

# Report of the Independent Auditors



## **TO THE SHAREHOLDERS OF THE WHARF (HOLDINGS) LIMITED**

*(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)*

We have audited the consolidated financial statements of The Wharf (Holdings) Limited (the “Company”) set out on pages 67 to 145, which comprise the consolidated and company balance sheets as at December 31, 2006, and the consolidated profit and loss account, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

## **AUDITOR’S RESPONSIBILITY**

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

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

## Report of the Independent Auditors

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

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

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

March 21, 2007

# Consolidated Profit and Loss Account

For the year ended December 31, 2006

	Note	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Turnover	1	<b>13,364</b>	12,543
Other net income	3	<b>415</b>	74
		<b>13,779</b>	12,617
Direct costs and operating expenses		<b>(4,653)</b>	(4,201)
Selling and marketing expenses		<b>(701)</b>	(620)
Administrative and corporate expenses		<b>(688)</b>	(587)
Operating profit before depreciation, amortisation, interest and tax		<b>7,737</b>	7,209
Depreciation and amortisation	2	<b>(1,266)</b>	(1,206)
Operating profit	2	<b>6,471</b>	6,003
Increase in fair value of investment properties		<b>7,868</b>	11,513
Net other credit	4	<b>100</b>	47
		<b>14,439</b>	17,563
Borrowing costs	5	<b>(824)</b>	(562)
Share of profits less losses of associates	13	<b>196</b>	425
Share of profits less losses of jointly controlled entities	14	<b>12</b>	(13)
Profit before taxation		<b>13,823</b>	17,413
Taxation	6(c)	<b>(2,429)</b>	(2,583)
Profit for the year		<b>11,394</b>	14,830
Attributable to:			
Equity shareholders of the Company	7	<b>10,757</b>	13,888
Minority interests		<b>637</b>	942
		<b>11,394</b>	14,830
Dividends payable to equity shareholders of the Company attributable to the year	8		
Interim dividend declared during the year		<b>881</b>	881
Final dividend proposed after the balance sheet date		<b>1,077</b>	1,077
		<b>1,958</b>	1,958
Earnings per share	9		
Basic		<b>HK\$4.39</b>	HK\$5.67
Diluted		<b>HK\$4.39</b>	HK\$5.67

The notes and principal accounting policies on pages 74 to 145 form part of these financial statements.

# Consolidated Balance Sheet

At December 31, 2006

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
<b>Non-current assets</b>			
Fixed assets			
Investment properties		<b>86,684</b>	78,224
Leasehold land		<b>3,662</b>	1,430
Other property, plant and equipment		<b>11,852</b>	11,004
		<b>102,198</b>	90,658
Goodwill and other intangible assets	10	<b>306</b>	297
Interest in associates	12	<b>781</b>	1,638
Interest in jointly controlled entities	13	<b>788</b>	896
Available-for-sale investments	14	<b>2,921</b>	1,677
Long term receivables	15	<b>371</b>	410
Programming library	16	<b>186</b>	143
Defined benefit pension scheme assets	17	<b>230</b>	150
Deferred tax assets	22(a)	<b>429</b>	468
Derivative financial assets	24	<b>17</b>	54
		<b>108,227</b>	96,391
<b>Current assets</b>			
Inventories	18	<b>5,288</b>	4,488
Trade and other receivables	19	<b>1,981</b>	1,105
Derivative financial assets	24	<b>12</b>	–
Deposits and cash		<b>3,769</b>	2,508
		<b>11,050</b>	8,101
<b>Current liabilities</b>			
Trade and other payables	20	<b>(4,926)</b>	(4,848)
Short term loans and overdrafts	21	<b>(4,667)</b>	(4,403)
Derivative financial liabilities	24	<b>(3)</b>	(14)
Taxation payable	6(e)	<b>(390)</b>	(608)
		<b>(9,986)</b>	(9,873)
<b>Net current assets/(liabilities)</b>		<b>1,064</b>	(1,772)
<b>Total assets less current liabilities</b>		<b>109,291</b>	94,619

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
<b>Non-current liabilities</b>			
Long term loans	21	(16,003)	(14,155)
Deferred taxation	22(a)	(13,116)	(11,672)
Other deferred liabilities	23	(254)	(263)
Derivative financial liabilities	24	–	(3)
		<b>(29,373)</b>	(26,093)
<b>NET ASSETS</b>		<b>79,918</b>	68,526
<b>Capital and reserves</b>			
Share capital	26	2,448	2,448
Reserves		72,714	62,926
<b>Total equity attributable to equity shareholders of the Company</b>		<b>75,162</b>	65,374
<b>Minority interests</b>	27(a)	<b>4,756</b>	3,152
<b>TOTAL EQUITY</b>		<b>79,918</b>	68,526

The notes and principal accounting policies on pages 74 to 145 form part of these financial statements.

**Peter K C Woo**  
Chairman

**Stephen T H Ng**  
Deputy Chairman & Managing Director

# Company Balance Sheet

At December 31, 2006

	Note	2006 HK\$ Million	2005 HK\$ Million
<b>Non-current assets</b>			
Investments in subsidiaries	11	13,371	13,227
Long term receivables	16	347	382
		<b>13,718</b>	13,609
<b>Current assets</b>			
Trade and other receivables	19	–	1
Deposits and cash		15	115
		<b>15</b>	116
<b>Current liabilities</b>			
Trade and other payables	20	(25)	(23)
Taxation payable		(2)	(1)
		<b>(27)</b>	(24)
<b>Net current (liabilities)/assets</b>		<b>(12)</b>	92
<b>NET ASSETS</b>		<b>13,706</b>	13,701
<b>Capital and reserves</b>			
Share capital	26	2,448	2,448
Reserves		11,258	11,253
<b>SHAREHOLDERS' EQUITY</b>	27(b)	<b>13,706</b>	13,701

The notes and principal accounting policies on pages 74 to 145 form part of these financial statements.

**Peter K C Woo**  
Chairman

**Stephen T H Ng**  
Deputy Chairman & Managing Director

# Consolidated Statement of Recognised Income and Expense

For the year ended December 31, 2006

	Note	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i> (restated)
Surplus on revaluation of available-for-sale investments	27(a)	<b>875</b>	166
Actuarial gains on defined benefit pension schemes	27(a)	<b>55</b>	27
Exchange difference	27(a)	<b>161</b>	72
Others	27(a)	<b>20</b>	(70)
Investments revaluation reserves transferred to the consolidated profit and loss account on disposal of available-for-sale investments	27(a)	<b>(3)</b>	(40)
Share of reserves of associates/jointly controlled entities		<b>16</b>	5
Net gains not recognised in the consolidated profit and loss account		<b>1,124</b>	160
Profit for the year	27(a)	<b>11,394</b>	14,830
Total recognised income for the year (2005: as restated)			
Equity shareholders of the Company		<b>11,741</b>	13,980
Minority interests		<b>777</b>	1,010
		<b>12,518</b>	14,990
Effect of restatement for 2005:			
Attributable to equity shareholders of the Company			
Increase in revenue reserves	27(a)		31
Attributable to minority interests	27(a)		(4)
			27
Effect of changes in accounting policy:			
Attributable to equity shareholders of the Company			
Cumulative effects as at December 31, 2005			
Increase in revenue reserves	27(a)	<b>61</b>	30
Attributable to minority interests			
Cumulative effects as at December 31, 2005	27(a)	<b>36</b>	40
		<b>97</b>	70

The notes and principal accounting policies on pages 74 to 145 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended December 31, 2006

	Note	2006 HK\$ Million	2005 HK\$ Million
<b>Cash generated from operations</b>	(a)	<b>5,130</b>	6,118
Interest paid		<b>(887)</b>	(532)
Interest received		<b>148</b>	79
Dividends received from associates		<b>262</b>	56
Dividends received from investments		<b>191</b>	170
Hong Kong profits tax paid		<b>(1,153)</b>	(849)
Overseas tax paid		<b>(15)</b>	(1)
Net cash generated from operating activities		<b>3,676</b>	5,041
<b>Investing activities</b>			
Purchase of fixed assets		<b>(3,608)</b>	(1,757)
Additions to programming library		<b>(143)</b>	(95)
Net increase in investments in associates		–	(216)
Investment in jointly controlled entities		–	(554)
Purchase of available-for-sale investments		<b>(1,327)</b>	(6)
Purchase of additional interests in subsidiaries		–	(2,831)
Proceeds from disposal of fixed assets		<b>650</b>	1
Proceeds from disposal of investment properties		<b>264</b>	59
Proceeds from sale of an associate		–	165
Net repayment from associates		<b>794</b>	363
Proceeds from sale of available-for-sale investments		<b>1,008</b>	170
Repayment of long term receivables		<b>47</b>	18
Redemption of deposits with financial institutions		<b>156</b>	–
Net cash inflow from acquisition of subsidiaries		<b>79</b>	–
Net cash used in investing activities		<b>(2,080)</b>	(4,683)
<b>Financing activities</b>			
Exercise of share options		<b>5</b>	5
Net drawdown of long term loans		<b>4,120</b>	2,873
Net repayment of short term loans and overdrafts		<b>(2,263)</b>	(801)
Advances from minority interests		<b>8</b>	7
Issue of shares by subsidiaries to minority interests		<b>188</b>	–
Dividends paid to equity shareholders of the Company		<b>(1,958)</b>	(1,762)
Dividends paid to minority interests		<b>(279)</b>	(537)
Net cash used in financing activities		<b>(179)</b>	(215)
Increase in cash and cash equivalents		<b>1,417</b>	143
Cash and cash equivalents at January 1		<b>2,352</b>	2,209
Cash and cash equivalents at December 31		<b>3,769</b>	2,352
Analysis of the balance of cash and cash equivalents			
Deposits and cash	(b)	<b>3,769</b>	2,352

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to cash generated from operations

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Operating profit	<b>6,471</b>	6,003
Interest income	<b>(147)</b>	(80)
Dividends receivable from investments	<b>(192)</b>	(170)
Depreciation	<b>1,133</b>	1,100
Amortisation	<b>133</b>	106
Loss on disposal of fixed assets	<b>10</b>	13
Other net income	<b>(415)</b>	(74)
Increase in properties under development for sale	<b>(1,194)</b>	(1,005)
(Increase)/decrease in properties held for sale	<b>(40)</b>	44
Decrease in spare parts and consumables	<b>45</b>	4
(Increase)/decrease in trade and other receivables	<b>(866)</b>	144
Increase in trade and other payables	<b>233</b>	42
(Decrease)/increase in derivative financial liabilities	<b>(7)</b>	7
Increase in defined benefit pension scheme assets	<b>(25)</b>	(22)
(Decrease)/increase in other deferred liabilities	<b>(9)</b>	6
Cash generated from operations	<b>5,130</b>	6,118

### (b) Cash and cash equivalents

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Cash and cash equivalents in the consolidated balance sheet	<b>3,769</b>	2,508
Less: deposits with financial institutions with maturity greater than three months	–	(156)
Cash and cash equivalents in the consolidated cash flow statement	<b>3,769</b>	2,352

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

	2006 <i>Million</i>	2005 <i>Million</i>
United States dollar ("USD")	<b>10</b>	15

# Notes to the Financial Statements

## 1. SEGMENT INFORMATION

### a. Business segments

i.	Revenue and results	Segment revenue		Segment results	
		2006 HK\$ Million	2005 HK\$ Million	2006 HK\$ Million	2005 HK\$ Million
	Property investment	<b>5,677</b>	5,073	<b>3,973</b>	3,465
	Hong Kong	<b>4,390</b>	3,952	<b>3,498</b>	3,124
	China	<b>343</b>	298	<b>130</b>	85
	Hotels	<b>944</b>	823	<b>345</b>	256
	Communications, media and entertainment ("CME")	<b>3,947</b>	3,937	<b>270</b>	486
	Pay television	<b>1,895</b>	1,884	<b>248</b>	337
	Internet and multimedia	<b>596</b>	558	<b>129</b>	78
	Telecommunications	<b>1,384</b>	1,478	<b>(64)</b>	104
	Others	<b>72</b>	17	<b>(43)</b>	(33)
	Logistics	<b>3,506</b>	3,534	<b>1,887</b>	1,935
	Terminals	<b>3,096</b>	3,149	<b>1,727</b>	1,800
	Others	<b>410</b>	385	<b>160</b>	135
		<b>13,130</b>	12,544	<b>6,130</b>	5,886
	Property development	<b>293</b>	53	<b>(4)</b>	7
	Investment and others	<b>285</b>	225	<b>677</b>	348
	Inter-segment revenue (Note)	<b>(344)</b>	(279)	<b>-</b>	-
		<b>13,364</b>	12,543	<b>6,803</b>	6,241
	Unallocated income and expenses			<b>(332)</b>	(238)
	Operating profit			<b>6,471</b>	6,003
	Increase in fair value of investment properties			<b>7,868</b>	11,513
	Net other credit			<b>100</b>	47
	Telecommunications			<b>(100)</b>	-
	Property development			<b>200</b>	47
				<b>14,439</b>	17,563
	Borrowing costs			<b>(824)</b>	(562)
	Associates			<b>196</b>	425
	Property development			<b>96</b>	305
	Terminals			<b>100</b>	118
	Investment and others			<b>-</b>	2
	Jointly controlled entities			<b>12</b>	(13)
	Terminals			<b>12</b>	(13)
	Profit before taxation			<b>13,823</b>	17,413

Property investment revenue includes gross rental income from investment properties of HK\$3,802 million (2005: HK\$3,363 million).

