December, 2009, subject to certain conditions. Unless previously redeemed, converted or purchased and cancelled, the HK\$ Bonds will be redeemed at 111.84% of their principal amount on 10th December, 2009. The HK\$ Bonds are listed on the Stock Exchange.

During the year ended 31st March, 2005, 2006 and 2007, no conversion rights were exercised by the holders of the HK\$ Bonds. During the six months ended 30th September, 2007, principal amount of HK\$344,720,000 of the HK\$ Bonds was converted into ordinary shares of the Company.

- (ii) In April 2004, the Company issued zero coupon convertible bonds with a principal amount of US\$66,989,000 (the "US\$ Bonds"). The holders of the US\$ Bonds are entitled to convert the convertible bonds into ordinary shares of the Company at an initial conversion price of HK\$2.25 (subsequently adjusted to HK\$2.02) per share during the period from 13th May, 2004 to 14th March, 2009, or to require the Company to redeem all or some of the US\$ Bonds on 13th April, 2006 at 102.01% of their principal amount. The Company may redeem all but not some of the US\$ Bonds, on or at any time after 13th April, 2006 and prior to 13th April, 2009, subject to certain conditions. Unless previously redeemed, converted or purchased and cancelled, the US\$ Bonds will be redeemed at 105.10% of their principal amount on 13th April, 2009. The US\$ Bonds are listed on the Stock Exchange.

During the year ended 31st March, 2005, 2006 and 2007, an aggregate principal amount of US\$63,839,000, US\$1,900,000 and US\$1,000,000 (equivalent to approximately HK\$497,453,000, HK\$14,805,000 and HK\$7,793,000) of the US\$ Bonds were converted into ordinary shares of the Company respectively. No conversion rights were exercised by the holders of US\$ Bonds during the six months ended 30th September, 2007.

38. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments				Present value of minimum lease payments			
	At 31st March,		At 30th September,		At 31st March,		At 30th September,	
	2005	2006	2007	2007	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:								
Within one year	295	374	785	886	268	352	766	816
In the second to fifth year inclusive	499	735	1,071	971	458	716	1,070	934
	794	1,109	1,856	1,857	726	1,068	1,836	1,750
Less: Future finance charges	(68)	(41)	(20)	(107)	-	-	-	-
Present value of lease obligations	<u>726</u>	<u>1,068</u>	<u>1,836</u>	<u>1,750</u>	726	1,068	1,836	1,750
Less: Amount due within one year shown under current liabilities					(268)	(352)	(766)	(816)
Amount due after one year					<u>458</u>	<u>716</u>	<u>1,070</u>	<u>934</u>

It is the Group's policy to lease certain of its motor vehicles, fixtures and equipment under finance leases. The lease terms range from 1 to 3 years. The average effective borrowing rates range from 3% to 8% per annum during the Relevant Periods. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's financial lease obligations, determined based on the present value of the estimated future cash flow discounted using the prevailing market rate at the balance sheet date approximates to their carrying amount.

39. CONVERTIBLE BONDS

	At 31st March, 2005 <i>HK\$'000</i>
US\$3,150,000 zero coupon convertible bonds due 2009	24,538
HK\$754,400,000 zero coupon convertible bonds due 2009	<u>754,400</u>
	778,938
Add: Premium payable upon final redemption of the convertible bonds	<u>4,460</u>
	783,398
Less: Unamortised deferred expenditure (<i>note</i>)	<u>(18,264)</u>
	<u><u>765,134</u></u>

Note: Deferred expenditure represents expenditure incurred in connection with the issue of the convertible bonds and is analysed as follows:

	<i>HK\$'000</i>
COST	
Expenditure incurred during the year	35,253
Write off on conversion of convertible bonds	<u>(14,175)</u>
At 31st March, 2005	21,078
AMORTISATION	
Charged for the year and at 31st March, 2005	<u>2,814</u>
UNAMORTISED AMOUNT	
At 31st March, 2005	<u><u>18,264</u></u>

Pursuant to the application of HKAS 39, the convertible bonds were designated and reclassified as financial liabilities at fair value through profit or loss as referred to in note 37 on 1st April, 2005.

40. BANK AND OTHER BORROWINGS

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The borrowings comprise:				
Bank loans	1,487,272	1,622,087	1,866,801	2,341,673
Mortgage loans	142,348	348,440	456,282	3,960
Other loans	59,000	11,478	313,408	419,784
	<u>1,688,620</u>	<u>1,982,005</u>	<u>2,636,491</u>	<u>2,765,417</u>
Analysed as:				
Secured	1,602,454	1,970,527	2,636,491	2,765,417
Unsecured	86,166	11,478	–	–
	<u>1,688,620</u>	<u>1,982,005</u>	<u>2,636,491</u>	<u>2,765,417</u>

The Group's bank borrowings and mortgage loans are on a floating rate basis which carry interest at prevailing market rates. The range of effective interest rates on the Group's bank borrowings are 1% to 4.9%, 2.75% to 7%, 4.64% to 7.25% and 4.89% to 7% for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007 respectively.

The other loans are secured and bear floating interest rate range from 5%, 5%, 5.6% to 5.85% and 4.6% to 5.85% per annum for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007 respectively.

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The above borrowings are repayable as follows:				
On demand or within one year	612,102	999,925	1,233,225	1,434,170
More than one year, but not exceeding two years	197,337	189,767	307,130	221,266
More than two years, but not exceeding three years	273,209	97,424	224,646	311,089
More than three years, but not exceeding four years	100,609	170,824	107,052	198,702
More than four years, but not exceeding five years	140,359	288,577	206,583	136,183
More than five years	365,004	235,488	557,855	464,007
	1,688,620	1,982,005	2,636,491	2,765,417
Less: Amount due within one year shown under current liabilities	<u>(612,102)</u>	<u>(999,925)</u>	<u>(1,233,225)</u>	<u>(1,434,170)</u>
Amount due after one year	<u>1,076,518</u>	<u>982,080</u>	<u>1,403,266</u>	<u>1,331,247</u>

41. SHARE CAPITAL

	Number of shares				Share capital			
	At 31st March,		At 30th September,		At 31st March,			At 30th September
	2005	2006	2007	2007	2005	2006	2007	2007
					HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each								
Authorised:								
At beginning of year	1,500,000,000	2,000,000,000	2,000,000,000	2,000,000,000	150,000	200,000	200,000	200,000
Increase on 12th October, 2004	500,000,000	—	—	—	50,000	—	—	—
At end of year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:								
At beginning of year	1,168,457,601	1,414,262,017	1,441,087,989	1,467,608,319	116,846	141,426	144,108	146,761
Issued pursuant to scrip dividend schemes	19,165,231	18,064,519	20,011,957	18,677,554	1,916	1,806	2,002	1,868
Issued upon conversion of convertible bonds	226,139,185	6,791,453	3,728,373	112,286,644	22,614	679	373	11,229
Issued upon exercise of share options	500,000	1,970,000	2,780,000	1,300,000	50	197	278	130
At end of year	<u>1,414,262,017</u>	<u>1,441,087,989</u>	<u>1,467,608,319</u>	<u>1,599,872,517</u>	<u>141,426</u>	<u>144,108</u>	<u>146,761</u>	<u>159,988</u>

Changes in the issued share capital of the Company during the Relevant Periods are as follows:

- (a) On 30th September, 2004 and 21st February, 2005, the Company issued and allotted a total of 12,864,461 and 6,300,770 shares of HK\$0.10 each in the Company at HK\$1.648 and HK\$2.96 per share to the shareholders who elected to receive shares in the Company for the 2004 final dividends and 2005 interim dividends pursuant to the scrip dividend scheme announced by the Company on 15th July, 2004 and 9th December, 2004, respectively.

On 14th September, 2005 and 6th March, 2006, the Company issued and allotted 9,153,769 and 8,910,750 shares of HK\$0.10 each in the Company at HK\$3.33 and HK\$2.75 per share to the shareholders who elected to receive shares in the Company for the 2005 final dividends and 2006 interim dividends pursuant to the scrip dividend scheme announced by the Company on 30th September, 2004 and 21st February, 2005, respectively.

On 25th September, 2006 and 8th February, 2007, the Company issued and allotted a total of 11,943,420 and 8,068,537 shares of HK\$0.10 each in the Company at HK\$3.28 and HK\$3.47 per share to the shareholders who elected to receive shares in the Company for the 2006 final dividends and 2007 interim dividends pursuant to the scrip dividend scheme announced by the Company on 12th September, 2006 and 22nd January, 2007, respectively.

During the six months ended 30th September, 2007, the Company issued and allotted 18,677,554 shares of HK\$0.10 each in the Company at HK\$3.22 per share to the shareholders who elected to receive shares in the Company for the 2007 final dividends pursuant to the scrip dividend scheme announced by the Company on 24th August, 2007.

- (b) During the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007, the Company issued and allotted a total of 226,139,185, 6,791,453, 3,728,373 and 112,286,644 shares of HK\$0.10 each respectively in the Company upon the conversion of convertible bonds as referred to in note 37 respectively.

- (c) During the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007, 500,000, 1,970,000, 2,780,000 and 1,300,000 shares of HK\$0.10 each in the Company were issued upon the exercise of share options at a subscription price of HK\$2.075 per share respectively.

All the shares issued during the Relevant Periods rank *pari passu* in all respects with the then existing shares.

During the Relevant Periods, neither of the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

42. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 28th August, 2002 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive directors) and business consultants, agents and legal or financial advisers who will contribute or have contributed to the Company or any of its subsidiaries. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The number of shares which remained outstanding under the Share Option Scheme was 30,000,000, 28,030,000, 27,500,000 and 26,200,000 as at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively, representing 2.12%, 1.95%, 1.87% and 1.64% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted will be taken up upon payment of HK\$1 per option. Options may be exercised at any time not exceeding a period of 10 years from the date on which the share options is accepted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Options granted during the Relevant Periods can only be exercised upon completion of the requisite service period. Details of share options, which were granted on 21st October, 2004 at an initial exercise price at HK\$2.075 per share and on 25th August, 2006 at an initial exercise at HK\$3.290 per share, are as follows:

Options granted on 21st October, 2004

Option type	Vesting period	Exercisable period	Exercise price HK\$
Tranche 1	21.10.2004 to 31.10.2004	1.11.2004 to 31.12.2010	2.075
Tranche 2	21.10.2004 to 31.12.2005	1.1.2006 to 31.12.2010	2.075
Tranche 3	21.10.2004 to 31.12.2006	1.1.2007 to 31.12.2010	2.075
Tranche 4	21.10.2004 to 31.12.2007	1.1.2008 to 31.12.2010	2.075
Tranche 5	21.10.2004 to 31.12.2008	1.1.2009 to 31.12.2010	2.075

Options granted on 25th August, 2006

Option type	Vesting period	Exercisable period	Exercise price HK\$
Tranche 1	25.8.2006 to 31.8.2006	1.9.2006 to 31.12.2010	3.290
Tranche 2	25.8.2006 to 31.12.2006	1.1.2007 to 31.12.2010	3.290
Tranche 3	25.8.2006 to 31.12.2007	1.1.2008 to 31.12.2010	3.290
Tranche 4	25.8.2006 to 31.12.2008	1.1.2009 to 31.12.2010	3.290
Tranche 5	25.8.2006 to 31.12.2009	1.1.2010 to 31.12.2010	3.290

The movements in the options during the Relevant Periods are as follows:

Category of grantee	At 1.4.2004	Granted during the year	Exercised during the year	At 31.3.2005	Exercised during the year	At 31.3.2006	Granted during the year	Exercised during the year	Forfeited during the year	At 31.3.2007	Exercised during the period	At 30.9.2007	Exercisable period	Exercise price
Denny Chan Chi Hing	-	1,200,000	-	1,200,000	(600,000)	600,000	-	(600,000)	-	-	-	-	1.11.2004 to 31.12.2010	2,075
	-	1,400,000	-	1,400,000	-	1,400,000	-	(400,000)	-	1,000,000	(600,000)	400,000	1.1.2006 to 31.12.2010	2,075
	-	1,600,000	-	1,600,000	-	1,600,000	-	-	-	1,600,000	-	1,600,000	1.1.2007 to 31.12.2010	2,075
	-	1,800,000	-	1,800,000	-	1,800,000	-	-	-	1,800,000	-	1,800,000	1.1.2008 to 31.12.2010	2,075
	-	2,000,000	-	2,000,000	-	2,000,000	-	-	-	2,000,000	-	2,000,000	1.1.2009 to 31.12.2010	2,075
	-	8,000,000	-	8,000,000	(600,000)	7,400,000	-	(1,000,000)	-	6,400,000	(600,000)	5,800,000		
Bill Kwai Pui Mok	-	1,200,000	-	1,200,000	-	1,200,000	-	-	-	1,200,000	-	1,200,000	1.4.2005 to 31.12.2010	2,075
	-	1,400,000	-	1,400,000	-	1,400,000	-	-	-	1,400,000	-	1,400,000	1.1.2006 to 31.12.2010	2,075
	-	1,600,000	-	1,600,000	-	1,600,000	-	-	-	1,600,000	-	1,600,000	1.1.2007 to 31.12.2010	2,075
	-	1,800,000	-	1,800,000	-	1,800,000	-	-	-	1,800,000	-	1,800,000	1.1.2008 to 31.12.2010	2,075
	-	2,000,000	-	2,000,000	-	2,000,000	-	-	-	2,000,000	-	2,000,000	1.1.2009 to 31.12.2010	2,075
	-	8,000,000	-	8,000,000	-	8,000,000	-	-	-	8,000,000	-	8,000,000		
Other employee in aggregate	-	1,650,000	(500,000)	1,150,000	(650,000)	500,000	-	(250,000)	-	250,000	-	250,000	1.11.2004 to 31.12.2010	2,075
	-	100,000	-	100,000	(100,000)	-	-	-	-	-	-	-	1.1.2005 to 31.12.2010	2,075
	-	2,325,000	-	2,325,000	(620,000)	1,705,000	-	(830,000)	-	875,000	(300,000)	575,000	1.1.2006 to 31.12.2010	2,075
	-	-	-	-	-	-	450,000	-	-	450,000	-	450,000	1.9.2006 to 31.12.2010	3,290
	-	2,975,000	-	2,975,000	-	2,975,000	-	(700,000)	(200,000)	2,075,000	(400,000)	1,675,000	1.1.2007 to 31.12.2010	2,075
	-	-	-	-	-	-	525,000	-	-	525,000	-	525,000	1.1.2007 to 31.12.2010	3,290
	-	3,475,000	-	3,475,000	-	3,475,000	-	-	(250,000)	3,225,000	-	3,225,000	1.1.2008 to 31.12.2010	2,075
	-	-	-	-	-	-	600,000	-	-	600,000	-	600,000	1.1.2008 to 31.12.2010	3,290
	-	3,975,000	-	3,975,000	-	3,975,000	-	-	(300,000)	3,675,000	-	3,675,000	1.1.2009 to 31.12.2010	2,075
	-	-	-	-	-	-	675,000	-	-	675,000	-	675,000	1.1.2009 to 31.12.2010	3,290
	-	-	-	-	-	-	750,000	-	-	750,000	-	750,000	1.1.2010 to 31.12.2010	3,290
	-	14,500,000	(500,000)	14,000,000	(1,370,000)	12,630,000	3,000,000	(1,780,000)	(750,000)	13,100,000	(700,000)	12,400,000		
	-	30,500,000	(500,000)	30,000,000	(1,970,000)	28,030,000	3,000,000	(2,780,000)	(750,000)	27,500,000	(1,300,000)	26,200,000		

The estimated fair value of the options granted during the year ended 31st March, 2007 determined at the date of grant using the Binominal model was approximately HK\$2,961,000. The Group recognised the total expense of approximately HK\$1,464,000 and HK\$486,000 for the year ended 31st March, 2007 and six months ended 30th September, 2007 in relation to share options granted by the Company.

