

Notes to the Accounts

1. Change in accounting standards

- (a) The following new standards, amendments to standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) are effective for the year ended 31st December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cashflow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Options
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of HKFRSs
HK(IFRIC) 4 (Amendment)	Determining whether an Arrangement contains a Lease

The adoption of such standards or interpretations does not result in substantial changes to the group’s accounting policies and has no significant effect on the results reported for the year.

- (b) No early adoption has taken place of the following new standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the group’s accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2. Financial risk management

Structure and Policy

Swire Pacific’s Head Office Treasury sets financial risk management policies in accordance with policies and procedures approved by its Board. It also manages the majority of the group’s funding needs and currency, interest rate, credit and event risk exposures. Within the same policy framework, operating subsidiaries manage currency, interest rate and commodity exposures that are specific to particular transactions within their businesses. It is the policy of the Swire Pacific group not to enter into derivative transactions for speculative purposes.

The group’s listed associated companies, Cathay Pacific and HAECO, arrange their financial and treasury affairs on a stand-alone basis, in a manner consistent with the overall policies of the group.

Non-listed associated and jointly controlled companies also arrange their financial and treasury affairs on a stand-alone basis. Swire Pacific provides financial support by way of guarantees in cases where significant cost savings are available and risks are acceptable.

Interest Rate Exposure

The level of fixed rate debt for the group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the cash flow cycles of the group's businesses and investments.

In addition to raising funds on a fixed rate basis, the group uses interest rate swaps in the management of its long-term interest rate exposure. It also uses forward rate agreements to manage its exposure to short-term interest rate volatility.

Occasionally, the group also enters into fixed-to-floating interest-rate swaps to hedge the fair value interest-rate risk arising where it has borrowed at fixed rates.

As the group has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

Currency Exposure

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

Exposure to movements in exchange rates on individual transactions is minimised using forward foreign exchange contracts where active markets for the relevant currencies exist. All significant foreign currency borrowings with a fixed maturity date are covered by appropriate currency hedges.

The group's risk management policy is to hedge 100% of all highly probable transactions in each major currency, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive in comparison to the underlying exposure.

Translation exposure arising on consolidation of the group's overseas net assets is reduced, where practicable, by matching assets with borrowings in the same currency. Substantial proportions of the revenues, costs, assets and liabilities of the group are denominated in Hong Kong dollars.

The long-term financial obligations of Cathay Pacific have been arranged primarily in currencies in which it has substantial positive operational cash flows, thus establishing a natural currency hedge. The policy adopted requires that anticipated surplus foreign currency earnings should be at least sufficient to meet the foreign currency interest and principal repayment commitments in any year.

Equity Price Risk

The group is exposed to equity securities price risk in regard to investments held as available-for-sale investments.

Commodity Exposure

Group companies that have underlying exposures to commodity risk use derivatives including swaps, forwards and options in the management of these exposures.

Credit Exposure

The group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

When depositing surplus funds or entering into derivative contracts, the group controls its exposure to non-performance by counterparties by transacting with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. The group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of a derivative. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

Liquidity Risk

The group takes liquidity risk into consideration when deciding its sources of funds and their respective tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The group maintains significant undrawn committed revolving credit facilities to further reduce liquidity risk and allow for flexibility in meeting funding requirements.

Derivatives

It is the group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk and the group is not exposed to market risk since gains and losses on the derivatives are offset by losses and gains on the assets, liabilities or transactions being hedged.

Accounting for Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes are disclosed in Note 22. Movements on the cash flow hedge reserve are shown in Note 34.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that it hedges takes place). However, when the forecast transaction that is hedged results in the recognition of non-financial asset (for example inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. 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 market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Estimates of fair value of investment properties

DTZ Debenham Tie Leung ("DTZ") were engaged to carry out an independent valuation of the group's investment property portfolio as at 31st December 2006. This valuation was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion".

DTZ has derived the valuation of the group's investment property portfolio by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential. The assumptions are based on market conditions existing at the balance sheet date.

Management has reviewed the DTZ valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the DTZ valuation of the group's investment property portfolio is reasonable.

(b) Impairment of assets

The group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Turnover

The Company is a limited liability company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. The principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 141 to 150.

Turnover represents sales by the Company and its subsidiary companies to outside customers and comprises revenue from:

	Group	
	2006	2005
	HK\$M	HK\$M
Gross rental income from investment properties	4,779	4,292
Charter hire income	1,997	1,492
Sales of development properties	554	1,339
Sales of investment properties	377	509
Rendering of services	109	91
Sales of goods	11,295	11,214
	19,111	18,937

5. Other income

	Group	
	2006 HK\$M	2005 HK\$M
Other income includes the following:		
Fair value gains/(losses) on derivative instruments		
– forward contracts: fair value hedges	15	58
– forward contracts: transactions not qualifying as hedges	(1)	(16)
Valuation gains on investment properties from		
– transfer of interest element of land premium to finance cost (note 9)	–	158
– write-back of provision for land premium	–	692
Profit on sale of a subsidiary company	–	21
Profit on shareholding realignment of associated companies	1,334	–
Profit on sale of shares in associated companies	5	2,270
Profit on sale of available-for-sale investments	201	–
Profit on sale of property, plant and equipment	78	4
Exchange differences	(13)	9

6. Expenses by nature

Expenses included in cost of sales, distribution costs, administrative and other operating expenses are analysed as follows:

	Group	
	2006 HK\$M	2005 HK\$M
Cost of stocks sold	7,711	8,056
Carrying value of investment properties sold	379	416
Depreciation of property, plant and equipment	562	515
Staff costs	2,564	2,259
Direct operating expenses of investment properties that		
– generate rental income	916	843
– did not generate rental income	77	129
Operating lease rentals		
– properties	189	198
– other equipment	37	28
Amortisation of leasehold land and land use rights	1	2
Amortisation of intangible assets	12	10
Amortisation of deferred expenditure	23	21
Impairment losses on property, plant and equipment	–	8
Write-down of stocks and work in progress	47	44
Auditor's remuneration		
– audit services	11	11
– tax services	8	18
– others	2	1

7. Segment information

(a) Primary reporting format - business segments by division:

	The Company and its subsidiaries		Jointly controlled companies	Associated companies	Group			
	Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses HK\$M	Share of profits less losses HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to shareholders HK\$M
Year ended 31st December 2006								
Property								
Property investment	4,872	3,450	(750)	33	13	2,746	2,476	2,408
Property trading	554	190	25	(76)		139	68	67
Sales of investment properties	180					–	30	30
Hotels	27	2		9	115	126	126	126
Sale of available-for-sale investments		155				155	155	155
Valuation gains on investment properties		16,990		56	117	17,163	14,067	14,065
Write-back of provision for trading properties				132		132	132	132
	5,633	20,787	(725)	154	245	20,461	17,054	16,983
Aviation								
Airline services								
Cathay Pacific group					1,681	1,681	1,681	1,681
Hong Kong Dragon Airlines					19	19	19	19
Aircraft engineering					379	379	379	379
Cargo handling					288	288	288	192
Profit on share realignment		1,334				1,334	1,334	1,334
	–	1,334	–	–	2,367	3,701	3,701	3,605
Beverages								
Hong Kong	1,536	156	(2)			154	139	126
Taiwan	988	56	(3)	1		54	41	34
USA	3,025	308	(7)			301	239	239
Mainland China	201	(75)		199		124	123	109
Central costs		(28)				(28)	(28)	(28)
	5,750	417	(12)	200	–	605	514	480
Marine Services								
Ship repair, land engineering and harbour towage								
Container handling				51		51	51	51
Ship owning and operating	1,997	740	(35)	35		740	701	701
	1,997	740	(35)	168	–	873	834	834
Trading & Industrial								
Car distribution	3,845	183	(2)			181	135	135
Shoe and apparel distribution	1,303	88	(1)		34	121	108	108
Waste services				82		82	82	82
Beverage can supply				26		26	26	26
Paint supply				64		64	64	64
Other activities	475	5	2			7	7	7
Valuation gains on investment properties		27				27	22	22
	5,623	303	(1)	172	34	508	444	444
Head Office								
Income/expenses	152	(96)	269			173	174	174
Sale of investment properties	197					–	23	23
Valuation gains on investment properties		28				28	23	23
	349	(68)	269	–	–	201	220	220
Inter-segment elimination								
	(241)							
Total	19,111	23,513	(504)	694	2,646	26,349	22,767	22,566

