



The Wharf (Holdings) Limited

Annual Report 2006



Founded in 1886, **The Wharf (Holdings) Limited** is a premier company with HK\$119 billion of consolidated assets and a strategic focus on property and infrastructure in Hong Kong and China.

Core properties **Harbour City** and **Times Square** in Hong Kong represent close to 60% of the Group's total assets. In 2006, their combined turnover rose by 12% to HK\$4,722 million and operating profit by 14% to HK\$3,414 million.

In China, the Group owns a development land bank and investment properties in eight major cities that total over 50 million square feet. It operates prime Times Square developments in Beijing, Shanghai and Chongqing.

Through Hong Kong-based **Modern Terminals**, the Group is actively expanding in container terminals in China. The first two berths in mega project Dachan Bay in West Shenzhen are due to open towards the end of 2007.

Contents

- 3 Corporate Information
- 4 Chairman's Statement
- 6 Financial Highlights
- 7 Managing Director's Report

Business Review

- 8 Harbour City
- 14 Times Square
- 18 China Properties
- 22 Modern Terminals
- 26 Other Businesses

- 31 Financial Review
- 39 Corporate Governance Report
- 47 Report of the Directors
- 65 Report of the Independent Auditors
- 67 Consolidated Profit and Loss Account
- 68 Consolidated Balance Sheet
- 70 Company Balance Sheet
- 71 Consolidated Statement of Recognised Income and Expense
- 72 Consolidated Cash Flow Statement
- 74 Notes to the Financial Statements
- 119 Principal Accounting Policies
- 142 Principal Subsidiaries, Associates and Jointly Controlled Entities
- 146 Schedule of Principal Properties
- 150 Ten-year Financial Summary

Corporate Information

Board of Directors

Mr Peter K C Woo, GBS, JP, *Chairman*

Mr Gonzaga W J Li, *Senior Deputy Chairman*

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

Ms Doreen Y F Lee, *Executive Director*

Mr T Y Ng

Independent Non-executive Directors

Mr Paul M P Chan*

Professor Edward K Y Chen, GBS, CBE, JP

Dr Raymond K F Ch'ien, GBS, CBE, JP

Hon Vincent K Fang, JP*

Mr Hans Michael Jebsen, BBS*

Mr James E Thompson, GBS*

*Members of the Audit Committee

Secretary

Mr Wilson W S Chan, FCIS

Auditors

KPMG

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Registrars

Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East, Wanchai, Hong Kong

Registered Office

16th Floor, Ocean Centre, Harbour City,

Canton Road, Kowloon, Hong Kong

Telephone: (852) 2118 8118

Fax: (852) 2118 8018

Website: www.wharfholdings.com

Chairman's Statement

The core businesses of the Group performed well in 2006 to deliver turnover and operating profit growth from a sound operating base.

Hong Kong's economy was in its best shape since the Asian financial crisis. 2004, 2005 and 2006 were important base-building years for Hong Kong to lay a solid foundation for success.

Real GDP grew by 6.8% in 2006, supported by strong consumer spending, tourism, capital investment and exports. The buoyant financial and stock markets, improving employment and stabilising interest rate environment boosted local confidence and the 'feel good' sentiment, while the composite consumer price index rose at a moderate 2.0%.

The economic partnership between the Mainland and Hong Kong through CEPA and usage of the Hong Kong platform for the 'bringing in, going out' process for Mainland enterprises continue to bear fruit and benefit Hong Kong.

The core businesses of the Group performed well in 2006 to deliver turnover and operating profit growth from a sound operating base.

Rental rates continued to rise across all property sectors in Hong Kong. Harbour City and Times Square, the core assets of the Group representing close to 60% of total assets, remained the most premier 'shoppertainment' destinations in Hong Kong for both tourists and locals. Their combined turnover rose by 12% to HK\$4,722 million and operating profit by 14% to HK\$3,414 million.

Expansion and commitments to the property sector in the Mainland continued. Development sites in Chengdu, Suzhou and Wuxi were acquired in late 2006 and early 2007, and the land bank and investment properties in China is now over 50 million square feet. Some of the investments began to bear fruit with successful property pre-sales at Wuhan Times Square and Wellington Garden in Shanghai in 2006.

Modern Terminals' expansion into the Mainland also continued. It contracted in December 2006 to increase its investment in the Shekou Container Terminals. Phase 2 of the Taicang terminal opened for business in 2006 and the first two berths of the Dachan Bay terminal will open towards the end of 2007. In Hong Kong, a record 5.4 million TEUs were handled in 2006, 7% higher than 2005. The transformation therefore accelerates.

Swift response to market forces enabled the CME businesses to achieve satisfactory performance in a keen competitive environment.

Group turnover increased by 7% to HK\$13,364 million (2005: HK\$12,543 million) and operating profit increased by 8% to HK\$6,471 million (2005: HK\$6,003 million). However, borrowing costs rose in a higher interest rate environment and taxation charge rose primarily due to deferred tax items recorded by i-CABLE Communications Limited since 2005. Net profit attributable to Shareholders excluding the net surplus arising on the revaluation of investment properties decreased by 5% to HK\$4,285 million (2005: HK\$4,499 million). Including a lower unrealised surplus from the revaluation of investment properties, net profit attributable to Shareholders was HK\$10,757 million (2005: HK\$13,888 million). Earnings per share were HK\$4.39 (2005: HK\$5.67).

Rising property rentals supported the valuation of the Group's investment property portfolio, which stood at HK\$86,684 million at the end of 2006, 11% higher than 2005. The financial position of the Group remained strong with gearing ratio improving to 22.5%.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2005: 80 cents).

Economic development in China continues to support Hong Kong. The latest economic data indicate another successful year for Hong Kong in 2007. The fourth stage of CEPA facilitates further access of Hong Kong companies into China, while more Mainland cities are included in the Individual Visit Scheme that supports Hong Kong's tourism industry.

Economic growth in China provides attractive investment opportunities for Hong Kong and overseas companies, and the Group is increasing its pace of investment in the Mainland.

Globalisation allows smoother flow of world capital and stimulates competition, but Hong Kong possesses the competitive edges to face its challenges. The Group looks forward to a promising and fulfilling future.

On behalf of our Shareholders and my fellow Directors, I wish to express our heartfelt thanks to all staff for their dedication and contribution throughout the year.

Peter K C Woo

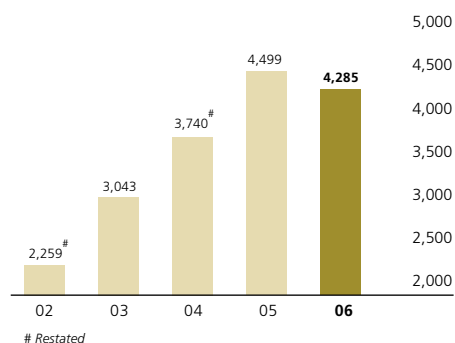
Chairman

Hong Kong, March 21, 2007

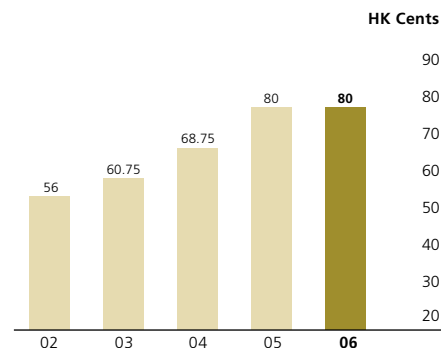
Financial Highlights

	2006 HK\$ Million	2005 HK\$ Million (Restated)
Results		
Turnover	13,364	12,543
Operating profit before depreciation, amortisation, interest and tax	7,737	7,209
Profit before attributable revaluation surplus	4,285	4,499
Profit attributable to shareholders	10,757	13,888
Earnings per share	HK\$4.39	HK\$5.67
Dividend per share	80 cents	80 cents
Financial Position		
Total assets	119,277	104,492
Net debt	16,901	16,050
Shareholders' equity	75,162	65,374
Net asset value per share	HK\$30.70	HK\$26.71
Net debt to total assets (excluding cash)	14.6%	15.7%
Net debt to shareholders' equity	22.5%	24.6%

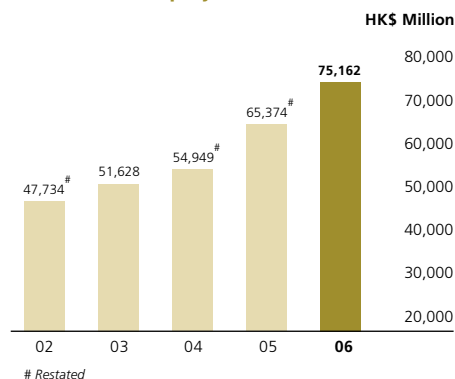
Group Profit to Shareholders
(before attributable revaluation surplus) HK\$ Million



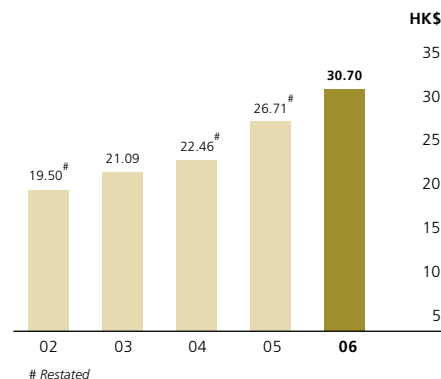
Dividend Per Share



Shareholders' Equity



Net Asset Value Per Share



Managing Director's Report

Business Review

Harbour City & Times Square

Close to 60% of Group assets; combined turnover – HK\$4,722 million (+12%); operating profit HK\$3,414 million (+14%)



China Properties

Approaching 50 million square feet of land bank (17 million square feet at the beginning of 2006); profit contribution to commence in 2007



Modern Terminals

Investment in Mainland ports accelerates; first two berths of Dachan Bay opening in late 2007; framework agreement signed for Dalian terminals



Other Businesses





Harbour City



Balance Sheet (Extract)

As at December 31, 2006

	HK\$ Million
Properties	48,765
Hotel and club (cost less depreciation)	308*
Net current liabilities	(1,140)
Other non-current liabilities	(713)
**Net business assets (before debt)	47,220

* Including leasehold land

** Excluding deferred tax on revaluation of investment properties

Gross Revenue

	2006 HK\$ Million	2005 HK\$ Million
Retail	1,472	1,287
Office	1,104	1,002
Serviced Apartments	202	220
Hotel and Club	944	823
	3,722	3,332

Operating Profit

	2006 HK\$ Million	2005 HK\$ Million
Retail	1,160	997
Office	934	843
Serviced Apartments	135	155
Hotel and Club	345	256
	2,574	2,251

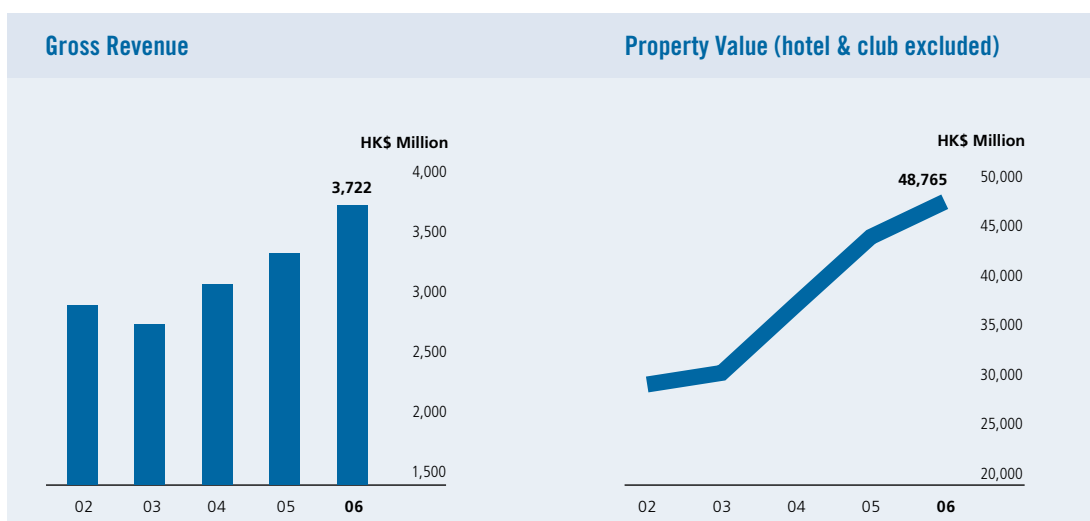
Harbour City (excluding the three hotels) was valued at HK\$48,765 million at the end of 2006, representing 41% of total Group assets

Harbour City, the Group's core investment property asset, turned over HK\$3,722 million during 2006, for an increase of 12% over 2005; operating profit increased by 14% to HK\$2,574 million.

Harbour City, the Group's core investment property asset, turned over HK\$3,722 million during 2006, for an increase of 12% over 2005; operating profit increased by 14% to HK\$2,574 million. Excluding the three hotels which are stated at cost less accumulated depreciation, Harbour City was valued at HK\$48,765 million at the end of 2006, which represented 41% of total Group assets.

Retail

Positive local sentiment and tourist arrivals fuelled the momentum of retail sales. Turnover of Harbour City's retail sector grew by 14% to HK\$1,472 million.



Harbour City: Retail Tenant Mix (by Rental and Area)

As at December 31, 2006

	% by Rental	% by Area
Fashion	38.8	26.3
Leather Goods — Shoes, Bags & Related Trades	18.0	8.4
Department Stores, Confectionery Products	10.9	21.7
Jewellery, Beauty and Accessories	8.4	5.5
Restaurant, Fast Food, F&B	6.6	14.0
Sports Wear	4.9	4.1
Children's Wear & Related Trades, Toys	4.8	8.7
Electrical & Audio-visual Equipment	3.2	3.0
Others	4.4	8.3
	100.0	100.0

Positive economic data and rising wages encouraged local confidence, while total visitor arrivals to Hong Kong rose to over 25 million in 2006. These supported the strong performance of Hong Kong's retail sector.