## 1. SEGMENT INFORMATION (Continued)

### a. Business segments (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Property investment	<b>91</b>	82
CME	<b>253</b>	196
Investment and others	–	1
	<b>344</b>	279

	<b>Assets</b>		<b>Liabilities</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
ii. Assets and liabilities	<b>HK\$ Million</b>	HK\$ Million	<b>HK\$ Million</b>	HK\$ Million
	(restated)			
Property investment	<b>88,959</b>	81,169	<b>3,896</b>	4,074
Hong Kong	<b>81,900</b>	74,573	<b>1,462</b>	1,708
China	<b>6,666</b>	6,169	<b>2,279</b>	2,224
Hotels	<b>393</b>	427	<b>155</b>	142
CME	<b>4,835</b>	5,407	<b>977</b>	1,177
Pay television	<b>1,243</b>	1,560	<b>384</b>	532
Internet and multimedia	<b>631</b>	706	<b>133</b>	134
Telecommunications	<b>2,939</b>	3,133	<b>460</b>	500
Others	<b>22</b>	8	–	11
Logistics	<b>11,138</b>	7,470	<b>6,330</b>	4,167
Terminals	<b>10,935</b>	7,282	<b>6,276</b>	4,117
Others	<b>203</b>	188	<b>54</b>	50
	<b>104,932</b>	94,046	<b>11,203</b>	9,418
Property development	<b>7,542</b>	5,614	<b>978</b>	550
Unallocated	<b>6,803</b>	4,832	<b>27,178</b>	25,998
Total assets/liabilities	<b>119,277</b>	104,492	<b>39,359</b>	35,966

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

Included in the property development segment is the Group's attributable interest in property development projects undertaken by associates, which totals HK\$352 million (2005: HK\$1,134 million).

**1. SEGMENT INFORMATION** (Continued)**a. Business segments** (Continued)

	Capital expenditure		Depreciation and amortisation	
	2006	2005	2006	2005
iii. Other information	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Property investment	430	775	98	102
Hong Kong	297	684	15	18
China	97	48	18	14
Hotels	36	43	65	70
CME	655	693	950	902
Pay television	238	242	320	334
Internet and multimedia	64	103	188	214
Telecommunications	309	313	418	341
Others	44	35	24	13
Logistics	3,484	1,105	218	202
Terminals	3,446	1,103	204	191
Others	38	2	14	11
Group total	4,569	2,573	1,266	1,206

The Group has no significant non-cash expenses other than depreciation and amortisation.

**b. Geographical segments**

During the year, more than 90% of the Group's revenue and operating results arose in Hong Kong.

Total segment assets at the balance sheet date and capital expenditure incurred during the year analysed by geographical segments are as follows:

	Assets		Capital expenditure	
	2006	2005	2006	2005
Assets and capital expenditure	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	102,504	94,793	1,514	2,508
China	16,773	9,699	3,055	65
	119,277	104,492	4,569	2,573

## 2. OPERATING PROFIT

### a. Operating profit is arrived at:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i> (restated)
<b>After charging:</b>		
Depreciation		
– assets held for use under operating leases	91	88
– other fixed assets	1,042	1,012
	<b>1,133</b>	1,100
Amortisation		
– programming library	100	81
– leasehold land	30	25
– other intangible assets	3	–
Total depreciation and amortisation	<b>1,266</b>	1,206
Staff costs	<b>2,331</b>	2,216
including:		
Contributions to defined contribution pension schemes including MPF schemes (after a forfeiture of HK\$6 million (2005: HK\$5 million))	82	76
Increase in liability for defined benefit pension schemes (Note 17)	9	13
Auditors' remuneration		
– audit services	12	10
– other services	1	2
Cost of trading properties sold during the year	275	47
Loss on disposal of fixed assets	10	13
Rental charges under operating leases in respect of telecommunications equipment and services	136	147
<b>And crediting:</b>		
Rental income less direct outgoings including:	<b>3,777</b>	3,390
Contingent rentals	323	236
Foreign exchange gain	82	59
Interest income	147	80
Dividend income from listed investments	71	55
Dividend income from unlisted investments	121	115
Rental income under operating leases in respect of owned plant and machinery	95	99

## 2. OPERATING PROFIT (Continued)

### b. Directors' emoluments

Directors' emoluments are as follows:

	Fees HK\$'000	Basic salaries, housing and other allowances and benefits in kind HK\$'000	Discretionary bonuses and/or performance related bonuses HK\$'000	Contributions to pension schemes HK\$'000	Compensation for loss of office/ inducement for joining the Group HK\$'000	Deemed profit on share option exercised HK\$'000	2006 Total emoluments HK\$'000	2005 Total emoluments HK\$'000
<b>Board of Directors</b>								
Peter K C Woo	90	9,503	6,000	12	–	–	15,605	15,718
Gonzaga W J Li	50	4,250	5,000	–	–	–	9,300	8,178
Stephen T H Ng	50	3,850	7,000	216	–	–	11,116	11,090
Doreen Y F Lee	50	2,913	3,217	311	–	138	6,629	5,210
T Y Ng	50	925	363	6	–	–	1,344	2,599
<b>Independent</b>								
<b>Non-executive</b>								
<b>Directors</b>								
Paul M P Chan	65	–	–	–	–	–	65	65
Edward K Y Chen	50	–	–	–	–	–	50	50
Raymond K F Ch'ien	50	–	–	–	–	–	50	50
Vincent K Fang	65	–	–	–	–	–	65	65
Hans Michael Jebesen	65	–	–	–	–	–	65	65
James E Thompson	65	–	–	–	–	–	65	65
<b>Past Directors</b>								
Erik B Christensen	20	49	–	–	–	–	69	5,116
Paul M F Cheng	–	–	–	–	–	–	–	12
Quinn Y K Law	–	–	–	–	–	–	–	2,470
Christopher P Langley	–	–	–	–	–	–	–	19
David J Lawrence	–	–	–	–	–	–	–	336
	<b>670</b>	<b>21,490</b>	<b>21,580</b>	<b>545</b>	<b>–</b>	<b>138</b>	<b>44,423</b>	<b>51,108</b>
Total for 2005	777	25,849	23,698	784	–	–		51,108

In 2006, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$50,000 (2005: HK\$50,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$15,000 (2005: HK\$15,000) per annum were paid to each audit committee member.

## 2. OPERATING PROFIT *(Continued)*

### c. Emoluments of the highest paid employees

For the year ended December 31, 2006, emolument (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) of 1 employee of the Group who, not being a Director of the Company, was among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group and has been set out below. For the year ended December 31, 2005, the top five highest paid individuals are also Directors of the Group and the analyses of the emoluments are set out in Note 2(b) above.

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Aggregate emoluments		
Basic salaries, housing and other allowances, and benefits in kind	<b>6</b>	–
Contributions to pension schemes	–	–
Discretionary bonuses and/or performance related bonuses	<b>2</b>	–
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
Total	<b>8</b>	–

  

	<b>2006</b>	2005
	<b>Number</b>	Number
Bands <i>(in HK\$)</i>		
\$7,500,001 – \$8,000,000	<b>1</b>	–

## 3. OTHER NET INCOME

Other net income mainly represents net profit on disposal of available-for-sale investments of HK\$53 million (2005: HK\$59 million) which included a revaluation surplus of HK\$3 million (2005: HK\$40 million) transferred from the investments revaluation reserves and profit on disposal of investment and other properties of HK\$362 million (2005: HK\$15 million).

**4. NET OTHER CREDIT**

	<b>2006</b>	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Net write-back of provisions for properties	<b>200</b>	47
Write off of broadcasting and communications equipment	<b>(100)</b>	–
	<b>100</b>	47

**5. BORROWING COSTS**

	<b>2006</b>	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Interest on:		
Bank loans and overdrafts repayable within five years	<b>478</b>	323
Other loans repayable within five years	<b>332</b>	249
Loans repayable over five years	<b>75</b>	6
Other borrowing costs	<b>9</b>	(8)
	<b>894</b>	570
Less: Amount capitalised*	<b>(70)</b>	(8)
Net borrowing costs for the year	<b>824</b>	562

\* The borrowing costs have been capitalised at annual rates of between 4.4% to 5.1% (2005: 1.3% to 4.6%).

Included in total interest costs are amounts totalling HK\$624 million (2005: HK\$425 million) in respect of floating rate interest bearing borrowings that are not at fair value through profit or loss.

## 6. TAXATION

- a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2005: 17.5%).
- b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- c. Taxation in the consolidated profit and loss account represents:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
<b>Current tax</b>		
Hong Kong profits tax	814	678
Underprovision in respect of prior years	134	28
	<b>948</b>	706
Overseas taxation	2	2
	<b>950</b>	708
<b>Deferred tax</b>		
Change in fair value of investment properties	1,364	2,045
Origination and reversal of temporary differences	166	150
Benefit of previously unrecognised tax losses now recognised	(51)	(320)
	<b>1,479</b>	1,875
	<b>2,429</b>	2,583

- d. Reconciliation between the actual total tax charge and profit before taxation at applicable tax rates

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Profit before taxation	13,823	17,413
Notional tax on profit before taxation calculated at applicable tax rates	2,510	3,110
Tax effect of non-deductible expenses	46	23
Tax effect of non-taxable revenue	(227)	(118)
Net underprovision in respect of prior years	134	28
Tax effect of tax losses not recognised	82	41
Tax losses utilised	(65)	(181)
Tax effect of previously unrecognised tax losses now recognised as deferred tax assets	(51)	(320)
Actual total tax charge	<b>2,429</b>	2,583

**6. TAXATION** *(Continued)*

- e. None of the taxation payable in the balance sheet is expected to be settled after more than one year.
- f. Share of associates' tax for the year ended December 31, 2006 of HK\$25 million (2005: HK\$24 million) is included in the share of profits less losses of associates.
- g. The Group is currently in the preliminary stages of providing information to the Inland Revenue Department in respect of tax enquiries from a Group perspective on certain interest expenses deductibility as claimed by some property investment owning companies. In view of the fact that these enquiries are at the preliminary stage of collecting information, provisions have been made only to the extent that the tax assessments have been issued and reliable estimates of the related tax risk can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may or may not exceed the provisions.

**7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

Profit attributable to equity shareholders of the Company for the year is dealt with in the financial statements of the Company to the extent of HK\$1,958 million (2005: HK\$1,455 million).

**8. DIVIDENDS**

**a. Dividends payable to equity shareholders of the Company attributable to the year**

	<b>2006</b>	2005
	<b>HK\$ Million</b>	HK\$ Million
Interim dividend declared and paid of 36 cents (2005: 36 cents) per share	<b>881</b>	881
Final dividend of 44 cents (2005: 44 cents) per share proposed after the balance sheet date	<b>1,077</b>	1,077
	<b>1,958</b>	1,958

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 8. DIVIDENDS *(Continued)*

### b. Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 44 cents (2005: 36 cents) per share	<b>1,077</b>	881

## 9. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings attributable to ordinary equity shareholders of the Company for the year of HK\$10,757 million (2005: HK\$13,888 million) and the weighted average of 2,448 million (2005: 2,448 million) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on earnings attributable to ordinary equity shareholders of the Company for the year of HK\$10,757 million (2005: HK\$13,888 million) and the weighted average of 2,448 million (2005: 2,448 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

As at December 31, 2006, there were no unexercised share options.