The following assumptions were used to calculate the fair value of share options granted on 25th August, 2006:

Exercise price	HK\$3.290
Expected life of options	2.7 years to 4.1 years
Expected volatility	45%
Expected dividend yield	3.9%
Risk free rate	4.079%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Total consideration received by the Group for exercising the options granted amounted to approximately HK\$1,038,000, HK\$4,088,000, HK\$5,769,000 and HK\$2,698,000 for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007.

The weighted average closing price of the Company's shares immediately before the date(s) on which the options were exercised is HK\$3.60, HK\$3.24, HK\$3.45 and HK\$3.62 for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007.

43. AMOUNTS DUE TO A MINORITY SHAREHOLDER AND A JOINTLY CONTROLLED ENTITY

The amounts are unsecured and interest free, except for an amount of HK\$35,964,000, HK\$35,240,000, HK\$43,079,000 and HK\$29,301,000 due to a minority shareholder outstanding as at 31st March, 2005, 2006, 2007 and 30th September, 2007 which bears interest at 6.55%, 7.05%, 7.05% and 7.05% respectively and matures in November 2013. In addition, the jointly controlled entity have confirmed that the amount will not be demanded for repayment within next twelve months from the respective balance sheet dates and, accordingly, the amount is shown as non-current.

44. DEFERRED TAXATION

The major deferred tax (assets) liabilities recognised by the Group and movements thereon during the Relevant Periods are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Fair value adjustments on business combination <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2004	11,264	37,296	–	(27,718)	20,842
Charge (credit) to consolidated income statement for the year	<u>27,412</u>	<u>20,766</u>	<u>–</u>	<u>(18,873)</u>	<u>29,305</u>
At 31st March, 2005	38,676	58,062	–	(46,591)	50,147
Charge (credit) to consolidated income statement for the year	3,108	71,091	–	(1,484)	72,715
Charge to equity for the year	<u>–</u>	<u>1,533</u>	<u>–</u>	<u>–</u>	<u>1,533</u>
At 31st March, 2006	41,784	130,686	–	(48,075)	124,395
Acquisition of a business	–	–	42,500	–	42,500
Charge to consolidated income statement for the year	<u>332</u>	<u>5,728</u>	<u>–</u>	<u>15,251</u>	<u>21,311</u>
At 31st March, 2007	42,116	136,414	42,500	(32,824)	188,206
Charge to consolidated income statement for the period	<u>5,454</u>	<u>858</u>	<u>(516)</u>	<u>118</u>	<u>5,914</u>
At 30th September, 2007	<u>47,570</u>	<u>137,272</u>	<u>41,984</u>	<u>(32,706)</u>	<u>194,120</u>

At 31st March, 2005, 2006, 2007 and 30th September, 2007, the Group has unused tax losses of HK\$306,501,000, HK\$561,609,000, HK\$618,660,000 and HK\$653,906,000 available for offset against future profits respectively. A deferred tax asset has been recognised in respect of such losses to the extent of HK\$224,351,000, HK\$226,853,000, HK\$143,856,000 and HK\$142,926,000. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$82,150,000, HK\$334,756,000, HK\$474,804,000 and HK\$510,980,000 due to unpredictability of future profits stream at 31st March, 2005, 2006, 2007 and 30th September, 2007 respectively. The unrecognised tax losses may be carried forward indefinitely.

At 31st March, 2005, 2006, 2007 and 30th September, 2007, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK\$65,596,000, HK\$138,346,000, HK\$149,322,000 and HK\$155,252,000 respectively. No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group did not have any other significant unprovided deferred taxation throughout the Relevant Periods.

45. JOINTLY CONTROLLED ASSETS

The Group has entered into joint venture agreements with third parties to develop a multi-storey building, retail building, residential apartment and office building. The Group has a 50% interest in these joint ventures.

At the respective balance sheet dates, the aggregate amounts of jointly controlled assets and liabilities included in the respective items in the consolidated balance sheets in relation to these interests are as follows:

	At 31st March,			At 30th
	2005	2006	2007	September,
	HK\$'000	HK\$'000	HK\$'000	2007
				HK\$'000
Properties under development for sale	38,138	986	36,799	85,918
Debtors, deposits and prepayments	1,325	27	597	2,162
Bank balances	1,377	5,974	6,227	10,313
Creditors and accruals	(232)	(22)	(11,554)	(2,946)
Bank borrowings	—	—	—	(83,881)
	<u>40,608</u>	<u>6,965</u>	<u>32,069</u>	<u>11,566</u>

46. ACQUISITION OF SUBSIDIARIES/BUSINESS

(a) Acquisition of subsidiaries

The fair value of net assets acquired during the year ended 31st March, 2005 and 2007 were as follows:

	Year ended 31st March,	
	2005	2007
	HK\$'000	HK\$'000
Net assets acquired:		
Investment properties	239,875	—
Prepaid lease payments	—	—
Property, plant and equipment	—	301,013
Inventories	—	595
Debtors, deposits and prepayments	767	8,927
Bank balances and cash	—	9,122
Creditors and accruals	(798)	(13,849)
Bank loans	(89,122)	—
Shareholders' loans	(201,294)	(283,176)
	(50,572)	22,632
Assignment of shareholders' loans and bank loans	<u>290,416</u>	<u>283,176</u>
	239,844	305,808
Discount on acquisition recognised in the consolidated income statement	—	(44,208)
	<u>239,844</u>	<u>261,600</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Year ended 31st March,	
	2005	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Satisfied by:		
Cash consideration	<u>239,844</u>	<u>261,600</u>
Net cash outflow arising on acquisition:		
Cash consideration	(239,844)	(261,600)
Bank balances and cash acquired	<u>–</u>	<u>9,122</u>
	<u>(239,844)</u>	<u>(252,478)</u>

The acquiree's carrying amount of net assets for the year ended 31st March, 2005 and 2007 approximates to the fair value of the net assets acquired.

The fair value of net assets acquired during the six months ended 30th September, 2007 were as follows:

	Carrying amount	Fair value adjustment	Fair value of net assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	108,528	–	108,528
Prepaid lease payments	12,403	15,869	28,272
Inventories	445	–	445
Debtors, deposits and prepayments	3,578	–	3,578
Bank balances and cash	2,861	–	2,861
Creditors and accruals	(4,584)	–	(4,584)
Shareholders' loans	<u>(321,239)</u>	<u>–</u>	<u>(321,239)</u>
	<u>(198,008)</u>	<u>15,869</u>	(182,139)
Assignment of shareholders' loans			<u>321,239</u>
			139,100
Discount on acquisition recognised in the consolidated income statement			<u>(66,140)</u>
Satisfied by:			
Cash consideration			<u>72,960</u>
Net cash outflow arising on acquisition:			
Cash consideration			(72,960)
Bank balances and cash acquired			<u>2,861</u>
			<u>(70,099)</u>

In February 2005, the Group acquired 100% of the issued share capital of, and shareholders' loans to, Caragis Limited, Vicsley Limited, and Grand Expert Limited, respectively, for an aggregate cash consideration of HK\$239,844,000. The subsidiaries acquired do not have any material impact on the Group's results for the year ended 31st March, 2005.

In March 2007, the Group acquired the entire issued share capital of Subang Jaya Hotel Development Sdn Bhd (“SJHDSB”) which is engaged in hotel operation, at a consideration of HK\$261,600,000.

In September 2007, the Group acquired the entire issued share capital of Merlin Labuan Sdn Bhd (“MLSB”) which is engaged in hotel operation, at a consideration of HK\$72,960,000.

The acquisitions have been accounted for using the purchase method.

The discount arising on acquisitions for the year ended 31st March, 2007 and six months ended 30th September, 2007 represents excess of acquirer’s interest in the net fair value of assets attributable by the bargain purchase with the vendors of the acquiree.

From the date of acquisition to 31st March, 2007, SJHDSB has contributed HK\$1,151,000 to the profit for the Group. If the acquisition had taken place on 1st April, 2006, the profit for the Group for the year ended 31st March, 2007 would have been HK\$585,471,000 (unaudited) and total group revenue would have been HK\$1,003,150,000 (unaudited). The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April, 2006, nor is it intended to be a projection of future results.

From the date of acquisition to 30th September, 2007, MLSB has contributed HK\$121,000 to the profit for the Group. If the acquisition had taken place on 1st April, 2007, the profit for the Group for the six months ended 30th September, 2007 would have been HK\$257,545,000 (unaudited) and total group revenue would have been HK\$713,802,000 (unaudited). The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April, 2007, nor is it intended to be a projection of future results.

(b) Acquisition of business

On 31st January, 2007, the Group acquired a hotel operation for consideration of HK\$443,507,000. This acquisition has been accounted for using the purchase method.

The net assets of the hotel business acquired at the date of acquisition were as follows:

	Carrying amount	Fair value adjustment	Fair value of net assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	118,075	242,000	360,075
Prepaid lease payments	120,674	–	120,674
Inventories	109	–	109
Debtors, deposits and prepayments	7,085	–	7,085
Bank balances and cash	555	–	555
Creditors and accruals	(2,491)	–	(2,491)
Deferred taxation	–	(42,500)	(42,500)
	<u>244,007</u>	<u>199,500</u>	<u>433,507</u>
Satisfied by:			
Loan receivable			<u>443,507</u>
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			<u>555</u>

As a result of the acquisition, the Group has recovered doubtful loan receivable and interest receivable amounting to HK\$57,443,000, which was credited to the consolidated income statement in the year ended 31st March, 2007. The recoverable amount was arrived at by reference to the fair value of net assets acquired.

The hotel business acquired contributed HK\$4,039,000 to the Group's profit for the year ended 31st March, 2007 between the date of acquisition and 31st March, 2007. If the acquisition had been completed on 1st April, 2006, total group revenue for the year ended 31st March, 2007 would have been HK\$924,056,000 (unaudited), and profit for the year ended 31st March, 2007 would have been HK\$555,572,000 (unaudited). The pro forma information is for illustrative purpose only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April, 2006, nor is it intended to be a projection of future results.

47. DISPOSAL OF A SUBSIDIARY

On 24th January, 2007, the Group sold its 5% equity investment in the contributed capital of Hudson, a limited partnership established in the United States of America through disposal of the entire interest in a subsidiary, Shelborn Enterprises, Inc.. The net assets of the disposed subsidiary at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of:	
Available-for-sale investments	69,634
Bank balances and cash	<u>6</u>
	69,640
Gain on disposal of a subsidiary	<u>225,200</u>
Total consideration satisfied by:	
Cash	<u>294,840</u>
Net cash inflow arising on disposal:	
Cash consideration received	294,840
Bank balances and cash disposed of	<u>(6)</u>
	<u>294,834</u>

48. MAJOR NON-CASH TRANSACTIONS

The Group entered into finance lease arrangements in respect of asset with a total capital value at the inception of the leases of HK\$1,088,000, HK\$610,000, HK\$1,130,000, HK\$1,234,000 and HK\$253,000 during the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2006 and 2007 respectively.

As referred to notes 12 and 41, the Company issued shares for dividends pursuant to scrip dividend scheme totalling HK\$39,858,000, HK\$54,995,000, HK\$67,182,000 and HK\$59,922,000 for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2007 respectively.

As referred to note 37, an aggregate principal amount of approximately HK\$497,453,000, HK\$14,805,000 and HK\$7,793,000 of the US\$ Bonds were converted into ordinary shares of the Company during the year ended 31st March, 2005, 2006 and 2007 respectively and principal amount of HK\$344,720,000 of the HK\$ Bonds was converted into ordinary shares of the Company during the six months ended 30th September, 2007.

As referred to note 46(b), the Group has acquired a hotel business with a consideration of its loans receivable and interest receivable from the vendor as at the date of acquisition amounting to HK\$443,507,000, after offsetting amount due to acquirer of HK\$86,260,000.

49. PLEDGE OF ASSETS

- (a) The Group had pledged the following assets together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the relevant properties and properties of associates and third parties to the Group's bankers and loan creditors to secure banking and loan facilities granted to the Group as at 31st March, 2005, 2006, 2007 and 30th September, 2007 to the extent of approximately HK\$2,572,480,000, HK\$2,822,947,000, HK\$3,854,548,000 and HK\$4,450,828,000 respectively and banking and loan facilities granted to an associate as at 31st March, 2005 and 2006 to the extent of approximately HK\$5,000,000 and HK\$5,000,000 respectively. No such guarantees were given to secure banking and loan facilities granted to an associate as at 31st March, 2007 and 30th September, 2007.