7. Segment information (continued)

(a) Primary reporting format - business segments by division (continued):

	The Company and its subsidiaries		Jointly controlled companies	Associated companies	Group			
	Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses HK\$M	Share of profits less losses HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to share- holders HK\$M
Year ended 31st December 2005								
Property								
Property investment	4,382	3,064	(518)	29	13	2,588	2,322	1,989
Property trading	1,339	514		(46)		468	319	262
Interest on land premium			(158)			(158)	(130)	(130)
Sales of investment properties	509	93				93	154	154
Hotels				9	95	104	104	104
Valuation gains on investment properties from								
– change in fair value		11,881		95	19	11,995	9,953	9,604
– transfer to finance cost		158				158	130	130
– write-back of provision for land premium		692		–		692	571	571
	6,230	16,402	(676)	87	127	15,940	13,423	12,684
Aviation								
Airline services								
Cathay Pacific group					1,418	1,418	1,418	1,418
Hong Kong Dragon Airlines					43	43	43	43
Aircraft engineering					279	279	279	279
Cargo handling					283	283	283	188
	–	–	–	–	2,023	2,023	2,023	1,928
Beverages								
Hong Kong	1,358	152				152	135	121
Taiwan	1,046	92	(3)	1		90	63	52
USA	2,783	262	(12)			250	203	203
Mainland China		(68)		213		145	145	127
Central costs		(30)				(30)	(29)	(29)
	5,187	408	(15)	214	–	607	517	474
Marine Services								
Ship repair, land engineering and harbour towage				30		30	30	30
Container handling				112	156	268	268	268
Ship owning and operating	1,492	413	(24)	86		475	467	467
Sale of an associated company		2,270				2,270	2,270	2,270
	1,492	2,683	(24)	228	156	3,043	3,035	3,035
Trading & Industrial								
Car distribution	4,156	245				245	182	182
Shoe and apparel distribution	1,574	137	(3)	2		136	106	106
Waste services				83		83	83	83
Beverage can supply				67		67	67	67
Paint supply				75		75	75	75
Other activities	347		1			1	1	1
Valuation gains on investment properties		6				6	6	6
	6,077	388	(2)	227	–	613	520	520
Head Office	153	(39)	135	–	–	96	116	116
Inter-segment elimination	(202)							
Total	18,937	19,842	(582)	756	2,306	22,322	19,634	18,757

7. Segment information (continued)

(a) Primary reporting format - business segments by division (continued):

Analysis of Turnover

	Turnover					
	2006			2005		
	External HK\$M	Inter- segment HK\$M	Total HK\$M	External HK\$M	Inter- segment HK\$M	Total HK\$M
Property						
Property investment	4,834	38	4,872	4,349	33	4,382
Property trading	554	–	554	1,339	–	1,339
Sales of investment properties	180	–	180	509	–	509
Hotels	27	–	27	–	–	–
Beverages	5,750	–	5,750	5,187	–	5,187
Marine Services	1,997	–	1,997	1,492	–	1,492
Trading & Industrial	5,554	69	5,623	6,036	41	6,077
Head Office	215	134	349	25	128	153
Inter-segment elimination	–	(241)	(241)	–	(202)	(202)
Segment revenue to external customers	19,111	–	19,111	18,937	–	18,937

Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services.

Analysis of total assets and total liabilities of the group

	Property		Aviation		Beverages		Marine Services		Trading & Industrial		Head Office		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Segment assets	108,670	88,788	–	–	3,755	3,132	6,026	4,970	1,781	1,812	469	614	120,701	99,316
Deferred tax assets (note 1)	60	119	–	–	59	56	–	–	24	17	16	–	159	192
Jointly controlled companies	3,048	1,665	39	39	982	1,136	523	461	603	568	–	–	5,195	3,869
Associated companies	905	862	19,902	18,392	–	–	30	27	85	–	–	–	20,922	19,281
Bank deposits & securities (note 1)	582	1,072	–	–	401	66	161	279	107	245	576	338	1,827	2,000
Total assets	113,265	92,506	19,941	18,431	5,197	4,390	6,740	5,737	2,600	2,642	1,061	952	148,804	124,658
Segment liabilities	2,328	2,166	–	–	1,358	1,135	517	381	746	806	562	369	5,511	4,857
Current and deferred tax liabilities (note 1)	14,103	11,176	–	–	237	259	36	16	32	51	37	79	14,445	11,581
Borrowings (note 1)	16,891	9,525	–	–	795	407	1,938	1,982	12	6	(5,879)	(4,472)	13,757	7,448
Total liabilities	33,322	22,867	–	–	2,390	1,801	2,491	2,379	790	863	(5,280)	(4,024)	33,713	23,886
Minority interests	292	5,686	32	34	286	209	–	–	–	–	–	–	610	5,929
Equity attributable to the Company's shareholders	79,651	63,953	19,909	18,397	2,521	2,380	4,249	3,358	1,810	1,779	6,341	4,976	114,481	94,843
Borrowings comprise:														
External borrowings	14	6	–	–	258	188	–	11	54	41	13,431	7,202	13,757	7,448
Inter-segment borrowings (note 2)	16,877	9,519	–	–	537	219	1,938	1,971	(42)	(35)	(19,310)	(11,674)	–	–
Total	16,891	9,525	–	–	795	407	1,938	1,982	12	6	(5,879)	(4,472)	13,757	7,448

Notes:

- (1) Current and deferred taxation, bank deposits & securities and borrowings are allocated on an actual basis.
- (2) Exclude equity loans from head office.

7. Segment information (continued)

(a) Primary reporting format - business segments by division (continued):

An analysis of capital expenditure and depreciation/amortisation of the group is as follow:

	Capital expenditure*		Depreciation		Amortisation	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Property	2,804	626	34	29	15	14
Beverages	280	175	258	257	19	19
Marine Services	1,322	1,044	237	194	1	–
Trading & Industrial	39	45	32	32	1	–
Head Office	2	–	1	3	–	–
	4,447	1,890	562	515	36	33

* Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights and intangible assets.

(b) Secondary reporting format – geographical segments

The activities of the Swire Pacific group are mainly based in Hong Kong. Ship owning and operating activities are carried out internationally and cannot be attributed to specific geographical areas.

An analysis of turnover, operating profit, segment assets and capital expenditure of the group by principal markets is outlined below:

	Turnover		Operating profit	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Hong Kong	8,102	7,766	22,019	18,373
Asia (excluding Hong Kong)	5,437	5,758	235	366
North America	3,548	3,921	517	690
United Kingdom	27	–	2	–
Ship owning and operating	1,997	1,492	740	413
	19,111	18,937	23,513	19,842

	Segment assets		Capital expenditure	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Hong Kong	108,897	89,448	2,724	638
Asia (excluding Hong Kong)	3,398	2,800	277	119
North America	2,046	2,098	123	89
United Kingdom	334	–	1	–
Ship owning and operating	6,026	4,970	1,322	1,044
	120,701	99,316	4,447	1,890

8. Directors' and executive officers' emoluments

The five highest paid individuals in the group in both 2006 and 2005 were directors or executive officers whose total emoluments from the group are shown below.

	Cash			Non cash			Total 2006 HK\$'000	Total 2005 HK\$'000
	Salary/fees (note a) HK\$'000	Bonus (note b) HK\$'000	Allowances and benefits HK\$'000	Retirement schemes contributions HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000		
Executive directors								
C D Pratt (from 1st February)	4,066	2,458	442	732	830	3,165	11,693	–
P N L Chen							–	–
M Cubbon	2,808	2,674	558	505	863	3,339	10,747	8,504
D Ho	2,036	2,852	741	214	–	1,694	7,537	5,156
K G Kerr	4,993	3,898	251	110	–	2,512	11,764	11,913
J R Slosar (from 12th May)	1,900	1,927	266	505	604	1,156	6,358	–
D M Turnbull (to 31st January)	373	387	42	60	–	756	1,618	10,472
Non-executive directors								
Baroness Dunn							–	–
J W J Hughes-Hallett							–	–
P A Johansen							–	–
Sir Adrian Swire							–	–
Independent non-executive directors								
V H C Cheng	200						200	128
D G Eldon	–						–	72
C K M Kwok	400						400	400
C Lee	400						400	400
M C C Sze	200						200	200
M M T Yang	200						200	200
Total 2006	17,576	14,196	2,300	2,126	2,297	12,622	51,117	37,445
Total 2005	14,120	9,800	1,426	1,706	1,377	9,016	–	37,445
Executive officers								
C D Pratt (to 31st January)	208	203	–	37	68	240	756	7,792
J R Slosar (to 11th May)	1,064	927	149	283	338	647	3,408	8,087
G L Cundle (from 1st June)	454	374	30	82	220	638	1,798	–
Total 2006	1,726	1,504	179	402	626	1,525	5,962	15,879
Total 2005	5,100	3,422	801	1,231	1,263	4,062	–	15,879

Notes:

- (a) Independent non-executive directors receive fees as members of the Board and its committees as discussed on page 71. Executive directors receive salary.
(b) Bonuses for executive directors and executive officers are not yet approved for 2006 and consequently the amounts disclosed above are accrued amounts.