## 10. FIXED ASSETS

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & commu- nications equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
<b>a. Cost or valuation</b>							
Balance at January 1, 2005	66,288	1,834	644	9,071	9,184	1,724	88,745
Exchange adjustment	105	2	–	–	4	23	134
Additions	435	376	15	539	395	–	1,760
Disposals	(46)	–	–	(31)	(88)	–	(165)
Reclassification	(71)	(465)	–	(9)	311	(14)	(248)
Revaluation surpluses/ (deficits)	11,513	(234)	–	–	–	–	11,279
Balance at December 31, 2005 and January 1, 2006	<b>78,224</b>	<b>1,513</b>	<b>659</b>	<b>9,570</b>	<b>9,806</b>	<b>1,733</b>	<b>101,505</b>
Exchange adjustment	<b>124</b>	<b>8</b>	–	–	<b>5</b>	<b>46</b>	<b>183</b>
Additions	<b>222</b>	<b>1,405</b>	<b>2</b>	<b>369</b>	<b>657</b>	<b>1,770</b>	<b>4,425</b>
Acquisition of subsidiaries	–	<b>91</b>	–	–	<b>1</b>	<b>460</b>	<b>552</b>
Disposals	<b>(207)</b>	<b>(185)</b>	–	<b>(328)</b>	<b>(402)</b>	–	<b>(1,122)</b>
Cost adjustment	<b>(410)</b>	–	–	–	–	–	<b>(410)</b>
Reclassification	<b>863</b>	<b>(576)</b>	–	<b>4</b>	<b>386</b>	<b>(14)</b>	<b>663</b>
Revaluation surpluses/ write back/(write off)	<b>7,868</b>	<b>92</b>	–	<b>(100)</b>	–	–	<b>7,860</b>
Balance at December 31, 2006	<b>86,684</b>	<b>2,348</b>	<b>661</b>	<b>9,515</b>	<b>10,453</b>	<b>3,995</b>	<b>113,656</b>
<b>Accumulated depreciation, amortisation and impairment losses</b>							
Balance at January 1, 2005	–	–	446	4,791	4,314	278	9,829
Charge for the year	–	–	38	694	368	25	1,125
Written back on disposals	–	–	–	(23)	(82)	–	(105)
Reclassification	–	–	–	(2)	–	–	(2)
Balance at December 31, 2005 and January 1, 2006	–	–	<b>484</b>	<b>5,460</b>	<b>4,600</b>	<b>303</b>	<b>10,847</b>
Exchange adjustment	–	–	–	–	<b>3</b>	–	<b>3</b>
Charge for the year	–	–	<b>33</b>	<b>721</b>	<b>379</b>	<b>30</b>	<b>1,163</b>
Written back on disposals	–	–	–	<b>(317)</b>	<b>(243)</b>	–	<b>(560)</b>
Reclassification	–	–	–	<b>5</b>	–	–	<b>5</b>
Balance at December 31, 2006	–	–	<b>517</b>	<b>5,869</b>	<b>4,739</b>	<b>333</b>	<b>11,458</b>
<b>Net book value</b>							
At December 31, 2006	<b>86,684</b>	<b>2,348</b>	<b>144</b>	<b>3,646</b>	<b>5,714</b>	<b>3,662</b>	<b>102,198</b>
At December 31, 2005	78,224	1,513	175	4,110	5,206	1,430	90,658

## 10. FIXED ASSETS (Continued)

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & commu- nications equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
<b>b. The analysis of cost or valuation of the above assets is as follows:</b>							
2006 valuation	<b>86,684</b>	–	–	–	–	–	<b>86,684</b>
Cost less provisions	–	<b>2,348</b>	<b>661</b>	<b>9,515</b>	<b>10,453</b>	<b>3,995</b>	<b>26,972</b>
	<b>86,684</b>	<b>2,348</b>	<b>661</b>	<b>9,515</b>	<b>10,453</b>	<b>3,995</b>	<b>113,656</b>
2005 valuation	78,224	–	–	–	–	–	78,224
Cost less provisions	–	1,513	659	9,570	9,806	1,733	23,281
	78,224	1,513	659	9,570	9,806	1,733	101,505

## 10. FIXED ASSETS (Continued)

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & commun- ications equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
<b>c. Tenure of title to properties</b>							
<b>(at cost or valuation):</b>							
At December 31, 2006							
Held in Hong Kong							
Long lease	66,833	–	480	–	3	86	67,402
Medium lease	13,278	606	–	–	4,291	1,510	19,685
Short lease	1,430	–	181	–	1	–	1,612
	<b>81,541</b>	<b>606</b>	<b>661</b>	<b>–</b>	<b>4,295</b>	<b>1,596</b>	<b>88,699</b>
Held outside Hong Kong							
Long lease	2	–	–	–	–	–	2
Medium lease	5,141	1,742	–	–	15	339	7,237
Short lease	–	–	–	–	266	2,060	2,326
	<b>86,684</b>	<b>2,348</b>	<b>661</b>	<b>–</b>	<b>4,576</b>	<b>3,995</b>	<b>98,264</b>
At December 31, 2005							
Held in Hong Kong							
Long lease	61,499	–	478	–	3	204	62,184
Medium lease	10,174	928	–	–	4,403	1,203	16,708
Short lease	1,612	–	181	–	1	–	1,794
	73,285	928	659	–	4,407	1,407	80,686
Held outside Hong Kong							
Freehold	20	–	–	–	–	–	20
Medium lease	4,919	585	–	–	5	326	5,835
	78,224	1,513	659	–	4,412	1,733	86,541

## 10. FIXED ASSETS (Continued)

### d. Properties revaluation

The Group's investment properties have been revalued as at December 31, 2006 by Knight Frank Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

The surplus or deficit arising on revaluation is recognised directly in the consolidated profit and loss account.

### e. Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at each balance sheet date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. As a consequence of this exercise, at December 31, 2006, deficit of HK\$92 million previously recognised in the consolidated profit and loss account was reversed due to the anticipated increase in the recoverable amount of the properties primarily to reflect the current prevailing property market conditions. (2005: revaluation deficits of HK\$234 million of which HK\$158 million was recognised in the consolidated profit and loss account).

f. The Group leases out properties under operating leases, which generally run for an initial period of two to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

g. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	Group	
	2006 HK\$ Million	2005 HK\$ Million
Within 1 year	3,945	3,319
After 1 year but within 5 years	4,273	3,721
After 5 years	197	254
	<b>8,415</b>	<b>7,294</b>

**11. INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Unlisted shares, at cost less provision	<b>7,314</b>	6,792
Amounts due from subsidiaries	<b>30,866</b>	31,225
	<b>38,180</b>	38,017
Amounts due to subsidiaries	<b>(24,809)</b>	(24,790)
	<b>13,371</b>	13,227

Details of principal subsidiaries at December 31, 2006 are shown on pages 142 to 145.

Amounts due from subsidiaries are unsecured, non-interest bearing with no fixed terms of repayment and hence are classified as non-current as these are not expected to be recoverable within the next twelve months. Amount due to subsidiaries are unsecured, non-interest bearing with no fixed terms of payment.

**12. GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
	<b>HK\$ Million</b>	<b>HK\$ Million</b>	<b>HK\$ Million</b>
Net carrying value, as at January 1, 2005 and December 31, 2005	297	–	297
Cost	297	–	297
Accumulated amortisation	–	–	–
Net carrying value, as at December 31, 2005	297	–	297
Net carrying value, as at January 1, 2006	<b>297</b>	–	<b>297</b>
Additions	–	<b>12</b>	<b>12</b>
Amortisation	–	<b>(3)</b>	<b>(3)</b>
Net carrying value, as at December 31, 2006	<b>297</b>	<b>9</b>	<b>306</b>
Cost	<b>297</b>	<b>12</b>	<b>309</b>
Accumulated amortisation	–	<b>(3)</b>	<b>(3)</b>
Net carrying value, as at December 31, 2006	<b>297</b>	<b>9</b>	<b>306</b>

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS *(Continued)*

Goodwill is mainly related to the Group's terminals business. As at December 31, 2006, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the terminals business is based on fair value less costs to sell, which is determined by the latest transaction price. No impairment was recorded.

## 13. INTEREST IN ASSOCIATES

	Group	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Share of net tangible assets	274	334
Goodwill	61	61
Amounts due from associates	450	1,250
Amounts due to associates	(4)	(7)
	<b>781</b>	1,638

Details of principal associates at December 31, 2006 are shown on page 145.

Included in the amounts due from associates are loans totalling HK\$352 million (2005: HK\$1,153 million) advanced to an associate involved in the Bellagio property development project, which is interest bearing (2005: interest free). The loans are unsecured and are repayable as may from time to time be agreed among the shareholders.

### Summary financial information on associates

	2006		2005	
	Total <i>HK\$ Million</i>	Attributable interest <i>HK\$ Million</i>	Total <i>HK\$ Million</i>	Attributable interest <i>HK\$ Million</i>
Assets	8,238	1,129	10,906	1,989
Liabilities	(4,645)	(855)	(6,959)	(1,655)
Equity	3,593	274	3,947	334
Revenue	3,929	737	5,465	1,206
Profit before taxation	1,628	221	2,418	449
Taxation	(136)	(25)	(98)	(24)
Profit after taxation	1,492	196	2,320	425

**14. INTEREST IN JOINTLY CONTROLLED ENTITIES**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Share of net assets	<b>734</b>	842
Goodwill	<b>54</b>	54
	<b>788</b>	896

Details of principal jointly controlled entities at December 31, 2006 are shown on page 145. The Group's interest in jointly controlled entities mainly represents:

**a. Taicang International Container Terminals Company Limited ("TICT JV")**

TICT JV is a Sino-foreign joint venture enterprise established with the approval of the Jiang Su Provincial People's Government for a period of 50 years up to 2048, is 51.0%-owned by Modern Terminals Limited, a 67.6%-owned subsidiary of the Group.

Notwithstanding the contribution of 51% of the registered capital by Modern Terminals Limited, the joint venture agreement relating to the establishment of TICT JV stipulates that all significant financial and operating decisions of TICT JV must be approved by all of its directors. As neither the Group nor the joint venture partner have the ability to control the board of directors and the economic activities of TICT JV, the Group accounts for its investments in TICT JV as a jointly controlled entity.

**b. Suzhou Modern Terminals Limited ("SMTL")**

SMTL, formerly a jointly controlled entity was reclassified as a subsidiary of the Group with effect from April 1, 2006 after obtaining control of the financial and operating decisions of SMTL and accordingly, the financial results of SMTL have been accounted for as a subsidiary. SMTL commenced business operations in September 2006.

**The Group's effective interest in the results, assets and liabilities of its jointly controlled entities are summarised below:**

	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Non-current assets	<b>1,192</b>	1,644
Current assets	<b>188</b>	43
Non-current liabilities	<b>(622)</b>	(825)
Current liabilities	<b>(24)</b>	(20)
Net assets	<b>734</b>	842
Revenue	<b>121</b>	50
Profit/(loss) for the year	<b>12</b>	(13)

## 15. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Listed investments in Hong Kong	<b>1,568</b>	735
Listed investments outside Hong Kong	<b>1,296</b>	890
Unlisted investments	<b>57</b>	52
	<b>2,921</b>	1,677
Market value of listed investments	<b>2,864</b>	1,625

Unlisted investments included HK\$16 million (2005: HK\$22 million) stated at cost.

## 16. LONG TERM RECEIVABLES

Long term receivables represent receivables due after more than one year.

## 17. DEFINED BENEFIT PENSION SCHEMES

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i> (restated)
Defined benefit pension scheme assets	<b>230</b>	150

The Group makes contributions to six defined benefit pension schemes that provide pension benefits for employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions both from employers and employees, which are in accordance with recommendations made by actuaries based on their valuation of the schemes. The latest valuations of the schemes as at December 31, 2006 were performed either by HSBC Life (International) Limited, Watson Wyatt Hong Kong Limited, who are independent qualified actuaries or internally, using the projected unit credit method. The funding ratios of the principal schemes were 146% and 98% respectively.