Harbour City's retail portfolio maintained an average occupancy of 96% throughout 2006 with favourable rental growth. It remains the premier 'shoppertainment' destination in Hong Kong with over 60 million shopper-visits in 2006. Tenants at Harbour City continued to achieve impressive sales performance, with a 16% increase in average sales per square foot during the year and a record high in December to exceed HK\$1,400. The best performed retail categories included jewellery, leather goods and accessories as well as audio-visual products.

Harbour City remained one of the most sought-after shopping malls for retailers. Leasing activities were active during 2006, with the sign up of a host of celebrated names including Chanel, Coach, Fendi, Loewe and Loro Piana. New food and beverages outlets were opened to widen the spectrum of international and specialty cuisines offering of Harbour City. New names added included Cadero Grill & Oyster Bar and The Quarterdeck Kowloon.

The new 30,000 square feet retail space on Level I of Ocean Centre was opened in June 2006. Tenants including Burberry, Jean Paul Gaultier, Jil Sander and Marni further strengthened the high-end retail offering of Harbour City. Immense value was created from this space conversion, which was previously a car park. Separately, conversion of Level 4 of Ocean Centre into 37,000 square feet lettable space is well underway and completion is scheduled for the third quarter of 2007.

Excellent retail management is the key to this success and the tenant-landlord partnership concept is well received by retailers. Constant trade-mix enhancement, clustering and segmenting review and powerful marketing and promotion programmes facilitated Harbour City to continuously excel amidst escalating competition in the marketplace. Many of the promotions at Harbour City, including the Christmas festive decorations, Chinese New Year celebrations, have become customary not-to-be-missed events for many locals, as well as a tourist attraction for Mainland and overseas visitors.

Office

Strong rental reversion increased turnover for the office sector by 10% to HK\$1,104 million.

Grade A office continued to perform well in 2006. Expansion and upgrading requirements, together with the growing trend of decentralisation, sustained the demand for office space. However, signs of slower spot rental growth surfaced in the second half of 2006.

Average office occupancy at Harbour City was maintained at 95%. Retention rate for tenancies continued to be strong, with 72% of tenancies that expired in 2006 successfully retained. Major tenants including AIA, APL, Japan Airline, MGB Metro Group and Prudential Assurance renewed their leases during 2006. Average rental rate for leases signed in 2006 was 60% higher than the rates of the expired leases, thanks to the strong upsurge in spot rates in the last two years.

The advantageous location, ideal transportation network and vicinity support ensure Harbour City is a natural choice for many multinational, Mainland and local enterprises. The leasing and property management teams will strive to further improve the Harbour City premises to stay ahead in the competitive marketplace.

Office Occupancy at Harbour City			
	Gateway II	Gateway I	Others
Total GFA (sq ft)	1,570,000	1,128,000	1,737,000
Average Occupancy	98.3%	95.5%	90.8%

Serviced Apartments

Turnover for the serviced apartments sector decreased by 8% to HK\$202 million, attributable to lower occupancy as a result of keener competition.

A sharp rise in the supply of new serviced apartments reduced average occupancy at Gateway Apartments to 75%, compared with 84% a year earlier. To maintain its competitiveness, upgrading works are being undertaken and a powerful marketing campaign was launched to strengthen Gateway Apartments' branding among senior executives from multinational corporations.

Hotel

Discussion of the performance of the three Marco Polo hotels at Harbour City is covered under the 'Other Businesses' section on page 28.

Harbour City: Portfolio Information

	Area (sq ft)	Gross Revenue (HK\$ Million)	Average Occupancy (%)	Year-end Valuation (HK\$ Million)	Anchor Tenants
Retail	1,913,000	1,472	96	17,022	Agnès b., Broadway, Burberry, Chanel, City'Super, Coach, Dolce & Gabbana, GigaSports, GOD, Gucci, Hugo Boss, Joyce, Lane Crawford, LCX, Louis Vuitton, Marks & Spencer, Prada, Salvatore Ferragamo, Toys "R" Us, Yves Saint Laurent, Zara Restaurant: Cova, Habitu The Pier, Ye Shanghai
Office	4,435,000	1,104	95	25,743	AIA, APL, DuPont, Fenix Group, GlaxoSmithKline, Hasbro, Hitachi, JAL, Karstadt Quelle, Marks & Spencer, Mattel, MGA Entertainment, MGB Metro Group, Nike, NYK Logistics, Polo Ralph Lauren Sourcing Co., Prudential, Simba-Toys, Sony, Sun Life, Zurich Life Insurance
Serviced Apartments	670,000	202	75	6,000	
Hotel and Club	1,360,000	944	90	4,640	

(stated at amortised cost in financial statements)

時代廣場

TIMES SQUARE



時代廣場

1 Matheson Street, 香港中環

Times Square



Balance Sheet (Extract)

As at December 31, 2006

	HK\$ Million
Properties	19,200
Net current liabilities	(278)
Other non-current liabilities	(280)
*Net business assets (before debt)	18,642

*Excluding deferred tax on revaluation of investment properties

Gross Revenue

	2006 HK\$ Million	2005 HK\$ Million
Retail	706	630
Office	294	256
	1,000	886

Operating Profit

	2006 HK\$ Million	2005 HK\$ Million
Retail	598	531
Office	242	213
	840	744

Times Square was valued at HK\$19,200 million at the end of 2006, representing 16% of total Group assets

Times Square, another core investment property asset of the Group, turned over HK\$1,000 million in 2006, an increase of 13% over 2005; operating profit increased by 13% to HK\$840 million.

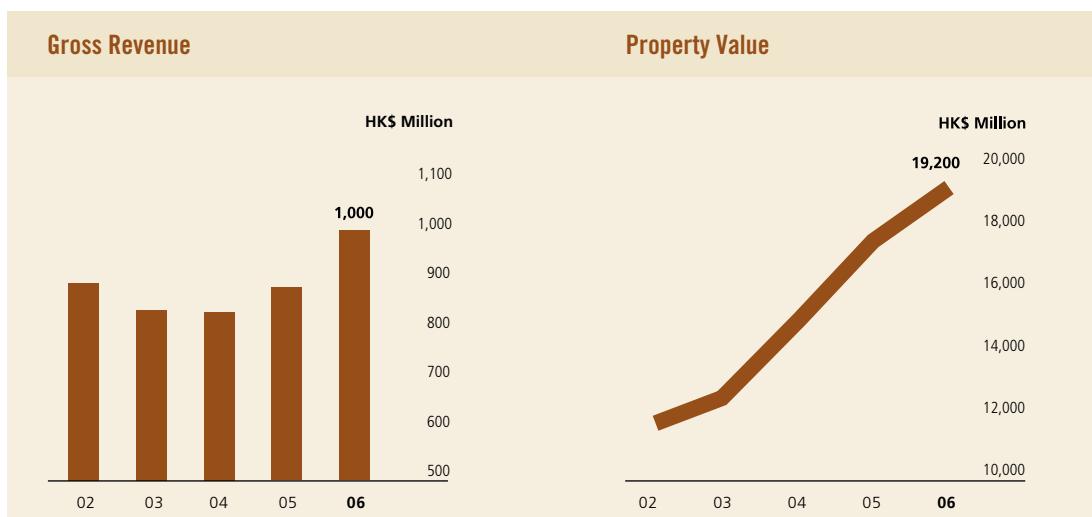
Times Square, another core investment property asset of the Group, turned over HK\$1,000 million in 2006, an increase of 13% over 2005; operating profit increased by 13% to HK\$840 million. Times Square was valued at HK\$19,200 million at the end of 2006, which represented 16% of total Group assets.

Retail

Times Square's retail sector reported a turnover of HK\$706 million for an increase of 12% over 2005.

Average retail occupancy was maintained at nearly 100% during the year, with favourable rental growth for all new lettings and renewals. Tenants enjoyed solid sales growth, with a 12% increase in average sales per square foot achieved in December 2006.

The use of themes and zoning successfully focus shopper's attention and distribute traffic evenly around the Times Square retail mall. Trade-mix refinement continued with many prestigious fashion brand names, including A/X Armani Exchange, Daks, Lancel and Vivienne Westwood joined, during 2006. The cosmetics cluster on Basement 2 was further strengthened with more popular cosmetics brands to capture the foot traffic from the MTR subway. New and interesting international and specialty cuisines were also recruited at the Food Forum.



Strong branding and marketing programmes underpin the success of Times Square. Its annual Apple Countdown has become one of the most captivating experience for Hong Kong enjoyed by tens of thousands of locals and visitors. Times Square remains a top venue for talk-of-the-town events, including various community and cultural initiatives.

Times Square: Retail Tenant Mix (by Rental and Area)

As at December 31, 2006

	% by Rental	% by Area
Fashion	30.5	18.5
Jewellery, Beauty and Accessories	19.9	9.5
Restaurant, Fast Food, F&B	13.7	27.0
Department Stores, Confectionery Products	13.6	20.7
Electrical & Audio-visual Equipment & Entertainment	11.2	13.4
Sports Wear	7.2	5.2
Others	3.9	5.7
	100.0	100.0

Office

Turnover for the office sector rose by 15% to HK\$294 million during 2006, resulting from strong rental reversions. Office occupancy stood at 93% at the end of 2006, and rental rates increased steadily throughout the year.

Times Square remained the preferred location for many multinationals engaged in the service or consumer goods sectors. New lettings included relocations and in-house expansions, and retention rate for office tenancies expiring in 2006 was 63%. Renewed multinational tenants included AT&T Global, Hudson Global and L'Oreal.

Times Square: Portfolio Information

	Area (sq ft)	Gross Revenue (HK\$ Million)	Average Occupancy (%)	Year-end Valuation (HK\$ Million)	Anchor Tenants
Retail	936,000	706	99	12,157	Agnès b., Anna Sui, Antepima-Plastiq, Bally, Broadway, City'Super, Club Monaco, Coach, D-mop, Fortress, Gucci, i.t, Lane Crawford, Marks & Spencer, Max Mara, Montblanc, Moussy, PageOne Bookshop, Salvatore Ferragamo, UA Cinema, Vivienne Westwood, Zara
Office	1,033,000	294	93	7,043	ABN Amro Bank, AIA, Apple Computer, AT&T Global, AXA, Boston Consulting, Coca-Cola, Walt Disney, L'Oreal, Richemont Luxury, Shell



MAISON MODE TIMES

M 美美時代百貨

amplio Zegna

THE HUGO BOSS

China Properties



The land bank in the Mainland is approaching 50 million square feet (from 17 million at the beginning of 2006). Some of the earlier projects are expected to start to make a profit contribution in 2007.

Economic growth in China provides attractive investment opportunities for Hong Kong and overseas companies, and the Group is increasing its investments in China with further land acquisitions. Its land bank and investment properties in the Mainland is now over 50 million square feet, covering eight cities, including Beijing, Shanghai, Chongqing, Wuhan, Dalian, Chengdu, Suzhou and Wuxi.

In addition, the three completed properties, namely Beijing Capital Times Square, Shanghai Times Square and the retail podium of Chongqing Times Square, all performed satisfactorily. Rental revenue rose by 15% and operating profit by 53% during 2006.

Balance Sheet (Extract)

As at December 31, 2006

	HK\$ Million
Investment properties	5,143
Other properties and fixed assets	1,148
	6,291
Property inventory and development	4,122
Net current liabilities	(434)
Other non-current liabilities	(808)
Net business assets (before debt)	9,171

Investment Properties

Beijing Capital Times Square, with total floor area of 1.3 million square feet, is located along West Changan Avenue (西長安街) in the Xidan (西單) area. Average office occupancy was maintained at over 90% throughout 2006. Revamp of tenant mix at the retail podium is in progress.

Shanghai Times Square, with total floor area of 1.2 million square feet, is conveniently located on Hui Hai Zong Road (淮海中路) in Puxi (浦西) with excellent connectivity to all transport systems. Average occupancy of its office, retail and apartment sectors was maintained at close to or over 90% throughout 2006.

Chongqing Times Square is located in the Liberation Statue Square (解放碑廣場). Residential Towers A, B, C and D were 90% sold at the end of 2006. The retail podium, which consists of a 578,000-square-foot department store, opened in December 2004.

Projects under Development

Ideally located on Yan Jiang Da Dao (沿江大道) fronting the Yangtze River (長江) in Hankou (漢口), the 2.4 million square feet Wuhan Times Square is being developed into a retail, residential, apartment and hotel complex, with target completion in late 2007. Pre-sale of part of Towers 3 and 4 was met with favourable responses, with 72% of the units launched pre-sold by the end of 2006.

Dalian Times Square is strategically located along Ren Min Road (人民路) in Zhongshan District (中山區) in Dalian. The 1.9 million-square-foot complex will include retail (0.2 million square feet), residential (1.3 million square feet) and car park facilities. Superstructure works are in progress and the project is scheduled for completion by mid-2008.

Lot 1717, Nan Jing Xi Road (南京西路) in Shanghai, with total floor area of 1.6 million square feet, comprises a top quality Grade A office tower with cutting-edge specifications and facilities plus a retail annex linking to a major subway station. Basement works are in progress and the development is scheduled for completion by mid-2009.

No.11 Dong Da Jie (東大街) is ideally located in Jinjiang District (錦江區) at the heart of the Chengdu city centre. It is a 6.1 million-square-foot mixed-use development comprising retail, office, hotel and residential that will be linked to a major subway station. Basement works are underway and the development is scheduled for completion in 2010.

Another site in Chengdu is at No.10 Gaoxin District (高新區) and is planned for a 6.1 million-square-foot high-end residential development with complementary retail facilities. The site, which was acquired in April 2006 for RMB829 million, is located only 100 metres from a new subway station. Planning work has started and the development is expected to be completed in 2010. With the municipal government's upcoming relocation to the vicinity, the district is expected to become the new civic centre of Chengdu.

For other properties, pre-sale of Wellington Garden's 286 units in Shanghai has commenced with 57% of the total number of units launched pre-sold by the end of 2006. Wellington Garden is expected to be completed in the first half of 2007. Two other projects in Shanghai, No. 1 Xin Hua Road (新華路) and Jingan Garden are progressing according to plan.

New Acquisitions

In December 2006 and January 2007, the Group acquired three prime lots in the cities of Suzhou, Wuxi and Chengdu.