	At 31st March,			At 30th
	2005	2006	2007	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties	2,074,641	3,399,431	4,205,899	4,561,275
Bank deposits	6,901	55,103	101,821	62,191
Investments held for trading	1,556	1,576	731	748
	<u>2,083,098</u>	<u>3,456,110</u>	<u>4,308,451</u>	<u>4,624,214</u>

- (b) At 31st March, 2005, 2006, 2007 and 30th September, 2007, the Group's investments held for trading, available-for-sale investments and derivative financial instruments, other financial assets and deposits with an aggregate carrying amount of approximately HK\$237,746,000, HK\$414,182,000, HK\$365,640,000 and HK\$355,478,000 respectively were pledged to the financial institutions to secure margin trading facilities granted to the Group in respect of securities transactions to the extent of approximately HK\$37,613,000, HK\$645,095,000, HK\$1,011,087,000 and HK\$1,028,304,000, of which HK\$32,449,000, HK\$54,427,000, HK\$83,621,000 and HK\$413,049,000 were utilised respectively.
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group.
- (d) The Group has subordinated its amount due from an investee company of approximately HK\$119,995,000 to a financial institution to secure general credit facility granted to the investee company throughout the Relevant Periods.

50. CAPITAL COMMITMENTS

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the Financial Information in respect of:				
Properties under development				
for sale	1,015,761	469,271	1,136,198	1,562,649
Hotel properties	86,902	32,074	7,652	9,101
Others	–	–	4,329	889
	<u>1,102,663</u>	<u>501,345</u>	<u>1,148,179</u>	<u>1,572,639</u>
Capital expenditure authorised but not contracted for in respect of:				
Hotel properties under development	–	–	426,090	–
Hotel properties	–	8,400	11,315	11,400
	<u>–</u>	<u>8,400</u>	<u>437,405</u>	<u>11,400</u>
	<u>1,102,663</u>	<u>509,745</u>	<u>1,585,584</u>	<u>1,584,039</u>

51. OPERATING LEASE ARRANGEMENTS

The Group as lessor:

As at 31st March, 2005, 2006, 2007 and 30th September, 2007, investment properties and completed properties for sale with carrying amounts of HK\$800,955,000, HK\$1,111,016,000, HK\$1,333,225,000 and HK\$1,343,504,400, and HK\$11,765,000, HK\$95,503,000, HK\$98,672,000 and HK\$97,290,000 respectively were let out under operating leases.

Gross rental income earned during the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2006 and 2007 is HK\$60,173,000, HK\$46,361,000, HK\$52,858,000, HK\$24,878,000 and HK\$33,095,000, of which HK\$53,196,000, HK\$38,176,000, HK\$42,689,000, HK\$18,463,000 and HK\$22,459,000 respectively was derived from letting of investment properties. The properties held have committed tenants for the next one to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	At 31st March,			At 30th September,
	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	38,852	28,564	50,237	43,884
In the second to fifth year inclusive	49,506	14,869	26,042	31,403
Over five years	2,968	–	–	–
	<u>91,326</u>	<u>43,433</u>	<u>76,279</u>	<u>75,287</u>

Leases are negotiated and rentals are fixed for lease terms ranging from one to three years.

The Group as lessee:

Minimum lease payments paid under operating leases during the Relevant Periods are:

	Year ended 31st March,			Six month ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
Premises	5,078	6,754	8,193	1,127	3,801
Motor vehicles	18	–	118	59	47
	<u>5,096</u>	<u>6,754</u>	<u>8,311</u>	<u>1,186</u>	<u>3,848</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31st March,			At 30th September,
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2007 HK\$'000
Premises				
– within one year	859	5,921	12,001	3,402
– in the second to fifth year inclusive	<u>450</u>	<u>9,545</u>	<u>636</u>	<u>184</u>
	1,309	15,466	12,637	3,586
Motor vehicles:				
– within one year	<u>18</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>1,327</u>	<u>15,466</u>	<u>12,637</u>	<u>3,586</u>

Leases are negotiated and rental are fixed for lease terms of two years.

52. CONTINGENT LIABILITIES

The Group had the following contingent liabilities at the respective balance sheet dates:

- The Group has given guarantees to bankers to secure banking and other facilities made available to an investee company of HK\$102,536,000 and HK\$154,322,000 as at 31st March, 2005 and 2006 respectively. No such guarantees were given by the Group as at 31st March, 2007 and 30th September, 2007. The fair value of the guarantee issued in 2006 have not been recognised as the directors consider that the amount involved was insignificant.
- The Group has given a guarantee in respect of mortgage loans provided to the home buyers of a property project in the PRC. The total amount of mortgages outstanding which are subject to these guarantees was HK\$115,539,000, HK\$2,769,000, HK\$40,406,060 and HK\$198,706,000 as at 31st March, 2005, 2006 and 2007 and 30th September, 2007 respectively. The directors consider that the fair values of these financial guarantee contracts at their initial recognition are insignificant on the basis of short guarantee periods and low applicable default rates.

- (c) In previous years, a subsidiary of the Company (the “Subsidiary”) was sued by two consultants providing management, consulting and advisory services concerning business strategy and corporate finance activities of the Subsidiary. The two consultants entered into a consulting contract with the Subsidiary in 1999 in lieu of cash for services rendered. The two consultants alleged that the Subsidiary fraudulently misrepresented and concealed material facts regarding the proposed investment from them and claim compensation for damages amounting to approximately HK\$5,843,000. Moreover, the two consultants also alleged that the Subsidiary owes them salaries, payment in lieu of notice for early termination of the contract and the reimbursement for expenses regarding the employment contract as the board of directors of the Subsidiary amounting to approximately HK\$5,865,000. A motion of dismissal the claim was filed in the United States court and the claim is still in progress. While the outcome of these proceedings cannot be estimated with certainty at this stage, the directors are of the opinion that the outcome of this case would not have a material adverse impact on the financial position of the Group.

53. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group entered into the following significant transactions with related parties:

Related party	Nature of transaction	Year ended 31st March,			Six month ended	
		2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	30th September, 2006 HK\$'000	2007 HK\$'000
Directors and their associates	Interest expenses	371	371	311	311	99
Associates	Dividend income	6,577	9,410	5,570	5,139	6,750
	Building management fee expenses	2,699	3,855	4,459	985	1,950
	Refund of management fee	–	–	12,500	3,500	–
Jointly controlled entities	Rental income	–	1,964	2,179	999	1,200
	Interest income	–	–	654	–	–
		<u>–</u>	<u>–</u>	<u>654</u>	<u>–</u>	<u>–</u>

During the year ended 31st March, 2005, the Group recognised compensation income amounting to approximately HK\$28 million from a minority shareholder of a subsidiary for termination of the tenancy of factory building entered into between the Group and the minority shareholder.

These transactions have been entered into on terms agreed by parties concerned.

Details of the balances with related parties as at the respective balance sheet dates are set out in the consolidated balance sheet and relevant notes to the Financial Information.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Period was as follows:

	Year ended 31st March,			Six month ended 30th September,	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000
				(unaudited)	
Short-term benefits	8,305	8,941	10,097	4,297	5,693
Post-employment benefits	52	48	36	18	17
	<u>8,357</u>	<u>8,989</u>	<u>10,133</u>	<u>4,315</u>	<u>5,710</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

54. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Authority. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee. The retirement benefits scheme contributions charged to consolidated income statement amounted to HK\$2,102,000, HK\$4,092,000, HK\$5,086,000, HK\$1,799,000 and HK\$1,695,000 for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2006 and 2007 respectively.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions charged to consolidated income statement amounted to HK\$268,000, HK\$251,000, HK\$213,000, HK\$258,000 and HK\$419,000 for the year ended 31st March, 2005, 2006, 2007 and six months ended 30th September, 2006 and 2007 respectively.

(II) PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of direct subsidiary	Notes	Issued share capital			Proportion of nominal value of issued capital/registered capital held by the Group	Principal activities
		Number of shares	Par value per share/registered capital	Class of shares held		
Accord Rise Investments Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Ample Bonus Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Far East Consortium (B.V.I.) Limited (iii)	1	50,000	US\$1	Ordinary	100	Investment holdings
Name of indirect subsidiary						
Accessway Profits Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Action Fulfilled Assets Limited (iii)	6	1	US\$1	Ordinary	100	Property investment
Amphion Investment Limited (v)	2	2	HK\$1	Ordinary	100	Investment holdings
Aniwell Investment Limited (v)	4	10,000	HK\$1	Ordinary	100	Hotel development
Annick Investment Limited (v)	4	2	HK\$1	Ordinary	100	Property investment
Arvel Company Limited (v)	2	10,000	HK\$1	Ordinary	100	Property investment
Asia Land Pty Ltd. (formerly known as FEC Property Services Pty Ltd.) (vi)	5	1	A\$1	Ordinary	100	Loan financing
Best Hoover Limited (v)	6	1	HK\$1	Ordinary	100	Property investment
Billion Century Holdings Limited (v)	14	1	HK\$1	Ordinary	100	Investment holdings
Bonus Gain Investments Ltd. (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Bournemouth Estates Limited (v)	2	2	HK\$10	Ordinary	100	Property development
Bradney Proprietary Ltd. (vi)	5	2	A\$1	Ordinary	100	Investment holdings
Capital Fortune Investment Limited (v)	6	10,000	HK\$1	Ordinary	100	Property investment
Caragis Limited (v)	4	2	HK\$1	Ordinary	100	Hotel operation
Cathay General Inc. (viii)	6	1	Nil	Common	100	Investment holdings and share investment
Complete Delight Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Charter Joy Limited (v)	4	2	HK\$1	Ordinary	100	Hotel operation
Charter National International Limited (v)	6	2	HK\$1	Ordinary	100	Property development
Cheong Sing Property Development Limited (v)	4	500	HK\$100	Ordinary	100	Property development
Ching Chu Property Management (Shanghai) Company Limited (i)	7	N/A	US\$ 9,000,000	N/A	100	Property management

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		Number of shares	Par value per share/registered capital	Class of shares held		
Chun Wah Holdings Limited (v)	4	200	HK\$1	Ordinary	100	Property development
Cosmopolitan Hotel Limited (v)	4	2	HK\$1	Ordinary	100	Hotel operation
Detheridge Estates Limited (v)	4	2	HK\$1	Ordinary	100	Property development
Dorsett Hotel Management Services Limited (v)	6	2	HK\$1	Ordinary	100	Hotel management
Dorsett Hotels & Resorts (H.K.) Ltd (v)	6	1,000,000	HK\$1	Ordinary	100	Investment holdings
Dorsett Regency Hotel (M) Sdn. Bhd. (ix)	8	5,000,000	RM\$1	Ordinary	100	Hotel operation
Double Advance Group Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Dunball Limited (v)	4	2	HK\$1	Ordinary	100	Property investment
Dunjoy Limited (v)	4	2	HK\$1	Ordinary	100	Investment holdings
E-Cash Ventures Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings
Eldonstead Investments Limited (iii)	14	1	US\$1	Ordinary	100	Investment holdings
Elliott Investment Corporation (x)	6	2	Nil	Ordinary	100	Investment holdings and share investment
Esmart Management Limited (v)	4	2	HK\$1	Ordinary	100	Hotel management
Excel Chinese International Limited (x)	14	1	HK\$1	Ordinary	100	Property investment
Ever Liberty (M) Sdn. Bhd. (ix)	8	2	RM\$1	Ordinary	100	Property investment
Everkent Development Limited (v)	4	2	HK\$1	Ordinary	100	Property development
Far East Consortium China Infrastructure Company Limited (v)	6	2	HK\$1	Ordinary	100	Investment holdings
Far East Consortium China Investments Limited (v)	4	6,000	HK\$100	Ordinary	100	Property development and trading
Far East Consortium China Land Corporation Limited (v)	4	1,000	HK\$100	Ordinary	100	Property development
Far East Consortium Holdings (Australia) Pty Limited (vi)	5	12 235	A\$1 A\$0.01	Ordinary Redeemable preference	100 100	Investment holdings
Far East Consortium Limited (v)	4	830,650,000	HK\$1	Ordinary	100	Investment holdings, property investment and hotel operation
Far East Consortium Machinery Limited (v)	4	2	HK\$1	Ordinary	100	Investment holdings
Far East Consortium (Malaysia) Limited (v)	6	2	HK\$1	Ordinary	100	Investment holdings

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		Number of shares	Par value per share/registered capital	Class of shares held		
Far East Consortium Properties Pty Limited <i>(vi)</i>	5	12 225	A\$1 A\$0.01	Ordinary Redeemable preference	100 100	Investment holdings and property investment
Far East Consortium Property & Marketing Service Pty Limited <i>(vi)</i>	5	1	A\$1	Ordinary	100	Property development
Far East Dorsett Hotel Mgt (Cheng Du) Co. Ltd. <i>(i)</i>	14	N/A	US\$ 5,000,000	N/A	100	Property development
Far East Real Estate and Agency (H.K.) Limited <i>(v)</i>	4	60,000	HK\$100	Ordinary	100	Investment holdings and loan financing
Far East Rockman Hotels (Australia) Pty Limited <i>(vi)</i>	5	12 375	A\$1 A\$0.01	Ordinary Redeemable preference	100 100	Investment holdings
Far East Rockman Investments Pty Limited <i>(vi)</i>	5	12 125	A\$1 A\$0.01	Ordinary Redeemable preference	100 100	Investment holdings
Far East Supermarket Limited <i>(v)</i>	2	500,000	HK\$1	Ordinary	100	Property investment
FEC Development (Malaysia) Sdn. Bhd. <i>(ix)</i>	8	2	RMS\$1	Ordinary	100	Investment holdings
FEC Development Pty Ltd. <i>(vi)</i>	5	1	A\$1	Ordinary	100	Financing
FEC Financing Solutions Pty. Ltd. <i>(vi)</i>	5	1	A\$1	Ordinary	100	Investment holdings
FEC Projects Sdn Bhd <i>(ix)</i>	8	1	RM\$1	Ordinary	100	Investment holdings
Focus Venue Sdn. Bhd. <i>(ix)</i>	8	90	RM\$1	Ordinary	90	Property investment
Fortune Plus (M) Sdn. Bhd. <i>(ix)</i>	8	935,000	RM\$1	Ordinary	100	Property investment
FECFW 1 Pty Ltd. <i>(vi)</i>	5	1	A\$1	Ordinary	100	Investment holdings
FECFW 2 Pty Ltd. <i>(vi)</i>	5	1	A\$1	Ordinary	100	Investment holdings
FEH Strategic Investment Pte Limited <i>(xiii)</i>	11	10	S\$1	Ordinary	100	Property Investment
Full Benefit Limited <i>(vii)</i>	1	1	US\$1	Ordinary	100	Investment holdings
Garden Resort Development Ltd. <i>(v)</i>	4	100	HK\$1	Ordinary	100	Property development
Grand Expert Limited <i>(v)</i>	4	2	HK\$1	Ordinary	100	Hotel operation
Grandco Investment Limited <i>(xi)</i>	1	1	US\$1	Ordinary	100	Property investment