**17. DEFINED BENEFIT PENSION SCHEMES** *(Continued)*

- a. The amount recognised in the consolidated balance sheet is as follows:

	<b>2006</b> <i>HK\$ Million</i>	2005 <i>HK\$ Million</i> (restated)
Present value of funded obligations	<b>(775)</b>	(712)
Fair value of scheme assets	<b>1,005</b>	855
Unrecognised transitional liability	–	7
	<b>230</b>	150

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amount payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

- b. Scheme assets consist of the following:

	<b>2006</b> <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Equity securities	<b>761</b>	592
Debt securities	<b>164</b>	243
Deposits and cash	<b>80</b>	20
	<b>1,005</b>	855

- c. Movements in the present value of the defined benefit obligations are as follows:

	<b>2006</b> <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
At January 1	<b>712</b>	719
Benefits paid by the schemes	<b>(37)</b>	(53)
Current service cost	<b>29</b>	31
Employees' contribution	<b>2</b>	–
Interest cost	<b>31</b>	33
Actuarial losses/(gains)	<b>38</b>	(18)
At December 31	<b>775</b>	712

## 17. DEFINED BENEFIT PENSION SCHEMES (Continued)

d. Movements in the scheme assets are as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
At January 1	855	805
Group's contributions paid to the schemes	33	35
Benefits paid by the schemes	(37)	(53)
Employees' contribution	2	–
Actuarial expected return on scheme assets	59	57
Actuarial gains	93	11
At December 31	1,005	855

e. Expenses recognised in the consolidated profit and loss account are as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Current service cost	29	31
Interest cost	31	33
Actuarial expected return on scheme assets	(59)	(57)
Net actuarial losses recognised	–	(2)
Net transitional liability recognised	8	8
	9	13

All the expenses are recognised as direct costs and operating expenses in the consolidated profit and loss account.

Actual return on scheme assets	(153)	(64)
--------------------------------	-------	------

f. The principal actuarial assumptions used as at December 31, 2006 (expressed as a range) are as follows:

	2006	2005
Discount rate at December 31	3.75% – 5.0%	4.25% – 5.0%
Expected rate of return on scheme assets	5.0% – 8.0%	5.0% – 8.0%
Future salary increases – 2006	N/A	2.0% – 4.0%
– 2007 thereafter	2.0% – 4.0%	2.0% – 4.0%

The expected long-term rate of return on scheme assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

**17. DEFINED BENEFIT PENSION SCHEMES** *(Continued)***g. Historical information**

	<b>2006</b> <b>HK\$ Million</b>
Present value of the defined benefit obligations	<b>(775)</b>
Fair value of scheme assets	<b>1,005</b>
Surplus in the scheme	<b>230</b>
Experience adjustments arising on scheme liabilities	<b>9%</b>
Experience adjustments arising on scheme assets	<b>2%</b>

In accordance with the transitional provisions for the amendments to HKAS 19, the disclosures above are determined prospectively from January 1, 2006.

- h.** The Group recognised actuarial gains amounting to HK\$55 million (2005: HK\$27 million) for the year ended December 31, 2006 directly in equity. The cumulative amount of actuarial gains recognised amounted to HK\$152 million (2005: HK\$97 million) as at December 31, 2006.

**18. INVENTORIES**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Land and properties under development for sale	<b>4,835</b>	3,398
Properties held for sale	<b>368</b>	972
Spare parts and consumables	<b>85</b>	118
	<b>5,288</b>	4,488

- a.** The properties under development for sale are expected to be substantially completed and recovered after more than one year.
- b.** Properties under development for sale/held for sale are stated at lower of cost and net realisable value. The total carrying value of properties stated at net realisable value at December 31, 2006 was HK\$102 million (2005: HK\$1,757 million).

## 18. INVENTORIES (Continued)

- c. In 2006, net provisions totalling HK\$108 million (2005: net provisions of HK\$205 million) charged to the consolidated profit and loss account in prior years for properties under development for sale/held for sale were written back as a result of the increase in net realisable value of certain properties.
- d. The carrying value of leasehold land included in properties under development for sale and properties held for sale is summarised as follows:

	Group	
	2006 HK\$ Million	2005 HK\$ Million
Held in Hong Kong		
Long lease	3	155
Medium lease	1,028	1,642
	<b>1,031</b>	1,797
Held outside Hong Kong		
Medium lease	1,905	1,013
	<b>2,936</b>	2,810

## 19. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at December 31, 2006 as follows:

	Group		Company	
	2006 HK\$ Million	2005 HK\$ Million	2006 HK\$ Million	2005 HK\$ Million
Trade debtors				
0 – 30 days	331	346	–	–
31 – 60 days	229	220	–	–
61 – 90 days	70	45	–	–
Over 90 days	72	61	–	–
	<b>702</b>	672	–	–
Other receivables	1,279	433	–	1
	<b>1,981</b>	1,105	–	1

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days.

**20. TRADE AND OTHER PAYABLES**

Included in this item are trade creditors with an ageing analysis as at December 31, 2006 as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Trade creditors				
0 – 30 days	<b>332</b>	281	–	–
31 – 60 days	<b>88</b>	373	–	–
61 – 90 days	<b>18</b>	57	–	–
Over 90 days	<b>169</b>	168	–	–
	<b>607</b>	879	–	–
Rental and customer deposits	<b>1,249</b>	1,113	–	–
Other payables	<b>3,070</b>	2,856	<b>25</b>	23
	<b>4,926</b>	4,848	<b>25</b>	23

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>Million</b>	<i>Million</i>
USD	<b>15</b>	15
Renminbi ("RMB")	<b>77</b>	2

The amount of rental and customer deposits that is expected to be settled after more than one year is HK\$1,096 million (2005: HK\$983 million). The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled within one year.

## 21. LONG TERM LOANS

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<hr/>		
Bonds and notes (unsecured)		
HK dollar fixed rate notes due 2006	–	1,193
HK dollar fixed rate notes due 2007	<b>651</b>	247
HK dollar fixed rate notes due 2008	<b>607</b>	302
HK dollar fixed rate notes due 2009	<b>403</b>	101
HK dollar fixed rate notes due 2011	<b>204</b>	–
HK dollar fixed rate notes due 2016	<b>253</b>	–
HK dollar floating rate notes due 2006	–	340
HK dollar floating rate notes due 2007	<b>150</b>	–
HK dollar floating rate notes due 2008	<b>100</b>	100
HK dollar floating rate notes due 2010	<b>200</b>	200
HK dollar floating rate notes due 2013	<b>300</b>	–
US dollar fixed rate notes due 2007	<b>2,808</b>	2,851
	<hr/> <b>5,676</b>	<hr/> 5,334
Bank loans (secured)		
Due within 1 year	–	85
Due after more than 2 years but not exceeding 5 years	<b>101</b>	–
Due after more than 5 years	<b>605</b>	–
	<hr/> <b>706</b>	<hr/> 85
Bank loans (unsecured)		
Due within 1 year	<b>1,058</b>	2,785
Due after more than 1 year but not exceeding 2 years	<b>2,800</b>	–
Due after more than 2 years but not exceeding 5 years	<b>8,811</b>	9,254
Due after more than 5 years	<b>1,619</b>	1,100
	<hr/> <b>14,288</b>	<hr/> 13,139
Total loans	<hr/> <b>20,670</b>	<hr/> 18,558
Less: Amounts due within 1 year	<b>(4,667)</b>	(4,403)
Total long term loans	<hr/> <b>16,003</b>	<hr/> 14,155

**21. LONG TERM LOANS** *(Continued)*

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	<b>Group</b>	
	<b>2006</b> <i>Million</i>	2005 <i>Million</i>
USD	<b>22</b>	21

- a. As at December 31, 2006, the Group's net debts, representing the total loans less deposits and cash, are analysed as follows:

	<b>2006</b> <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Secured	<b>706</b>	85
Bank loans	<b>706</b>	85
Unsecured	<b>19,964</b>	18,473
Bonds and notes	<b>5,676</b>	5,334
Bank loans	<b>14,288</b>	13,139
Total loans	<b>20,670</b>	18,558
Deposits and cash	<b>(3,769)</b>	(2,508)
	<b>16,901</b>	16,050

- b. Included in the Group's total loans are bank loans totalling HK\$5,488 million (2005: HK\$3,227 million) borrowed by a non wholly-owned subsidiary, Modern Terminals Limited. The loans are without recourse to the Company and other subsidiaries.
- c. As at December 31, 2006, certain banking facilities of the Group are secured by mortgages over certain fixed assets with an aggregate carrying value of HK\$3,527 million (2005: over a property under development for sale with a carrying value of HK\$345 million).
- d. Certain Group's borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required level. During the year under review, all these covenants have been complied with by the Group.

## 22. DEFERRED TAXATION

- a. Net deferred tax (assets)/liabilities recognised in the consolidated balance sheet:

	<b>Group</b>	
	<b>2006</b>	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Deferred tax liabilities	<b>13,116</b>	11,672
Deferred tax assets	<b>(429)</b>	(468)
Net deferred tax liabilities	<b>12,687</b>	11,204

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

	<b>Depreciation allowances in excess of the related depreciation</b>	<b>Revaluation of investment properties</b>	<b>Others</b>	<b>Future benefit of tax losses</b>	<b>Total</b>
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Balance at January 1, 2005	1,980	7,932	–	(583)	9,329
Charged/(credited) to the consolidated profit and loss account	136	2,045	(2)	(304)	1,875
Balance at December 31, 2005 and January 1, 2006	<b>2,116</b>	<b>9,977</b>	<b>(2)</b>	<b>(887)</b>	<b>11,204</b>
Charged/(credited) to the consolidated profit and loss account	<b>10</b>	<b>1,364</b>	<b>(4)</b>	<b>109</b>	<b>1,479</b>
Acquisition of subsidiary	–	–	<b>4</b>	–	<b>4</b>
Balance at December 31, 2006	<b>2,126</b>	<b>11,341</b>	<b>(2)</b>	<b>(778)</b>	<b>12,687</b>

**22. DEFERRED TAXATION** *(Continued)***b. Deferred tax assets unrecognised**

Deferred tax assets have not been recognised in respect of the following items:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Deductible temporary differences	<b>(2)</b>	(1)
Future benefit of tax losses	<b>(909)</b>	(1,028)
Net deferred tax assets unrecognised	<b>(911)</b>	(1,029)

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at December 31, 2006. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations expire five years after the relevant accounting year end date.

**23. OTHER DEFERRED LIABILITIES**

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$ Million</b>	<i>HK\$ Million</i>
Club debentures issued (non-interest bearing)	<b>220</b>	220
Deferred revenue	<b>33</b>	38
Others	<b>1</b>	5
	<b>254</b>	263

The Group considers the effect of discounting the club debentures would be immaterial.

## 24. FINANCIAL INSTRUMENTS

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

### a. Interest rate risk

- (i) The Group's exposure to interest rate risk relates principally to the Group's short and long term loans. The Group is most vulnerable to changes in Hong Kong dollar interest rates. Interest rate risk is managed by the Group's senior management in accordance with defined policies.

At December 31, 2006, the Group has a number of fixed rate interest bearing notes. The Group's overall risk management strategy is to have floating rate funding. Accordingly, the Group has entered into a number of interest rate swaps ("IRS") with notional amounts matching exactly the principal amounts of the respective loans. Effectively, the Group pays interest at floating rates on these borrowings. In each of the IRS entered into by the Group, the timing of IRS cash flows equals those of the loan's interest expenses. The fair value of the IRS at inception is considered to be zero.

The notional amount and expiry dates of the IRS outstanding at December 31, 2006 were as follows:

	<b>2006</b> <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Expiring within 1 year	<b>2,990</b>	1,200
Expiring after more than 1 year but not exceeding 5 years	<b>1,450</b>	2,990
	<b>4,440</b>	4,190

The fair value of the IRS is calculated as the present value of the estimated future cash flows. The net fair values of the IRS at December 31, 2006 were as follows:

	<b>2006</b>		2005	
	<b>Positive fair value <i>HK\$ Million</i></b>	<b>Negative fair value <i>HK\$ Million</i></b>	Positive fair value <i>HK\$ Million</i>	Negative fair value <i>HK\$ Million</i>
Expiring within 1 year	<b>12</b>	<b>3</b>	–	7
Expiring after more than 1 year but not exceeding 5 years	<b>17</b>	–	54	3
	<b>29</b>	<b>3</b>	54	10

**24. FINANCIAL INSTRUMENTS** (Continued)**a. Interest rate risk** (Continued)

- (ii) In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at December 31, 2006 and the periods in which they reprice or the maturity dates, if earlier.