9. Net finance charges

	Group			
	2006	2005		
	HK\$M	HK\$M	HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		121		72
Other loans and bonds:				
Wholly repayable within five years	82		47	
Not wholly repayable within five years	589		447	
		671		494
Land premium (note 5)		–		158
Other borrowing costs		22		19
Fair value (gains)/losses on financial instruments:				
Interest rate swap: cash flow hedges, transfer from equity	(8)		–	
Interest rate swap: fair value hedges	12		5	
Interest rate swap: not qualifying as hedges	–		(42)	
		4		(37)
Deferred into properties under development for sale		(1)		(16)
Capitalised on:				
Investment properties	(87)		(1)	
Properties	(46)		(17)	
Vessels	(61)		(27)	
Jointly controlled companies	(6)		–	
		(200)		(45)
		617		645
Interest income on:				
Short-term deposits and bank balances	(32)		(16)	
Other loans	(81)		(47)	
		(113)		(63)
		504		582

The capitalisation rate applied to funds borrowed generally and used for the development of investment properties and properties for sale is between 3.86% and 6.89% per annum (2005: 0.58% and 6.08% per annum).

10. Taxation

(a) Taxation charge for the Company and its subsidiary companies

	Group			
	2006		2005	
	HK\$M	HK\$M	HK\$M	HK\$M
Current taxation:				
Hong Kong profits tax	195		199	
Overseas taxation	197		402	
Over-provision in respect of previous years	(6)		(18)	
		386		583
Deferred taxation:				
Change in fair value of investment properties	2,985		2,092	
Origination and reversal of temporary differences	211		13	
		3,196		2,105
		3,582		2,688

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in countries in which the group is assessable for tax.

The tax charge on the group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	Group	
	2006 HK\$M	2005 HK\$M
Profit before taxation	26,349	22,322
Calculated at a tax rate of 17.5% (2005: 17.5%)	4,611	3,906
Share of profits less losses of jointly controlled and associated companies	(585)	(536)
Effect of different tax rates in other countries	(46)	48
Income not subject to tax	(334)	(514)
Expenses not deductible for tax purposes	29	12
Unused tax losses not recognised	8	10
Temporary differences not recognised	(38)	(11)
Utilisation of previously unrecognised tax losses	(93)	(64)
Recognition of previously unrecognised tax losses	–	(70)
Over-provisions in prior years	(6)	(18)
Others	36	(75)
Tax charge	3,582	2,688

(b) Share of jointly controlled and associated companies' taxation of HK\$309 million (2005: HK\$136 million) and HK\$517 million (2005: HK\$393 million) respectively are included in the share of profits less losses of jointly controlled and associated companies.

11. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK\$4,065 million (2005: HK\$6,347 million) is dealt with in the accounts of the Company.

12. Dividends

	Company	
	2006 HK\$M	2005 HK\$M
Interim dividend paid on 4th October 2006 of HK¢63.0 per 'A' share and HK¢12.6 per 'B' share (2005: HK¢60.0 and HK¢12.0)	965	919
Final proposed dividend of HK¢220.0 per 'A' share and HK¢44.0 per 'B' share (2005: HK¢146.0 and HK¢29.2)	3,368	2,235
	4,333	3,154

The final proposed dividend is not accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2007.

13. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK\$22,566 million (2005: HK\$18,757 million) by the weighted average number of 930,375,385 'A' shares and 3,003,486,271 'B' shares in issue during the year and 2005.

14. Property, plant and equipment

	Group				Company
	Property HK\$M	Plant and machinery HK\$M	Vessels HK\$M	Total HK\$M	Plant and machinery HK\$M
Cost:					
At 31st December 2005	2,221	3,984	5,982	12,187	30
Translation differences	24	16	17	57	–
Change in group	321	307	–	628	–
Additions	219	243	1,316	1,778	–
Disposals	(102)	(211)	(172)	(485)	(5)
Transfer from investment properties	15	–	–	15	–
Amortisation from leasehold land and land use rights capitalised	10	–	–	10	–
Transfer from deferred expenditure	72	–	–	72	–
At 31st December 2006	2,780	4,339	7,143	14,262	25
Accumulated depreciation and impairment:					
At 31st December 2005	587	3,007	1,618	5,212	28
Translation differences	3	9	4	16	–
Charge for the year	49	284	229	562	1
Disposals	(36)	(197)	(157)	(390)	(5)
Transfer to investment properties	(7)	–	–	(7)	–
At 31st December 2006	596	3,103	1,694	5,393	24
Net book value:					
At 31st December 2006	2,184	1,236	5,449	8,869	1

14. Property, plant and equipment (continued)

	Group			Company	
	Property HK\$M	Plant and machinery HK\$M	Vessels HK\$M	Total HK\$M	Plant and machinery HK\$M
Cost:					
At 31st December 2004	2,168	3,991	5,036	11,195	30
Translation differences	(27)	(36)	(14)	(77)	–
Change in group	(47)	(27)	–	(74)	–
Additions	89	235	1,027	1,351	–
Disposals	–	(125)	(67)	(192)	–
Transfer from investment properties	30	–	–	30	–
Amortisation from leasehold land and land use rights capitalised	8	–	–	8	–
Transfer to stocks	–	(54)	–	(54)	–
At 31st December 2005	2,221	3,984	5,982	12,187	30
Accumulated depreciation and impairment:					
At 31st December 2004	547	2,927	1,496	4,970	26
Translation differences	(5)	(27)	(4)	(36)	–
Change in group	(11)	(15)	–	(26)	–
Charge for the year	48	280	187	515	2
Disposals	–	(112)	(61)	(173)	–
Impairment charge	8	–	–	8	–
Transfer to stocks	–	(46)	–	(46)	–
At 31st December 2005	587	3,007	1,618	5,212	28
Net book value:					
At 31st December 2005	1,634	977	4,364	6,975	2

At 31st December 2006 and 2005, none of the property, plant and equipment were pledged as security for the group's long-term loans.

15. Investment properties

	Group			Company
	Completed HK\$M	Under redevelopment HK\$M	Total HK\$M	Completed HK\$M
At 31st December 2005	81,264	5,342	86,606	514
Additions	409	1,512	1,921	2
Disposals	(379)	–	(379)	(197)
Transfer to property, plant and equipment	(22)	–	(22)	–
Transfer (to)/from leasehold land	(218)	12	(206)	–
Transfer to property for sale	–	(597)	(597)	–
Fair value gains	15,808	1,237	17,045	55
At 31st December 2006	96,862	7,506	104,368	374
At 31st December 2004	72,003	2,902	74,905	508
Additions	314	192	506	–
Disposals	(424)	–	(424)	–
Transfer upon completion	11	(11)	–	–
Transfer to property, plant and equipment	(30)	–	(30)	–
Transfer to leasehold land	(71)	(167)	(238)	–
Fair value gains	9,461	2,426	11,887	6
At 31st December 2005	81,264	5,342	86,606	514

- (a) Investment properties, whether completed or in the course of redevelopment, were valued on the basis of open market value at 31st December 2006 by DTZ Debenham Tie Leung, independent professional valuers. This valuation has been incorporated in the accounts as stated in principal accounting policy number 6.
- (b) At 31st December 2006 and 2005, none of the investment properties were pledged as security for the group's long-term loans.
- (c) The group's interests in investment properties are held in Hong Kong and the lease terms are as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
On medium-term lease (10 to 50 years)	26,120	22,910	141	114
On long-term lease (over 50 years)	78,248	63,696	233	400
	104,368	86,606	374	514

- (d) At 31st December 2006, the group had unprovided contractual obligations for future repairs and maintenance of HK\$148 million (2005: HK\$115 million).