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		Number of shares	Par value per share/registered capital	Class of shares held		
Guangzhou Pegasus Boiler Manufacture Company Limited (ii)	3	N/A	HK\$ 50,000,000	N/A	51	Operation of boiler factory
Hamsher International Ltd. (xi)	1	29,805,065	US\$1	Ordinary	100	Hotel investment
Henrik Investment Limited (v)	2	2	HK\$1	Ordinary	100	Property investment
Hero Housing Limited (v)	4	880	HK\$1,000	Ordinary	100	Property investment
Hong Kong Hotel Asset Mgt Limited (v)	4	1	HK\$1	Ordinary	100	Investment holdings
Hong Kong Hotel REIT Finance Company Limited (v)	14	1	HK\$1	Ordinary	100	Investment holdings
Hong Kong Hotel REIT Holdings Ltd (viii)	1	1	US\$1	Ordinary	100	Investment holdings
Kuala Lumpur Land Holdings Limited (xii)	1	100	£1	Ordinary	100	Investment holdings
Leedon Investments Pte Ltd (xiii)	12	2	S\$1	Ordinary	100	Investment holdings
Madison Lighters and Watches Company Limited (v)	4	4	HK\$1	Ordinary	100	Investment holdings
Merlin Labuan Sdn. Bhd (ix)	10	10,002	RMS\$1	Ordinary	100	Hotel operation
Multi Yield Limited (v)	6	1	HK\$1	Ordinary	100	Property investment
NCH Technology Services Ltd (iii)	1	1	US\$1	Ordinary	100	Investment holdings
New Time Plaza Development Limited (v)	4	1,000	HK\$1	Ordinary	100	Investment holdings
New Union Investments (China) Limited (v)	4	300	HK\$1	Ordinary	100	Investment holdings
N.T. Horizon Realty (Jordan) Limited (v)	4	2	HK\$100	Ordinary	100	Property investment
Oi Tak Enterprises Limited (v)	2	1,000,000	HK\$1	Ordinary	75	Investment holdings
Pansy Development Limited (v)	2	2	HK\$1	Ordinary	100	Property investment
Peacock Management Services Limited (v)	4	2	HK\$1	Ordinary	100	Administration services
Polyland Development Limited (v)	4	2	HK\$1	Ordinary	100	Property investment
Proven Status Holdings Ltd (iii)	6	1	US\$1	Ordinary	100	Investment holdings
Ready Town Limited (v)	4	2	HK\$1	Ordinary	100	Property and share investment
Regency Hotels Proprietary Limited (vi)	5	100	A\$1	Ordinary	100	Investment holdings
Rich Diamond Holdings Limited (xv)	1	10	US\$1	Ordinary	70	Investment holdings
Ridon Investment Limited (v)	4	2	HK\$1	Ordinary	100	Investment holdings and share investment

Name of indirect subsidiary	Notes	Issued share capital			Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Group	Principal activities
		Number of shares	Par value per share/registered capital				
Roseville Enterprises Limited (v)	4	6,000	HK\$100	Ordinary	100	Property investment	
Royal Domain Plaza Pty. Ltd. (vi)	5	2	AS\$1	Ordinary	100	Property investment	
Royal Domain Towers Pty. Limited (vi)	5	2	AS\$1	Ordinary	100	Property investment	
Ruby Way Limited (v)	4	2	HK\$1	Ordinary	100	Property investment	
Scarborough Development Limited (v)	2	2	HK\$1	Ordinary	100	Property investment	
Sea Wave Properties Limited (v)	6	1,000,000	HK\$1	Ordinary	100	Investment holdings	
Shanghai Chingchu Property Development Company Limited (ii)	7	N/A	US\$ 90,000,000	N/A	98.2	Developing, selling and leasing properties	
Sheen Profit Industries Limited (v)	13	2	HK\$1	Ordinary	100	Hotel operation	
Singford Holdings Limited (iii)	13	1	US\$1	Ordinary	100	Treasury management	
Smartland Assets Ltd (iii)	1	1	US\$1	Ordinary	100	Property investment	
Sovereign Land Company Limited (v)	2	2	HK\$100	Ordinary	100	Property investment	
Southsino Development Limited (v)	4	100	HK\$1	Ordinary	100	Property development	
Star Bridge Development Limited (v)	6	2	HK\$1	Ordinary	100	Property investment	
Stoneline Sdn. Bhd. (ix)	8	100	RM\$1	Ordinary	100	Investment holdings	
Subang Jaya Hotel Development Sdn Bhd (ix)	10	245,000,000	RM\$1	Ordinary	100	Hotel operation	
Tang City Holdings Pte Ltd (xiii)	11	1,000,000	S\$1	Ordinary	100	Properties trading and investment	
Tang City Parkway Pte Ltd (xiii)	11	10	S\$1	Ordinary	100	Property Investment	
Tang City Properties Pte Ltd (xiii)	11	2,600,000	S\$1	Ordinary	100	Properties trading and investment	
Tang Development Ptd (xiii)	11	2	S\$1	Ordinary	100	Property development	
Teampearl Company Ltd (v)	2	5,001 4,999	HK\$1 HK\$1	Class A Class B	100	Property development	
Telbrook Nominees Pty Ltd (vi)	5	1	AS\$1	Ordinary	100	Financing	
The 265 Exhibition Street Unit Trust (vi)	5	44,444,455	AS\$1	Ordinary	100	Property investment	
The 360st Kilda Road Unit Trust (vi)	5	8,000,000	AS\$1	Special preference	63	Property development	
The 370st Kilda Road Unit Trust (vi)	5	4,000,000	AS\$1	Ordinary	80	Property development	
The Hotel of Lan Kwai Fong (“formerly known as Ocean Leader Development Limited”) (v)	13	2	HK\$1	Ordinary	100	Hotel operation	
The Northleisure Unit Trust (vi)	5	392	AS\$1	Ordinary	80	Property investment	
The Regency Hotel Unit Trust (vi)	5	755,760,749	AS\$0.1	Ordinary	100	Non-trading-trustee Co.	
Tomarta Sdn. Bhd. (ix)	8	1,000,000	RM\$1	Ordinary	100	Property trading	
Turbulent Limited (v)	4	2	HK\$10	Ordinary	100	Investment holdings	
Upperace Development Limited (v)	6	1,000,000	HK\$1	Ordinary	100	Investment holdings	
Vicsley Limited (v)	4	2	HK\$1	Ordinary	100	Hotel operation	
Victoria Land Pty. Ltd. (vi)	5	12	AS\$1	Ordinary	100	Management services	

Name of indirect subsidiary	Notes	Issued share capital			Proportion of nominal value of issued capital/registered capital held by the Group	Principal activities
		Number of shares	Par value per share/registered capital	Class of shares held		
Vicco Development Limited (v)	4	2	HK\$1	Ordinary	100	Investment holdings
Virgobee Limited (v)	4	2	HK\$1	Ordinary	100	Property investment
Wanchope Limited (iii)	1	1	US\$1	Ordinary	100	Investment holdings

- (i) Foreign investment enterprise registered in the PRC.
- (ii) Sino-foreign equity joint venture registered in the PRC.
- (iii) Incorporated in British Virgin Islands and operates in Hong Kong.
- (iv) Incorporated and operates in Canada.
- (v) Incorporated and operates in Hong Kong.
- (vi) Incorporated and operates in Australia.

- (vii) Incorporated in Cayman Islands and operates in Hong Kong.
 - (viii) Incorporated in Republic of Liberia and operates in Hong Kong.
 - (ix) Incorporated and operates in Malaysia.
 - (x) Incorporated in Panama and operates in Hong Kong.
 - (xi) Incorporated in British Virgin Islands and operates in The U.S.A.
 - (xii) Incorporated in Channel Islands and operates in Malaysia.
 - (xiii) Incorporated and operates in Singapore.
 - (xiv) Incorporated in British Virgin Islands and operates in Malaysia.
 - (xv) Incorporated in British Virgin Islands and operates in The Philippines.
 - (xvi) Incorporated in British Virgin Islands and operates in China.
 - (xvii) Incorporated and operates in Singapore.
1. No audited financial statements have been prepared for these companies, which are incorporated in a country where there were no statutory audit requirements.
 2. The statutory audited financial statements of these companies for the three years ended 31st March, 2007 were audited by Tse Lo CPA Limited and the audited financial statements were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).
 3. The statutory audited financial statements of these companies for the three years ended 31st December, 2006 were audited by 廣州市華穗會計師事務所有限公司 and the audited financial statements were prepared in accordance with generally accepted accounting principles in the Mainland China (“PRC GAAPs”).
 4. The statutory audited financial statements or audited financial statements for management purpose of these companies for the three years ended 31st March, 2007 were audited by us and the audited financial statements were prepared in accordance with HKFRS issued by HKICPA.
 5. The statutory audited financial statements or audited financial statements for management purpose of these companies for the three years ended 31st March, 2007 were audited by PricewaterhouseCoopers, Melbourne and the audited financial statements were prepared in accordance with the Australian Accounting Standards (“AAS”).

6. The statutory audited financial statements or audited financial statements for management purpose of these companies for the three years ended 31st March, 2007 were audited by Peter W.H. Ma & Co. and the audited financial statements were prepared in accordance with HKFRS issued by HKICPA.
7. The statutory audited financial statements of these companies for the three years ended 31st December, 2006 were audited by 上海瑞和會計師事務所有限公司 and the audited financial statements were prepared in accordance with PRC GAAPs.
8. The statutory audited financial statements of these companies for the three years ended 31st March, 2007 were audited by Wong Weng Foo & Co. and the audited financial statements were prepared in accordance with Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.
9. The statutory audited financial statements of these companies for the three years ended 31st March, 2007 were audited by BDO Dunwoody and the audited financial statements were prepared in accordance with IFRS.
10. The statutory audited financial statements of these companies for the three years ended 31st March, 2007 were audited by Ernst & Young and the audited financial statements were prepared in accordance with Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.
11. The statutory audited financial statements or audited financial statements for management purpose of these companies for the three years ended 31st March, 2007 were audited by Foo Koo Tan Grant Thornton and the audited financial statements were prepared in accordance with Singapore Financial Reporting Standards (“SFRS”).
12. The statutory audited financial statements of these companies for the three years ended 31st March 2007, were audited by L Y Leong & Company and the audited financial statements were prepared in accordance with SFRS.
13. The statutory audited financial statements of these companies for the year ended 31st March, 2005 were audited by Peter W.H. Ma & Co. and for two years ended 31st March, 2007 were audited by Deloitte Touche Tohmatsu. The audited financial statements were prepared in accordance with HKFRS issued by HKICPA.
14. No audited financial statements have been prepared for these companies, which are incorporated during the period ended 30th September, 2007.

None of the subsidiaries had issued any debt securities at the end of the Relevant Periods.

(III) PARTICULARS OF PRINCIPAL ASSOCIATES

Name of indirect associate	Notes	Class of shares held	Issued share capital Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Bermuda Investments Limited (i)	1	Ordinary	25	Property investment
Gold Coin (Hong Kong) Limited (i)	2	Ordinary	26	Investment holdings
Guangdong Xin Shi Dai Real Estate Limited (iii)	3	N/A	45	Property development
Kanic Property Management Limited (i)	1	Ordinary	50	Building management
Liuzhou Universe Compressor Company Limited (iii)	4	N/A	25.24	Operation of compressor factory
Naples Investments Limited (iv)	5	Ordinary	35	Investment holdings
Omicron International Limited (vi)	1	Ordinary	30	Investment holding
Peacock Estates Limited (i)	6	Ordinary	25	Property investment
Philippine Dream Company, Inc. (v)	5	Ordinary	25.2	Investment holding

(i) Incorporated and operates in Hong Kong.

(ii) Incorporated and operates in Australia.

(iii) Incorporated and operates in The PRC.

(iv) Incorporated in British Virgin Islands and operates in the Philippines.

(v) Incorporated and operates in the Philippines.

(vi) Incorporated in British Virgin Islands and operates in Hong Kong.

1. The statutory audited financial statements or audited financial statements for management purpose of these companies for the three years ended 31st March, 2007 were audited by Junius C.T. Lung & Co. and the audited financial statements were prepared in accordance with HKFRS issued by HKICPA.

2. The statutory audited financial statements of these companies for the three years ended 31st March, 2007 were audited by PriceWaterhouseCoopers, Hong Kong and the audited financial statements were prepared in accordance with HKFRS issued by HKICPA.

3. The statutory audited financial statements of these companies for the three years ended 31st December, 2006 were audited by Guangzhou Zhengde Certified Public Accountants Co., Ltd. and the audited financial statements were prepared in accordance with PRC GAAPs.
4. The statutory audited financial statements of these companies for the three years ended 31st December, 2006 were audited by Guangxi Tianhua Certified Public Accountants and the audited financial statements were prepared in accordance with PRC GAAPs.
5. No audited financial statements have been prepared for these companies, which are incorporated in a country where there were no statutory audit requirements.
6. The statutory audited financial statements of this company for the three years ended 31st March, 2007 were audited by K.S. Li & Co. and the audited financial statements were prepared in accordance with HKFRS issued by HKICPA.