	2006					
	Effective	Total	One year or less	1-2 years	2-5 years	More than 5 years
	interest rate %					
<b>Repricing dates for assets/ (liabilities) which reprice before maturity</b>						
Deposit and cash	2.7	3,769	3,769	–	–	–
Bonds and notes	4.5	(750)	(750)	–	–	–
Bank loans	4.3	(14,994)	(14,994)	–	–	–
Loans to associates	4.7	352	352	–	–	–
		(11,623)	(11,623)	–	–	–
<b>Maturity dates for assets/ (liabilities) which do not reprice before maturity</b>						
Bonds and notes						
– HKD	4.5	(2,100)	(650)	(600)	(600)	(250)
– USD	7.2	(2,800)	(2,800)	–	–	–
Effect of interest rate swaps	5.1	–	(1,450)	600	600	250
		(4,900)	(4,900)	–	–	–

## 24. FINANCIAL INSTRUMENTS *(Continued)*

### a. Interest rate risk *(Continued)* (ii) *(Continued)*

	2005					
	Effective	Total	One year	1-2	2-5	More than
	interest rate %	HK\$ Million	or less HK\$ Million	years HK\$ Million	years HK\$ Million	5 years HK\$ Million
<b>Repricing dates for assets/ (liabilities) which reprice before maturity</b>						
Deposit and cash	2.4	2,508	2,508	–	–	–
Bonds and notes	3.3	(640)	(640)	–	–	–
Bank loans	3.2	(13,224)	(13,224)	–	–	–
		(11,356)	(11,356)	–	–	–
<b>Maturity dates for assets/ (liabilities) which do not reprice before maturity</b>						
Bonds and notes						
– HKD	3.8	(1,850)	(1,200)	(250)	(400)	–
– USD	7.2	(2,800)	–	(2,800)	–	–
Effect of interest rate swaps	3.9	–	(2,990)	2,590	400	–
		(4,650)	(4,190)	(460)	–	–

**24. FINANCIAL INSTRUMENTS** *(Continued)*

**b. Foreign currency risk**

The Group owns assets and conducts its business primarily in Hong Kong with its cash flows substantially denominated in Hong Kong dollars.

The Group's primary foreign currency risk exposures arise from its direct property investment and port-related equity investments in China. Where appropriate and cost-efficient, the Group seeks to finance these investments by RMB borrowings with reference to the future RMB funding requirements from the investment and related returns.

The Group is also exposed to foreign currency risk in respect of its USD denominated long term borrowings. Anticipated foreign exchange payments relate primarily to interest expense payments, repayment of principal and capital expenditure. Based on the Group's estimate of future foreign exchange rates, it may enter into forward foreign exchange contracts to reduce fluctuations in foreign currency cash flows related to these anticipated payments.

The contract amounts of the outstanding forward exchange contracts at December 31, 2006 was HK\$3,664 million (2005: HK\$3,025 million).

The net fair values of forward foreign exchange contracts at December 31, 2006 were as follows:

	<b>2006</b>	2005
	<b>Negative</b>	Negative
	<b>fair value</b>	fair value
	<b>HK\$ Million</b>	HK\$ Million
Forward foreign exchange contracts designated at fair value through profit or loss	–	7

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

## 24. FINANCIAL INSTRUMENTS *(Continued)*

### c. **Liquidity risk**

Cash management of the Company and wholly-owned subsidiaries of the Group are centralised at the Group level. The non wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### d. **Credit risk**

The Group's credit risk is primarily attributable to rental, other trade and service receivables. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies in each of its core businesses. In respect of rental receivables, sufficient rental deposits are held to cover potential exposure to credit risk.

Investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. Except for the financial guarantees given by the Company as set out in note 29, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 29. There are no significant concentrations of credit risk within the Group.

## 24. FINANCIAL INSTRUMENTS *(Continued)*

### e. Fair values

Listed investments are stated at quoted market prices. Unlisted investments for which fair values cannot be reliably measured are stated at cost.

The fair values of receivables, bank balances and other current assets, payables and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2006 and December 31, 2005. Amounts due (to)/from subsidiaries are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

## 25. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on June 30, 1998, to replace a former scheme previously adopted on September 29, 1988, whereby the Directors of the Company are authorised, at their discretion, to invite employees, including Directors, of the Company and/or any of its subsidiaries to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. Options under the share option scheme are exercisable during such period as determined by the Directors prior to the grant of the option provided that no option may be granted which is exercisable earlier than one year from the date of grant or later than 10 years after such date.

## 25. EQUITY COMPENSATION BENEFITS *(Continued)*

### a. Movement in share options

	<b>2006</b>	2005
	<b>Number</b>	<i>Number</i>
At January 1	<b>200,000</b>	400,000
Exercised	<b>(200,000)</b>	(200,000)
At December 31	–	200,000
Options vested at December 31	–	200,000

- b. During the year ended December 31, 2006 and 2005, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme.

During the year ended December 31, 2006, 200,000 (2005: 200,000) options were exercised to subscribe for ordinary shares under the Company's Executive Share Incentive Scheme.

### c. Terms of share options at the balance sheet date

<b>Exercise period</b>	<b>Exercise price</b>	<b>2006</b>	2005
		<b>Number</b>	<i>Number</i>
08/01/2005 – 07/31/2006	HK\$25.00	–	200,000

**25. EQUITY COMPENSATION BENEFITS** *(Continued)***d. Details of share options exercised**

Exercise date	Market value per share at exercise date <i>HK\$</i>	Proceeds received <i>HK\$</i>	No. of shares
January 9, 2006	29.30	1,000,000	<b>40,000</b>
January 11, 2006	29.30	250,000	<b>10,000</b>
March 31, 2006	28.50	375,000	<b>15,000</b>
May 2, 2006	32.30	100,000	<b>4,000</b>
May 19, 2006	28.95	625,000	<b>25,000</b>
May 30, 2006	27.75	500,000	<b>20,000</b>
June 9, 2006	26.90	500,000	<b>20,000</b>
July 7, 2006	27.30	150,000	<b>6,000</b>
July 25, 2006	27.65	500,000	<b>20,000</b>
July 28, 2006	28.60	1,000,000	<b>40,000</b>
<b>For 2006</b>			<b>200,000</b>
August 31, 2005	28.55	250,000	10,000
September 2, 2005	29.95	1,625,000	65,000
September 7, 2005	30.60	250,000	10,000
September 8, 2005	30.10	500,000	20,000
September 9, 2005	30.50	500,000	20,000
September 13, 2005	30.15	875,000	35,000
September 27, 2005	30.10	1,000,000	40,000
For 2005			200,000

The exercise price for all the above share options was HK\$25 per share.

## 26. SHARE CAPITAL

	<b>2006</b>	2005	<b>2006</b>	2005
	<b>No. of</b>	<i>No. of</i>	<b>HK\$ Million</b>	<i>HK\$ Million</i>
	<b>shares</b>	<i>shares</i>		
	<b>Million</b>	<i>Million</i>		
Authorised				
Ordinary shares of HK\$1 each	<b>3,600</b>	3,600	<b>3,600</b>	3,600
Issued and fully paid				
Balance at January 1	<b>2,448</b>	2,447	<b>2,448</b>	2,447
Exercise of share options	–	1	–	1
Balance at December 31	<b>2,448</b>	2,448	<b>2,448</b>	2,448

### Executive share incentive scheme

For the year ended December 31, 2006, 200,000 options (2005: 200,000 options) to subscribe for ordinary shares of the Company at a price of HK\$25.0 (2005: HK\$25.0) per share granted to a number of executives under the Company's executive share incentive scheme were exercised (Note 25(a)).

There are no outstanding options to subscribe for ordinary shares of the Company as at December 31, 2006.

## 27. CAPITAL AND RESERVES

	Shareholders' equity								
	Share capital	Share premium	Capital redemption reserves	Investments revaluation reserves	Exchange and other reserves	Revenue reserves	Total shareholders' equity	Minority interests	Total equity
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
<b>a. The Group</b>									
Balance at January 1, 2005									
– as previously reported	2,447	7,742	7	441	125	44,147	54,909	3,675	58,584
Prior year adjustments for:									
HKAS 19 (Note 31)	–	–	–	–	–	30	30	40	70
As restated	2,447	7,742	7	441	125	44,177	54,939	3,715	58,654
Surplus on revaluation of available-for-sale investments	–	–	–	103	–	–	103	63	166
Actuarial gains/(losses) on defined benefit pension schemes	–	–	–	–	–	31	31	(4)	27
Exchange difference	–	–	–	–	72	–	72	–	72
Others	–	–	–	–	(134)	55	(79)	9	(70)
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	(40)	–	–	(40)	–	(40)
Share of reserves of associates/ jointly controlled entities	–	–	–	(2)	7	–	5	–	5
Net income/(expense) recognised directly in equity	–	–	–	61	(55)	86	92	68	160
Profit for the year	–	–	–	–	–	13,888	13,888	942	14,830
Total recognised income and expenses	–	–	–	61	(55)	13,974	13,980	1,010	14,990
Dividends approved in respect of the previous year (Note 8b)	–	–	–	–	–	(881)	(881)	–	(881)
Dividends declared in respect of the current year (Note 8a)	–	–	–	–	–	(881)	(881)	–	(881)
Dividends paid to minority interests	–	–	–	–	–	–	–	(537)	(537)
Exercise of share options	1	4	–	–	–	–	5	–	5
Advances from minority interests	–	–	–	–	–	–	–	7	7
Reserve utilised for acquisition of additional interests in subsidiaries	–	–	–	–	–	(1,788)	(1,788)	(1,043)	(2,831)
Balance at December 31, 2005	2,448	7,746	7	502	70	54,601	65,374	3,152	68,526

## 27. CAPITAL AND RESERVES (Continued)

	Shareholders' equity								
	Share capital	Share premium	Capital redemption reserves	Investments revaluation reserves	Exchange and other reserves	Revenue reserves	Total shareholders' equity	Minority interests	Total equity
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Balance at January 1, 2006									
– as previously reported	<b>2,448</b>	<b>7,746</b>	<b>7</b>	<b>502</b>	<b>70</b>	<b>54,540</b>	<b>65,313</b>	<b>3,116</b>	<b>68,429</b>
Prior year adjustments for:									
HKAS 19 (Note 31)	–	–	–	–	–	<b>61</b>	<b>61</b>	<b>36</b>	<b>97</b>
As restated	<b>2,448</b>	<b>7,746</b>	<b>7</b>	<b>502</b>	<b>70</b>	<b>54,601</b>	<b>65,374</b>	<b>3,152</b>	<b>68,526</b>
Surplus on revaluation of available-for-sale investments	–	–	–	<b>773</b>	–	–	<b>773</b>	<b>102</b>	<b>875</b>
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	<b>37</b>	<b>37</b>	<b>18</b>	<b>55</b>
Exchange difference	–	–	–	–	<b>161</b>	–	<b>161</b>	–	<b>161</b>
Others	–	–	–	–	<b>5</b>	<b>(5)</b>	–	<b>20</b>	<b>20</b>
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	<b>(3)</b>	–	–	<b>(3)</b>	–	<b>(3)</b>
Share of reserves of associates/jointly controlled entities	–	–	–	–	<b>16</b>	–	<b>16</b>	–	<b>16</b>
Net income recognised									
directly in equity	–	–	–	<b>770</b>	<b>182</b>	<b>32</b>	<b>984</b>	<b>140</b>	<b>1,124</b>
Profit for the year	–	–	–	–	–	<b>10,757</b>	<b>10,757</b>	<b>637</b>	<b>11,394</b>
Total recognised income and expenses	–	–	–	<b>770</b>	<b>182</b>	<b>10,789</b>	<b>11,741</b>	<b>777</b>	<b>12,518</b>
Dividends approved in respect of the previous year (Note 8b)	–	–	–	–	–	<b>(1,077)</b>	<b>(1,077)</b>	–	<b>(1,077)</b>
Dividends declared in respect of the current year (Note 8a)	–	–	–	–	–	<b>(881)</b>	<b>(881)</b>	–	<b>(881)</b>
Advances from minority interests	–	–	–	–	–	–	–	<b>8</b>	<b>8</b>
Acquisition of subsidiaries	–	–	–	–	–	–	–	<b>1,098</b>	<b>1,098</b>
Dividends paid to minority interests	–	–	–	–	–	–	–	<b>(279)</b>	<b>(279)</b>
Exercise of share options	–	<b>5</b>	–	–	–	–	<b>5</b>	–	<b>5</b>
Balance at December 31, 2006	<b>2,448</b>	<b>7,751</b>	<b>7</b>	<b>1,272</b>	<b>252</b>	<b>63,432</b>	<b>75,162</b>	<b>4,756</b>	<b>79,918</b>