The Suzhou lot, which was acquired through public auction for RMB1,268 million, has a site area of about 3.7 million square feet and is superbly-located between Jinji Lake (金雞湖) and Dushu Lake (獨墅湖) in the eastern side of the city next to a 27-hole golf club. Planning is underway for the development of premier deluxe low density residences with total floor area of 3.1 million square feet.

Adjacent to the Taihu Plaza (太湖廣場) in the Nanchang District (南長區), the Wuxi lot, acquired for RMB1,531 million, comprises two parcels of land planned for upscale residential (10.7 million square feet) and a super commercial development (3.6 million square feet) respectively. Total site area is 3.6 million square feet with total floor area of 14.3 million square feet. The development will be served by well-connected infrastructure upon completion of express railways and a metro line by 2008 and 2010 respectively.

The Group's third Chengdu site, ideally located in Shuangliu Development Zone (雙流發展區), was 11 km from the city centre with convenient access to airport in Chengdu. Acquired at a cost of RMB311 million, total site area is about 3.9 million square feet and it will be developed into a mixed-use development comprising retail, hotel and residential space with a total floor area of more than 10.2 million square feet. The development is planned to incorporate some of the trendiest retail concepts in the Mainland including an outlet mall.

China Property List

	Project Nature	GFA (sq ft) *	Status	Completion
Beijing Capital Times Square	Office/Retail	1,295,000	For Lease	1999
Shanghai Times Square	Office/Retail/Apartment	1,211,000	For Lease	1999
Chongqing Times Square	Office/Retail/Residential #	1,570,000**	For Lease / Sale	2004
Wellington Garden (Shanghai)	Residential #	564,000***	Under Construction	2007
Wuhan Times Square	Retail/Hotel/Residential #	2,377,000***	Under Construction	2007
Dalian Times Square	Retail/Residential	1,867,000	Under Construction	2008
No. 1 Xin Hua Road (Shanghai)	Residential##	264,000	Under Construction	2008
Lot 1717 Nan Jing Xi Road (Shanghai)	Office/Retail	1,580,000	Under Construction	2009
No. 11 Dong Da Jie (Chengdu)	Office/Retail/Hotel/Residential #	6,067,000	Under Construction	2010
Jingan Garden (Shanghai)	Residential #	972,000	Under Planning	2010
Lot No.68210 Suzhou Industrial Park (Suzhou)	Residential	3,118,000	Under Planning	2010
No. 10 Gaoxin District (Chengdu)	Retail/Residential #	6,054,000	Under Planning	2011
Shuangliu Development Zone (Chengdu)	Retail/Hotel/Residential #	10,216,000	Under Planning	2012
Taihu Plaza Project (Wuxi)	Office/Retail/Hotel/Residential #	14,357,000	Under Planning	2013

Residential includes office-apartments * Including carpark area ** Partly sold *** Partly pre-sold

Based on a design scheme in compliance with prevailing planning parameters



Modern Terminals



Modern Terminals' investment in Mainland ports accelerates, with the first two berths of Dachan Bay in Shenzhen due to open for business at the end of 2007. A framework agreement on strategic cooperation for the development of Dayaowan terminals in Dalian was signed in March 2007.

The transformation of Modern Terminals from operating at a single port (Hong Kong) to a portfolio of strategic ports is rapidly taking shape. Taicang in the Yangtze River Delta has been in operation since 2004. Dachan Bay in the Pearl River Delta will be commissioned at the end of 2007. A framework agreement on strategic cooperation for the development of Dayaowan terminals in Dalian was also recently signed.

Despite a 7% throughput growth, Modern Terminals' revenue and operating profit decreased by 2% and 4% respectively in 2006, as a result of box mix shift in favour of trans-shipment and feeder cargos, and increasing competition in Hong Kong and South China. Performance in the first half was particularly soft with only marginal throughput growth. Business activities returned to normal in the second half but the shortfall of the earlier half could not be fully recouped.

*(Main) The first two berths of Dachan Bay will commence operation towards the end of 2007
(the computer rendering shows its optimum handling capacity)
(Small) Taicang in Suzhou*

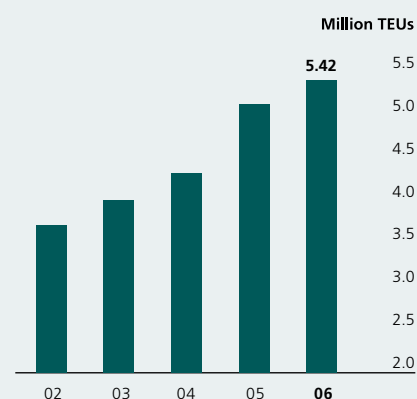
Balance Sheet (Extract)

As at December 31, 2006

	HK\$ Million
Fixed assets	8,852
Interest in associates/ jointly controlled entities	1,200
Net current liabilities	(607)
Other non-current liabilities	(183)
Net business assets (before debt)	9,262

Note: The Group's investment cost in 67.6% of Modern Terminals is HK\$4,754 million

Throughput (HK)



For the South China region, buoyant export supported a 15% throughput growth in 2006. Throughput at the Shenzhen terminals recorded an 18% growth, versus 12% at Kwai Chung. Market share in Shenzhen terminals slightly grew from 50% to 51% in 2006, while Kwai Chung was down to 49% by the end of 2006.

Global trade growth continues, and China is an influential trade partner, not only with US, but also with many other European and Asian countries. Trade flow generates steady demand for the terminal businesses.

Hong Kong Operation

Full year throughput was up by 7% to 5.42 million TEUs in 2006. Feeder, trans-shipment and intra-Asia volume continued to be the main drivers of throughput growth.

Modern Terminals currently operates 7.5 berths with total handling capacity of 7.0 million TEUs. The facility upgrade at CT1, 2 and 5, geared towards enhancement of operational efficiency and handling capacity, is progressing in accordance with plan. Modern Terminals' market share in Kwai Chung was maintained at 33.8% at the end of 2006.

China Investments

Pearl River Delta remains the largest trade region for China and Modern Terminals is increasing its investments in the area.

Chiwan Container Terminal, in which Modern Terminals effectively holds an 8% stake, handled 3.9 million TEUs, while Shekou Container Terminals ("SCT") Phases I and II, 10% and 9.8% owned by Modern Terminals respectively, handled 2.0 million TEUs.

In December 2006, Modern Terminals entered into an agreement with China Merchants Holdings (International) Company Limited ("China Merchants") in relation to the rationalisation of interests in SCT Phases I, II and III. As a result of that and subsequent to the end of the year, Modern Terminals increased its interest in Mega SCT, which owns 100% of Phases I, II and III, to 30% for a consideration of HK\$3,168 million and injection of its interests in SCT Phases I and II into Mega SCT, with China Merchants owning the balance. Modern Terminals' interest in Mega SCT will be gradually diluted to 20% when additional capacity for SCT Phase III is completed in stages by China Merchants at its cost.

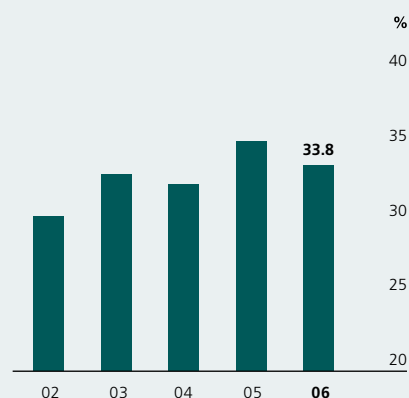
Phase I of the Dachan Bay project in Shenzhen West, 65%-owned by Modern Terminals, consists of five berths with an estimated capacity of 2.5 million TEUs. Dachan Bay is ideally located in the Pan-Pearl River Delta catchment area with established transportation network to capture cargos from various manufacturing bases in Guangdong Province, as well as from cities in neighbouring provinces. It will increase Modern Terminals' own operating capacity in Pearl River Delta from 7.5 to 12.5 berths.

Construction of the quay deck and other infrastructures are in advanced progress and key equipment ordered. Transfer of Modern Terminals' IT expertise on operation control, planning and information services, as well as personnel recruitment and training, have started. The first two berths of Dachan Bay will commence operation towards the end of 2007.

Taichang, a joint-venture with the Suzhou Government and Cosco, is a pioneer project marking Modern Terminals' expansion into the Yangtze River Delta, which is fast-growing to become another international shipping hub of China. Located at the entrance of the Yangtze River, Taichang serves as an ideal gateway with convenient transport infrastructure to the most developed economic areas in Southern Jiangsu.

Phase I of Taichang, 51%-owned by Modern Terminals, commenced operation in 2004. Throughput for Phase I grew substantially by 86% to 467,000 TEUs in 2006, reflecting strong growth in intra-Asia trade. The first berth of Phase II, 70%-owned by Modern Terminals, commenced operation in November 2006. Phase II comprises of four berths and is scheduled for full completion by the end of 2007.

Market Share (HK)



Key Operating and Financial Highlights (HK)

	2002	2003	2004	2005	2006
Container Handling Capacity (TEUs in millions)	4.20	4.36	5.09	5.50	7.00
Throughput (TEUs in millions)	3.61	3.99	4.35	5.04	5.42
Headcount	1,176	1,186	1,199	1,198	1,215
TEUs per Headcount	3,072	3,365	3,630	4,212	4,460
Market Share	30.3%	33.1%	32.5%	35.3%	33.8%

Other Businesses

Other Hong Kong Properties

Plaza Hollywood registered turnover growth of 6% to HK\$277 million, resulting from favourable rental growth in both new lettings and renewals. Average occupancy was maintained at nearly 100% throughout 2006.

Property sales revenue was insignificant during the year due to low sale activities.

Towers 1, 2, 3 and 5 of Bellagio in Sham Tseng, with a total of 1,641 units, were completed in early 2006 and cumulative sales have reached 1,378 units (or 84%) by the end of 2006 to realise HK\$5.7 billion of proceeds. Sorrento was all sold by the end of 2006 to realise HK\$6.2 billion of proceeds.

60 Victoria Road, Kennedy Town, is 100%-owned by listed subsidiary Harbour Centre Development. Construction was completed in August 2006. Virtually all of the 73 units have been sold, to realise proceeds of HK\$278 million.

Balance Sheet (Extract)

As at December 31, 2006

	HK\$ Million
Properties	14,371
Interest in Sorrento and Bellagio	354*
Property inventory and development	1,080
Second mortgage debtors	24
Net current assets	42
Other non-current liabilities	(144)
**Net business assets (before debt)	15,727

* Including 1/3 interest in Bellagio and 40% interest in Sorrento, of which 20% held through Harbour Centre Development Limited, a 67%-owned subsidiary

** Excluding deferred tax on revaluation of investment properties

Property List

	Project Nature	GFA (sq ft)	% Owned	Status
Wharf T&T Square [†]	Office/Retail	395,000	100%	For Lease
1 Plantation Road	Residential	97,000	100%	For Lease
Mountain Court	Residential	49,900	100%	For Lease
Chelsea Court	Residential	43,000	100%	For Lease
77 Peak Road	Residential	32,000	100%	For Lease
Strawberry Hill - various units	Residential	22,300	100%	For Lease/Sale
Gough Hill Residences	Residential	32,900 [#]	100%	For Sale
Bellagio Towers 1,2,3 & 5	Residential	1,591,800 [#]	33%	For Sale
Kowloon Godown	Industrial-Office/Retail	1,575,200	100%	Under Planning
Cable TV Tower South	Industrial	584,600	100%	Under Planning
Yau Tong Godown	Retail/Residential	255,752	100%	Under Planning
Yau Tong JV Project	Retail/Residential	5,823,000	15.6%	Under Planning

[†] Formerly known as World Trade Square [#] Partly sold

Leasing activities for the Peak Portfolio remained strong during 2006, underpinned by strong demand from the continual inflow of expatriates. Average occupancy at Mountain Court, Chelsea Court and 1 Plantation Road was over 90% at the end of 2006, with favourable rental reversion achieved.

Gough Hill Residences, which comprises of five deluxe houses, was completed in October 2006. Given the superb location and quality built, two houses were promptly sold at an average of HK\$28,000 per square foot in 2006, realising proceeds of HK\$446 million. Another two houses were sold in March 2007 at HK\$30,000 per square foot.

The Group is actively seeking opportunities to dispose of its non-core assets.

Marco Polo Hotels

Currently, Marco Polo Hotels boasts a portfolio of 11 hotels in the Asia Pacific Region.

The three hotels in Harbour City performed strongly during 2006. Total hotel and club revenue increased by 15% to HK\$944 million, on the back of a 20% growth in average room rates and higher occupancy at 90%.

The five-star deluxe Marco Polo Shenzhen was opened in September 2006. It is ideally located in the heart of the new Futian Central Business District (福田中央商務區) to capture the growing demand for first-class accommodation from local and foreign businessmen. Marco Polo Xiamen performed solidly during 2006 with strong brand recognition within its operating region.

Marco Polo Parkside in Beijing is superbly located only 600 metres from the 2008 Beijing Olympic Village, with easy access to the Beijing subway system and all major public transportation modes. It is scheduled to open in June 2007. Management contract of the previously Marco Polo Xidan, Beijing was terminated in March 2007.

The Group's five-star deluxe Marco Polo hotel in Wuhan is being fitted out at Wuhan Times Square and is scheduled to open in early 2008. Another new deluxe Marco Polo hotel will be built at the No.11 Dong Da Jie site in Chengdu to be opened in 2010.

Marco Polo Plaza, Cebu, opened in April 2006. Omni Saigon Hotel in Vietnam and Marco Polo Davao in the Philippines are reputable with clear leading position in their respective cities.

Marco Polo hotels in Asia		
Country	City	Hotel
China	Hong Kong	Marco Polo Hongkong Hotel Gateway Prince
	Beijing	Marco Polo Parkside (opening 2007)
	Chengdu	Marco Polo (opening 2010)
	Shenzhen	Marco Polo Shenzhen
	Wuhan	Marco Polo (opening 2008)
	Xiamen	Marco Polo
The Philippines	Cebu	Marco Polo Plaza
	Davao	Marco Polo
Vietnam	Ho Chi Minh City	Omni Saigon Hotel

i-CABLE

During 2006, subscription growth and business performance were under tremendous competitive pressure that hurt profitability. Total revenue rose by 4% to HK\$2,548 million and profit before taxation dipped by 26% to HK\$210 million, as a result of escalating programming cost and keener marketing and pricing strategies.