16. Leasehold land and land use rights

The group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group	
	2006 HK\$M	2005 HK\$M
At 1st January	822	585
Translation differences	15	7
Change in group	52	–
Additions	–	2
Transfer from investment properties	206	238
Amortisation		
– Charge for the year	(1)	(2)
– Amount capitalised under property, plant and equipment	(10)	(8)
At 31st December	1,084	822
Held in Hong Kong:		
On medium-term lease (10 to 50 years)	129	102
On long-term lease (over 50 years)	492	316
Held outside Hong Kong:		
On medium-term lease (10 to 50 years)	463	404
	1,084	822

At 31st December 2006 and 2005, none of the leasehold land and land use rights was pledged as security for the group's long-term loans.

17. Intangible assets

	Group		
	Goodwill HK\$M	Computer Software HK\$M	Total HK\$M
Cost:			
At 31st December 2005	18	41	59
Change in group	50	4	54
Additions	739	9	748
At 31st December 2006	807	54	861
Accumulated amortisation and impairment:			
At 31st December 2005	–	15	15
Amortisation for the year	–	12	12
At 31st December 2006	–	27	27
Net book value:			
At 31st December 2006	807	27	834

17. Intangible assets (continued)

	Group		
	Goodwill HK\$M	Computer Software HK\$M	Total HK\$M
Cost:			
At 31st December 2004	–	28	28
Additions	18	13	31
At 31st December 2005	18	41	59
Accumulated amortisation and impairment:			
At 31st December 2004	–	5	5
Amortisation for the year	–	10	10
At 31st December 2005	–	15	15
Net book value:			
At 31st December 2005	18	26	44

Amortisation of HK\$12 million (2005: HK\$10 million) is included in administrative expenses in the profit and loss account.

Impairment test of goodwill

Goodwill is allocated to the group's cash-generating units ("CGU") identified by divisional business segment and geographic location.

	2006 HK\$M	2005 HK\$M
Investment properties – Hong Kong	669	–
Beverage franchises	138	18
	807	18

Goodwill attributable to investment properties in Hong Kong arose where the fair value of net assets acquired was below the fair value of consideration paid due to the recognition, required for accounting purposes, of deferred tax liabilities in regard to fair value gains on the investment properties purchased.

In Hong Kong, these gains are not taxable and therefore this liability will never fall due. Consequently the related goodwill will only be impaired should the fair value of the investment property in future fall below its fair value at acquisition. The recoverable amount of this CGU is therefore assessed on a post-tax basis using fair value less costs to sell.

The recoverable amount of other CGUs is determined based on value in use calculations. These calculations use financial budgets and plans covering a period between five to ten years. Cash flows beyond this period are extrapolated using rates of growth and profitability not exceeding historic results. The discount rates used are pre-tax and reflect the specific risks relating to the relevant CGU.

18. Subsidiary companies

	Company	
	2006	2005
	HK\$M	HK\$M
Unlisted shares at cost less provisions	4,968	5,366
Amounts due from subsidiary companies less provisions		
– Interest-free	10,879	3,267
– Interest-bearing at 3.7% to 8.0% (2005: 0.23% to 7.75%)	351	5,746
	16,198	14,379

The amounts receivable are unsecured and have no fixed terms of repayment.

The principal subsidiary companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 141 to 150.

19. Jointly controlled companies

	Group		Company	
	2006	2005	2006	2005
	HK\$M	HK\$M	HK\$M	HK\$M
Unlisted shares at cost			167	384
Share of net assets/(liabilities), unlisted	3	(646)		
Goodwill on acquisition	37	37		
Loans due from jointly controlled companies less provisions				
– Interest-free	5,036	4,360		
– Interest-bearing at 7.75% to 8.0% (2005: 5% to 7.75%)	119	118	86	86
	5,195	3,869	253	470
Dividends received and receivable by the company and its subsidiary companies from jointly controlled companies	489	624	101	144

The amounts receivable are unsecured and have no fixed terms of repayment.

19. Jointly controlled companies (continued)

The group's share of assets and liabilities, results and capital commitments of jointly controlled companies are summarised below:

	Group	
	2006 HK\$M	2005 HK\$M
Non-current assets	4,856	3,815
Current assets	2,362	2,619
Current liabilities	(4,306)	(4,034)
Non-current liabilities	(2,838)	(2,973)
Minority interests	(71)	(73)
Net assets/(liabilities)	3	(646)
Revenue	6,398	5,596
Expenses	(5,395)	(4,704)
Profit before taxation	1,003	892
Taxation	(309)	(136)
Profit for the year	694	756
Capital commitments at year end date		
– Contracted for but not provided for in the accounts	305	78
– Authorised but not contracted for	82	92

The principal jointly controlled companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 141 to 150.

20. Associated companies

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Shares at cost				
– Listed in Hong Kong			1,847	1,714
– Unlisted			3	187
			1,850	1,901
Share of net assets				
– Listed in Hong Kong	19,106	17,437		
– Unlisted	621	615		
	19,727	18,052		
Goodwill on acquisition	143	144		
	19,870	18,196		
Loans due from associated companies less provisions				
– Interest-free	391	463	–	–
– Interest-bearing at 5.40% to 5.76% (2005: 0.73% to 4.88%)	661	622	–	–
	20,922	19,281	1,850	1,901
Dividends received and receivable by the Company and its subsidiary companies from associated companies	1,959	1,528	1,494	1,211

The amounts receivable are unsecured and have no fixed terms of repayment.

20. Associated companies (continued)

The group's share of assets and liabilities and results of associated companies are summarised below:

	Group	
	2006 HK\$M	2005 HK\$M
Non-current assets	38,869	31,250
Current assets	7,325	10,740
Current liabilities	(8,316)	(7,359)
Non-current liabilities	(17,868)	(16,258)
Minority interests	(283)	(321)
Net assets	19,727	18,052
Revenue	30,664	27,001
Profit for the year	2,646	2,306

- (a) The market value of the shares in the listed associated companies at 31st December 2006 was HK\$35,914 million (2005: HK\$24,431 million).
- (b) The principal associated companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 141 to 150. In addition, the abridged financial statements of Cathay Pacific Airways Limited are shown on pages 151 to 153.

21. Available-for-sale investments

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Shares listed in Hong Kong	86	115	29	61
Securities listed overseas	53	109	–	–
Unlisted investments	29	246	–	–
	168	470	29	61

22. Derivative financial instruments

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
	HK\$M	HK\$M	HK\$M	HK\$M
Cross-currency swaps – cash flow hedges	13	89	6	1
Interest-rate swaps – cash flow hedges	9	–	17	–
Interest-rate swaps – fair value hedges	–	10	–	25
Forward foreign exchange contracts – cash flow hedges	6	–	–	46
Forward foreign exchange contracts – fair value hedges	–	–	–	15
Interest-rate swaps – not qualifying as hedges	3	–	16	–
Forward foreign exchange contracts – not qualifying as hedges	–	–	10	9
Total	31	99	49	96
<i>Less non-current portion:</i>				
Cross-currency swaps – cash flow hedges	13	89	6	1
Interest-rate swaps – cash flow hedges	9	–	17	–
Interest-rate swaps – fair value hedges	–	–	–	25
Interest-rate swaps – not qualifying as hedges	3	–	–	–
Forward foreign exchange contracts – cash flow hedges	1	–	8	–
	26	89	31	26
Current portion	5	10	18	70

Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31st December 2006 were HK\$1,300 million (2005: HK\$2,000 million).

At 31st December 2006, the fixed interest rates vary from 2.55% to 3.38% (2005: 2.55% to 3.38%) and the main floating rates are HIBOR and LIBOR (2005: same).

23. Properties for sale

	Group	
	2006 HK\$M	2005 HK\$M
Completed properties for sale		
Freehold land	–	21
Leasehold land	2	14
Development costs	3	265
	5	300
Properties under development for sale		
Freehold land	136	61
Leasehold land	602	–
Development costs	475	168
	1,213	229
	1,218	529

At 31st December 2006, none of the properties for sale was pledged as security for the group's long-term loans (2005: Nil).