(IV) SUBSEQUENT EVENT

Subsequent to 30th September, 2007 the Group has been undergoing reorganisation and intended to enter into various conditional agreements in relation to the Very Substantial Disposal. The aggregate consideration for the Very Substantial Disposal will be determined with reference to the underlying value of the hotels and their related prepaid lease payments and furniture, fixture and equipments of not less than HK\$4,000 million. However, the disposals are conditional upon the grant of listing of the units of HK Hotel REIT on the Hong Kong Stock Exchange on or before the date of completion. The financial information of the hotel properties and entire interests in certain subsidiaries to be disposed of to HK Hotel REIT (the “Disposed Subsidiaries”) is set out below.

- (i) Included in the consolidated balance sheet of the Group are the assets and liabilities attributable to the Disposed Subsidiaries as at respective date:

	As at 31st March,			As at 30th
	2005	2006	2007	September,
	HK'000	HK'000	HK'000	2007
				HK'000
Non-current assets				
Property, plant and equipment	721,846	856,962	1,248,500	1,238,826
Prepaid lease payments	<u>253,400</u>	<u>248,279</u>	<u>366,235</u>	<u>362,130</u>
	<u>975,246</u>	<u>1,105,241</u>	<u>1,614,735</u>	<u>1,600,956</u>
Current assets				
Inventories	90	421	1,048	902
Debtors, deposits and prepayments	5,671	19,622	32,519	30,700
Prepaid lease payments	5,121	5,121	8,210	8,210
Pledged bank deposits	–	4,518	25,159	2,053
Bank balances and cash	<u>4,154</u>	<u>9,423</u>	<u>25,342</u>	<u>15,720</u>
	<u>15,036</u>	<u>39,105</u>	<u>92,278</u>	<u>57,585</u>
Current liabilities				
Creditors and accruals	15,988	12,738	14,213	18,008
Taxation payable	–	437	11,529	20,498
Bank borrowings	<u>24,265</u>	<u>97,703</u>	<u>108,642</u>	<u>170,253</u>
	<u>40,253</u>	<u>110,878</u>	<u>134,384</u>	<u>208,759</u>
Net current liabilities	<u>(25,217)</u>	<u>(71,773)</u>	<u>(42,106)</u>	<u>(151,174)</u>
Total assets less current liabilities	<u>950,029</u>	<u>1,033,468</u>	<u>1,572,629</u>	<u>1,449,782</u>
Non-current liabilities				
Bank borrowings	293,434	276,208	485,623	403,562
Amount due to a related company	523,832	527,562	702,788	630,497
Deferred tax liabilities	<u>19,501</u>	<u>28,786</u>	<u>64,176</u>	<u>66,938</u>
	<u>836,767</u>	<u>832,556</u>	<u>1,252,587</u>	<u>1,100,997</u>
Total net assets	<u><u>113,262</u></u>	<u><u>200,912</u></u>	<u><u>320,042</u></u>	<u><u>348,785</u></u>

- (ii) Included in the consolidated income statement of the Group are the results attributable to the Disposed Subsidiaries during the Relevant Periods:

	Year end 31st March,			Six months ended 30th September,	
	2005 HK'000	2006 HK'000	2007 HK'000	2006 HK'000	2007 HK'000
				(unaudited)	
Turnover	15,369	169,014	296,824	117,860	180,026
Depreciation on hotel properties and equipment	(5,857)	(49,395)	(80,450)	(35,719)	(18,378)
Other cost of sales	<u>(1,884)</u>	<u>(12,502)</u>	<u>(25,492)</u>	<u>(11,282)</u>	<u>(51,471)</u>
Gross profit	7,628	107,117	190,882	70,859	110,177
Other income	47	732	1,154	141	596
Administrative expenses	(6,948)	(32,873)	(51,663)	(19,195)	(31,781)
Finance costs	<u>(9,449)</u>	<u>(44,485)</u>	<u>(49,771)</u>	<u>(29,798)</u>	<u>(41,519)</u>
Profit before taxation	(8,722)	30,491	90,602	22,007	37,473
Taxation	<u>(22,018)</u>	<u>(9,722)</u>	<u>(3,983)</u>	<u>(5,243)</u>	<u>(11,730)</u>
(Loss) profit for the year/period	<u><u>(30,740)</u></u>	<u><u>20,769</u></u>	<u><u>86,619</u></u>	<u><u>16,764</u></u>	<u><u>25,743</u></u>

(iii) Included in the consolidated cash flow statement of the Group are the cash flows attributable to the Disposed Subsidiaries during the Relevant Periods:

	Year end 31st March,			Six months ended 30th September,	
	2005 HK'000	2006 HK'000	2007 HK'000	2006 HK'000	2007 HK'000
				(unaudited)	
Operating activities					
(Loss) profit before taxation	(8,722)	30,491	90,602	22,007	37,473
Adjustments for:					
Depreciation	1,884	12,502	25,492	11,282	18,378
Amortisation of prepaid lease payments	828	3,690	5,635	1,420	4,105
Interest income	–	(12)	(1,155)	(141)	(417)
Interest expense	–	20,007	30,571	14,721	21,793
Operating cash flow before movements in working capital	(6,010)	66,678	151,145	49,289	81,332
(Increase) decrease in inventories	(90)	(331)	(517)	37	146
(Increase) decrease in debtors, deposits and prepayments	(4,414)	(13,951)	(5,813)	(3,080)	1,820
Increase (decrease) in creditors, deposits received and accruals	7,292	(3,250)	(1,016)	(559)	3,795
Cash (used in) generated from operations	(3,222)	49,146	143,799	45,687	87,093
Interest paid	(14,278)	(26,028)	(30,571)	(14,721)	(21,793)
Net cash (used in) from operating activities	(17,500)	23,118	113,228	30,966	65,300
Investing activities					
Additions on hotel properties and hotel properties under development	(393,799)	(107,734)	(35,260)	(32,807)	(5,752)
Purchase of business, net of bank balances and cash acquired	–	–	(237,445)	–	–
Purchases of furniture, fixture and equipment	(5,694)	(11,007)	(5,250)	(2,090)	(2,952)
Proceed from sales of furniture, fixture and equipment	–	–	123	–	–
(Increase) decrease in pledged bank deposit	–	(4,518)	(20,641)	(9,845)	23,106
Interest received	–	12	435	141	417

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	Year end 31st March,			Six months ended 30th September,	
	2005 <i>HK'000</i>	2006 <i>HK'000</i>	2007 <i>HK'000</i>	2006 <i>HK'000</i>	2007 <i>HK'000</i>
Net cash (used in) from investing activities	<u>(399,493)</u>	<u>(123,247)</u>	<u>(298,038)</u>	<u>(44,601)</u>	<u>14,819</u>
Financing activities					
Advance from (repayment to) related companies	382,157	49,186	13,535	29,368	(69,291)
New bank borrowings raised	62,365	80,013	249,213	3,283	–
Repayments of bank borrowings	(23,495)	(23,801)	(28,859)	(11,178)	(20,450)
Dividend paid	<u>–</u>	<u>–</u>	<u>(33,160)</u>	<u>–</u>	<u>–</u>
Net cash from (used in) financing activities	<u>421,027</u>	<u>105,398</u>	<u>200,729</u>	<u>21,473</u>	<u>(89,741)</u>
Net increase (decrease) in cash and cash equivalents	4,034	5,269	15,919	7,838	(9,622)
Cash and cash equivalents at the beginning of the year/period	<u>120</u>	<u>4,154</u>	<u>9,423</u>	<u>25,342</u>	<u>25,342</u>
Cash and cash equivalents at the end of the year/period	<u>4,154</u>	<u>9,423</u>	<u>25,342</u>	<u>33,180</u>	<u>15,720</u>
Represented by bank balances and cash	<u>4,154</u>	<u>9,423</u>	<u>25,342</u>	<u>33,180</u>	<u>15,720</u>

(V) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30th September, 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS

Borrowings

As at the close of business on 30 November 2007, being the latest practical date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding secured bank and other borrowings of HK\$2,413,890,000, amounts due to directors, related companies and minority shareholders of approximately HK\$2,236,000, HK\$17,124,000 and HK\$29,219,000 respectively and finance lease obligations of approximately HK\$1,569,000.

Pledge of assets and guarantees

At the close of business on 30 November 2007, the secured borrowings are secured by certain of the Group's assets of approximately HK\$3,745,812,000.

At the close of business on 30 November 2007, the Company has issued corporate guarantees to certain banks and financial institutions in respect of credit facilities drawn by its subsidiaries amounting to approximately HK\$2,473,630,000. In addition, the Group has given guarantee in respect of mortgage loans provided to the home buyers of a property development project held by its subsidiary amounting to approximately HK\$254,093,000.

Debt securities

At the close of business on 30 November 2007, the Group had outstanding financial liabilities at fair value through profit or loss of approximately HK\$546,138,000.

Commitments

At 30 November 2007, the Group has authorised capital expenditure not provided for in these financial statements amounting to approximately HK\$1,072,396,000 of which approximately HK\$1,060,996,000 was contracted for.

Save as disclosed above and apart from intra-group liabilities, the Group did not, at the close of business on 30 November 2007 have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that after taking into account the present internal financial resources of the Remaining Group, the available banking facilities, the minimum Agreed Acquisition Value of HK\$4,000 million and expected subscription monies of the Units of HK\$1,575 million payable (on the assumption that the Company will subscribe at least 50% but not more than 75% of the Units), the Remaining Group has sufficient working capital for its present requirements for at least the next 12-month following the date of this circular.

APPENDIX II**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

For illustration purpose only, set out below is the unaudited pro forma financial information of the Remaining Group.

The information is prepared based on the audited financial information of the Group for the six months ended 30 September 2007 extracted from the accountants' report of the Group set out in Appendix I to this circular and adjust for the impact of the Spin-off and other related matters on the Group. The unaudited pro forma financial information is prepared in accordance with Rules 4.29(1) and 14.68(2)(a)(ii) of the Listing Rules to illustrate the effect of the Spin-off on the Group's financial information.

(A) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

The following is a summary of the unaudited proforma consolidated balance sheet of the Group assuming that the Spin-off had been completed on 30 September 2007 for the purpose of illustrating how the Spin-off might have affected the financial position of the Group.

The unaudited pro forma consolidated balance sheet is prepared to provide financial information on the Group after the completion of the Spin-off. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group shall be on the actual completion of the Spin-off.

	The Group	Pro forma adjustments		The Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>Note 1</i>	<i>Note 2</i>	
NON-CURRENT ASSETS				
Investment properties	1,382,302			1,382,302
Property, plant and equipment	2,175,316	(1,238,826)		936,490
Prepaid lease payments	816,085	(362,130)		453,955
Interests in associates	164,642			164,642
Interests in jointly controlled entities	80,131			80,131
Available-for-sale investments	124,718			124,718
Financial assets at fair value through profit or loss	645,636			645,636
Deposit for acquisition of a property	448,006			448,006
Amounts due from associates	79,460			79,460
Amount due from an investee company	119,995			119,995
Amount due from a minority shareholder	563			563
Loans receivable	3,334			3,334
	<u>6,040,188</u>			<u>4,439,232</u>

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group <i>HK\$'000</i>	Pro forma adjustments		The Remaining Group <i>HK\$'000</i>
		<i>HK\$'000</i> <i>Note 1</i>	<i>HK\$'000</i> <i>Note 2</i>	
CURRENT ASSETS				
Inventories	1,472			1,472
Completed properties for sale	584,211			584,211
Properties under development for sale	1,687,029			1,687,029
Investments held for trading	95,019			95,019
Available-for-sale investments	144,942			144,942
Financial assets at fair value through profit or loss	106,770			106,770
Loans receivable	844			844
Debtors, deposits and prepayments	158,005			158,005
Prepaid lease payments	12,262	(8,210)		4,052
Amount due from a jointly controlled entity	13,077			13,077
Amounts due from associates	1,343			1,343
Taxation recoverable	9,593			9,593
Pledged bank deposits	62,191			62,191
Deposits with investment banks	208,554			208,554
Bank balances and cash	334,511	3,397,687	(1,050,000)	2,682,198
	<u>3,419,823</u>			<u>5,759,300</u>
CURRENT LIABILITIES				
Creditors and accruals	295,798			295,798
Customers' deposits received	622,206			622,206
Amounts due to directors	2,539			2,539
Amounts due to related companies	148,015			148,015
Amounts due to associates	12,049			12,049
Amount due to a minority shareholder	29,057			29,057
Financial liabilities at fair value through profit or loss	491,995			491,995
Derivative financial instruments	780			780
Taxation payable	164,076	(20,498)		143,578
Obligations under finance leases	816			816
Bank and other borrowings	1,434,170	(170,253)		1,263,917
Bank overdrafts, unsecured	186			186
	<u>3,201,687</u>			<u>3,010,936</u>
NET CURRENT ASSETS	<u>218,136</u>			<u>2,748,364</u>
	<u>6,258,324</u>			<u>7,187,596</u>

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group		Pro forma adjustments		The
					Remaining
	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	Group
			<i>Note 1</i>	<i>Note 2</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES					
Share capital	159,988				159,988
Reserves	<u>4,502,591</u>	2,449,772	(1,224,886)		<u>5,727,477</u>
Equity attributable to equity holders of the Company	4,662,579				5,887,465
Minority interests	<u>27,591</u>				<u>27,591</u>
	<u>4,690,170</u>				<u>5,915,056</u>
NON-CURRENT LIABILITIES					
Amounts due to minority shareholders	29,301				29,301
Amount due to a jointly controlled entity	12,552				12,552
Deferred gain	–			174,886	174,886
Deferred taxation	194,120	(66,938)			127,182
Obligations under finance leases	934				934
Bank and other borrowings	<u>1,331,247</u>	(403,562)			<u>927,685</u>
	<u>1,568,154</u>				<u>1,272,540</u>
	<u>6,258,324</u>				<u>7,187,596</u>