Intense competition from rival operators impacted on CABLE TV's performance and total revenue from Pay TV grew by 1% and operating profit decreased by 26% to HK\$248 million. With a more flexible marketing approach, i-CABLE was able to overcome new threats from the competition to report a 7% growth in Pay TV subscribers to 786,000 at the end of 2006.

On the programming front, the news platform continued to serve the public as the strongest and most comprehensive source of news and public affairs information in town. Plans are in hand to further enhance the Finance and Information Channel. The movie platform was strengthened with the addition of HMC showcasing Hollywood blockbusters from major studios. A second channel (HMC2) will be launched in the first quarter of 2007 to enrich movie choice. In 2007, i-CABLE will carry the prestigious US PGA Tour exclusively, and offer other international sporting events including the US NBA tournament, top European soccer tournaments.

On the new market front, three movies from i-CABLE's film production subsidiary, Sundream Motion Pictures Limited, were released in 2006 and returned satisfactory box office results.

The Internet & Multimedia segment continued to report steady growth in terms of subscription and profit as the market consolidated. Turnover rose by 7% to HK\$596 million and operating profit grew by 66% to HK\$129 million.

i-CABLE's Broadband subscribers grew by 2% year-on-year to 328,000 at the end of 2006, attributable to service enhancement through network upgrade, bundling strategies and the continued introduction of value-added services. Wholesale voice lines, meanwhile, climbed to 168,000, compared with 120,000 a year ago.

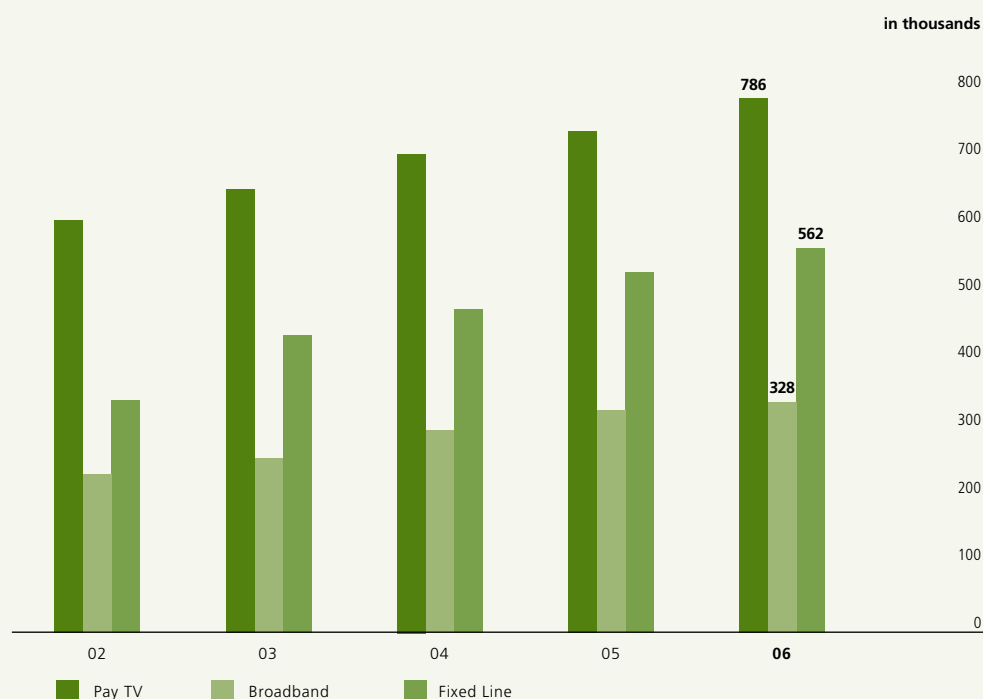
Wharf T&T

During 2006, Wharf T&T group suffered from a slower growth in market share and cutthroat commitments previously made to customers in 2005. Accordingly, turnover from the Wharf T&T group in 2006 plunged by 6% to HK\$1,384 million with operating profit skidded by 162% to become an operating loss amounted to HK\$64 million. Cashflow position, nevertheless, remained healthy with an inflow of HK\$52 million (2005: HK\$94 million).

Despite weak overall market sentiment affecting market share growth, the effort to integrate the operations of Wharf T&T and COL made good progress. The Group began to benefit from the synergy and the new ICT value propositions.

The fixed line installed base grew by 39,000 or 7% to 562,000, representing an overall market share of 13%. Business lines grew by 18,000 or 5% to 355,000 (for a 17% market share) while residential lines grew by 21,000 or 11% to 207,000 (for a 10% market share). Total outgoing IDD volume (including wholesale and retail) increased by 14% to 638 million minutes (2005: 558 million).

Growth of Pay TV/Broadband Subscribers and Fixed Line Installment



Managing Director's Report



Financial Review

Results Review

Liquidity and Financial Resources

Human Resources

Financial Review

(I) RESULTS REVIEW

Turnover

The Group's turnover grew by 7% to a record high of HK\$13,364 million, compared to HK\$12,543 million achieved in 2005. The Property Investment segment remained the Group's main revenue growth driver.

Property Investment revenue grew by 12% to HK\$5,677 million, primarily driven by the rental and related income growth recorded in all sectors. Property investments in China also recorded double-digit revenue growth.

The Logistics segment reported a marginal drop in revenue to HK\$3,506 million (2005: HK\$3,534 million). The drop primarily reflects the revenue decline recorded by Modern Terminals arising from box mix shift and increasing competition in Hong Kong and South China.

CME's revenue was HK\$3,947 million (2005: HK\$3,937 million). i-CABLE's Pay TV and Broadband businesses recorded revenue growth by 1% and 7%, respectively, despite keener competition. However, the increase was partly offset by a 6% decrease in Telecommunications revenue owing to the intense competition in the marketplace.

Property Development revenue grew by HK\$240 million to HK\$293 million, principally attributable to the recognition of revenue from the sale of residential units at the 60 Victoria Road development on its completion in 2006.

Operating Profit

The Group's operating profit increased by 8% to HK\$6,471 million (2005: HK\$6,003 million). The increase was mainly driven by the 15% growth in operating profit of the Property Investment segment to HK\$3,973 million.

The Logistics segment's operating profit slipped by 2% to HK\$1,887 million, mainly due to lower revenue and higher direct contractor costs recorded by Modern Terminals.

CME segment's operating profit decreased by 44% to HK\$270 million despite the slight revenue increase. Pay TV operating profit dropped by 26% to HK\$248 million mainly due to the increase in programming cost for the coverage of 2006 FIFA World Cup, and higher costs involved in the movie platform enhancement and network restructuring exercise. Besides, the Group's telecommunication unit recorded an operating loss of HK\$64 million against a profit of HK\$104 million in 2005, amid escalating competition and price erosion in both IT and telecom sectors. On the other hand, Broadband reported a record operating profit of HK\$129 million, which was 66% higher than in 2005.

The Investment segment contributed a HK\$329 million increase in profit, mainly from disposal of certain securities, two Gough Hill houses and four Strawberry Hill houses (all of which non-trading properties) in 2006.

Other Items

Included in the Group's profit was a revaluation surplus of HK\$7,868 million (2005: HK\$11,513 million) on revaluation of the Group's investment properties to HK\$86,684 million as at December 31, 2006.

There was also a net write-back of HK\$100 million mainly arising from Wharf T&T's write-off of HK\$100 million for its obsolete fixed assets and the write-back of HK\$200 million in respect of certain development properties.

Borrowing Costs

Net borrowing costs increased to HK\$824 million in 2006 (2005: HK\$562 million). This increase was primarily due to the higher interest rate and the increase in borrowings by Modern Terminals for expanding its port investment activities. The charge was net of capitalisation of HK\$70 million (2005: HK\$8 million). The Group's average effective borrowing rate for 2006 was 4.7% p.a., compared to 3.6% p.a. for 2005.

Share of Profits less Losses of Associates and Jointly Controlled Entities

Share of profits less losses of associates and jointly controlled entities (after-tax) decreased to HK\$208 million (2005: HK\$412 million), reflecting lower property sales undertaken by the associates in 2006.

Taxation

Taxation charge decreased by 6% to HK\$2,429 million (2005: HK\$2,583 million). Excluding the deferred taxation of HK\$1,364 million (2005: HK\$2,045 million) on the revaluation surplus of investment properties, taxation charge was HK\$1,065 million, representing an increase of HK\$527 million from 2005, mainly due to a HK\$28 million deferred tax charge recorded by i-CABLE Communications Limited in 2006 versus an one-off deferred tax credit of HK\$305 million recorded in 2005.

Minority Interests

Minority interests decreased by HK\$305 million to HK\$637 million (2005: HK\$942 million), primarily due to a decrease in minority interests' shareholdings after the Group's purchase of additional interests in Modern Terminals and i-CABLE in the second half of 2005.

Profit Attributable to Equity Shareholders

The Group's profit attributable to Equity Shareholders amounted to HK\$10,757 million, a decrease 23% (2005: HK\$13,888 million). Earnings per share were HK\$4.39 (2005: HK\$5.67).

Excluding the net investment property revaluation surplus of HK\$6,472 million, the Group's net profit attributable to Equity Shareholders was HK\$4,285 million, a decrease of 5% as compared to HK\$4,499 million in 2005.

(II) LIQUIDITY AND FINANCIAL RESOURCES

Total Equity

As at December 31, 2006, the Group's net asset value attributable to shareholders increased to HK\$75,162 million, or HK\$30.70 per share, compared to the restated amount of HK\$65,374 million or HK\$26.71 per share as at December 31, 2005.

In compliance with the new accounting requirements in respect of the amendment to HKAS 19, the Group's consolidated net asset value attributable to shareholders as at January 1, 2006 was restated to HK\$65,374 million (from HK\$65,313 million previously reported) due to recognition of all unrecognised actuarial gains for defined benefit pension schemes as at December 31, 2005.

The Group's total equity, including minority interests, was HK\$79,918 million as at December 31, 2006, an increase of 17% over the restated HK\$68,526 million as at December 31, 2005.

Supplemental Information on Net Asset Value (“NAV”)

To better reflect the underlying NAV attributable to Shareholders, the following adjustments are made to the book NAV basing on the HKFRSs:

	NAV to Shareholders	
	Total HK\$ Million	Per share HK\$
Book NAV (based on HKFRSs) as at December 31, 2006	75,162	30.70
Adjustments for:		
Modern Terminals (67.6%)		
– based on the latest transaction price	7,661	3.13
i-CABLE (73.6%)		
– based on market price as at December 31, 2006 (@HK\$1.82 p.s.)	1,041	0.43
Hotel properties		
– based on the valuation as at December 31, 2006 conducted by an independent valuer	3,676	1.50
Deferred tax for surplus on revaluation of investment properties in Hong Kong*	10,658	4.35
Adjusted underlying NAV as at December 31, 2006	98,198	40.11
Adjusted underlying NAV as at December 31, 2005	87,474	35.74

* As there is no capital gains tax in Hong Kong, total deferred tax liability in the amount of HK\$10.66 billion (equivalent to HK\$4.35 per share) as provided and included in the consolidated balance sheet would not be payable if the above-mentioned investment properties were to be sold at the revalued amounts under the current tax regime. Accordingly, such deferred tax as provided under HKAS 40 and HKAS-INT 21 has been excluded for the above calculation in order to provide a better understanding of the net asset value attributable to Shareholders.

Net Cash Generated from the Group’s Operating Activities

For the year under review, the Group’s net cash inflow from operating activities decreased to HK\$3.7 billion (2005: HK\$5.0 billion), primarily due to the increase in investment in trading properties under development and interest payments. Net cash of HK\$2.1 billion used in investing activities mainly consisted of the Group’s capital expenditure of HK\$3.6 billion spent primarily for the ports projects in China, and was partly offset by proceeds from sale of investments, properties and fixed assets totalling HK\$1.9 billion.

Capital Expenditure

The capital expenditure incurred by the Group's core businesses during the year under review and related capital commitments as at December 31, 2006 are analysed as follows:

Business Unit/Company	Capital Expenditure 2006 HK\$ Million	Capital Commitments as at December 31, 2006	
		Authorised and Contracted for HK\$ Million	Authorised but not Contracted for HK\$ Million
Property Investments/others			
China	97	932	117
Harbour City	243	107	53
Other properties/others	130	1	–
	470	1,040	170
Wharf T&T	309	60	102
	779	1,100	272
Modern Terminals (67.6%-owned)	3,446	3,854	3,302
i-CABLE (73.6%-owned)	200	13	121
	4,425	4,967	3,695
As at December 31, 2005	1,760	1,143	3,099

The capital expenditure incurred by the Property Investment segment mainly comprised of certain refurbishment and renovation work for enhancing the quality and value of the Group's investment properties, in particular for Harbour City. For i-CABLE and Wharf T&T, the capital expenditures were mainly for network upgrade and expansion, as well as procurement of TV production facilities while those for Modern Terminals were substantially incurred for construction of the Dachan Bay Phase I and Taicang Phase II ports. Modern Terminals, 67.6%-owned by the Group, funded its own capital expenditure programmes. i-CABLE and Wharf T&T both funded their capital expenditure programmes out of operating cashflow.

As at December 31, 2006, the Group also had planned expenditure and other commitments of approximately HK\$16 billion (31/12/2005: HK\$3.5 billion) for the trading properties under development (mainly in China), HK\$0.6 billion mainly for i-CABLE's own programming expenditures and HK\$0.3 billion mainly for CME's lease commitment of certain properties and telecommunication network facilities.

Debt and Gearing

The Group's net debt increased from HK\$16.1 billion as at December 31, 2005 to HK\$16.9 billion as at December 31, 2006, made up of HK\$20.7 billion in debts less HK\$3.8 billion in deposits and cash. Included in the Group's debts were loans of HK\$5.5 billion (31/12/2005: HK\$3.2 billion) borrowed by Modern Terminals, which were without recourse to the Company and other subsidiaries of the Group.

As at December 31, 2006, the ratio of net debt to shareholders' equity was 22.5% and to total equity was 21.1%, compared to 24.6% and 23.4% (restated) as at December 31, 2005, respectively.