24. Stocks and work in progress

	Group	
	2006 HK\$M	2005 HK\$M
Goods for sale	1,043	1,055
Manufacturing materials	156	135
Production supplies	151	121
Work in progress	44	23
	1,394	1,334

25. Trade and other receivables

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Trade debtors	1,637	1,200	–	–
Amounts due from fellow subsidiaries	14	–	–	–
Amounts due from subsidiary companies	–	–	124	118
Amounts due from jointly controlled companies	13	11	–	–
Amounts due from associated companies	9	48	–	–
Other receivables	872	1,066	15	11
	2,545	2,325	139	129

The amounts due from fellow subsidiary, subsidiary, jointly controlled and associated companies are unsecured and interest free. Except for amounts due from subsidiary companies which have no fixed terms of repayment, the balances are on normal trade credit terms.

The fair values of trade and other receivables are not materially different from their book values.

At 31st December 2006, the aged analysis of trade debtors was as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Under three months	1,564	1,158	–	–
Between three and six months	48	34	–	–
Over six months	25	8	–	–
	1,637	1,200	–	–

The various group companies have different credit policies, dependent on the requirements of their markets and businesses which they operate. Aged analyses of debtors are prepared and closely monitored in order to minimise any credit risk associated with receivables.

There is no concentration of credit risk with respect to trade receivables, as the group has a large number of customers, internationally dispersed.

26. Short-term deposits and bank balances

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Bank balances and short-term deposits maturing within 3 months	1,687	1,891	4	4
Short-term deposits maturing more than 3 months	87	–	–	–
	1,774	1,891	4	4

The effective interest rates on short-term deposits of the group ranged from 0.1% – 6.79% (2005: 0.05% – 4.2%); these deposits have a maturity between 30 – 180 days (2005: 31 days).

27. Trade and other payables

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Trade creditors	965	826	–	2
Amounts due to intermediate holding company	91	79	31	15
Amounts due to subsidiary companies	–	–	1,661	1,120
Amounts due to jointly controlled companies	12	5	–	–
Amounts due to associated companies	57	41	–	–
Interest-bearing advances from jointly controlled companies at 3.79%-5.6% (2005: 0.08%-5.00%)	339	253	–	–
Interest-bearing advances from associated companies at 4.2%-4.9% (2005: 0.73%-4.88%)	151	150	–	–
Advances from minority interests	116	116	–	–
Rental deposits from tenants	1,437	1,334	–	–
Other payables	1,998	1,745	53	39
	5,166	4,549	1,745	1,176

The amounts due to/advances from intermediate holding, subsidiary, jointly controlled and associated companies, and minority interests are unsecured and have no fixed terms of repayment. Apart from certain amounts due to jointly controlled and associated companies which are interest-bearing as specified above, the balances are interest free.

At 31st December 2006, the aged analysis of trade creditors was as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Under three months	861	808	–	–
Between three and six months	85	1	–	–
Over six months	19	17	–	2
	965	826	–	2

28. Provisions

	Group		
	Land Premium	Others	Total
	HK\$M	HK\$M	HK\$M
At 1st January 2005	2,223	55	2,278
Additional provisions	–	11	11
Unused amounts reversed	(692)	(1)	(693)
Translation differences	–	(1)	(1)
Paid during the year	(1,531)	(29)	(1,560)
At 31st December 2005	–	35	35
Additional provisions	–	39	39
Change in group	–	(8)	(8)
Paid during the year	–	(21)	(21)
At 31st December 2006	–	45	45

The Hong Kong SAR Government Lands Department had claimed for land premium in relation to the Cityplaza Four, Three and One office towers in previous years. The claims were fully settled in 2005.

29. Perpetual Capital Securities

Perpetual Capital Securities, amounting to US\$300 million each and bearing cumulative interest at 9.33% and 8.84% per annum, were issued by two wholly-owned subsidiaries (the 'Issuers') on 23rd October 1996 and 6th May 1997 respectively. On 30th October 2006, at the option of the issuer, the issue of 23rd October 1996 with cumulative interest at 9.33% per annum, was fully redeemed. The issue of 6th May 1997 has no scheduled maturity but is redeemable at the option of the Company or the Issuer either (i) at any time on or after 13th May 2017 or (ii) at any time upon amendment or imposition of certain taxes and, in any case, become due in the event of the Company's or the Issuer's winding up. The Perpetual Capital Securities are unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company.

The fair value of the outstanding Perpetual Capital Securities at 31st December 2006 is HK\$2,659 million (2005: HK\$4,950 million).

30. Borrowings

	Group	
	2006 HK\$M	2005 HK\$M
Bank overdrafts and short-term loans	803	889
Long-term loans and bonds		
– at amortised cost	10,356	1,293
– at fair value	692	676
	11,048	1,969
	11,851	2,858
Less: Security deposit	(424)	(43)
	11,427	2,815

The maturity of long-term loans and bonds is as follows:

	Group	
	2006 HK\$M	2005 HK\$M
Bank loans (secured):		
Repayable within one year	85	–
Repayable between one and two years	85	–
Repayable between two and five years	254	–
Bank loans (unsecured):		
Repayable between two and five years	2,693	–
Other borrowings (unsecured):		
Repayable within one year	692	500
Repayable between one and two years	–	676
Repayable between two and five years	798	593
Repayable after five years	6,441	200
	11,048	1,969
Security deposit	(424)	(43)
Amount due within one year included under current liabilities	(684)	(500)
	9,940	1,426

Borrowings are repayable on various dates up to 2016 (2005: up to 2011) at interest rates from 2.38% to 5.625% per annum (2005: 2.38% to 4.6% per annum).

30. Borrowings (continued)

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates are as follows:

	6-12 months HK\$M	1-5 years HK\$M	Over 5 years HK\$M	Total HK\$M
At 31st December 2006	1,580	3,830	6,441	11,851
At 31st December 2005	1,389	1,269	200	2,858

The effective interest rates at the balance sheet date were as follows:

	2006			2005		
	HK\$ %	US\$ %	Others %	HK\$ %	US\$ %	Others %
Bank overdrafts	7.5 – 8.0	4 – 10.75	–	–	4 – 8.5	–
Bank loans	3.76 – 8.0	4.18 – 6.75	1.69 – 2.0	5 – 7.75	6.75	1.53 – 8.5
Other borrowings	2.75 – 4.27	5.63	–	2.38 – 4.6	–	–

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Bank loans	3,039	–	3,039	–
Other borrowings	7,240	1,469	7,349	1,460
	10,279	1,469	10,388	1,460
Less: Security deposit	(339)	(43)	(339)	(43)
	9,940	1,426	10,049	1,417

The fair values are quoted from the relevant financial institutions.

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2006 HK\$M	2005 HK\$M
Hong Kong dollar	11,122	2,572
US dollar	466	23
New Taiwan dollar	179	189
Other currencies	84	74
	11,851	2,858

30. Borrowings (continued)

The group has the following undrawn committed borrowing facilities:

	Group	
	2006 HK\$M	2005 HK\$M
Floating rate		
– expiring within one year	531	366
– expiring beyond one year	4,307	3,600
	4,838	3,966

The facilities expiring within one year are annual facilities subject to review at various dates during 2007.

31. Deferred taxation

The movement on the net deferred tax liabilities account is as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	10,935	8,822	75	74
Translation differences	(3)	2	–	–
Change in group	(4)	–	–	–
Charged to profit and loss account	3,196	2,105	(11)	1
Charged to equity	(15)	6	–	–
At 31st December	14,109	10,935	64	75

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits are probable. The group has unrecognised tax losses of HK\$708 million (2005: HK\$731 million) to carry forward against future taxable income. These tax losses have no expiry date (2005: no expiry date).

The movement in deferred tax assets and liabilities (prior to offsetting balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Group							
	Accelerated tax depreciation		Investment Property valuation		Others		Total	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	1,652	1,531	9,440	7,345	135	73	11,227	8,949
Translation differences	(2)	–	–	3	(2)	(1)	(4)	2
Charged to profit and loss account	94	121	2,985	2,092	124	57	3,203	2,270
Charged to equity	–	–	–	–	–	6	–	6
At 31st December	1,744	1,652	12,425	9,440	257	135	14,426	11,227

	Company							
	Accelerated tax depreciation		Investment property valuation		Defined benefit retirement plans		Total	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	11	11	48	47	16	16	75	74
(Credited)/charged to profit and loss account	2	–	(14)	1	1	–	(11)	1
At 31st December	13	11	34	48	17	16	64	75

31. Deferred taxation (continued)*Deferred tax assets*

	Group							
	Assets write-down/ impairment provisions		Tax losses		Others		Total	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	66	58	106	53	120	16	292	127
Translation differences	–	–	–	–	(1)	–	(1)	–
Change in group	4	–	–	–	–	–	4	–
Credited/(charged) to profit and loss account	7	8	(46)	53	46	104	7	165
Credited to equity	–	–	–	–	15	–	15	–
At 31st December	77	66	60	106	180	120	317	292

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the balance sheet.