**27. CAPITAL AND RESERVES** (Continued)

	Share capital HK\$ Million	Share premium HK\$ Million	Capital redemption reserve HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total HK\$ Million
<b>b. The Company</b>						
Balance at January 1, 2005	2,447	7,742	7	306	3,501	14,003
Transfers	–	–	–	(306)	306	–
Profit for the year	–	–	–	–	1,455	1,455
Dividends approved in respect of the previous year (Note 8b)	–	–	–	–	(881)	(881)
Dividends declared in respect of the current year (Note 8a)	–	–	–	–	(881)	(881)
Exercise of share options	1	4	–	–	–	5
Balance at December 31, 2005 and January 1, 2006	<b>2,448</b>	<b>7,746</b>	<b>7</b>	–	<b>3,500</b>	<b>13,701</b>
Profit for the year	–	–	–	–	<b>1,958</b>	<b>1,958</b>
Dividends approved in respect of the previous year (Note 8b)	–	–	–	–	<b>(1,077)</b>	<b>(1,077)</b>
Dividends declared in respect of the current year (Note 8a)	–	–	–	–	<b>(881)</b>	<b>(881)</b>
Exercise of share options	–	<b>5</b>	–	–	–	<b>5</b>
Balance at December 31, 2006	<b>2,448</b>	<b>7,751</b>	<b>7</b>	–	<b>3,500</b>	<b>13,706</b>

Reserves of the Company available for distribution to equity shareholders of the Company at December 31, 2006 amounted to HK\$3,500 million (2005: HK\$3,500 million).

The application of the share premium account and capital redemption reserve are governed by Section 48B and Section 49H of the Hong Kong Companies Ordinance respectively. The investments revaluation reserves have been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of available-for-sale investments. The exchange and other reserves mainly comprise exchange differences arising from the translation of the financial statements of foreign operations.

After the balance sheet date the Directors proposed a final dividend of 44 cents per share (2005: 44 cents per share) amounting to HK\$1,077 million (2005: HK\$1,077 million). This dividend has not been recognised as a liability at the balance sheet date.

## 28. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the year ended December 31, 2006:

- a. As disclosed in Note 13, loans totalling HK\$352 million (2005: HK\$1,153 million) advanced by the Group to an associate involved in the Bellagio property development project are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loans during the year is not material in the context of these financial statements.
- b. In respect of the year ended December 31, 2006, the Group earned rental income totalling HK\$318 million (2005: HK\$239 million) from various tenants which are wholly-owned by, or are non wholly-owned subsidiaries of, companies which in turn are wholly-owned by the family interests of, or by a trust the settlor of which is, the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.
- c. Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employees are disclosed in notes 2(b) and 2(c).

## 29. CONTINGENT LIABILITIES

As at December 31, 2006, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK\$23,334 million (2005: HK\$24,216 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK\$Nil.

As at balance sheet date, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

## 30. COMMITMENTS

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
<b>a. Capital commitments</b>		
Authorised and contracted for	4,967	1,143
Authorised but not contracted for	3,695	3,099
	<b>8,662</b>	4,242
<b>b. Programming and other commitments</b>		
Authorised and contracted for	538	581
Authorised but not contracted for	57	80
	<b>595</b>	661
<b>c. Properties under development for sale</b>		
Authorised and contracted for	3,149	855
Authorised but not contracted for	12,824	2,654
	<b>15,973</b>	3,509
<b>d. Commitment for acquisition of investments</b>		
Authorised and contracted for	–	1,874
<b>e. Operating leases commitment</b>		
Within one year	120	120
After one year but within five years	133	236
Over five years	91	96
	<b>344</b>	452

The Group leases a number of properties and telecommunications network facilities under operating leases. The leases typically run for an initial period of two to fifteen years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

### 31. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

The “Principal accounting policies” set out on pages 119 to 141 summarises the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 33).

#### a. HKAS 19 “Employee benefits”

In prior years, in calculating the Group’s obligation in respect of a defined benefit pension scheme, if any cumulative unrecognised actuarial gain or loss exceeded 10% of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion was recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss was not recognised.

With effect from January 1, 2006, the Group adopted retrospectively the alternative recognition policy in the amendment to HKAS 19 under which all actuarial gain or loss of all defined benefit pension schemes can be recognised outside profit or loss directly to equity. Shareholders’ equity as at January 1, 2006 and January 1, 2005 was restated and increased by HK\$61 million and HK\$30 million respectively and minority interests as at January 1, 2006 and January 1, 2005 was restated and increased by HK\$36 million and HK\$40 million respectively. As required by the amendment to HKAS 19, following the adoption of such amendment, a consolidated statement of recognised income and expense instead of a consolidated statement of changes in equity has been prepared.

**31. CHANGES IN ACCOUNTING POLICIES** *(Continued)*

**b. Financial guarantees issued (Amendments to HKAS 39, “Financial instruments: Recognition and measurement: Financial guarantee contracts”)**

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKFRS 4, “Insurance contracts” and HKAS 37, “Provisions, contingent liabilities and contingent assets”. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from January 1, 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where material and the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37.

The adoption of the amendment does not have any impact on the Group’s results of operation and financial position for the financial years 2005 and 2006.

**c. HK(IFRIC) 4 “Determining whether an Arrangement contains a lease”**

In prior years, the Group determined leases with reference to legal form. With effect from January 1, 2006, the Group assesses all contracts in accordance with the requirements of HK(IFRIC) 4, in order to determine whether the contract contain leases. As a result, the Group has determined that certain contracts, although they do not take the legal form of a lease, convey to the Group a right to use certain specific assets owned by the supplier in return for a series of payments and therefore contain leases that should be accounted for in accordance with HKAS 17 “Leases”.

Accordingly, operating lease payments charges to operating profit and operating lease commitments, the definition of which has been revised in accordance with HK(IFRIC) 4, have been disclosed in the financial statements, together with comparative amounts.

## 32. POST BALANCE SHEET EVENTS

- a. After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 8.
- b. On December 14, 2006, Modern Terminals Limited (“MTL”), a 67.6%-owned subsidiary of the Group signed an agreement with China Merchants Holdings (International) Company Limited (“CMH”) in relation to the rationalisation of interests in Shekou Container Terminals Phases I, II and III (“the Agreement”).

As of December 31, 2006, MTL held effective interests in Shekou Container Terminals Phases I and II of 10.0% and 9.8% respectively.

Under the Agreement, CMH will acquire the equity interests held by the other shareholders of Shekou Container Terminals Phases I and II and upon its completion, both CMH and MTL will inject their interests in Shekou Container Terminals Phases I, II and III into a newly set up joint venture (“Mega SCT”). CMH and MTL will hold 70% and 30% equity interests in the Mega SCT respectively (“the Transaction”) and MTL will pay HK\$3,168 million in relation to the Transaction. In the case where the Transaction cannot be completed, MTL has the right to sell all its interests in Shekou Container Terminals Phases I and II to CMH. Under the Agreement, CMH has granted MTL an option to sell all of its 30% interests in Mega SCT for HK\$3,960 million within one year after the Transaction is completed.

The Agreement required shareholders approval from both the Company and CMH, which was subsequently granted on February 22, 2007.

### 33. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which have not been adopted since they are only effective after December 31, 2006.

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 7, Financial instruments: disclosures	January 1, 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	January 1, 2007

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on March 21, 2007.

# Principal Accounting Policies

## a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 31 to the Financial Statements provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

## b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note (y).

### c. Basis of consolidation

#### i. *Subsidiaries and minority interests*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

**c. Basis of consolidation** *(Continued)*

*ii. Associates and jointly controlled entities*

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment of goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate or jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

### c. **Basis of consolidation** *(Continued)*

#### iii. *Goodwill*

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in consolidated profit and loss account.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### d. **Fixed assets**

#### i. *Investment properties*

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

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

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

**d. Fixed assets (Continued)**

*i. Investment properties (Continued)*

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

*ii. Hotel and club properties*

Hotel and club properties are stated at cost less accumulated depreciation and impairment losses.

*iii. Broadcasting and communications equipment*

Broadcasting and communications equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes materials, direct labour and an appropriate proportion of overheads and borrowing costs directly attributable to the acquisition, construction or production of such equipment which necessarily takes a substantial period of time to get ready for its intended use.

*iv. Other properties and fixed assets held for own use*

Other properties and fixed assets held for own use are stated at cost less accumulated depreciation and impairment losses.

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

**e. Depreciation of fixed assets**

Depreciation is calculated to write-off the cost of items of fixed assets, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

*i. Investment properties*

No depreciation is provided on investment properties.

*ii. Hotel and club properties*

Depreciation is provided on the cost of the leasehold land of hotel and club properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

**e. Depreciation of fixed assets** *(Continued)*

*iii. Broadcasting and communications equipment*

Depreciation is provided on a straight line basis on the cost of the equipment at rates determined by the estimated useful lives of the assets of two to 20 years.

*iv. Other properties and fixed assets held for own use*

Depreciation is provided on the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Costs of the buildings thereon are depreciated on a straight line basis over their estimated useful lives of 40 years.

Depreciation is provided on a straight line basis on the cost of other fixed assets held for own use at rates determined by the estimated useful lives of these assets of three to 25 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**f. Investments in debt and equity securities**

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated profit and loss account.

Dated debt securities that the Group and/or the Company has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

**f. Investments in debt and equity securities** *(Continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investments revaluation reserves in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in the investments revaluation reserves in equity is recognised in the consolidated profit and loss account.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

**g. Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated profit and loss account. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

**h. Hedging**

*i. Fair value hedge*

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated profit and loss account. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated profit and loss account.

*ii. Cash flow hedge*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the consolidated profit and loss account.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

### **h. Hedging** *(Continued)*

#### *ii. Cash flow hedge (Continued)*

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the consolidated profit and loss account (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the hedged forecast transaction affects the consolidated profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the consolidated profit and loss account.

#### *iii. Hedge of net investment in a foreign operation*

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in the consolidated profit and loss account. The ineffective portion is recognised immediately in the consolidated profit and loss account.

### **i. Leased assets**

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

**i. Leased assets** *(Continued)*

*i. Classification of leased assets*

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

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

*ii. Assets held under operating leases*

- (a) Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.
- (b) The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property (see note (d)(i)).

**i. Leased assets** *(Continued)*

*iii. Assets held under finance leases*

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

**j. Programming library**

Programming library consists of presentation rights for commissioned programmes and acquired programmes for showing on the Group's television channels, and commissioned programmes and films for licensing purposes.

Presentation rights are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and any impairment losses. Amortisation is charged to profit or loss on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred. Cost of in-house programmes are written-off in the period in which they are incurred.

Commissioned programmes and films for licensing purposes comprise direct production costs and production overheads, and are stated at the lower of amortised cost or net realisable value. Costs are amortised on an individual programme/film basis in the ratio of the current year's gross revenues to management's forecast of the total ultimate gross revenues from all sources.

Both the period and method of amortisation are reviewed annually.

**k. Impairment of assets**

*i. Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses arising on equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

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

- For available-for-sale investments, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the consolidated profit and loss account. The amount of the cumulative loss that is recognised in the consolidated profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated profit and loss account.

Impairment losses recognised in the consolidated profit and loss account in respect of available-for-sale equity investments are not reversed through the consolidated profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in the investments revaluation reserves in equity.

### k. Impairment of assets (Continued)

#### ii. Impairment of other assets

The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

- Recoverable amount  
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses  
An impairment loss is recognised as an expense in the consolidated profit and loss account whenever the carrying amount exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses  
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

## I. Inventories

### *i. Properties held for sale*

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions. Cost of completed properties held for sale comprises all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

### *ii. Properties under development for sale*

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

### *iii. Spare parts and consumables*

Spare parts and consumables are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is estimated by the management, based on the expected selling price in the ordinary course of business less the anticipated costs of completion and the estimated costs necessary to make the sale.