Notes:

1. The adjustment reflects the effect of the disposal of REIT Holdco on the Remaining Group:
 - (a) The recording of net cash receipt from the disposal of REIT Holdco to HK Hotel REIT, which will be determined with reference to an underlying value of the hotels of not less than HK\$4,000,000,000 (the minimum Agreed Value) after deduction of (i) estimated expenses of approximately HK\$8,000,000 to be incurred for the Spin-off; (ii) certain mortgage loans of HK\$573,815,000 of the REIT Holdco Group; and (iii) Taxation payable of approximately HK\$20,498,000 of the REIT Holdco Group pursuant to the REIT Holdco Sale and Purchase Agreement. The Existing Borrowings (including the advance to be made by the Remaining Group to the REIT Holdco Group before completion by way of the repayment of certain bank borrowing of the REIT Holdco Group) will be deducted from the final consideration of the disposal of REIT Holdco, however, pursuant to the REIT Holdco Sale and Purchase Agreement, the Existing Borrowing will be repaid in full by HK Hotel REIT to the Remaining Group upon Completion.
 - (b) the elimination of assets and liabilities of the REIT Holdco Group taken up by HK Hotel REIT (being the Hotels and their related prepaid lease payments and furniture, fixture and equipment, Taxation Payable and Deferred Tax of the Hotel Companies) pursuant to the REIT Holdco Sale and Purchase Agreement (“Net Assets of REIT Holdco”); and
 - (c) the recognition of gain on disposal of REIT Holdco of HK\$2,449,772,000 based on the amount of the minimum Agreed Value for the disposal of REIT Holdco to HK Hotel REIT less the Net Assets of REIT Holdco and the estimated expenses to be incurred for the Spin-off.
2. The adjustment represents the subscription monies of HK\$1,050,000,000 for the subscription of Units (being 50% of the minimum Agreed Value less expected initial indebtedness of HK\$1,900,000,000) and elimination of unrealised profit of HK\$1,224,886,000 on disposal of REIT Holdco to HK Hotel REIT attributable to the Units to be subscribed by the Remaining Group against the Remaining Group’s cost of investment in HK Hotel REIT which would be accounted for as an associate of the Remaining Group. Any excess of the aforesaid unrealized gain on disposal of REIT Holdco of HK\$174,886,000 is credited to deferred gain under non-current liabilities. It is the intention of the Group to subscribe for not less than 50.0% but not more than 75.0% of the total Units to be issued. In preparing this pro forma financial information, 50.0% is taken.

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

The following is a summary of the unaudited proforma consolidated income statement of the Group assuming that the Spin-off had taken place on 1 April 2007 for the purpose of illustrating how the Spin-off might have affected the results of the Group.

The unaudited pro forma consolidated income statement is prepared to provide financial information on the Group after the completion of the Spin-off. As it is prepared for illustrative purpose only, it may not purport to represent what the result of the Group for the six months ended 30 September 2007 or any future period shall be.

	The Group HK\$'000	Pro forma adjustments				The Remaining Group HK\$'000
		HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 6	
Sales of properties	312,119					312,119
Hotel operations	265,024		10,930			275,954
Property rental income and management service income	36,226					36,226
Interest income from financial instruments	79,104					79,104
Loan interest income	286					286
	692,759					703,689
Depreciation on hotel properties and other equipments	(25,469)	18,378				(7,091)
Lease charge	–		(140,000)			(140,000)
Other cost of sales	(283,709)					(283,709)
GROSS PROFIT	383,581					272,889
Other income	11,396					11,396
Administrative expenses	(127,468)	4,105				(123,363)
Gain on disposal of available-for-sale investments	40,998					40,998
Increase in fair value of financial assets at fair value through profit or loss	4,146					4,146
Increase in fair value of financial liabilities at fair value through profit or loss	(67,754)					(67,754)
Increase in fair value of derivative financial instruments	221					221
Increase in fair value of investments held for trading	35,480					35,480
Increase in fair value of investment properties	4,440					4,440
Discount on acquisition	66,140					66,140
Gain on disposal of subsidiaries	–			1,216,616		1,216,616
Share of results of associates	7,934				418,923	426,857
Share of results of jointly controlled entities	6,285					6,285
Finance costs	(61,137)	21,793				(39,344)

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group HK\$'000	Pro forma adjustments				The Remaining Group HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		Note 3	Note 4	Note 5	Note 6	
PROFIT BEFORE TAXATION	304,262					1,855,007
Taxation	<u>(49,488)</u>	(7,748)	22,587			<u>(34,649)</u>
PROFIT FOR THE PERIOD	<u>254,774</u>					<u>1,820,358</u>
Attributable to:						
– Equity holders of the Company	255,199	36,528	(106,483)	1,216,616	418,923	1,820,783
– Minority interests	<u>(425)</u>					<u>(425)</u>
	<u>254,774</u>					<u>1,820,358</u>

Notes:

3. The adjustment represents the reversal of depreciation and amortization of the Hotels and their related prepaid lease payment and the fixture, furniture and equipment, and the finance cost of the mortgage loans of certain Hotel Companies and the tax effect thereon.
4. The adjustment reflects the impact of entering into the Trust Deed and the Leases on the Remaining Group:
 - (a) The recognition of the Fixed Rental of HK\$140,000,000 (calculated based on half year Fixed Rentals of HK\$280,000,000) payable by the Remaining Group to HK Hotel REIT. Variable Rentals have not been taken into account as no Variable Rentals should be payable during the six-month ended 30 September 2007, based on the performance of the Hotels;
 - (b) The recognition of the REIT Manager's Fee of approximately HK\$10,930,000 (being Base Fee of approximately HK\$7,430,000 and Variable Fee of HK\$3,500,000) receivable by the Remaining Group from HK Hotel REIT. The Base Fee is calculated at 0.15% (0.3% per annum) of the Property Value of HK\$4,953,000,000 and the Variable Fee is calculated at 2.5% of the Net Property Income of HK\$140,000,000; and
 - (c) The recognition of the income tax effects on (a) and (b) above.
5. The adjustment represents gain on disposal of REIT Holdco to HK Hotel REIT and elimination of unrealizable profit attributable to the Units to be subscribed by the Remaining Group.
6. The adjustment represents the Group's 50% share of the profit after tax of HK Hotel REIT for the current period. The profit for the period of HK Hotel REIT is derived from (a) the Fixed Rentals for the period of HK\$140,000,000 less the REIT Manager's Fee of approximately HK\$10,930,000 and the expected finance cost of HK\$66,500,000, and income tax effect thereon; and (b) the excess of the fair value of the properties over the acquisition cost of HK\$953,000,000 being the difference between the Appraised Value of HK\$4,953,000,000 and the minimum Agreed Value of HK\$4,000,000,000, net of the deferred tax charges of HK\$166,775,000. The fair value of the hotel properties at 30 September 2007 is based on the directors' valuation with reference to the appraisal value at 30 November 2007.

The adjustment of the Fixed Rental, the REIT Manager's Fee and tax effect thereon and the share of profit of HK Hotel REIT will have a continuing effect on the Remaining Group. Other adjustments will not have a continuing effect.

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following is a summary of the unaudited proforma consolidated cash flow statement of the Group assuming that the Spin-off had taken place on 1 April 2007 for the purpose of illustrating how the Spin-off might have affected the cash flow of the Group.

The unaudited pro forma consolidated cash flow statement is prepared to provide financial information on the Group after the completion of the Spin-off. As it is prepared for illustrative purpose only, it may not purport to represent what the cash flow of the Group for the six months ended 30 September 2007 or any future period shall be.

	The Group <i>HK\$'000</i>	Pro forma adjustments				The Remaining Group
		<i>HK\$'000</i> <i>Note 7</i>	<i>HK\$'000</i> <i>Note 8</i>	<i>HK\$'000</i> <i>Note 9</i>	<i>HK\$'000</i> <i>Note 10</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES						
Profit before taxation	304,262	44,276	(129,070)	1,216,616	418,923	1,855,007
Adjustments for:						
Share of results of jointly controlled entities	(6,285)					(6,285)
Share of results of associates	(7,934)				(418,923)	(426,857)
Depreciation and amortisation	27,625	(22,483)				5,142
Dividend from listed investment	(2,311)					(2,311)
Interest income	(4,393)					(4,393)
Interest expenses	61,086	(21,793)				39,293
Allowance for bad and doubtful debts	3,071					3,071
Allowance for loan receivable	3,900					3,900
Increase in fair value of investment properties	(4,440)					(4,440)
Gain on disposal of available-for-sale investments	(40,998)					(40,998)
Decrease in fair value of financial liabilities through profit or loss	67,754					67,754
Gain on disposal of subsidiaries	-			(1,216,616)		(1,216,616)
Discount on acquisition	(66,140)					(66,140)
Recognition of share-based payments	486					486
Amortisation of prepaid lease payments	5,162					5,162

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group HK\$'000	Pro forma adjustments				The Remaining Group
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Note 7	Note 8	Note 9	Note 10	
Operating cash flows before movements in working capital	340,845					211,775
Decrease in completed properties for sales	162,230					162,230
Increase in properties under development for sale	(176,762)					(176,762)
Increase in debtors, deposits and prepayments	(19,232)					(19,232)
Increase in investments held for trading	(44,255)					(44,255)
Decrease in financial assets through profit or loss	101,607					101,607
Decrease in derivative financial instruments	1,266					1,266
Decrease in loans receivable	424					424
Decrease in inventories	242					242
Decrease in amount due from associates	70					70
Increase in amount due from a jointly controlled entity	(807)					(807)
Decrease in creditors and accruals	(109,939)					(109,939)
Increase in customers' deposits received	441,447					441,447
Increase in amount due to associates	164					164
Cash generated from operations	697,300					568,230
Hong Kong Profits Tax paid	(16,358)					(16,358)
Overseas Profits Tax paid	(16,167)					(16,167)
Tax refund	2,898					2,898
NET CASH FROM OPERATING ACTIVITIES	<u>667,673</u>					<u>538,603</u>
INVESTING ACTIVITIES						
Purchase of property, plant and equipment	(31,274)	8,704				(22,570)
Purchase of businesses, net of bank balances and cash acquired	(70,099)					(70,099)
Proceeds from disposal of subsidiaries	–			3,980,471		3,980,471
Investment in HK Hotel REIT	–			(1,050,000)		(1,050,000)

APPENDIX II
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

	The Group HK\$'000	Pro forma adjustments				The Remaining Group HK\$'000
		HK\$'000 Note 7	HK\$'000 Note 8	HK\$'000 Note 9	HK\$'000 Note 10	
Proceeds from disposal of property, plant and equipment	178					178
Purchase of available-for-sale investments	(957,035)					(957,035)
Proceeds from disposal of available-for-sale investment	1,143,639					1,143,639
Addition of prepaid lease payments	(130,405)					(130,405)
Deposit paid on acquisition of properties	(435,860)					(435,860)
Decrease in pledged deposits	39,630					39,630
Dividend received from associates	8,386					8,386
Dividend received from listed investments	2,311					2,311
Interest received	4,393					4,393
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(426,136)</u>					<u>2,513,039</u>
Financing activities						
Proceeds from issue of shares, net of issue expenses	2,942					2,942
New bank and other borrowings raised	5,245,373					5,245,373
Repayments of bank and other borrowings	(5,152,960)			(594,265)		(5,747,225)
Repayments of obligations under finance leases	(339)					(339)
Repayment to directors	(4,531)					(4,531)
Repayment to minority shareholders	(13,484)					(13,484)
Repayment to related companies	(14,852)					(14,852)
Dividends paid	(66,574)					(66,574)
Interest paid	(76,351)	21,793				(54,558)
NET CASH USED IN FINANCING	<u>(80,776)</u>					<u>(653,248)</u>
Net increase in cash and cash equivalents	160,761	30,497	(129,070)	2,336,206		2,398,394
CASH AND CASH EQUIVALENTS AT 1 APRIL, 2007	412,333					412,333
Effect of foreign exchange rate changes	<u>(30,215)</u>					<u>(30,215)</u>
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER, 2007	<u>542,879</u>					<u>2,780,512</u>

Notes:

7. The adjustment reflects the reversal of (a) depreciation and amortisation of the Companies Hotel and the related prepaid lease payment and the fixture, furniture and equipment; (b) finance cost of the mortgage loans of certain Hotels; and (c) purchase of property, plant and equipment by certain Hotels during the period.
8. The adjustment represents the payment of the Fixed Rentals and the receipt of the REIT Manager's Fee as detailed in note 4 to the pro forma income statement.
9. The adjustment represents (a) the proceeds from the disposal of REIT Holdco to HK Hotel REIT; (b) the resulting gain from the disposal as detailed in note 5 to the pro forma income statement; (c) the repayment of certain bank borrowings of the REIT Holdco Group; and (d) the subscription for Units.
10. The adjustment reflects the share of profit of HK Hotel REIT for the period as detailed in note 6 to the pro forma income statement.

The adjustment of the Fixed Rental, the REIT Manager's Fee and tax effect thereon and the share of profit of HK Hotel REIT will have a continuing effect on the Remaining Group. Other adjustments will not have a continuing effect.