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Deferred tax assets:				
– To be recovered after more than 12 months	(84)	(5)	–	–
– To be recovered within 12 months	(75)	(187)	–	–
	(159)	(192)	–	–
Deferred tax liabilities:				
– To be settled after more than 12 months	14,258	11,108	64	75
– To be settled within 12 months	10	19	–	–
	14,268	11,127	64	75
	14,109	10,935	64	75

32. Retirement benefits

The group operates various retirement benefit plans providing resignation and retirement benefits to staff. Most retirement benefit plans for staff employed on expatriate terms are contributory, whilst most plans for locally-engaged employees are non-contributory. The assets of the plans are administered by independent trustees and are maintained independently of the group's finances. The majority of the plans are of the defined benefit type and contributions to such plans are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past services liabilities, on an on-going basis, as computed by actuarial valuations.

All new employees are offered the choice of joining the retirement benefit plans or the mandatory provident fund ("MPF") scheme. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant monthly income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution. Employees engaged outside Hong Kong are covered by appropriate local arrangements.

Total retirement benefit costs recognised in the profit and loss account for the year ended 31st December 2006 amounted to HK\$115 million (2005: HK\$106 million), including HK\$23 million (2005: HK\$17 million) in respect of defined contribution plans.

For financial statement purpose, defined benefit plans are valued using the projected unit credit method in accordance with HKAS 19. Principal plans in Hong Kong were valued by qualified actuaries, Watson Wyatt Hong Kong Limited, as at 31st December 2006. The figures disclosed as at 31st December 2005 and 2004 were estimated by Cannon Trustees Limited, the main administration manager of the group's defined benefit plans. Plans in the United States and Taiwan are valued by independent qualified actuaries in those countries. In addition, the group operates a post-employment health care and life insurance benefit plan for certain retired employees in the United States, with accounting and frequency of valuations similar to those used for defined benefit plans.

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

	2006			Company Defined benefit plans HK\$M
	Group		Total	
	Defined benefit plans HK\$M	Other post- employment benefits HK\$M	HK\$M	
Present value of funded obligations	1,512	–	1,512	51
Fair value of plan assets	(1,555)	–	(1,555)	(158)
	(43)	–	(43)	(107)
Present value of unfunded obligations	–	44	44	–
Net unrecognised actuarial (losses)/gains	(24)	1	(23)	9
Net retirement benefit (assets)/liabilities	(67)	45	(22)	(98)
Represented by:				
Retirement benefit assets	(187)	–	(187)	(98)
Retirement benefit liabilities	120	45	165	–
	(67)	45	(22)	(98)

32. Retirement benefits (continued)

(a) The amounts recognised in the consolidated balance sheet are as follows (continued):

	2005			
	Group		Company	
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
Present value of funded obligations	1,418	–	1,418	39
Fair value of plan assets	(1,454)	–	(1,454)	(140)
	(36)	–	(36)	(101)
Present value of unfunded obligations	–	41	41	–
Net unrecognised actuarial (losses)/gain	(61)	1	(60)	6
Unrecognised past service costs	(1)	–	(1)	–
Net retirement benefit (assets)/liabilities	(98)	42	(56)	(95)
Represented by:				
Retirement benefit assets	(201)	–	(201)	(95)
Retirement benefit liabilities	103	42	145	–
	(98)	42	(56)	(95)

(b) Changes in the present value of the defined benefit obligation are as follows:

	Group				Company	
	Defined benefit plans		Other post-employment benefits		Defined benefit plans	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	1,418	1,300	41	38	39	36
Translation differences	4	(3)	–	–	–	–
Service cost	95	93	2	2	3	3
Interest cost	69	67	2	3	2	2
Actuarial losses/(gains)	58	40	1	1	7	(1)
Liabilities extinguished on settlements	(1)	–	–	–	–	–
Change in group	(48)	–	–	–	–	–
Benefits paid	(83)	(79)	(2)	(3)	–	(1)
At 31st December	1,512	1,418	44	41	51	39

Changes in the fair value of plan assets are as follows:

	Group		Company	
	Defined benefit plans		Defined benefit plans	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	1,454	1,304	(140)	(129)
Translation differences	2	(1)	–	–
Expected return	88	80	(8)	(8)
Actuarial gains/(losses)	93	37	(10)	(4)
Assets distributed on settlements	(9)	–	–	–
Contributions by employer	45	100	–	–
Contributions by employees	9	9	–	–
Change in group	(49)	–	–	–
Benefits paid	(78)	(75)	–	1
At 31st December	1,555	1,454	(158)	(140)

32. Retirement benefits (continued)

(c) Net expenses recognised in the consolidated profit and loss account are as follows:

	Group					
	2006			2005		
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M
Current service cost	95	2	97	92	2	94
Interest cost	69	2	71	68	3	71
Expected return on plan assets	(88)	–	(88)	(80)	–	(80)
Past service costs recognised	3	–	3	–	–	–
Net actuarial losses recognised	7	1	8	3	1	4
	86	5	91	83	6	89

The above net expenses were mainly included in administrative expenses in the consolidated profit and loss account.

The actual return on defined benefit plan assets was a gain of HK\$181 million (2005: HK\$118 million).

(d) The principal actuarial assumptions used are as follows:

	Group			
	2006		2005	
	Defined benefit plans %	Other post-employment benefits %	Defined benefit plans %	Other post-employment benefits %
Discount rate	3.6 – 5.5	5.5	3.75 – 6.0	6.0
Expected rate of return on plan assets	2.75 – 8.25	N/A	2.75 – 8.0	N/A
Expected rate of future salary increases	2.5 – 5.0	N/A	2.5 – 5.0	N/A
Expected rate of increase in cost of covered health care benefits	N/A	8.0	N/A	9.0

(e) Amounts for the current and previous four periods are as follows:

	Group				
	2006 HK\$M	2005 HK\$M	2004 HK\$M	2003 HK\$M	2002 HK\$M
Defined benefit plans					
– Defined benefit obligations	(1,512)	(1,418)	(1,300)	(1,089)	(1,017)
– Plan assets	1,555	1,454	1,304	1,123	874
– Surplus/(deficit)	43	36	4	34	(143)
– Experience adjustments on plan liabilities	58	40	132	(4)	47
– Experience adjustments on plan assets	93	37	80	147	(144)
Post-employment medical benefits					
– Defined benefit obligations	44	41	62	83	58
– Experience adjustments on plan liabilities	1	1	(23)	–	–

33. Share capital

	Company				
	'A' shares of HK\$0.60 each	'B' shares of HK\$0.12 each	'A' shares HK\$M	'B' shares HK\$M	Total HK\$M
Authorised:					
At 31st December 2006 and 2005	1,140,000,000	3,600,000,000	684	432	1,116
Issued and fully paid:					
At 31st December 2006 and 2005	930,375,385	3,003,486,271	558	361	919

Except for voting rights, which are equal, the entitlements of 'A' and 'B' shareholders are in the proportion 5 to 1.

During the year, the Company did not purchase, sell or redeem any of its shares.