Finance and Availability of Facilities

With strong recurrent operating cash inflow and ample market liquidity, the Group continued to raise funds at competitive interest rates in domestic market. In 2006, the Group cancelled some loan facilities with higher interest margins and/or shorter maturity and refinanced them on more favorable terms. This enabled the Group to further reduce its average borrowing margin.

The Group's available loan facilities and debt securities amounted to HK\$35 billion, of which HK\$20.7 billion were outstanding as at December 31, 2006 analysed as below:

	31/12/2006			
	Available Facility HK\$ Billion	Total Debts HK\$ Billion		Undrawn Facility HK\$ Billion
Company/wholly-owned subsidiaries				
Committed facilities	17.7	14.0	68%	3.7
Uncommitted facilities	2.2	0.8	4%	1.4
	19.9	14.8	72%	5.1
Non wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	14.0	5.5	26%	8.5
– i-CABLE Communications Limited	0.7	–	–	0.7
– Others	0.4	0.4	2%	–
	35.0	20.7	100%	14.3

As at December 31, 2006, HK\$706 million of the Group's debt was secured by mortgage over certain fixed assets with carrying value HK\$3,527 million.

Debts of the Group were primarily denominated in Hong Kong dollars, US dollars and RMB. All US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts.

The use of derivative financial instruments was strictly controlled. The majority of the derivative financial instruments entered into by the Group were used to manage the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash to facilitate its business and investment activities. As at December 31, 2006, the Group also maintained a portfolio of available-for-sale investments, primarily in blue-chip securities, with a market value of HK\$2.9 billion.

(III) HUMAN RESOURCES

The Group had approximately 12,000 employees as at December 31, 2006 (31/12/2005: 12,600). Employees were remunerated according to the nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year 2006 amounted to HK\$2,331 million (2005: HK\$2,216 million).

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended December 31, 2006, all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Code") were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended December 31, 2006, they have confirmed that they have complied with the Model Code during the financial year.

(C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Four Board meetings were held during the financial year ended December 31, 2006. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
<i>Chairman</i>	
Mr Peter K C Woo, GBS, JP	3
<i>Senior Deputy Chairman</i>	
Mr Gonzaga W J Li	4
<i>Deputy Chairman & Managing Director</i>	
Mr Stephen T H Ng	4
<i>Executive Director</i>	
Ms Doreen Y F Lee	4
<i>Non-executive Directors</i>	
Mr T Y Ng	3
Mr Erik B Christensen (retired on May 29, 2006)	0
<i>Independent Non-executive Directors</i>	
Mr Paul M P Chan	2
Professor Edward K Y Chen, GBS, CBE, JP	2
Dr Raymond K F Ch'ien, GBS, CBE, JP	2
Hon Vincent K Fang, JP	2
Mr Hans Michael Jebsen, BBS	3
Mr James E Thompson, GBS	2

Each Director of the Company has been appointed on the strength of his/her calibre, experience and stature, and his/her potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring board approval were arranged by means of circulation of written resolutions.

(ii) Operation of the Board

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

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Peter K C Woo serves as the Chairman and also as the *de facto* chief executive officer of the Company. This is a deviation from the Code provision with respect to the roles of Chairman and Chief Executive Officer to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial number thereof being independent Non-executive Directors.

Furthermore, the Chairman is supported by Senior Deputy Chairman, Mr Gonzaga W J Li, and Deputy Chairman & Managing Director, Mr Stephen T H Ng. The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and directly has responsibilities in certain major business units of the Group. The Senior Deputy Chairman and the Deputy Chairman & Managing Director have full executive responsibilities in the business directions and operational efficiency of the business units under their respective responsibilities and are accountable to the Chairman.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors.

(F) REMUNERATION OF DIRECTORS

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two other independent Non-executive Directors.

One Remuneration Committee meeting was held during the financial year ended December 31, 2006. Attendance of the Members is set out below:

Members	Attendance at Meeting
Mr Peter K C Woo, GBS, JP <i>Chairman</i>	1
Mr Hans Michael Jebsen, BBS	1
Mr James E Thompson, GBS	1

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Given below are the main duties of the Remuneration Committee:

- (a) to consider the Company's policy and structure for all remuneration of Directors and senior management;
- (b) to determine the specific remuneration packages of all executive Directors and senior management;
- (c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- (d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and
- (e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended December 31, 2006 is summarised below:

- (a) review of the Company's policy and structure for all remuneration of Directors and senior management;
- (b) consideration of the emoluments for all Directors and senior management; and
- (c) review of the level of fees for Directors and Audit Committee Members.

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally granted by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK\$50,000 per annum per Director, payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK\$15,000 per annum per Member, payable to those Directors of the Company who are also Members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for the formulation of the nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies. The Chairman in conjunction with the two Deputy Chairmen from time to time review the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management. They also identify and nominate qualified individuals for appointment as new Directors of the Company. New Directors of the Company will be appointed by Board. Any and all new Directors are subject to retirement from the Board at the Annual General Meeting of the Company immediately following his or her appointment and may stand for re-election at the Annual General Meeting.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided by KPMG, the external auditor of the Company, amounted to HK\$12 million and HK\$1 million respectively.

(I) AUDIT COMMITTEE

All the Members of the Audit Committee of the Company are appointed from the independent Non-executive Directors.

All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Paul M P Chan has the appropriate professional qualifications and experience in financial matters.

Five Audit Committee meetings were held during the financial year ended December 31, 2006. Attendance of the Members is set out below:

Members	Attendance at Meetings
Hon Vincent K Fang, JP <i>Chairman</i>	4
Mr Paul M P Chan	3
Mr Hans Michael Jebsen, BBS	2
Mr James E Thompson, GBS	3

- (i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:
 - (a) to consider the appointment of the external auditor and any questions of resignation or dismissal;
 - (b) to discuss with the external auditor before the audit commences, the nature and scope of the audit;
 - (c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements;

- (d) to discuss problems and reservations arising from the audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary); and
 - (e) to review the audit programme, and ensure co-ordination with external auditors, of the internal audit function.
- (ii) The work performed by the Audit Committee for the financial year ended December 31, 2006 is summarised below:
- (a) approval of the remuneration and terms of engagement of the external auditor;
 - (b) review of the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
 - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;
 - (d) discussion with the external auditor before the audit commences, the nature and scope of the audit;
 - (e) review of the audit programme and co-ordination between the external auditors and the internal audit function;
 - (f) review of the Group's financial controls, internal control and risk management systems; and
 - (g) meeting with the external auditor without executive Board members present.

(J) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. The head of Internal Audit Department reports to the Audit Committee. A full set of internal audit reports will also be provided to the external auditor.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the year 2006. Based on the result of the review, in respect of the year ended December 31, 2006, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended December 31, 2006, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flows for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended December 31, 2006:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(L) COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all Shareholders. Press releases are posted on the Company's corporate website www.wharfholdings.com. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company's board. Constantly being updated in a timely manner, the website also contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

The Company keeps Shareholders informed of the procedure for voting by poll in all circulars to Shareholders which are from time to time despatched to Shareholders together with notices of general meetings of the Company. The Company has taken steps to ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company. Regarding circulars to Shareholders for convening Annual General Meetings, the Company would also state in such circulars that arrangements have been made for the voting of each of the resolutions being put to the Annual General Meetings to be dealt with by means of poll vote. The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions. Poll results are advertised in newspapers on the following business day and are posted on the Company's corporate website shortly after the meetings.

(M) SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Hong Kong Companies Ordinance, on requisition of one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended December 31, 2006.

PRINCIPAL ACTIVITIES AND TRADING OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 142 to 145.

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried on in Hong Kong. An analysis of the principal activities of the trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 74 to 76.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group and appropriations of profits for the financial year ended December 31, 2006 are set out in the Consolidated Profit and Loss Account on page 67.

Appropriations of profits and movements in reserves during the financial year are set out in Note 27 to the Financial Statements on pages 110 to 112.

DIVIDENDS

An interim dividend of 36 cents per share was paid on October 20, 2006. The Directors now recommended for adoption at the Annual General Meeting to be held on Friday, May 25, 2007 the payment on June 1, 2007 to Shareholders on record as at May 25, 2007 of a final dividend of 44 cents per share in respect of the financial year ended December 31, 2006. This recommendation has been disclosed in the Financial Statements.

SHARE CAPITAL

During the financial year, upon exercise by certain grantees of options granted under the Company's Executive Share Incentive Scheme, a total of 200,000 ordinary shares of HK\$1.00 each of the Company, credited as fully paid, were allotted and issued by the Company at a subscription price of HK\$25.00 per share.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 10 to the Financial Statements on pages 84 to 87.

DONATIONS

The Group made donations during the financial year totalling HK\$2.9 million.

DIRECTORS

The Directors of the Company during the financial year were Mr P K C Woo, Mr G W J Li, Mr S T H Ng, Ms D Y F Lee, Mr P M P Chan, Professor E K Y Chen, Dr R K F Ch'ien, Mr E B Christensen (retired on May 29, 2006), Hon V K Fang, Mr H Michael Jebsen, Mr T Y Ng and Mr J E Thompson.

Mr G W J Li, Mr T Y Ng and Mr J E Thompson are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception of the options to subscribe for ordinary shares of the Company and i-CABLE previously granted under the Company's Scheme and i-CABLE's Share Option Scheme (the "i-CABLE's Scheme") to, *inter alia*, certain executives of the Company or its subsidiaries and certain employees of i-CABLE or its subsidiaries respectively, some of whom were Directors of the Company during the financial year. Under the rules of the two schemes (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of the Stock Exchange from time to time in force), shares of the Company and i-CABLE would be issued at such prices, not being less than 90% and 80% respectively of the Company's and i-CABLE's average closing prices on the Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the boards of directors of the Company and i-CABLE respectively. During the financial year, certain shares of the Company were allotted and issued to Ms D Y F Lee, an Executive Director of the Company, on her exercise of options under the Company's Scheme, and no shares of i-CABLE were issued to any Director of the Company under the i-CABLE's Scheme.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board

Wilson W S Chan

Secretary

Hong Kong, March 21, 2007

Report of the Directors *(continued)*

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(I) Directors

Peter K C Woo, GBS, JP, Chairman (Age: 60)

Mr Woo has resumed the role of Chairman of the Company since 2002 after having also served in that capacity from 1986 to 1994. He also serves as the Chairman of the Company's Remuneration Committee. He is also the chairman of Wheelock and Company Limited ("Wheelock"), Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited ("WPSL") in Singapore.

Mr Woo was appointed a Justice of the Peace in 1993 and awarded the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government. He has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments. He has been the Government-appointed chairman of the Hong Kong Trade Development Council since October 2000 and had served as the chairman of Hospital Authority from 1995 to 2000 and the council chairman of Hong Kong Polytechnic University from 1993 to 1997. He is currently the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in the USA, Australia and Hong Kong.

Gonzaga W J Li, Senior Deputy Chairman (Age: 77)

Mr Li joined the Company in 1980 as a Director and was appointed as the general manager in 1982. He became Deputy Chairman and Managing Director in 1989, appointed Chief Executive in 1992 and became Chairman in 1994. He relinquished the title of Chairman and Chief Executive and assumed the title of Senior Deputy Chairman of the Company since 2002. He is also the senior deputy chairman of Wheelock and the chairman of Harbour Centre Development Limited ("HCDL"), the chief executive officer and a director of Wharf China Limited. He is also a director of WPL and Joyce Boutique Holdings Limited ("Joyce"). He was formerly the chairman of WPL, WPSL and Modern Terminals Limited ("Modern Terminals").

Stephen T H Ng, Deputy Chairman and Managing Director (Age: 54)

Mr Ng joined the Company in 1981 and became Managing Director in 1989. He has been a director, deputy chairman, president and chief executive officer of i-CABLE Communications Limited ("i-CABLE") since 1999 and became its chairman since 2001. He is also the deputy chairman of Wheelock, a director of Joyce, the chairman of Modern Terminals, and the chairman and chief executive officer of Wharf T&T Limited. He serves as a member of the General Committee of The Hong Kong General Chamber of Commerce.

Doreen Y F Lee, Executive Director (Age: 50)

Ms Lee joined the Company in 1984. She has been a Director of the Company since 2003 and became an Executive Director in March 2007. She was appointed as the managing director of Wharf Estates Limited and Wharf Estates China Limited ("WECL"), both wholly-owned subsidiaries of the Company, in 2005. She is also the managing director of two other wholly-owned subsidiaries of the Company, namely, Harbour City Estates Limited and Times Square Limited. She is responsible for overseeing the investment property portfolios of the Group, including the two core properties of the Group, namely, Harbour City and Times Square in Hong Kong, and the Group's Times Squares in Beijing, Shanghai, Chongqing and Dalian. Ms Lee is also a director of Joyce. Ms Lee is a graduate of The University of Hong Kong where she obtained her bachelor's degree in Arts (Hon).

Paul M P Chan, Director (Age: 52)

Mr Chan has been an independent Non-executive Director of the Company since September 2004. He also serves as a member of the Company's Audit Committee. He is the managing director of PCP CPA Limited. He is also an independent non-executive director of publicly listed I.T Limited, Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited, China Resources Land Limited and China Communication Services Corporation Limited. He was appointed the chairman of the Legal Aid Services Council in September 2006.

Mr Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr Chan is a Practising Certified Public Accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants ("ACCA"), the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Society of Chinese Accountants and Auditors, the Institute of Chartered Secretaries and Administrators, the Taxation Institute of Hong Kong, the Hong Kong Institute of Company Secretaries, and a member of the Macau Society of Certified Practising Accountants.

Mr Chan has over 29 years' experience in accounting and finance field and is a former president of the HKICPA. He is also a former president of the ACCA – Hong Kong.

Edward K Y Chen, GBS, CBE, JP, Director (Age: 62)

Professor Chen has been an independent Non-executive Director of the Company since 2002. He is currently the president of Lingnan University in Hong Kong. He is also an honorary professor and a distinguished fellow of the Centre of Asian Studies at the University of Hong Kong, an honorary professor of Shantou University, and a visiting professor of Jinan University. He was a member of the Legislative Council of Hong Kong in 1991 and 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997. He was also a member of the Hong Kong SAR Basic Law Consultative Committee from 1985 to 1990. He is a director of First Pacific Company Limited and Asia Satellite Telecommunications Holdings Limited and a trustee of Eaton Vance Management Funds. He is currently chairman of the Hong Kong Committee for Pacific Economic Cooperation.