## Principal Accounting Policies

**m. Trade and other receivables**

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

**n. Interest-bearing borrowings**

Interest-bearing borrowings for which there is a hedging relationship with a derivative financial instrument, which does not qualify for hedge accounting are initially recognised at fair value less transaction costs. At each balance sheet date the fair value is remeasured and any change in fair value is recognised in the consolidated profit and loss account.

Other interest-bearing borrowings are initially recognised at fair value less transaction costs. Subsequent to initial recognition, the interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated profit and loss account over the period of the borrowings together with any interest and fees payable using the effective interest method.

**o. Trade and other payables**

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

**p. Cash and cash equivalents**

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

**q. Foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of overseas subsidiaries are dealt with in capital reserves and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated profit and loss account. On disposal of an overseas subsidiary, the cumulative amount of the exchange differences recognised in capital reserves which relate to that overseas subsidiary is included in the calculation of the profit or loss on disposal.

**r. Recognition of revenue**

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

- i.* Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised in the accounting period in which they are earned.
- ii.* Income arising from the sale of properties held for sale is recognised upon the execution of the formal sale and purchase agreement or the issue of occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under other payables.
- iii.* Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.
- iv.* Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

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

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

## Principal Accounting Policies

**r. Recognition of revenue** *(Continued)*

*vi. Deferred revenue*

Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

**s. Borrowing costs**

Borrowing costs are expensed in the consolidated profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**t. Income tax**

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

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

**t. Income tax (Continued)**

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

## Principal Accounting Policies

### t. **Income tax** *(Continued)*

- iv. Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the company or the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### u. **Related parties**

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

- i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- ii. the Group and the party are subject to common control;
- iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;
- iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- v. the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

**v. Financial guarantees issued, provisions and contingent liabilities**

*i. 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 trade and other payables. 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 that category of 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 in accordance with note (v)(ii) 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 trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

*ii. Other provisions and contingent liabilities*

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

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

### w. Segment reporting

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

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

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

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

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

### x. Employee benefits

#### i. *Defined benefit pension schemes*

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

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

**x. Employee benefits** *(Continued)*

*i. Defined benefit pension schemes (Continued)*

Any actuarial gains and losses are fully recognised in equity in the period they occur.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme less past service cost.

*ii. Shared based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated profit and loss account for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserves).

*iii. Short term employee benefits and contributions to defined contribution retirement plans*

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

### y. Significant accounting estimates and judgements

#### *Key sources of estimation uncertainty*

Notes 17 and 24 contain information about the assumptions and their risk relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

- Valuation of investment properties  
Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

- Assessment of useful economic lives for depreciation of fixed assets  
In assessing the estimated useful lives of fixed assets, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of fixed assets annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

- Assessment of impairment of non-current assets  
Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for remaining useful life of the asset and the most recent financial budgets/ forecasts are approved by management.

**y. Significant accounting estimates and judgements** *(Continued)*

*Key sources of estimation uncertainty (Continued)*

- Assessment of provision for properties held under development and for sale  
Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) internal estimates of costs based on quotes by suppliers.

Management's assessment of net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates requires judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate, and estimates may need to be adjusted in later periods.

- Recognition of deferred tax assets  
The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

# Principal Subsidiaries, Associates and Jointly Controlled Entities

At December 31, 2006

Subsidiaries	Place of incorporation/operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
<b>Properties</b>				
<b># Wharf Estates Limited</b>	Hong Kong	2 HK\$1 shares	100	Holding company
<b>Harbour City</b>				
Harbour City Estates Limited	Hong Kong	20,000 HK\$10 shares	100	Property
Wharf Realty Limited	Hong Kong	2 HK\$1 shares	100	Property
* Harbour Centre Development Limited	Hong Kong	315,000,000 HK\$0.5 shares	67	Holding company
<b>Times Square</b>				
Times Square Limited	Hong Kong	2 HK\$10 shares	100	Property
<b># Wharf Estates Development Limited</b>	Hong Kong	2 HK\$1 shares	100	Holding company
<b>Plaza Hollywood</b>				
Plaza Hollywood Limited	Hong Kong	10,000 HK\$1 shares	100	Property
Delta Realty Limited	Hong Kong	2 HK\$1 shares	100	Property
Feckenham Limited	Hong Kong	2 HK\$10 shares	100	Property
Framenti Company Limited	Hong Kong	2 HK\$1 shares	100	Property
HKRT Peak Properties Limited	Hong Kong	3,000,000 HK\$10 shares	100	Property
Hong Tai Yuen Limited	Hong Kong	500,000 HK\$1 shares	100	Property
New Tech Centre Limited	Hong Kong	10,000 HK\$1 shares	100	Property
Olinda Limited	Hong Kong	2 HK\$10 shares	100	Property
Roville Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Spring Wealth Investments Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
<b># Wharf China Limited</b>	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
Wharf Estates China Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Beijing Capital Times Square Development Company Limited	The People's Republic of China	US\$59,000,000	88	Property
Beijing Times Establishment Property Management Company Limited	The People's Republic of China	US\$200,000	75	Property management
Shanghai Long Xing Property Development Company Limited	The People's Republic of China	US\$45,000,000	100	Property
Shanghai Times Square Property Management (Shanghai) Company Limited	The People's Republic of China	US\$500,000	100	Property management
Dalian Times Square Development Company, Limited	The People's Republic of China	RMB200,000,000	100	Property

<b>Subsidiaries</b>	<b>Place of incorporation/ operation</b>	<b>Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
Han Long Development (Wuhan) Company Limited	The People's Republic of China	US\$33,100,000	100	Property
Long Qing Property Development (Chongqing) Company Limited	The People's Republic of China	RMB171,050,000	100	Property
Shanghai Jiu Zhou Property Development Company Limited	The People's Republic of China	US\$20,000,000	85	Property
Shanghai Long Shen Real Estate Development Company Limited	The People's Republic of China	US\$22,330,000	55	Property
Shanghai Wellington Garden Estate Development Company Limited	The People's Republic of China	US\$16,666,666	59	Property
Shanghai Wheelock Square Development Limited	The People's Republic of China	US\$80,000,000	98	Property
Wharf Estates (Wuxi) Company Limited	The People's Republic of China	US\$29,980,000	100	Property
龍茂房地產開發(成都)有限公司	The People's Republic of China	HK\$750,000,000	100	Property
龍潤房地產開發(成都)有限公司	The People's Republic of China	HK\$813,804,609	100	Property
<b>Logistics</b>				
Wharf Transport Investments Limited	Hong Kong	2 HK\$1 shares	100	Holding company
The "Star" Ferry Company, Limited	Hong Kong	1,440,000 HK\$5 shares	100	Public transport
Hong Kong Tramways, Limited	Hong Kong	21,937,500 HK\$5 shares	100	Public transport
Modern Terminals Limited	Hong Kong	70,116 HK\$1,000 shares	68	Container terminal
Shenzhen Dachan Bay Modern Port Development Company, Limited	The People's Republic of China	RMB2,475,550,000	44	Container terminal
Suzhou Modern Terminals Limited	The People's Republic of China	US\$24,000,000	48	Container terminal
<b>Hotels</b>				
Wharf Hotel Investments Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
Marco Polo Hotels Management Limited	Hong Kong	2 HK\$10 shares	100	Hotel management
The Hongkong Hotel Limited	Hong Kong	100,000 HK\$1 shares	67	Hotel and property

## Principal Subsidiaries, Associates and Jointly Controlled Entities

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
The Marco Polo Hotel (Hong Kong) Limited	Hong Kong	1,000 HK\$1 shares	100	Hotel operation
The Prince Hotel Limited	Hong Kong	2 HK\$1 shares	100	Hotel operation
<b>CME</b>				
<b># Wharf Communications Limited</b>	Hong Kong	1,000,000 HK\$10 shares	100	Holding company
COL Limited	Hong Kong	40,000 HK\$500 shares	100	Computer services
Hong Kong Cable Enterprises Limited	Hong Kong	2 HK\$1 shares	74	Advertising airtime, programming licensing and channel carriage services
Hong Kong Cable Television Limited	Hong Kong	750,000,000 HK\$1 shares	74	Pay television services
* i-CABLE Communications Limited	Hong Kong	2,019,234,400 HK\$1 shares	74	Holding company
i-CABLE Network Limited	Hong Kong	100 HK\$1 shares 2 HK\$1 non-voting deferred shares	74	Network operation services
i-CABLE Satellite Television Limited	Hong Kong	2 HK\$1 shares	74	Non-domestic television services and programming licensing
i-CABLE Network Operations Limited (formerly i-CABLE WebServe Limited)	Hong Kong	500,000 HK\$1 shares	74	Internet and multimedia services
Sundream Motion Pictures Limited	Hong Kong	10,000,000 HK\$1 shares	100	Film production
Rediffusion Satellite Services Limited	Hong Kong	1,000 HK\$10 shares	74	Satellite television Services
EC Telecom Limited	Hong Kong	2 HK\$1 shares	100	Telecom- munication
Wharf T&T Limited	Hong Kong	100,000,000 HK\$1 shares	100	Telecom- munication

<b>Subsidiaries</b>	<b>Place of incorporation/operation</b>	<b>Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
<b>Investment and others</b>				
Wharf Limited	Hong Kong	2 HK\$10 shares	100	Management services
Wharf Finance Limited	Hong Kong	2 HK\$1 shares	100	Finance
Wharf Finance (BVI) Limited	British Virgin Islands	500 US\$1 shares	100	Finance
#Wharf International Finance Limited	Cayman Islands	500 US\$1 shares	100	Finance
#Wharf Hong Kong Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
<b>Associates</b>	<b>Place of incorporation/operation</b>	<b>Class of shares</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
<b>Property</b>				
Diamond Hill Development Holdings Limited	British Virgin Islands	Ordinary	33	Holding company
Harriman Leasing Limited	Hong Kong	Ordinary	50	Leasing agent
Salisbury Company Limited	Hong Kong	Ordinary	33	Property
<b>Jointly controlled entities</b>	<b>Place of incorporation</b>	<b>Registered and paid up capital</b>	<b>Percentage of equity attributable to the Group</b>	<b>Principal activities</b>
<b>Logistics</b>				
Taicang International Container Terminals Company Limited	The People's Republic of China	RMB450,800,000	34	Container terminal operations

All the subsidiaries listed above were, as at December 31, 2006, indirect subsidiaries of the Company except where marked #.