**(B) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the text of the report from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for incorporation in this circular:

Deloitte.
德勤

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION****TO THE DIRECTORS OF FAR EAST CONSORTIUM INTERNATIONAL LIMITED**

We report on the unaudited pro forma financial information of Far East Consortium International Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company, to provide information about how the very substantial disposal in relation to the proposed spin-off of Hong Kong Hotel Real Estate Investment Trust on the Main Board of the Stock Exchange of Hong Kong Limited might have affected the financial information presented, for inclusion in Appendix II to the circular dated 18th January 2008 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on pages 188 to 196 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30th September 2007 or any future date; and
- the results and cash flows of the Group for the six months period ended 30th September 2007 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18th January 2008

The following is the text of a letter and valuation certificate from the independent valuer, CB Richard Ellis Limited, in connection with the valuation of the Hotels as at 30 November 2007, prepared for the purpose of incorporation in this circular:

CBRE
CB RICHARD ELLIS
世邦魏理仕

Suite 3401 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三四零一室
電話852 2820 2800 傳真 852 2810 0830

January 18, 2008

Far East Consortium International Limited

16/F, Far East Consortium Building
121 Des Voeux Road, Central
Hong Kong

Dear Sirs,

**RE: VALUATION OF CENTRAL PARK HOTEL, COSMO HOTEL,
COSMOPOLITAN HOTEL, DORSETT FAR EAST HOTEL,
DORSETT OLYMPIC HOTEL, DORSETT SEAVIEW HOTEL AND
LAN KWAI FONG HOTEL IN HONG KONG
(COLLECTIVELY “HOTEL PROPERTIES” OR INDIVIDUALLY “HOTEL
PROPERTY”)**

We refer to the recent instruction from Far East Consortium International Limited (the “Far East Group”) to CB Richard Ellis Limited (hereinafter refers to “we” or “CBRE”) to carry out valuations of the captioned seven hotels (as detailed in the attached summary of values). We confirm that we have made relevant investigations and enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the market values of the leasehold interests of the Hotel Properties as at November 30, 2007 (the “date of valuation”).

Our valuations are prepared in accordance with the “HKIS Valuation Standards on Properties (First Edition 2005)” and meet the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities (the “Exchange Listing Rules”) issued by The Stock Exchange of Hong Kong Limited.

Our valuations are made on the basis of Market Value which is defined by the HKIS to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

We have adopted Direct Comparison Method and Income Approach in assessing the Market Values of each Hotel Property. Adjustments are made to reflect the differences in date of sale, location, property quality, market positioning, room configuration and distribution, provision of retail and other facilities, the land lease term, the government rents and other factors affecting the values. No profit forecast elements have been used the Income Approach.

We have applied the definition of Market Value to each property interest independently.

Gross Floor Area expressed in our valuation reports has the same meaning as that defined in the Building (Planning) Regulations. Except where such area has been exempted as constituting gross floor area under the Building (Planning) Regulations of the Buildings Ordinance, Cap. 123 of the Laws of Hong Kong, in general, Gross Floor Area of a building shall be the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground) and the thickness of the external walls of the building but may disregard any floor space that is constructed solely for parking motor vehicles, loading or unloading of motor vehicles, refuse related facilities and other mechanical and electrical services.

In the course of our valuations, we have made reference to the legal opinions on title provided by the legal advisor, namely Wo Kwan Lee & Lo. We are not aware of any title defects, easements or rights of way affecting the Hotel Properties and our valuations assume that none exists, except only where otherwise stated.

We have assumed that the Hotel Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Hotel Properties upon which the attached reports are based, any and all required licences, permits, certificates, and authorizations have been obtained, except only where otherwise stated.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Hotel Properties nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the Hotel Properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of this report.

We have inspected the Hotel Properties to such extent as is necessary for the purpose of the valuations. In the course of our inspection, we did not notice any serious defects, except where stated otherwise. However, we have not carried out any structural survey nor any tests were made on the building services.

CBRE has provided the addressees of this letter with a valuation certificate for each of the Hotel Properties. The valuations must be read in conjunction with the following:

- The conclusions as to the estimated values of each Hotel Property are based upon the factual information set forth in the respective reports. Whilst CBRE has endeavored to assure the accuracy of the factual information, it has not independently verified all information provided to us (primarily copies of leases and financial information with respect to the properties as well as statistical information relating to market conditions and demographics).
- When we adopted the information from others in our valuations, the assumptions and caveats that were adopted by them in arriving at their figures are also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.
- We have no reason to doubt the truth and accuracy of the information provided to us and we also have no reason to believe that the information is not fair and reasonable. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.
- The reports were undertaken based upon information available to us as in November 2007. CBRE accepts no responsibility for subsequent changes in information as to income, expenses or market conditions. No obligation is assumed to revise the valuations to reflect events or conditions which may occur subsequent to the date thereof.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Harry Chan MHKIS MRICS RPS (GP)
Senior Director
Valuation & Advisory Services

Note: Mr Chan is a Registered Professional Surveyor (General Practice), a member of the Hong Kong Institute of Surveyors, a member of Royal Institution of Chartered Surveyors. He has over 16 years experience in hotel valuation in Hong Kong, Macau as well as the People's Republic of China.

Encl.

SUMMARY OF VALUES

Property Interests	Capital values as at November 30, 2007
1. Central Park Hotel 263 Hollywood Road Hong Kong	HK\$ 412,000,000
2. Cosmo Hotel 375 Queen's Road East Hong Kong	HK\$ 547,000,000
3. Cosmopolitan Hotel 387 Queen's Road East Hong Kong	HK\$1,873,000,000
4. Dorsett Far East Hotel 135, 137/143 Castle Peak Road Tsuen Wan New Territories	HK\$ 352,000,000
5. Dorsett Olympic Hotel 48 Anchor Street Kowloon	HK\$ 265,000,000
6. Dorsett Seaview Hotel 268 Shanghai Street Kowloon	HK\$ 565,000,000
7. Lan Kwai Fong Hotel 3 Kau U Fong Hong Kong	HK\$ 939,000,000
	<hr/>
	Total: <u>HK\$4,953,000,000</u>

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
1. Central Park Hotel, 263 Hollywood Road, Hong Kong The Remaining Portion of Section A of Inland Lot No. 568 and Inland Lot No. 8412	Central Park Hotel, opened in April 2005, is a 24-storey Medium Tariff hotel with 142 rooms. It also comprises an executive lounge on the mezzanine floor, a meeting room and a restaurant. The Gross Floor Area of the property is 51,183 sq.ft. (4,755.00 sq.m.). The property is held under a Government Lease for a term of 999 years commencing from 8 March 1858 and Conditions of Sale No. 11265 for a term of 75 years renewable for 75 years commencing from 30 October 1978. The annual government rent for the property is HK\$1,038.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The retail portion of the property is let under tenancy for a term of 3 years, expiring on 19 May 2009. The current occupancy rate of the retail portion is 100%. The total monthly base rent generated is HK\$48,000.	HK\$412,000,000 (HONG KONG DOLLARS FOUR HUNDRED AND TWELVE MILLION)

Notes:

- i. The registered owner of the property is Vicsley Limited.
- ii. The property is subject to the following encumbrances:
 - a. Mortgage to Secure General Banking Facilities in favor of Hang Seng Bank Limited via Memorial No. UB9348972 dated September 27, 2004;
 - b. Assignment of Rental and Sale Proceeds in favor of Hang Seng Bank Limited via Memorial No. UB9348973 dated September 27, 2004; and
 - c. Statutory Declaration of Sung, Dicky via Memorial No. UB9359370 dated September 27, 2004.
- iii. The property is situated in an area designated as "Commercial/Residential" under the Sai Ying Pun and Sheung Wan Outline Zoning Plan No. S/H3/21 dated 17 March 2006.
- iv. Waiver and permission from the Director of Lands as to permit the existing lettings in view of the restrictions under clause 4 of the licence is being sought. If such waiver and permission is not available in time, the Company will terminate the existing lettings.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
2. Cosmo Hotel 375 Queen's Road East Hong Kong Sub-section 1 of Section A of Inland Lot No. 1578	Cosmo Hotel, opened in 2005, is a 25-storey High Tariff B hotel with 142 rooms. It also comprises a bar, an outdoor terrace and a retail area of approximately 8,087.3 sq.ft. The Gross Floor Area of the property is 61,140 sq.ft. (5,680.00 sq.m.). The property is held under Government Lease for a term of 75 years renewed for another 75 years commencing from 5 February 1900 at an annual rent of HK\$359,280.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The retail portion of the property is let under a tenancy for a term of 2 years, expiring on 31 January 2008. The current occupancy rate of the retail portion is 30%. The total monthly base rent generated is HK\$80,000. A tour and transport counter is leased under a tenancy for a term of 2 years expiring on 30 September 2009. The total monthly base rent generated is HK\$10,000. Various mobile phone base stations and antennae and signage space are leased under 4 licences and generate a monthly licence fee of HK\$141,800. The latest expiry date is on 30 April 2009.	HK\$547,000,000 (HONG KONG DOLLARS FIVE HUNDRED FORTY SEVEN MILLION)

Notes:

- i. The registered owner of the property is Grand Expert Limited.
- ii. The property is subject to the following encumbrances:
 - a. Balconies Undertaking in favor of H. E. The Governor via Memorial No. UB209930 dated March 12, 1952;
 - b. No-objection Letter from the Government of the HKSAR by the District Lands Officer/ Hong Kong West via Memorial No. UB8281602 dated November 30, 2000;
 - c. Mortgage in favor of Hang Seng Bank Limited via Memorial No. 05030201850333 dated February 22, 2005; and

- d. Assignment of Rental and Sale Proceeds in favor of Hang Seng Bank Limited via Memorial No. 05030201850343 dated February 22, 2005.

- iii. The property is situated in an area designated as “Commercial” under the Wong Nai Chung Outline Zoning Plan No. S/H7/13 dated 2 November 2007.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
3. Cosmopolitan Hotel 387 Queen's Road East Hong Kong The Remaining Portion of Inland Lot No. 1578	<p>Cosmopolitan Hotel, opened in 2004, is a 23-storey High Tariff B hotel with 454 rooms. It also comprises a restaurant, an in-house bar, 6 meeting rooms, a large function room and a gym room.</p> <p>The Gross Floor Area of the property is 172,469 sq.ft. (16,022.78 sq.m.).</p> <p>The property is held under Government Lease for a term of 75 years renewed for another 75 years commencing from 5 February 1900 at an annual rent of HK\$82,800.</p>	<p>The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited.</p> <p>The retail portion of the property is let under a tenancy for a term of 3 years, with the expiry date on 30 September 2009. The current occupancy rate of the retail portion is 100%. The total monthly base rent generated is HK\$200,000.</p> <p>A tour and transport counter is leased under a tenancy for a term of 2 years expiring on 30 September 2009. The total monthly base rent generated is HK\$30,000.</p> <p>An advertising billboard is leased under a licence and generates a monthly licence fee of HK\$115,000. The expiry date is on 31 August 2008.</p>	<p>HK\$1,873,000,000 (HONG KONG DOLLARS ONE BILLION EIGHT HUNDRED SEVENTY THREE MILLION)</p>

Notes:

- i. The registered owner of the property is Cosmopolitan Hotel Limited.
- ii. The property is subject to the following encumbrances:
 - a. Balconies Undertaking in favor of H.E. The Governor via Memorial No. UB149278 dated January 13, 1936; and
 - b. Debenture and Mortgage in favor of The Hongkong and Shanghai Banking Corporation Limited via Memorial No. UB8890915 dated February 24, 2003.
- iii. The property is situated in an area designated as "Commercial" under the Wong Nai Chung Outline Zoning Plan No. S/H7/13 dated 2 November 2007.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
4. Dorsett Far East Hotel 135, 137/143 Castle Peak Road Tsuen Wan New Territories Certain undivided shares of Lot No. 2158 in Demarcation District 449	Dorsett Far East Hotel, opened in 2006, is a 9-storey hotel (comprising the top 9 floors of a 17-storey high building) with 240 rooms. The lower portion of the building does not form part of the subject property. The Gross Floor Area of the property is 46,386 sq.ft. (4,309.39 sq.m.). By virtue of the New Territories Leases (Extension) Ordinance, the lease term of the property has been extended until 30 June 2047. The annual Government rent for the property is equivalent to 3% of the rateable value of the property for the time being.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The property is not subject to any other tenancy or licence agreement.	HK\$352,000,000 (HONG KONG DOLLARS THREE HUNDRED FIFTY TWO MILLION)

Notes:

- i. The registered owner of the property is Far East Consortium Limited.
- ii. The property is subject to the following encumbrances:
 - a. Modification via Memorial No.TW78720 registered on October 4, 1965;
 - b. Undertaking Re (Part) 3/F and 4th Floor by the Colonial Treasurer Incorporated via Memorial No.TW342692 registered on April 29, 1985;
 - c. Deed Poll via Memorial No. TW381302 dated May 8, 1986; and
 - d. Mortgage to Secure General Banking Facilities in favor of Nanyang Commercial Bank Limited via Memorial No. TW1117836 dated February 10, 1997.
- iii. The property is situated in an area designated as "Residential (Group A)" under the Tsuen Wan Outline Zoning Plan No. S/TW/24 dated 6 July 2007.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
5. Dorsett Olympic Hotel 48 Anchor Street Kowloon Kowloon Inland Lot No. 6374	Dorsett Olympic Hotel, opened in 2005, is a 23-storey (including one basement floor) Medium Tariff hotel with 141 rooms. It also comprises a restaurant. The Gross Floor Area of the property is 34,552 sq.ft. (3,210.00 sq.m.). The property is held under Government Lease for a term of 75 years renewable for 75 years commencing from 16 March 1953 at an annual rent of HK\$176.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The property is not subject to any other tenancy or licence agreement.	HK\$265,000,000 (HONG KONG DOLLARS TWO HUNDRED SIXTY FIVE MILLION)

Notes:

- i. The registered owner of the property is Sheen Profit Industries Limited.
- ii. The property is subject to the following encumbrances:
 - a. Balcony Undertaking in favor of H.E. The Governor via Memorial No. UB649759 dated November 6, 1968;
 - b. Waiver Letter from the Government of The HKSAR by the District Lands Officer/ Kowloon West via Memorial No. UB8398193 dated May 22, 2001;
 - c. Waiver Letter from the Government of the HKSAR by the District Lands Officer/ Kowloon West via Memorial No. UB8718360 dated June 21, 2002;
 - d. Waiver Letter from the Government of the HKSAR by the District Lands Officer/ Kowloon West via Memorial No. UB8882301 dated February 17, 2003;
 - e. Modification Letter via Memorial No. UB9117778 dated January 26, 2004; and
 - f. Building Mortgage in favor of Citic Ka Wah Bank Limited via Memorial No. UB9341546 dated September 24, 2004.
- iii. The property is situated in an area designated as "Residential (Group E)" under the Mong Kok Outline Zoning Plan No. S/K3/24 dated 19 May 2006.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
6. Dorsett Seaview Hotel 268 Shanghai Street Kowloon Kowloon Inland Lot Nos. 9944, 9701, 9705, 9727, 9769 & 7429	Dorsett Seaview Hotel, opened in 1994, is a 21-storey (including one basement floor) Medium Tariff hotel with 268 rooms. It also comprises a lounge and a spa. The Gross Floor Area of the property is 59,884 sq.ft. (5,563.40 sq.m.). The property is held under various Conditions of Regrant for terms of 150 years commencing from 20 June 1898 or 2 February 1885. The annual government rent for the property is HK\$372.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The retail portion of the property is let under a tenancy for a term of 3 years with the expiry date on 31 August 2008. The current occupancy rate of the retail portion is 100%. The total monthly base rent generated is HK\$160,000.	HK\$565,000,000 (HONG KONG DOLLARS FIVE HUNDRED SIXTY FIVE MILLION)