Professor Chen was educated at The University of Hong Kong (Bachelor of Arts and Master of Social Science) and Oxford University (Doctor of Philosophy). He was appointed a Justice of the Peace in 1993 and awarded a CBE in 1995. In 2003, he was awarded the Gold Bauhinia Star Medal by the Hong Kong SAR Government.

Raymond K F Ch'ien, GBS, CBE, JP, Director (Age: 55)

Dr Ch'ien has been an independent Non-executive Director of the Company since 2002. He is the chairman of CDC Corporation, chairman of its subsidiary, China.com Inc, and chairman of MTR Corporation Limited. Dr Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited and VTech Holdings Limited.

In public service, Dr Ch'ien is chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr Ch'ien is an honorary president and past chairman of the Federation of Hong Kong Industries and a Trustee of the University of Pennsylvania. From 1992 to 1997, Dr Ch'ien was a member of the Executive Council of Hong Kong, then under British administration. He was appointed a member of the Executive Council of the Hong Kong SAR on July 1, 1997 and served until June 2002.

Dr Ch'ien received a doctoral degree in Economics from the University of Pennsylvania in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal.

Hon Vincent K Fang, JP, Director (Age: 63)

Mr Fang has been an independent Non-executive Director of the Company since 1993. He also serves as a member and chairman of the Company's Audit Committee. He is the chief executive officer of Toppy Company (Hong Kong) Limited and managing director of Fantastic Garments Limited.

He currently serves as a member of Legislative Council representing Wholesale and Retail in Functional Constituency. He is a member of the Hospital Authority and Hong Kong Tourism Board. He is also a member of the Operations Review Committee of the Independent Commission Against Corruption and a board member of the Airport Authority. He is the chairman of Hospital Governing Committee of Princess Margaret Hospital and Kwai Chung Hospital and the Quality Tourism Services Association. He is an honorary advisor of Hong Kong Retail Management Association and a director of The Federation of Hong Kong Garment Manufacturers. He is also a Justice of the Peace. Mr Fang is a graduate of North Carolina State University where he obtained both his bachelor's and master's degrees in Science of Textiles Engineering.

Hans Michael Jebsen, BBS, Director (Age: 50)

Mr Jebsen has been an independent Non-executive Director of the Company since 2001. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He is the chairman of Jebsen and Company Limited and also a non-executive director of Hysan Development Company Limited as well as vice chairman and a Board Member of Danfoss A/S, Denmark. He currently holds a number of public offices, namely, the vice-president and a trustee of World Wide Fund for Nature Hong Kong, the chairman of the Friend's Committee of the Asian Cultural Council Hong Kong, a Board Member of the Asian Cultural Council Board of Trustees, affiliate of the Rockefeller Brothers Fund, New York, an honorary fellow and an appointed court member of the Hong Kong University of Science & Technology, as well as a member of the Council for Sustainable Development, Hong Kong European Union Business Co-operation Committee of the Hong Kong Trade Development Council, Advisory Council of Asia Society Hong Kong Center and Advisory Board of the Hong Kong Red Cross. He also is an Honorary Citizen and Municipal Economic Advisor as well as a Member of the CPPCC Jilin City, China.

After schooling in Germany and Denmark, he received a two-year banking education in Germany and the UK and studied Business Administration at the University of St. Gallen in Switzerland from 1978 to 1981.

Mr Jebsen was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2001 and made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. the Queen of Denmark in 2006.

T Y Ng, Director (Age: 59)

Mr Ng joined the Company in 1985 and has been a Director of the Company since 1998. He is a director of HCDL, Joyce and WPL, and also the managing director of WECL. He is an associate member of both the HKICPA and the Chartered Institute of Management Accountants.

James E Thompson, GBS, Director (Age: 67)

Mr Thompson has been an independent Non-executive Director of the Company since 2001. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He established his company, Crown Worldwide, in Japan in 1965. He is the member of the American Chamber of Commerce in Hong Kong ("ACC") and was appointed as the chairman of ACC in 2003. He also serves on Hong Kong – United States Business Council, the Hong Kong Japan Business Co-operation Committee, and the Hong Kong Korea Business Roundtable. Mr Thompson has lived in Hong Kong for 29 years and has served on the Trade Development Council, the ICAC Advisory Committee as well as other government and charitable committees. He was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2003.

Note: (1) Wheelock, WF Investment Partners Limited, Wheelock Corporate Services Limited, WPL and Star Attraction Limited (of which Mr P K C Woo, Mr G W J Li, Mr S T H Ng and/or Mr T Y Ng is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(2) The Company confirms that it has received written confirmation from each of the independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and considers them independent.

(II) Senior Management

Various businesses of the Group are respectively under the direct responsibility of the Chairman, the Senior Deputy Chairman, and the Deputy Chairman and Managing Director, as named under (A) (I) above. Only those three Directors are regarded as members of the Group's senior management.

(B) Directors' Interests in Shares

At December 31, 2006, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company and of two subsidiaries of the Company, namely, i-CABLE and Modern Terminals, and the percentages which the shares represented to the issued share capitals of the Company, i-CABLE and Modern Terminals respectively are also set out below:

	No. of Ordinary Shares (Percentage of Issued Capital)	Nature of Interest
The Company		
Mr Gonzaga W J Li	686,549 (0.0280%)	Personal interest
Mr Stephen T H Ng	650,057 (0.0266%)	Personal interest
Mr T Y Ng	178,016 (0.0073%)	Personal interest
i-CABLE		
Mr Gonzaga W J Li	68,654 (0.0034%)	Personal interest
Mr Stephen T H Ng	1,065,005 (0.0527%)	Personal interest
Mr T Y Ng	17,801 (0.0009%)	Personal interest
Modern Terminals		
Mr Hans Michael Jebsen	3,787 (5.40%)	Corporate interest

Note: The 3,787 shares regarding "Corporate Interest" in which Mr Hans Michael Jebsen was taken to be interested as stated above was the interests held by a corporation in general meetings of which Mr Hans Michael Jebsen was either entitled to exercise (or was taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power.

Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted under the Share Option Scheme of the Company held by a Director of the Company during the financial year:

Name of Director	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding during the year	Period during which rights exercisable (Day/Month/Year)	Price per share payable on exercise of options (HK\$)	Consideration paid for the options granted (HK\$)
Ms Doreen Y F Lee	01/03/2003	40,000	01/08/2005 to 31/07/2006	25.00	1.00

During the financial year, Ms Doreen Y F Lee exercised the above options to subscribe for 40,000 new ordinary shares. Accordingly, 40,000 new ordinary shares of the Company were allotted and issued to Ms Lee.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers:

- (i) there were no interests, both long and short positions, held as at December 31, 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

(C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at December 31, 2006, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names	No. of Ordinary Shares (Percentage of Issued Capital)	
(i) Lynchpin Limited	171,974,029	(7.03%)
(ii) Star Attraction Limited	171,974,029	(7.03%)
(iii) Wheelock Properties Limited	173,652,029	(7.09%)
(iv) Myers Investments Limited	173,652,029	(7.09%)
(v) Wheelock Corporate Services Limited	173,652,029	(7.09%)
(vi) WF Investment Partners Limited	1,051,765,051	(42.97%)
(vii) Wheelock and Company Limited	1,222,896,080	(49.96%)
(viii) HSBC Trustee (Guernsey) Limited	1,222,896,080	(49.96%)
(ix) JPMorgan Chase & Co.	146,448,525	(5.98%)

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (viii) above to the extent that the shareholding stated against party (i) above was entirely duplicated or included in that against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii), (iii) in (iv), (iv) in (v), (v) in (vi), (vi) in (vii) and (vii) in (viii).

All the interests stated above represented long positions and as at December 31, 2006, there were no short positions recorded in the Register.

(D) Executive Share Incentive Scheme of the Company

(I) Summary of the Scheme

- (a) *Purpose of the Scheme:*
To give executives of the Group the opportunity of acquiring an equity participation in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Company's continued growth and success.
- (b) *Participants of the Scheme:*
Any employee of the Company or any of its subsidiaries holding an executive, managerial, supervisory or similar position, including a Director of the Company or any of its subsidiaries holding executive office, who accepts the offer of the grant of an option in accordance with the terms of the Scheme.
- (c)
 - (i) *Total number of ordinary shares of HK\$1.00 each in the capital of the Company (the "Shares") available for issue under the Scheme as at December 31, 2006:*
106,732,831
 - (ii) *Percentage of the issued share capital that it represents as at December 31, 2006:*
4.36%
- (d) *Maximum entitlement of each participant under the Scheme as at December 31, 2006:*
Not more than:
 - (i) 10% of the maximum number of Shares available for subscription under the terms of the Scheme; and
 - (ii) in terms of amount of the aggregate subscription price, such amount of aggregate subscription price in respect of all the Shares for which an employee is granted options in any financial year as would exceed five times his or her gross annual remuneration.

- (e) *Period within which the Shares must be taken up under an option:*
Within 10 years from the date on which the option is granted or such shorter period as the Board of Directors may approve.
- (f) *Minimum period for which an option must be held before it can be exercised:*
One year from the date on which the option is granted.
- (g) (i) *Price payable on application or acceptance of the option:*
HK\$1.00
- (ii) *The period within which payments or calls must or may be made or loans of such purposes must be repaid:*
Seven days after the offer date of an option.
- (h) *Basis of determining the exercise price:*
Pursuant to rule 17.03 (9) of the Listing Rules, the exercise price 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, which must be a business day; 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.
- (i) *The remaining life of the scheme:*
One year

(II) Details of Share Options Granted

Details of share options granted to Director(s) of the Company are set out in the section headed "Directors' interests in shares" in the Report of the Directors.

Set out below are particulars and movements during the financial year of the Company's outstanding share options which were granted to 12 employees (one of them being a Director of the Company), all of whom are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2006	No. of ordinary shares represented by options lapsed/exercised during the financial year	No. of ordinary shares represented by unexercised options outstanding as at 31/12/2006	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK\$)
01/08/1996	200,000	(200,000)	Nil	01/08/1996 to 31/07/2006	25.00

The weighted average closing price of the Shares of the Company immediately before the dates of all exercises by employees of the Company's share options during the financial year was HK\$28.3 per share.

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the year under review.

(E) Directors' Interests in Competing Business

Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules of the Stock Exchange.

Five Directors of the Company, namely, Mr P K C Woo, who is also the chairman and a substantial shareholder of the Company's substantial shareholder, Wheelock, and Mr G W J Li, Mr S T H Ng, Ms D Y F Lee and Mr T Y Ng, who are also directors of Wheelock and/or subsidiaries of Wheelock, are considered as having an interest in Wheelock under paragraph 8.10 of the Listing Rules.

Ownership of property for letting and development of properties for sale and/or investment carried on by Wheelock and subsidiaries of Wheelock (the "Wheelock Group") constitute competing businesses of the Group.

The ownership of commercial premises by the Wheelock Group for rental purposes is considered as competing with the commercial premises owned by the Group. Since the Group's commercial premises are not in the vicinity of those owned by the Wheelock Group, and are targeted at different customers and would attract different tenants compared to those of the Wheelock Group, the Group considers that its interest regarding the business of owning and letting of commercial premises is adequately safeguarded.

The development of properties for sale and/or investment purposes by the Wheelock Group is also considered as a competing business of the Group. However, the Group itself has adequate experience in property development and is therefore capable of carrying on its property development business independently of the Wheelock Group.

For safeguarding the interests of the Group, the independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's development of properties for sale and/or investment and property leasing businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of the Wheelock Group.

(F) Major Customers and Suppliers

For the year ended December 31, 2006:

- (I) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and
- (II) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) Bank Loans, Overdrafts and other Borrowings

Particulars of all such bank loans, overdrafts and/or other borrowings of the Company and of the Group as at December 31, 2006 which are repayable on demand or within a period not exceeding one year are set out in Note 21 to the Financial Statements on pages 97 to 98. Those which would fall due for repayment after a period of one year are particularised in Note 21 to the Financial Statements on pages 97 to 98.

Set out below is information regarding certain borrowings of the Group outstanding as at December 31, 2006, all in the form of debt securities issued by wholly-owned subsidiaries of and guaranteed by the Company:

Name of Subsidiary/Borrower	Description of Debt Securities Issued	Outstanding Principal Amount
(1) Wharf International Finance Limited	US\$ Guaranteed Series A Fixed Rate Notes due 2007	US\$309 Million
(2) Wharf Finance (BVI) Limited	HK\$ Guaranteed Floating Rate Notes due 2007	HK\$150 Million
	HK\$ Guaranteed Fixed Rate Notes due 2007	HK\$200 Million
	HK\$ Guaranteed Fixed Rate Notes due 2007	HK\$200 Million
	HK\$ Guaranteed Fixed Rate Notes due 2007	HK\$250 Million
	US\$ Guaranteed Fixed Rate Notes due 2007	US\$50 Million
	HK\$ Guaranteed Fixed Rate Notes due 2008	HK\$300 Million
	HK\$ Guaranteed Floating Rate Notes due 2008	HK\$100 Million
	HK\$ Guaranteed Fixed Rate Notes due 2008	HK\$300 Million
	HK\$ Guaranteed Fixed Rate Notes due 2009	HK\$300 Million
	HK\$ Guaranteed Floating Rate Notes due 2009	HK\$100 Million
	HK\$ Guaranteed Floating Rate Notes due 2010	HK\$200 Million
	HK\$ Guaranteed Fixed Rate Notes due 2011	HK\$200 Million
	HK\$ Guaranteed Floating Rate Notes due 2013	HK\$300 Million
	HK\$ Guaranteed Fixed Rate Notes due 2016	HK\$250 Million

(H) Interest Capitalised

The amount of interest (all being borrowing costs) capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 80.

(I) Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

(J) Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended December 31, 2006.