The above list gives the principal subsidiaries, associates and jointly controlled entities of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

# Subsidiaries held directly

\* Listed companies

# Schedule of Principal Properties

As at December 31, 2006

Address	Lot Number	Year of Completion	Expected Year of Completion	Lease Expiry
<b>Wharf Estates Limited</b>				
<b>Harbour City</b>				
<i>Investment properties</i>				
Ocean Terminal, Harbour City, Tsimshatsui	KPP 83	1966		2012
Ocean Centre, Harbour City, Tsimshatsui	KML 11 S.A.	1977		2880
Wharf T & T Centre, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
World Commerce Centre, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
World Finance Centre, Harbour City, Tsimshatsui	KML 11 S.D.	1983		2880
Ocean Galleries, Harbour City, Tsimshatsui	KML 11 S.B. & D.	1981/83		2880
Gateway I, Harbour City, Tsimshatsui	KML 11 R.P.	1994		2880
Gateway II, Harbour City, Tsimshatsui	KML 11 S.B. & D.	1998/99		2880
The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui (Commercial Section)	KML 91 S.A. & KML 10 S.B.	1969		2863
<i>Hotels and clubs</i>				
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969		2863
Gateway, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
Prince, Harbour City, Tsimshatsui	KML 11 S.D.	1983		2880
Pacific Club Kowloon, Harbour City, Tsimshatsui	KPP 6	1990		2006
<b>Times Square</b>				
<i>Investment property</i>				
Times Square, Sharp Street East, Causeway Bay	IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A., B & R.P., IL 722 & IL 718	1993		2850/60/80
<b>Wharf Estates Development Limited</b>				
<i>Investment properties</i>				
Plaza Hollywood, 3 Lung Poon Street, Diamond Hill	NKIL 6160	1997		2047
Wharf T&T Square, Hoi Bun Road, Kwun Tong	KTIL 713	1991		2047
26-27/F, World-Wide House, Central	IL 8432	1979		2053
Various units of Cable TV Tower, Hoi Shing Road, Tsuen Wan	TWTL 218	1992		2047
Various units of Grandtech Centre, On Sum Street, Shatin	STTL 375	1996		2047
Various units of Strawberry Hill, 8 Plunkett's Road, The Peak	RBL 512 & 1004	1974/77		2027/28
77 Peak Road, The Peak	RBL 836	1951		2029
Chelsea Court	RBL 556 R.P.S.A. & S.B.	2001		2035
63 Mount Kellett Road, The Peak				
Mountain Court	RBL 522, 639, 661	2001		2027
11-13 Plantation Road, The Peak				
1 Plantation Road, The Peak	RBL 534 S.E. & F.	2002		2028
Delta House, 3 On Yiu Street, Shatin	STTL 422	1999		2047
Various units of Star House, 3 Salisbury Road, Kowloon	KML 10 S.A.	1966		2863
<i>Other property</i>				
Gough Hill Residences, 3-5 Gough Hill Path, The Peak	RBL 1169	2006		2031/50
<i>Property under redevelopment</i>				
Cable TV Tower South	TWIL 36	N/A		2047
Chai Wan Kok Street, Tsuen Wan				
Kowloon Godown, 1-3 Kai Hing Road, Kowloon Bay	NKIL 5805, 5806 & 5982	N/A		2047
Yau Tong Godown, 5 Tung Yuen Street, Kowloon	YTIL 4SA & adjoining Government land	N/A		2047
<i>Properties under development/completed properties undertaken by associates</i>				
Bellagio, Sham Tseng Towers 1, 2, 3 & 5	Lot 266 in DD 390	2005		2051
Various Lots at Yau Tong Bay, Yau Tong, Kowloon	R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay	N/A		2047

Site Area (sq.ft.)	Approximate Gross Floor Areas (sq.ft.)				Club House	Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
	Office	Retail	Residential	Industrial – Office/ Industrial				
346,719		658,000						100%
126,488	677,000	224,000						100%
(a)	257,000							100%
(a)	257,000							100%
(a)	512,000							100%
(a)		386,000						100%
(a)	1,128,000	108,000						100%
(a)	1,570,000	400,000	670,000					100%
(b)	34,000	137,000						67%
58,814						664		67%
(a)						431		100%
(a)						394		100%
48,309					139,000			100%
112,441	1,033,000	936,000						100%
280,510		562,000						100%
48,438	330,000	65,000						100%
N/A	21,000							100%
N/A				566,000				100%
N/A				380,000				100%
N/A			22,300					100%
76,728			32,000					100%
29,640			43,000					100%
32,145			49,900					100%
97,670			97,000					100%
70,127				349,000				100%
N/A		50,780						67%
49,321			17,100					100%
66,000				584,600			Planning stage	100%
165,809		82,900		1,492,300			Planning stage	100%
42,625		42,625	213,100				Planning stage	100%
N/A			272,000					33 1/3%
769,626		323,000	5,500,000				Planning stage	15.6%

## Schedule of Principal Properties

Address	Lot Number	Year of Completion	Expected Year of Completion	Lease Expiry
<b>Wharf Estates China Limited</b>				
<i>Investment property</i>				
Beijing Capital Times Square 88 West Changan Avenue, Beijing		1999		2044
Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai		1999		2043
Chongqing Times Square Zou Rong Road/Min Zu Road, Yuzhong District, Chongqing		2004		2050
<i>Properties under development</i>				
Wellington Garden Area 8 of 148, Huai Hai Xi Road, Xuhui District, Shanghai			2007	2045
Wuhan Times Square Yan Jiang Da Dao & Nanling Road, Jiangnan District, Wuhan			2007	2053/73
Dalian Times Square Ren Min Road, Zhongshan District, Dalian			2008	2039/69
No.1 Xin Hua Road 176, Huai Hai Xi Road, Changning District, Shanghai			2008	2064
Commercial development at 1717, Nan Jing Xi Road, Jingan District, Shanghai			2009	2049
No.11 Dong Da Jie Chengdu Junction of Dong Da Jie & Fu He, Jinjiang District, Chengdu			2010	2045/75
Jingan Garden 398, Wanhangu Road, Jingan District, Shanghai			2010	2043/63
Suzhou Industrial Park Lot No.68210 Suzhou Industrial Park			2010	2076
No.10 Gaoxin District Chengdu Junction of Zhan Hua Road and Fu Cheng Avenue, Chengdu			2011	2046/76
Shuangliu Development Zone, Chengdu <sup>+</sup> Junction of Shuang Nan Avenue and Guang Hua Avenue Shuangliu County, Chengdu			2012	2047/77
Wuxi Taihu Plaza project Taihu Plaza, Nanchang District, Wuxi			2013	2047/78
# Including carpark area				
* Residential includes office-apartments				
+ Acquired in January 2007				

### Notes:

- (a) Part of Harbour City, total site area is 428,719 sq.ft.
- (b) Part of The Marco Polo Hongkong Hotel building.

Site Area (sq.ft.)	Approximate Gross Floor Areas (sq.ft.)				Club House	Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
	Office	Retail	Residential	Industrial – Office/ Industrial				
141,007	625,000	670,000 <sup>#</sup>						88%
148,703	331,000	685,000 <sup>#</sup>	195,000					100%
95,799	13,800	724,000 <sup>#</sup>						100%
80,482			564,000 <sup>**</sup> (pre-sold 130,000 sq.ft.)				Superstructure in progress	59%
188,090			1,972,000 <sup>**</sup> (pre-sold 506,000 sq.ft.)			366	Superstructure in progress	100%
171,356		178,000	1,689,000 <sup>#</sup>				Superstructure in progress	100%
118,220			264,000 <sup>#</sup>				Foundation work commenced	85%
136,432	1,501,000 <sup>#</sup>	79,000					Basement work in progress	98%
761,520	929,000	173,000	4,525,000 <sup>**</sup>			428	Basement work in progress	100%
170,825			971,800 <sup>**</sup>				Planning stage	55%
3,654,152			3,118,000 <sup>#</sup>				Planning stage	100%
884,459		147,000	5,907,000 <sup>**</sup>				Planning stage	100%
3,900,589		709,000	8,695,000 <sup>**</sup>			852	Planning stage	100%
3,628,286	1,184,000	245,000	12,497,000 <sup>**</sup>			400	Planning stage	100%

# Ten-year Financial Summary

	Restated 1997 HK\$ Million	Restated 1998 HK\$ Million	Restated 1999 HK\$ Million	Restated 2000 HK\$ Million	2001 HK\$ Million
<b>Summary of Profit and Loss Account</b>					
Turnover	10,980	10,840	10,521	12,023	11,725
Group profit attributable to Shareholders	1,882	1,922	3,217	2,480	2,519
Prior year adjustment (Note 1, 3 to 6)	(960)	(51)	294	14	–
Restated amount	922	1,871	3,511	2,494	2,519
Dividends	1,793	1,790	1,881	1,908	1,908
<b>Summary of Balance Sheet</b>					
Fixed assets (Note 4 and 6)	93,434	71,651	73,362	77,237	74,445
Goodwill and other intangible assets	–	–	–	–	419
Long term deposits	–	–	–	–	468
Associates (Note 3)	4,463	3,842	5,197	4,972	3,389
Jointly controlled entities	–	–	–	–	–
Available-for-sale investments (Note 3)	7,824	7,107	5,258	1,901	1,088
Long term receivables	238	349	506	433	485
Programming library/defined benefit pension scheme assets/pre-operating expenses (Note 4, 6 and 7)	2,432	653	575	570	533
Deferred tax assets (Note 5)	–	–	–	–	–
Derivative financial assets	–	–	–	–	–
Current assets	8,777	8,529	12,536	7,390	7,637
Current liabilities (Note 2)	(8,457)	(13,469)	(10,345)	(12,893)	(12,181)
Long term loan/deferred liabilities (Note 1)	(25,997)	(22,322)	(26,802)	(17,156)	(17,441)
Deferred taxation (Note 6)	(517)	(518)	(507)	(478)	(467)
Derivative financial liabilities	–	–	–	–	–
	82,197	55,822	59,780	61,976	58,375
Representing:					
Share capital	2,295	2,295	2,446	2,446	2,447
Reserves (Note 1 to 7)	75,638	49,624	51,966	55,504	52,198
Shareholders' equity	77,933	51,919	54,412	57,950	54,645
Minority interests (Note 1, 3 to 7)	4,264	3,903	5,368	4,026	3,730
	82,197	55,822	59,780	61,976	58,375

## Note:

Certain figures have been reclassified or restated as set out below:

- These figures have been restated pursuant to the adoption of SSAP 28 "Provisions, contingent liabilities and contingent assets" as explained in Note 11b to the financial statements of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
- These figures have been restated pursuant to the adoption of SSAP 9 (revised) "Events after the balance sheet date" as explained in Note 11c to the financial statements of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
- These figures have been restated pursuant to the adoption of SSAP 24 "Accounting for investments in securities" as explained in Note 10 to the 1999 financial statements.

	Restated 2002 HK\$ Million	2003 HK\$ Million	Restated 2004 HK\$ Million	Restated 2005 HK\$ Million	2006 HK\$ Million
<b>Summary of Profit and Loss Account</b>					
Turnover	11,333	11,253	11,953	12,543	<b>13,364</b>
Group profit attributable to Shareholders	2,303	3,043	3,767	13,888	<b>10,757</b>
Prior year adjustment (Note 1, 3 to 6)	(44)	–	8,910	–	–
Restated amount	2,259	3,043	12,677	13,888	<b>10,757</b>
Dividends	1,370	1,487	1,683	1,958	<b>1,958</b>
<b>Summary of Balance Sheet</b>					
Fixed assets (Note 4 and 6)	69,044	71,120	78,916	90,658	<b>102,198</b>
Goodwill and other intangible assets	397	347	297	297	<b>306</b>
Long term deposits	156	156	156	–	–
Associates (Note 3)	3,367	2,075	1,583	1,638	<b>781</b>
Jointly controlled entities	–	–	348	896	<b>788</b>
Available-for-sale investments (Note 3)	1,178	1,392	1,654	1,677	<b>2,921</b>
Long term receivables	459	439	426	410	<b>371</b>
Programming library/defined benefit pension scheme assets/pre-operating expenses (Note 4, 6 and 7)	468	432	158	293	<b>416</b>
Deferred tax assets (Note 5)	108	112	118	468	<b>429</b>
Derivative financial assets	–	–	–	54	<b>17</b>
Current assets	5,945	5,089	6,482	8,101	<b>11,050</b>
Current liabilities (Note 2)	(11,420)	(11,160)	(8,604)	(9,873)	<b>(9,986)</b>
Long term loan/deferred liabilities (Note 1)	(16,673)	(12,605)	(13,463)	(14,418)	<b>(16,257)</b>
Deferred taxation (Note 6)	(1,614)	(1,748)	(9,447)	(11,672)	<b>(13,116)</b>
Derivative financial liabilities	–	–	–	(3)	–
	51,415	55,649	58,624	68,526	<b>79,918</b>
Representing:					
Share capital	2,447	2,447	2,447	2,448	<b>2,448</b>
Reserves (Note 1 to 7)	45,287	49,181	52,502	62,926	<b>72,714</b>
Shareholders' equity	47,734	51,628	54,949	65,374	<b>75,162</b>
Minority interests (Note 1, 3 to 7)	3,681	4,021	3,675	3,152	<b>4,756</b>
	51,415	55,649	58,624	68,526	<b>79,918</b>

- These figures have been restated pursuant to the adoption of Interpretation 9 "Accounting for pre-operating costs" as explained in Note 8 to 2000 financial statements. Figures for 1997 have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
- These figures have been restated pursuant to the adoption of SSAP 12 (revised) "Income taxes" as explained in Note 11 to the financial statements of 2003. Figures for 2001 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
- These figures have been restated pursuant to the adoption of all applicable HKFRSs as explained in Note 11 to the financial statements of 2005. Figures for 2003 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
- These figures have been restated pursuant to the adoption of HKAS 19 Amendment "Employee benefits - Actuarial gains and losses, group plans and disclosures" as explained in Note 31 to the financial statements of 2006. Figures for 2004 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.