Notes:

- i. The registered owner of the property is Rich Lord International Limited.
- ii. The property is subject to the following encumbrances:
 - a. Deed of Dedication Re Part of KILs. 9944, 9701, 9705, 9727, 9769 & 7429 in favor of The Government of Hong Kong via Memorial No. UB5052523 dated October 21, 1991;
 - b. Modification Letter via Memorial No. UB5170451 dated January 27, 1992;
 - c. Deed of Subordination by China Joy Investments Limited & Rich Lord International Limited in favor of Kincheng Banking Corporation via Memorial No. UB6222438 dated December 29, 1994;
 - d. Legal Charge in favor of Margaux Finance Limited via Memorial No. UB6285234 dated April 11, 1995;
 - e. Transfer of Mortgage by Margaux Finance Limited in favor of Far East Real Estate & Agency (H.K.) Limited "The Transferee" via Memorial No. UB8302255 dated January 29, 2001;
 - f. Novation Deed by Margaux Finance Limited in favor of Far East Real Estate & Agency (HK) Limited via Memorial No. UB8311377 dated January 29, 2001;
 - g. Mortgage Re Dorsett Seaview Hotel in favor of Nanyang Commercial Bank Limited via Memorial No. 07022801440089 dated January 31, 2007; and
 - h. Assignment of Rental Sale Proceeds and Receivables Re Dorsett Seaview Hotel in favor of Nanyang Commercial Bank Limited via Memorial No. 07022801440092 dated January 31, 2007.
- iii. The property is situated in an area designated as "Residential (Group A)" under the Yau Ma Tei Outline Zoning Plan No. S/K2/19 dated 31 August 2007.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in the existing state as November 30, 2007
7. Lan Kwai Fong Hotel 3 Kau U Fong Hong Kong 8,188/8,545 undivided shares of the Remaining Portion of Inland Lot No. 8852	Lan Kwai Fong Hotel, opened in 2006, is a 36-storey High Tariff B hotel with 162 rooms. It also comprises a meeting room, a lounge, an area serving breakfast for guests, a Chinese restaurant, a gym room and a business center. The Gross Floor Area of the property is 60,773 sq.ft. (5,645.94 sq.m.). The property is held under Condition of Exchange No. UB12569 for a term of 50 years commencing from 27 April 2000 at an annual rent of 3% of the rateable value of the property for the time being.	The hotel is currently operated by Dorsett Hotels & Resorts (H.K.) Limited. The property is not subject to any other tenancy or licence agreement.	HK\$939,000,000 (HONG KONG DOLLARS NINE HUNDRED THIRTY NINE MILLION)

Notes:

- i. The registered owner of the property is The Hotel of Lan Kwai Fong Limited.
- ii. The property is subject to the following encumbrances:
 - a. Building Legal Charge Re IL 8852 in favor of Wing Hang Bank Limited via Memorial No. UB8991402 dated July 30, 2003;
 - b. Assignment of Rental and Receivable Re IL 8852 in favor of Wing Hang Bank Limited via Memorial No. UB8991403 dated July 30, 2003;
 - c. Modification Letter Re IL 8852 via Memorial No. UB9329230 dated September 8, 2004; and
 - d. Certified Copy Occupation Permit No. HK121/2005 via Memorial No. 06042000560026 dated December 30, 2005.
- iii. The property is situated in an area designated as "Commercial / Residential" under the Sai Ying Pun and Sheung Wan Outline Zoning Plan No. S/H3/21 dated 17 March 2006.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

(a) Long position in Shares and underlying Shares

Name of Director	Number of Shares held			Percentage of issued share capital of the Company
	Personal interests	Corporate interests	Total	
Deacon Te Ken Chiu	11,121,966	121,323,130 (1)	132,445,096	8.25%
David Chiu	676,563	348,434,352 (2)	349,110,915	21.74%
Dennis Chiu	8,457	5,093,924 (3)	5,102,381	0.32%
Ching Lan Ju Chiu	1,387,241	–	1,387,241	0.09%
Daniel Tat Jung Chiu	41,606	3,877,218 (4)	3,918,824	0.24%

Notes:

- (1) These Shares are held by various companies controlled by Mr. Deacon Te Ken Chiu.
- (2) These Shares are held by Sumptuous Assets Limited, a company controlled by Tan Sri Dato' David Chiu.
- (3) These Shares are held by Chiu Capital N.V., a company controlled by Mr. Dennis Chiu and First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu.
- (4) These Shares are held by First Level Holdings Limited, a company controlled by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu and are entirely duplicated and included in the corporate interests of Mr. Dennis Chiu.

(b) Share options

As at the Latest Practicable Date, the Company has not granted to the Directors any share option under the share option scheme adopted on 28 August 2002.

(c) Shares in associated corporations

As at the Latest Practicable Date, the interests of Directors in the share capital of the Company's associated corporations were as follows:

Name of Director	Name of associated corporation	Number of ordinary shares held
Deacon Te Ken Chiu	Kanic Property Management Limited	2
David Chiu	Oi Tak Enterprises Limited	250,000

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

(d) Service contracts

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the Directors and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

(e) Interest in assets of the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which were, since 30 September 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

(f) Interest in contracts and arrangements

None of the Directors had material interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(g) Interest in competing business

To the best of the knowledge of the Directors, none of the Directors or their respective associates has any interest in a business, which competes or may compete with the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests in long positions and short positions kept by the Company pursuant to Divisions 2 and 3 of Part XV and section 336 of the SFO and as far as the Directors are aware, the following persons had a long position or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Capacity	Number of ordinary shares held	Percentage of issued share capital of the Company
Sumptuous Assets Limited	Beneficial owner	348,434,352(L)	21.70%
Zwaanstra John	Interests in controlled corporation	450,151,397(L)	28.03%
Penta Investment Advisers Limited	Investment manager	450,151,397(L)	28.03%
Mercurius GP LLC	Founder of a discretionary trust	178,265,591(L)	11.10%
Zwaanstra Todd	Trustee	178,265,591(L)	11.10%
Penta Asia Fund, Ltd.	Interests in controlled corporation	178,265,591(L)	11.10%
Deutsche Bank Aktiengesellschaft	Beneficial owner	29,123,343(L)	1.81%
	Beneficial owner	8,998,552(S)	0.56%
	Person having a security interest in Shares	83,312,094(L)	5.19%
	Person having a security interest in Shares	30,826,327(S)	1.92%
Sky Investment Counsel Inc.	Investment manager	87,847,252(L)	5.47%
Penta Asia Long/Short Fund, Ltd.	Beneficial owner	80,514,665(L)	5.01%

Note: "L" refers to the long position in the Shares held by such entity, while "S" refers to short position in the Shares held by such entity.

Save as disclosed above, none of the Directors or chief executive of the Company are aware of any person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

5. EXPERTS AND CONSENTS

The following are the experts, and their qualifications, who have given their advice or opinion contained in this circular:

Name	Qualification
Kingsway Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Deloitte Touche Tohmatsu ("Deloitte")	Certified public accountants
CB Richard Ellis Limited ("CBRE")	Independent professional valuer

Each of Kingsway Capital, Deloitte and CBRE has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report as set out in this circular and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Kingsway Capital, Deloitte and CBRE was beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it have any direct or indirect interest in any assets which were, since 30 September 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular and are or may be material:

- (i) An agreement dated 6 September 2006 entered into between Jeram Bintang Sdn Bhd as vendor and Wanchope Limited, a wholly-owned subsidiary of the Company, as purchaser for the sale and purchase of the entire issued share capital (the “**Sale Shares**”) of Subang Jaya Hotel Development Sdn Bhd (“**Subang**”) and the amount of indebtedness owed by Subang to the vendor from time to time (the “**Inter-Company Debt**”) remained outstanding as at the date of completion of such agreement dated 6 September 2006 at the consideration of RM1 (equivalent to approximately HK\$2) for the Sale Shares and RM120 million (equivalent to approximately HK\$253 million) as the repayment of the Inter-Company Debt on behalf of Subang.
- (ii) A share sale and purchase agreement dated 14 December 2006 entered into among Dr. Henry Cheng Kar Shun as purchaser, Far East Consortium Limited (“**FECL**”), a wholly-owned subsidiary of the Company, as vendor and Shelborn Enterprises, Inc. (“**Shelborn**”), a wholly-owned subsidiary of FECL, for the sale and purchase of the entire issued share capital of Shelborn and all the assets and liabilities of Shelborn at the consideration of US\$37,800,000 (equivalent to approximately HK\$294,840,000).
- (iii) An agreement dated 21 December 2006 entered into between Far East Consortium Limited, a wholly-owned subsidiary of the Company as purchaser and Mr. David Chiu as vendor for the sale and purchase of the entire issued share capital of Jade River Profits Limited at the consideration of HK\$331,445,000.
- (iv) An agreement dated 22 April 2007 entered into between Beijing Oriental Great Long International Auction Co., LTD as auction agent and Far East Dorsett Hotel Management (Cheng Du) Company Limited, a wholly-owned subsidiary of the Company, as purchaser for the purchase of a building project which mainly consists of (i) the land use right of a plot of land (the “**Land**”) located in No. 124 to 177, 成都市玉龍西街(Cheng Du Yu Long West Street) with a site area of 5,738.81 s.q.m.; and (ii) the immovable property, which is known as 成都銀座大廈(Cheng Du Ginza Building), situated on the Land at the consideration of RMB279,000,000 (equivalent to approximately HK\$281,818,182).
- (v) An agreement dated 29 June 2007 entered into between Wu Han Far East Dorsett Hotel Management Company Limited, an indirect wholly-owned subsidiary of the Company, as purchaser and Wu Han Jiang Long Real Estate Building Development Co., Ltd as vendor for the sale and purchase of the building complex which mainly consists of (i) the land use right of a plot of land located in No 118, Jiang Han Street, Jiang An District, Wu Han with a site area of approximately 5,409 s.q.m.; and (ii) the properties titles of the property, namely 港澳中心(Hong Kong and Macau Centre), situated on such plot of land at the consideration of RMB420,000,000 (equivalent to approximately HK\$432,600,000).

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office of the Company at 16th Floor, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for each of the two years ended 31 March 2006 and 2007;
- (iii) the interim report of the Company for the six-month ended 30 September 2007;
- (iv) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 56 of this circular;
- (v) the letter of advice from Kingsway Capital, the text of which is set out on pages 57 to 85 of this circular;
- (vi) the accountants' report on the Group, the text of which is set out in Appendix I to this circular;
- (vii) the unaudited pro forma financial information on the Remaining Group and the comfort letter thereon from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (viii) the property valuation on the Hotels from CB Richard Ellis Limited, the text of which is set out in Appendix III to this circular;
- (ix) the written consents as referred to in the section headed "Expert and consents" in this appendix;
- (x) material contracts as referred to in the section headed "Material contracts" in this appendix; and
- (xi) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing rules since 30 September 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

8. GENERAL

- (a) The qualified accountant and secretary of the Company is Bill Kwai Pui Mok, *MBA, AICPA, HKICPA*.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The English language text of this circular shall prevail over the Chinese language text.

NOTICE OF THE EGM



FAR EAST CONSORTIUM INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Website: <http://www.fecil.com.hk>

(Stock Code: 35)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Far East Consortium International Limited (the “Company”) will be held at the La Maison de l’Orient, 1/F., Cosmopolitan Hotel, 387-397 Queen’s Road East, Wanchai, Hong Kong, on 4 February 2008 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the Proposed Spin-off (as defined below) and all documents or agreements in connection therewith or contemplated thereunder or for the purpose of giving effect thereto, be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorised on behalf of the Company to approve and implement the Proposed Spin-off and all matters incidental thereto and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think fit (including, inter alia, (i) to sign, seal, execute, perfect and deliver any document, instruments and agreements for and on behalf of the Company in connection with or pursuant to the Proposed Spin-off; and (ii) to exercise all such powers and do all such acts as they consider necessary, desirable or expedient to give effect to the Proposed Spin-off).

“Global Offering” means (a) the offering of Units (as defined below) to the public in Hong Kong and (b) the offering of Units to institutional, professional and other investors (including the preferential offering to qualifying shareholders of the Company for subscription of reserved Units) subject to the terms and conditions as set out in (i) an offering circular and (ii) the application forms to be issued in relation to these offerings;

“HK Hotel REIT” means Hong Kong Hotel Real Estate Investment Trust;

“Proposed Spin-off” means the proposed spin-off of HK Hotel REIT comprising the Global Offering and the Separate Listing;

NOTICE OF THE EGM

“**Separate Listing**” means the separate listing of the Units on the Main Board of The Stock Exchange of Hong Kong Limited;

“**Units**” means units of HK Hotel REIT.”

By order of the Board of
Far East Consortium International Limited
Bill Kwai Pui Mok
Chief Financial Officer and Company Secretary

Hong Kong, 18 January 2008

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude shareholders from attending the meeting and voting in person.
3. A form of proxy for use at the meeting is enclosed.
4. In the case of joint holders of any share, any one of such holders may vote at the Meeting either personally or by proxy in respect of such share, but if more than one of such joint holders is present at the Meeting either personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the other joint holder(s) and for this purpose, seniority will be determined by the order in which the names stand in the register of members in respect of joint holders.