(K) Disclosure of Connected Transactions

Set out below is information in relation to connected transactions involving the Company and/or its subsidiaries which were substantially disclosed in the press announcement of the Company dated December 15, 2006 and were required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(I) Rationalisation of Shekou Container Terminal

As part of the Group's strategy to rationalise its port business in Shekou, Modern Terminals Limited ("MTL"), a 67.6%-owned subsidiary of the Company, entered into on December 14, 2006 the following agreements with China Merchants Holdings (International) Company Limited ("CMH"), Swire Pacific Limited ("Swire") and P&O Dover (Holdings) Limited ("P&O") respectively:

- (a) Rationalisation Agreement between MTL and CMH pursuant to which MTL and CMH will form a joint venture ("Mega SCT") to hold their respective interests in Shekou Container Terminal Phase 1 ("SCT1"), Shekou Container Terminal Phase 2 ("SCT2"), Shekou Container Terminal Phase 3 ("SCT3") and Land Company (which holds gatehouse and surrounding land of approximately 18 hectares adjacent to SCT3). The joint venture will be held as to 30% by the MTL Group and as to 70% by the CMH Group upon completion of initial stage of the rationalisation ("Stage 1 Completion"). Upon Stage 1 Completion, the MTL Group will purchase from the CMH Group a 24% interest in Mega SCT at a cash consideration of HK\$3,168 million.

- (b) Share Purchase Agreement between MTL Shekou, a wholly-owned subsidiary of MTL, Swire and P&O as sellers, and CMH as purchaser, pursuant to which, if Stage 1 Completion does not take place in accordance with the terms set out in the Rationalisation Agreement on or before March 15, 2007 or such other date as the parties may agree in writing, MTL Shekou will sell and CMH will purchase, *inter alia*, MTL's interest in SCT1 and SCT2, at a total consideration of HK\$792 million.
- (c) Shareholders' Agreement between MTL and CMH, pursuant to which MTL will be granted a put option by CMH, under which MTL will have the right to require CMH to purchase all of its shares in Mega SCT (being 30% of the issued share capital of Mega SCT) for an amount of HK\$3,960 million.

As CMH is a substantial shareholder of MTL, it is a connected person of the Company under the Listing Rules, and the transactions contemplated under the Rationalisation Agreement, the Share Purchase Agreement and the Shareholders' Agreement constitute connected transactions of the Company under the Listing Rules.

(II) Tenancy Agreements with City Super Limited

Set out below is information in relation to certain continuing connected transactions (the "City Super Transactions") in respect of tenancy agreements between two wholly-owned subsidiaries of the Company and City Super Limited ("City Super"), particulars of which were previously disclosed in the press announcement of the Company dated January 5, 2005.

Description of the City Super Transactions	Amount of rent received by the Company for the year ended December 31, 2006 HK\$ Million
1. Tenancy agreement in respect of B101-B109, Basement 1, Times Square, Causeway Bay, Hong Kong	25.88
2. Tenancy agreement in respect of Shops 3001-3002, Level 3, Gateway Arcade, Harbour City, Kowloon, Hong Kong	19.82

The abovementioned agreements are regarded as continuing connected transactions for the Company by reason of the fact that City Super is 39.08%-owned by Lane Crawford (BVI) Limited which in turn is indirectly wholly-owned by a trust the settlor of which is the Chairman of the Company.

(III) Tenancy Agreement with Joyce Boutique Limited

Set out below is information in relation to a continuing connected transaction (the "JBL Transaction") in respect of a tenancy agreement between a wholly-owned subsidiary of the Company and Joyce Boutique Limited ("JBL"), particulars of which were previously disclosed in the press announcement of the Company dated January 16, 2006.

Description of the JBL Transaction	Amount of rent received by the Company for the year ended December 31, 2006 <i>HK\$ Million</i>
Ground Floor, No. 17-19 Canton Road, Harbour City, Kowloon, Hong Kong	13.39

The JBL Transaction is regarded as a continuing connected transaction under the Listing Rules as JBL is indirectly 51.9%-owned by a trust of which certain close relatives of the Chairman of the Company are discretionary objects.

(IV) Tenancy Agreement with Ferragamo Retail HK Limited

Set out below is information in relation to a continuing connected transaction (the "Ferragamo Transaction") in respect of a tenancy agreement between a wholly-owned subsidiary of the Company and Ferragamo Retail HK Limited ("Ferragamo"), particulars of which were previously disclosed in the press announcement of the Company dated January 18, 2006.

Description of the Ferragamo Transaction	Amount of rent received by the Company for the year ended December 31, 2006 <i>HK\$ Million</i>
Ground Floor and Level 1, Ocean Centre, Harbour City, Kowloon, Hong Kong	10.51

The Ferragamo Transaction is regarded as a continuing connected transaction under the Listing Rules as Ferragamo is indirectly 40%-owned by a trust of which certain close relatives of the Chairman of the Company are discretionary objects.

(V) Confirmation from the Directors

- (i) The Directors, including the independent Non-executive Directors, of the Company have reviewed the City Super Transactions, the JBL Transaction and the Ferragamo Transaction (collectively, the “Transactions”) mentioned under Sections (K)(II), (K)(III) and (K)(IV) above and confirmed that the Transactions were entered into:
 - (1) by the Group in the ordinary and usual course of its business;
 - (2) either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
 - (3) in accordance with the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.
- (ii) Furthermore, the auditors of the Company have advised the following:
 - (1) the Transactions had been approved by the Company’s Board of Directors;
 - (2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and
 - (3) the relevant cap amounts have not been exceeded during the year ended December 31, 2006.

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 HK\$ Million	2005 HK\$ Million
Turnover	1	13,364	12,543
Other net income	3	415	74
		13,779	12,617
Direct costs and operating expenses		(4,653)	(4,201)
Selling and marketing expenses		(701)	(620)
Administrative and corporate expenses		(688)	(587)
Operating profit before depreciation, amortisation, interest and tax		7,737	7,209
Depreciation and amortisation	2	(1,266)	(1,206)
Operating profit	2	6,471	6,003
Increase in fair value of investment properties		7,868	11,513
Net other credit	4	100	47
		14,439	17,563
Borrowing costs	5	(824)	(562)
Share of profits less losses of associates	13	196	425
Share of profits less losses of jointly controlled entities	14	12	(13)
Profit before taxation		13,823	17,413
Taxation	6(c)	(2,429)	(2,583)
Profit for the year		11,394	14,830
Attributable to:			
Equity shareholders of the Company	7	10,757	13,888
Minority interests		637	942
		11,394	14,830
Dividends payable to equity shareholders of the Company attributable to the year	8		
Interim dividend declared during the year		881	881
Final dividend proposed after the balance sheet date		1,077	1,077
		1,958	1,958
Earnings per share	9		
Basic		HK\$4.39	HK\$5.67
Diluted		HK\$4.39	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)
Non-current assets			
Fixed assets			
Investment properties		86,684	78,224
Leasehold land		3,662	1,430
Other property, plant and equipment		11,852	11,004
	10	102,198	90,658
Goodwill and other intangible assets	12	306	297
Interest in associates	13	781	1,638
Interest in jointly controlled entities	14	788	896
Available-for-sale investments	15	2,921	1,677
Long term receivables	16	371	410
Programming library		186	143
Defined benefit pension scheme assets	17	230	150
Deferred tax assets	22(a)	429	468
Derivative financial assets	24	17	54
		108,227	96,391
Current assets			
Inventories	18	5,288	4,488
Trade and other receivables	19	1,981	1,105
Derivative financial assets	24	12	–
Deposits and cash		3,769	2,508
		11,050	8,101
Current liabilities			
Trade and other payables	20	(4,926)	(4,848)
Short term loans and overdrafts	21	(4,667)	(4,403)
Derivative financial liabilities	24	(3)	(14)
Taxation payable	6(e)	(390)	(608)
		(9,986)	(9,873)
Net current assets/(liabilities)		1,064	(1,772)
Total assets less current liabilities		109,291	94,619

	Note	2006 HK\$ Million	2005 HK\$ Million (restated)
Non-current liabilities			
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)
		(29,373)	(26,093)
NET ASSETS		79,918	68,526
Capital and reserves			
Share capital	26	2,448	2,448
Reserves		72,714	62,926
Total equity attributable to equity shareholders of the Company	27(a)	75,162	65,374
Minority interests	27(a)	4,756	3,152
TOTAL EQUITY		79,918	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
Non-current assets			
Investments in subsidiaries	11	13,371	13,227
Long term receivables	16	347	382
		13,718	13,609
Current assets			
Trade and other receivables	19	–	1
Deposits and cash		15	115
		15	116
Current liabilities			
Trade and other payables	20	(25)	(23)
Taxation payable		(2)	(1)
		(27)	(24)
Net current (liabilities)/assets		(12)	92
NET ASSETS		13,706	13,701
Capital and reserves			
Share capital	26	2,448	2,448
Reserves		11,258	11,253
SHAREHOLDERS' EQUITY	27(b)	13,706	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 HK\$ Million	2005 HK\$ Million (restated)
Surplus on revaluation of available-for-sale investments	27(a)	875	166
Actuarial gains on defined benefit pension schemes	27(a)	55	27
Exchange difference	27(a)	161	72
Others	27(a)	20	(70)
Investments revaluation reserves transferred to the consolidated profit and loss account on disposal of available-for-sale investments	27(a)	(3)	(40)
Share of reserves of associates/jointly controlled entities		16	5
Net gains not recognised in the consolidated profit and loss account		1,124	160
Profit for the year	27(a)	11,394	14,830
Total recognised income for the year (2005: as restated)			
Equity shareholders of the Company		11,741	13,980
Minority interests		777	1,010
		12,518	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)	61	30
Attributable to minority interests			
Cumulative effects as at December 31, 2005	27(a)	36	40
		97	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
Cash generated from operations	(a)	5,130	6,118
Interest paid		(887)	(532)
Interest received		148	79
Dividends received from associates		262	56
Dividends received from investments		191	170
Hong Kong profits tax paid		(1,153)	(849)
Overseas tax paid		(15)	(1)
Net cash generated from operating activities		3,676	5,041
Investing activities			
Purchase of fixed assets		(3,608)	(1,757)
Additions to programming library		(143)	(95)
Net increase in investments in associates		–	(216)
Investment in jointly controlled entities		–	(554)
Purchase of available-for-sale investments		(1,327)	(6)
Purchase of additional interests in subsidiaries		–	(2,831)
Proceeds from disposal of fixed assets		650	1
Proceeds from disposal of investment properties		264	59
Proceeds from sale of an associate		–	165
Net repayment from associates		794	363
Proceeds from sale of available-for-sale investments		1,008	170
Repayment of long term receivables		47	18
Redemption of deposits with financial institutions		156	–
Net cash inflow from acquisition of subsidiaries		79	–
Net cash used in investing activities		(2,080)	(4,683)
Financing activities			
Exercise of share options		5	5
Net drawdown of long term loans		4,120	2,873
Net repayment of short term loans and overdrafts		(2,263)	(801)
Advances from minority interests		8	7
Issue of shares by subsidiaries to minority interests		188	–
Dividends paid to equity shareholders of the Company		(1,958)	(1,762)
Dividends paid to minority interests		(279)	(537)
Net cash used in financing activities		(179)	(215)
Increase in cash and cash equivalents		1,417	143
Cash and cash equivalents at January 1		2,352	2,209
Cash and cash equivalents at December 31		3,769	2,352
Analysis of the balance of cash and cash equivalents			
Deposits and cash	(b)	3,769	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	6,471	6,003
Interest income	(147)	(80)
Dividends receivable from investments	(192)	(170)
Depreciation	1,133	1,100
Amortisation	133	106
Loss on disposal of fixed assets	10	13
Other net income	(415)	(74)
Increase in properties under development for sale	(1,194)	(1,005)
(Increase)/decrease in properties held for sale	(40)	44
Decrease in spare parts and consumables	45	4
(Increase)/decrease in trade and other receivables	(866)	144
Increase in trade and other payables	233	42
(Decrease)/increase in derivative financial liabilities	(7)	7
Increase in defined benefit pension scheme assets	(25)	(22)
(Decrease)/increase in other deferred liabilities	(9)	6
Cash generated from operations	5,130	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	3,769	2,508
Less: deposits with financial institutions with maturity greater than three months	–	(156)
Cash and cash equivalents in the consolidated cash flow statement	3,769	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")	10	15

Notes to the Financial Statements

1. SEGMENT INFORMATION

a. Business segments

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

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

ii. Assets and liabilities	Assets		Liabilities	
	2006 HK\$ Million	2005 HK\$ Million (restated)	2006 HK\$ Million	2005 HK\$ Million
Property investment	88,959	81,169	3,896	4,074
Hong Kong	81,900	74,573	1,462	1,708
China	6,666	6,169	2,279	2,224
Hotels	393	427	155	142
CME	4,835	5,407	977	1,177
Pay television	1,243	1,560	384	532
Internet and multimedia	631	706	133	134
Telecommunications	2,939	3,133	460	500
Others	22	8	–	11
Logistics	11,138	7,470	6,330	4,167
Terminals	10,935	7,282	6,276	4,117
Others	203	188	54	50
	104,932	94,046	11,203	9,418
Property development	7,542	5,614	978	550
Unallocated	6,803	4,832	27,178	25,998
Total assets/liabilities	119,277	104,492	39,359	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
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
iii. Other information				
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
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Assets and capital expenditure				
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 HK\$ Million	2005 HK\$ Million (restated)
After charging:		
Depreciation		
– assets held for use under operating leases	91	88
– other fixed assets	1,042	1,012
	1,133	1,100
Amortisation		
– programming library	100	81
– leasehold land	30	25
– other intangible assets	3	–
Total depreciation and amortisation	1,266	1,206
Staff costs	2,331	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
And crediting:		
Rental income less direct outgoings including:	3,777	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
Board of Directors								
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
Independent								
Non-executive								
Directors								
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 Jebsen	65	–	–	–	–	–	65	65
James E Thompson	65	–	–	–	–	–	65	65
Past Directors								
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
	670	21,490	21,580	545	–	138	44,423	51,108
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.