34. Reserves

	Revenue reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
Company						
At 1st January 2005	11,695	342	33	–	–	12,070
Profit for the year	6,347	–	–	–	–	6,347
2004 Final dividend (note 12)	(2,174)	–	–	–	–	(2,174)
2005 Interim dividend (note 12)	(919)	–	–	–	–	(919)
Revaluation surplus on available-for-sale investments recognised during the year	–	–	–	61	–	61
At 31st December 2005	14,949	342	33	61	–	15,385
At 1st January 2006	14,949	342	33	61	–	15,385
Profit for the year (note 11)	4,065	–	–	–	–	4,065
2005 Final dividend (note 12)	(2,235)	–	–	–	–	(2,235)
2006 Interim dividend (note 12)	(965)	–	–	–	–	(965)
Revaluation surplus on available-for-sale investments						
– recognised during the year	–	–	–	(2)	–	(2)
– transferred to the profit and loss account	–	–	–	(31)	–	(31)
At 31st December 2006	15,814	342	33	28	–	16,217

34. Reserves (continued)

<i>Group</i>	Revenue reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2005	77,575	342	33	232	(522)	77,660
Profit for the year	18,757	–	–	–	–	18,757
2004 Final dividend (note 12)	(2,174)	–	–	–	–	(2,174)
2005 Interim dividend (note 12)	(919)	–	–	–	–	(919)
Net fair value gains on available-for-sale investments recognised during the year	–	–	–	60	–	60
Exchange differences on cash flow hedges						
– recognised during the year	–	–	–	–	572	572
– deferred tax recognised	–	–	–	–	(83)	(83)
– transferred to the profit and loss account	–	–	–	–	124	124
– transferred to initial costs of hedged items	–	–	–	–	(81)	(81)
Exchange differences	8	–	–	–	–	8
At 31st December 2005	93,247	342	33	292	10	93,924
At 1st January 2006	93,247	342	33	292	10	93,924
Profit for the year	22,566	–	–	–	–	22,566
2005 Final dividend (note 12)	(2,235)	–	–	–	–	(2,235)
2006 Interim dividend (note 12)	(965)	–	–	–	–	(965)
Revaluation surplus on available-for-sale investments						
– recognised during the year	–	–	–	429	–	429
– transferred to the profit and loss account	–	–	–	(133)	–	(133)
Change of interest in associated companies	244	–	–	(104)	–	140
Changes in cash flow hedges						
– recognised during the year	–	–	–	–	(364)	(364)
– deferred tax recognised	–	–	–	–	48	48
– transferred to the profit and loss account	–	–	–	–	(37)	(37)
– transferred to initial costs of hedged items	–	–	–	–	6	6
Exchange differences	153	–	–	–	–	153
Others	30	–	–	–	–	30
At 31st December 2006	113,040	342	33	484	(337)	113,562

The group revenue reserve includes accumulated losses from jointly controlled companies amounting to HK\$1,926 million (2005: HK\$2,173 million) and retained revenue reserves from associated companies amounting to HK\$17,813 million (2005: HK\$16,124 million).

- (a) Distributable reserves of the Company at 31st December 2006 amounted to HK\$15,814 million (2005: HK\$14,949 million).
- (b) The revenue reserve includes HK\$3,368 million (2005: HK\$2,235 million) representing the proposed final dividend for the year (note 12).

35. Minority interests

	Group	
	2006 HK\$M	2005 HK\$M
At 1st January	5,929	5,940
Translation differences	6	12
Change in group	(5,416)	–
Net repayment of capital contribution	(2)	(314)
Share of revaluation surplus on available-for-sale investments	(5)	7
Share of profits less losses	201	877
Dividends paid and payable	(107)	(593)
Others	4	–
At 31st December	610	5,929

36. Capital commitments

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
(a) Outstanding commitments for capital expenditure at the year end:				
Property, plant and equipment				
Contracted for but not provided for	635	1,825	–	–
Authorised by Directors but not contracted for	6,099	4,259	–	–
Investment properties				
Contracted for but not provided for	2,360	199	–	–
Authorised by Directors but not contracted for	284	2,694	–	–
	9,378	8,977	–	–
(b) Outstanding commitments for capital expenditure at the year end relating to the group's interest in jointly controlled companies:				
Contracted for but not provided for	–	99	–	99
Authorised by Directors but not contracted for	2,652	–	–	–
	2,652	99	–	99

37. Contingencies

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
(a) Guarantees have been given in respect of bank loans and other liabilities outstanding at 31st December amounting to:				
Subsidiary companies	–	–	13,552	7,274
Jointly controlled companies	1,188	1,204	1,187	1,204
Associated companies	–	9	–	–
Third parties	123	165	–	–
	1,311	1,378	14,739	8,478

(b) Contingent tax liability

Certain wholly owned group companies have been unable to finalise their liability to profits tax in respect of the years 1997/98 to 2003/04 inclusive as a consequence of queries raised by the Hong Kong Inland Revenue Department (IRD). These queries relate to the deductibility, in the assessment of profits tax, of interest on borrowings of those companies during the periods under review.

A number of discussions have taken place between the companies and the IRD to understand the precise nature of the IRD queries. However, at this stage there is insufficient information available to reliably determine the ultimate outcome of their review with an acceptable degree of certainty. Consequently no provision has been recognised in these financial statements for any amounts that may fall due in regard to these queries.

The IRD has issued Notices of Assessment totaling HK\$440 million, the estimated contingent liability, in respect of their queries for the years under review. The companies have objected to these assessments and the IRD has agreed to unconditional holdover of the assessments.

(c) Cathay Pacific Airways

Cathay Pacific Airways is the subject of investigations in respect of its air cargo operations by the competition authorities of various jurisdictions including the United States, the European Union, Canada, Switzerland and New Zealand. The company has been cooperating with the authorities in their investigations. The focus of the investigations appears to be on issues relating to pricing and competition. The company is represented by legal counsel in connection with the investigations.

The company has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia. The company is represented by legal counsel in the actions filed in the United States, Canada and Australia and intends to defend each of those actions.

The investigations and civil actions are ongoing and the outcomes are subject to uncertainties. The company is not in a position at the present time to assess any potential liabilities and cannot therefore make any provision.

38. Operating lease arrangements

The group acts as both lessor and lessee under operating leases. Details of the group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The group leases out land and buildings and vessels under operating leases. The leases for land and buildings typically run for a period of three to six years. The turnover-related rental income received during the year amounted to HK\$137 million (2005: HK\$116 million). The leases for vessels typically run for an initial period of six months to five years with an option to renew the lease after that date, at which time all terms are renegotiated.

At 31st December, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the group were as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Land and buildings:				
Not later than one year	3,425	2,817	8	9
Later than one year but not later than five years	6,981	5,072	1	2
Later than five years	841	796	–	–
	11,247	8,685	9	11
Vessels:				
Not later than one year	1,129	794	–	–
Later than one year but not later than five years	1,166	355	–	–
Later than five years	268	146	–	–
	2,563	1,295	–	–
	13,810	9,980	9	11

Assets held for deployment in operating leases at 31st December were as follows:

	Group				Company	
	2006		2005		2006	2005
	Investment Properties HK\$M	Vessels HK\$M	Investment Properties HK\$M	Vessels HK\$M	Investment properties HK\$M	Investment properties HK\$M
Cost or revaluation	96,862	6,699	81,264	5,141	374	514
Less: accumulated depreciation	–	1,694	–	1,618	–	–
Net book value	96,862	5,005	81,264	3,523	374	514
Depreciation for the year	–	229	–	187	–	–

38. Operating lease arrangements (continued)

(b) Lessee

The group leases land and buildings, vessels and other equipment under operating leases. These leases typically run for an initial period of one to nine years with an option to renew the lease after that date, at which time all terms are renegotiated. The turnover-related rentals paid during the year amounted to HK\$12 million (2005: HK\$11 million).

At 31st December, the future aggregate minimum lease payments under non-cancellable operating leases payable by the group were as follows:

	Group	
	2006 HK\$M	2005 HK\$M
Land and buildings:		
Not later than one year	186	167
Later than one year but not later than five years	166	181
Later than five years	27	11
	379	359
Vessels:		
Not later than one year	10	18
Other equipment:		
Not later than one year	16	21
Later than one year but not later than five years	1	–
	406	398

The Company did not have any material operating lease commitments at 31st December 2006 and 2005.

39. Related party transactions

There are agreements for services (“Agreements”), in respect of which John Swire & Sons (H.K.) Limited (“JSSHK”) provided services to various companies in the group and under which costs were reimbursed and fees payable. In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and jointly controlled companies of the Company, where there were no agreements for services with such companies, and (B) in the case of its subsidiary and associated companies with such agreements, as 2.5% of their relevant consolidated profits before taxation and minority interests after certain adjustments. The Agreements took effect from 1st January 2005 and will terminate on 31st December 2007. For the year ended 31st December 2006, service fees payable amounted to HK\$125 million (2005: HK\$130 million). Expenses of HK\$71 million (2005: HK\$67 million) were reimbursed at cost; in addition, HK\$127 million (2005: HK\$121 million) in respect of shared administrative services were reimbursed.