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

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

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

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

5. BORROWING COSTS

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Interest on:		
Bank loans and overdrafts repayable within five years	478	323
Other loans repayable within five years	332	249
Loans repayable over five years	75	6
Other borrowing costs	9	(8)
	894	570
Less: Amount capitalised*	(70)	(8)
Net borrowing costs for the year	824	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>
Current tax		
Hong Kong profits tax	814	678
Underprovision in respect of prior years	134	28
	948	706
Overseas taxation	2	2
	950	708
Deferred tax		
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)
	1,479	1,875
	2,429	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	2,429	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**

	2006	2005
	HK\$ Million	HK\$ Million
Interim dividend declared and paid of 36 cents (2005: 36 cents) per share	881	881
Final dividend of 44 cents (2005: 44 cents) per share proposed after the balance sheet date	1,077	1,077
	1,958	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 HK\$ Million	2005 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the year, of 44 cents (2005: 36 cents) per share	1,077	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 & commun- ications equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	
a. Cost or valuation							
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	78,224	1,513	659	9,570	9,806	1,733	101,505
Exchange adjustment	124	8	—	—	5	46	183
Additions	222	1,405	2	369	657	1,770	4,425
Acquisition of subsidiaries	—	91	—	—	1	460	552
Disposals	(207)	(185)	—	(328)	(402)	—	(1,122)
Cost adjustment	(410)	—	—	—	—	—	(410)
Reclassification	863	(576)	—	4	386	(14)	663
Revaluation surpluses/ write back/(write off)	7,868	92	—	(100)	—	—	7,860
Balance at December 31, 2006	86,684	2,348	661	9,515	10,453	3,995	113,656
Accumulated depreciation, amortisation and impairment losses							
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	—	—	484	5,460	4,600	303	10,847
Exchange adjustment	—	—	—	—	3	—	3
Charge for the year	—	—	33	721	379	30	1,163
Written back on disposals	—	—	—	(317)	(243)	—	(560)
Reclassification	—	—	—	5	—	—	5
Balance at December 31, 2006	—	—	517	5,869	4,739	333	11,458
Net book value							
At December 31, 2006	86,684	2,348	144	3,646	5,714	3,662	102,198
At December 31, 2005	78,224	1,513	175	4,110	5,206	1,430	90,658

10. FIXED ASSETS (Continued)

		Group						
		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	Total HK\$ Million
b.	The analysis of cost or valuation of the above assets is as follows:							
	2006 valuation	86,684	–	–	–	–	–	86,684
	Cost less provisions	–	2,348	661	9,515	10,453	3,995	26,972
		86,684	2,348	661	9,515	10,453	3,995	113,656
	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 & commu- nications equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
c. Tenure of title to properties							
(at cost or valuation):							
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
	81,541	606	661	–	4,295	1,596	88,699
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
	86,684	2,348	661	–	4,576	3,995	98,264
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
	8,415	7,294

11. INVESTMENTS IN SUBSIDIARIES

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

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

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	2005
	HK\$ Million	HK\$ Million
Share of net tangible assets	274	334
Goodwill	61	61
Amounts due from associates	450	1,250
Amounts due to associates	(4)	(7)
	781	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	Attributable	Total	Attributable
	HK\$ Million	interest	HK\$ Million	interest
		HK\$ Million		HK\$ Million
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

	Group	
	2006	2005
	HK\$ Million	HK\$ Million
Share of net assets	734	842
Goodwill	54	54
	788	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:

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

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK\$ Million	HK\$ Million
Listed investments in Hong Kong	1,568	735
Listed investments outside Hong Kong	1,296	890
Unlisted investments	57	52
	2,921	1,677
Market value of listed investments	2,864	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
	HK\$ Million	HK\$ Million (restated)
Defined benefit pension scheme assets	230	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:

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

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

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

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

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

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

	Group	
	2006	2005
	HK\$ Million	HK\$ Million
Land and properties under development for sale	4,835	3,398
Properties held for sale	368	972
Spare parts and consumables	85	118
	5,288	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	2005
	HK\$ Million	HK\$ Million
Held in Hong Kong		
Long lease	3	155
Medium lease	1,028	1,642
	1,031	1,797
Held outside Hong Kong		
Medium lease	1,905	1,013
	2,936	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	2005	2006	2005
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Trade debtors				
0 – 30 days	331	346	–	–
31 – 60 days	229	220	–	–
61 – 90 days	70	45	–	–
Over 90 days	72	61	–	–
	702	672	–	–
Other receivables	1,279	433	–	1
	1,981	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:

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

	Group	
	2006	2005
	Million	Million
USD	15	15
Renminbi ("RMB")	77	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
	HK\$ Million	HK\$ Million
Bonds and notes (unsecured)		
HK dollar fixed rate notes due 2006	–	1,193
HK dollar fixed rate notes due 2007	651	247
HK dollar fixed rate notes due 2008	607	302
HK dollar fixed rate notes due 2009	403	101
HK dollar fixed rate notes due 2011	204	–
HK dollar fixed rate notes due 2016	253	–
HK dollar floating rate notes due 2006	–	340
HK dollar floating rate notes due 2007	150	–
HK dollar floating rate notes due 2008	100	100
HK dollar floating rate notes due 2010	200	200
HK dollar floating rate notes due 2013	300	–
US dollar fixed rate notes due 2007	2,808	2,851
	5,676	5,334
Bank loans (secured)		
Due within 1 year	–	85
Due after more than 2 years but not exceeding 5 years	101	–
Due after more than 5 years	605	–
	706	85
Bank loans (unsecured)		
Due within 1 year	1,058	2,785
Due after more than 1 year but not exceeding 2 years	2,800	–
Due after more than 2 years but not exceeding 5 years	8,811	9,254
Due after more than 5 years	1,619	1,100
	14,288	13,139
Total loans	20,670	18,558
Less: Amounts due within 1 year	(4,667)	(4,403)
Total long term loans	16,003	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:

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

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

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

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

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

	Depreciation allowances in excess of the related depreciation HK\$ Million	Revaluation of investment properties HK\$ Million	Others HK\$ Million	Future benefit of tax losses HK\$ Million	Total HK\$ Million
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	2,116	9,977	(2)	(887)	11,204
Charged/(credited) to the consolidated profit and loss account	10	1,364	(4)	109	1,479
Acquisition of subsidiary	–	–	4	–	4
Balance at December 31, 2006	2,126	11,341	(2)	(778)	12,687

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

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

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

	Group	
	2006	2005
	HK\$ Million	HK\$ Million
Club debentures issued (non-interest bearing)	220	220
Deferred revenue	33	38
Others	1	5
	254	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:

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

	2006		2005	
	Positive fair value <i>HK\$ Million</i>	Negative fair value <i>HK\$ Million</i>	Positive fair value <i>HK\$ Million</i>	Negative fair value <i>HK\$ Million</i>
Expiring within 1 year	12	3	–	7
Expiring after more than 1 year but not exceeding 5 years	17	–	54	3
	29	3	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	1-2	2-5	More than
	interest rate		or less	years	years	5 years
	%	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Repricing dates for assets/						
(liabilities) which reprice						
before maturity						
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)	–	–	–
Maturity dates for assets/						
(liabilities) which do not						
reprice before maturity						
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 interest rate %	Total HK\$ Million	One year or less HK\$ Million	1-2 years HK\$ Million	2-5 years HK\$ Million	More than 5 years HK\$ Million
Repricing dates for assets/ (liabilities) which reprice before maturity						
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)	—	—	—
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
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:

	2006	2005
	Negative	Negative
	fair value	fair value
	HK\$ Million	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

	2006 Number	2005 Number
At January 1	200,000	400,000
Exercised	(200,000)	(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

Exercise period	Exercise price	2006 Number	2005 Number
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 HK\$	Proceeds received HK\$	No. of shares
January 9, 2006	29.30	1,000,000	40,000
January 11, 2006	29.30	250,000	10,000
March 31, 2006	28.50	375,000	15,000
May 2, 2006	32.30	100,000	4,000
May 19, 2006	28.95	625,000	25,000
May 30, 2006	27.75	500,000	20,000
June 9, 2006	26.90	500,000	20,000
July 7, 2006	27.30	150,000	6,000
July 25, 2006	27.65	500,000	20,000
July 28, 2006	28.60	1,000,000	40,000
For 2006			200,000
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

	2006 No. of shares Million	2005 <i>No. of</i> <i>shares</i> <i>Million</i>	2006 HK\$ Million	2005 <i>HK\$ Million</i>
Authorised				
Ordinary shares of HK\$1 each	3,600	3,600	3,600	3,600
Issued and fully paid				
Balance at January 1	2,448	2,447	2,448	2,447
Exercise of share options	–	1	–	1
Balance at December 31	2,448	2,448	2,448	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
a. The Group									
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	2,448	7,746	7	502	70	54,540	65,313	3,116	68,429
Prior year adjustments for:									
HKAS 19 (Note 31)	–	–	–	–	–	61	61	36	97
As restated	2,448	7,746	7	502	70	54,601	65,374	3,152	68,526
Surplus on revaluation of available-for-sale investments	–	–	–	773	–	–	773	102	875
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	37	37	18	55
Exchange difference	–	–	–	–	161	–	161	–	161
Others	–	–	–	–	5	(5)	–	20	20
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	(3)	–	–	(3)	–	(3)
Share of reserves of associates/jointly controlled entities	–	–	–	–	16	–	16	–	16
Net income recognised									
directly in equity	–	–	–	770	182	32	984	140	1,124
Profit for the year	–	–	–	–	–	10,757	10,757	637	11,394
Total recognised income and expenses	–	–	–	770	182	10,789	11,741	777	12,518
Dividends approved in respect of the previous year (Note 8b)	–	–	–	–	–	(1,077)	(1,077)	–	(1,077)
Dividends declared in respect of the current year (Note 8a)	–	–	–	–	–	(881)	(881)	–	(881)
Advances from minority interests	–	–	–	–	–	–	–	8	8
Acquisition of subsidiaries	–	–	–	–	–	–	–	1,098	1,098
Dividends paid to minority interests	–	–	–	–	–	–	–	(279)	(279)
Exercise of share options	–	5	–	–	–	–	5	–	5
Balance at December 31, 2006	2,448	7,751	7	1,272	252	63,432	75,162	4,756	79,918

27. CAPITAL AND RESERVES *(Continued)*

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

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

	Effective for accounting periods beginning on or after
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.

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.

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.

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
Properties				
# Wharf Estates Limited	Hong Kong	2 HK\$1 shares	100	Holding company
Harbour City				
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
Times Square				
Times Square Limited	Hong Kong	2 HK\$10 shares	100	Property
# Wharf Estates Development Limited	Hong Kong	2 HK\$1 shares	100	Holding company
Plaza Hollywood				
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
# Wharf China Limited	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

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
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
Logistics				
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
Hotels				
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
CME				
# Wharf Communications Limited	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

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
Investment and others				
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
Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to the Group	Principal activities
Property				
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
Jointly controlled entities	Place of incorporation	Registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
Logistics				
Taichang 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
Wharf Estates Limited				
Harbour City				
<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
Times Square				
<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
Wharf Estates Development Limited				
<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	Lot 266 in DD 390	2005		2051
Towers 1, 2, 3 & 5				
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
Wharf Estates China Limited				
<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+ 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 [#]						88%
148,703	331,000	685,000 [#]	195,000					100%
95,799	13,800	724,000 [#]						100%
80,482			564,000** (pre-sold 130,000 sq.ft.)				Superstructure in progress	59%
188,090			1,972,000** (pre-sold 506,000 sq.ft.)			366	Superstructure in progress	100%
171,356		178,000	1,689,000 [#]				Superstructure in progress	100%
118,220			264,000 [#]				Foundation work commenced	85%
136,432	1,501,000 [#]	79,000					Basement work in progress	98%
761,520	929,000	173,000	4,525,000**			428	Basement work in progress	100%
170,825			971,800**				Planning stage	55%
3,654,152			3,118,000 [#]				Planning stage	100%
884,459		147,000	5,907,000**				Planning stage	100%
3,900,589		709,000	8,695,000**			852	Planning stage	100%
3,628,286	1,184,000	245,000	12,497,000**			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
Summary of Profit and Loss Account					
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
Summary of Balance Sheet					
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
Summary of Profit and Loss Account					
Turnover	11,333	11,253	11,953	12,543	13,364
Group profit attributable to Shareholders	2,303	3,043	3,767	13,888	10,757
Prior year adjustment (Note 1, 3 to 6)	(44)	–	8,910	–	–
Restated amount	2,259	3,043	12,677	13,888	10,757
Dividends	1,370	1,487	1,683	1,958	1,958
Summary of Balance Sheet					
Fixed assets (Note 4 and 6)	69,044	71,120	78,916	90,658	102,198
Goodwill and other intangible assets	397	347	297	297	306
Long term deposits	156	156	156	–	–
Associates (Note 3)	3,367	2,075	1,583	1,638	781
Jointly controlled entities	–	–	348	896	788
Available-for-sale investments (Note 3)	1,178	1,392	1,654	1,677	2,921
Long term receivables	459	439	426	410	371
Programming library/defined benefit pension scheme assets/pre-operating expenses (Note 4, 6 and 7)	468	432	158	293	416
Deferred tax assets (Note 5)	108	112	118	468	429
Derivative financial assets	–	–	–	54	17
Current assets	5,945	5,089	6,482	8,101	11,050
Current liabilities (Note 2)	(11,420)	(11,160)	(8,604)	(9,873)	(9,986)
Long term loan/deferred liabilities (Note 1)	(16,673)	(12,605)	(13,463)	(14,418)	(16,257)
Deferred taxation (Note 6)	(1,614)	(1,748)	(9,447)	(11,672)	(13,116)
Derivative financial liabilities	–	–	–	(3)	–
	51,415	55,649	58,624	68,526	79,918
Representing:					
Share capital	2,447	2,447	2,447	2,448	2,448
Reserves (Note 1 to 7)	45,287	49,181	52,502	62,926	72,714
Shareholders' equity	47,734	51,628	54,949	65,374	75,162
Minority interests (Note 1, 3 to 7)	3,681	4,021	3,675	3,152	4,756
	51,415	55,649	58,624	68,526	79,918

4. 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.
5. 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.
6. 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.
7. 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.



www.wharfholdings.com