The above transactions (except shared administrative services) are continuing connected transactions which give rise to disclosure obligations under Chapter 14A of the Listing Rules. (Please also refer to the Directors’ Report on pages 73 to 75.)

39. Related party transactions (continued)

The following is a summary of other significant transactions between the group and related parties, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the group's business. These transactions were not connected transactions or continuing connected transactions under the Listing Rules.

	Notes	Jointly controlled companies		Associated companies		Fellow subsidiaries		Intermediate holding company	
		2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Revenue from	(a)								
– Sales of beverage drinks		–	–	14	12	–	–	–	–
– Sales of other goods		–	–	–	–	–	–	–	–
– Rendering of services		28	30	8	10	–	–	–	–
Purchases of beverage cans	(a)	168	146	–	–	–	–	–	–
Purchases of other goods	(a)	32	34	103	–	–	–	–	–
Purchases of services	(a)	–	–	2	18	7	13	–	–
Rental revenue	(b)	1	–	4	5	6	6	30	34
Interest income	(c)	–	7	–	19	–	–	–	–
Interest charges	(c)	–	7	–	–	–	–	–	–
Disposal of a subsidiary		–	–	–	–	–	40	–	–
Disposal of investment properties		–	–	–	–	–	–	372	–

The Company's subsidiary, Swire Coca-Cola Beverages Xiamen Limited ("SCCXM") extended a loan facility of RMB20 million to each of Swire Coca-Cola Beverages Hefei Limited, Nanjing BC Foods Co. Ltd., Taikoo (Guangzhou) Sugar Limited and Sunshine Melody (Guangzhou) Properties Management Limited, all being subsidiaries of the Company. As security for these loans, another subsidiary of the Company, Swire Beverages Limited, entered into a Pledge Agreement with SCCXM on 4th January 2006 to pledge the dividends receivable from SCCXM. These loans and the transaction under the pledge agreement were not connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.

Amounts due to intermediate holding company at 31st December 2006 are disclosed in note 27. These balances arise in the normal course of business, are non-interest-bearing and have no fixed settlement dates.

Notes:

- Sales and purchases of goods and rendering of services to and from related parties were conducted in the normal course of business at prices and on terms no less than those charged to/by and contracted with other customers/suppliers of the group.
- The Swire Properties group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying periods up to six years. The leases were entered into on normal commercial terms.
- Loans advanced to jointly controlled and associated companies at 31st December 2006 are disclosed in notes 19 and 20 respectively, whilst loans due to jointly controlled and associated companies are disclosed in note 27.
- Key management compensation has been disclosed in note 8.

40. Notes to the consolidated cash flow statement

	Group	
	2006 HK\$M	2005 HK\$M
(a) Reconciliation of operating profit to cash generated from operations		
Operating profit	23,513	19,842
Profit on sale of a subsidiary	–	(21)
Profit on disposal of investment properties	–	(93)
Change in fair value of investment properties	(17,045)	(11,887)
Valuation gain on investment properties from transfer of interest element of land premium to finance cost	–	(158)
Depreciation of property, plant and equipment	562	515
Profit on disposal of property, plant and equipment	(78)	(4)
Amortisation of deferred expenditure	23	21
Amortisation of leasehold land and land use rights	1	2
Amortisation of intangible assets	12	10
Impairment losses on property, plant and equipment	–	8
Profit on sale of shares in jointly controlled and associated companies	(1,339)	(2,270)
Profit on disposal of available-for-sale investments	(201)	–
Other items	22	(57)
Operating profit before working capital changes	5,470	5,908
Decrease/(increase) in long-term receivables	6	(6)
(Increase)/decrease in properties for sale	(91)	438
Decrease/(increase) in stocks and work in progress	42	(171)
Increase in trade and other receivables	(97)	(455)
Increase/(decrease) in trade and other payables	418	(556)
Cash generated from operations	5,748	5,158
(b) Purchase of property, plant and equipment		
Properties	173	89
Plant and machinery	243	235
Vessels	1,255	1,000
Total	1,671	1,324

The above figures do not include interest capitalised on property, plant and equipment.

40. Notes to the consolidated cash flow statement (continued)

	2006			2005	
	Festival Walk HK\$M	Fujian Beverages Franchise HK\$M	Alias Hotel HK\$M	Total HK\$M	Total HK\$M
(c) Purchase of shareholdings in subsidiary companies					
Fair value of net assets acquired:					
Fixed assets	–	347	281	628	–
Leasehold land	–	44	8	52	–
Intangible assets					
– Goodwill	–	50	–	50	–
– Computer software	–	4	–	4	–
Stocks	–	93	1	94	–
Trade and other receivables	–	104	29	133	–
Deposits maturing within three months	–	115	–	115	–
Deposits maturing after three months	–	87	–	87	–
Trade and other payables	–	(231)	(29)	(260)	–
Minority interests	5,454	(38)	–	5,416	–
	5,454	575	290	6,319	–
Goodwill on acquisition	669	70	–	739	–
	6,123	645	290	7,058	–
Satisfied by:					
Cash paid	6,123	461	290	6,874	–
Investments in jointly controlled company	–	184	–	184	–
	6,123	645	290	7,058	–
Analysis of the net outflow of cash and cash equivalents in respect of the purchase of new subsidiaries:					
Cash consideration				6,874	–
Less: deposits maturing within three months and bank balances acquired				(115)	–
Net outflow of cash and cash equivalents in respect of the purchase of new subsidiaries				6,759	–

The following acquisitions were made in 2006:

- On 3rd March, the 50% interest in Festival Walk previously held by CITIC Pacific. Prior to this transaction Festival Walk was a subsidiary of the group and is now wholly owned. This acquisition has no impact on the turnover or profit and loss as stated in the year as it was previously a subsidiary undertaking.
- On 10th September, a further 49% interest in a jointly controlled company, the Fujian Coca-Cola franchise. At this point the franchise became a subsidiary of the group.
- In October 2006, 100% of Alias Hotels plc.

The Fujian Coca-Cola franchise and Alias Hotels have contributed HK\$228 million to turnover in 2006. Had these acquisitions occurred on 1st January 2006 they would have contributed an additional HK\$658 million to turnover in the year. The actual contribution in the year, and on an annualised basis, from these acquisitions are not material to the group profit.

40. Notes to the consolidated cash flow statement (continued)

	Group	
	2006 HK\$M	2005 HK\$M
(d) Sale of a subsidiary company		
Net assets disposed of:		
Property, plant and equipment	–	48
Trade and other receivables	–	3
Short-term deposits and bank balance	–	3
Long-term loans	–	(34)
Trade and other payables	–	(1)
	–	19
Profit on disposal	–	21
	–	40
Satisfied by:		
Cash	–	37
Receivable	–	3
	–	40
Analysis of net inflow of cash and cash equivalents in respect of the sale of a subsidiary company:		
Cash proceeds	–	37
Less: short-term deposits and bank balances in the subsidiary company disposed of	–	(3)
Net inflow of cash and cash equivalents in respect of the sale of a subsidiary company	–	34

(e) Analysis of changes in financing during the year

	Group			
	Loans, bonds and perpetual capital securities		Minority interests	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
At 1st January	7,434	9,841	5,929	5,943
Net cash inflow/(outflow) from financing	6,650	(2,297)	(2)	(314)
Acquisition/disposal of subsidiaries	–	(34)	(5,416)	–
Minority interests' share of profits less losses	–	–	201	877
Dividends paid	–	–	(107)	(593)
Security deposits placed	(424)	–	–	–
Security deposits uplifted	43	–	–	–
Other non-cash movements	49	(76)	5	16
At 31st December	13,752	7,434	610	5,929

41. Immediate and Ultimate Holding Company

The immediate holding company is John Swire & Sons (H.K.) Limited, a company incorporated in Hong Kong. The ultimate holding company is John Swire & Sons Limited, a company incorporated in the United Kingdom.

42. Post balance sheet events

In February 2007 the following two significant non-adjusting post balance sheet events have occurred:

- (i) As discussed on page 33, the disposal of the group's interest in Shekou Container Terminals Limited was completed. A gain on disposal of HK\$1.0 billion will be recognised in the year ending 31st December 2007 accounts.
- (ii) As discussed on page 14, the group announced an agreement to acquire an 80% interest in a property development in Sanlitun, Beijing, for a total consideration of RMB4,800 million. The price includes the purchase of 100% interest in a boutique hotel adjacent to the retail site.