

1. SEGMENT REPORTING

(a) Business segments

(i) Revenue and results

	Segment revenue		Segment results	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Hotel and restaurants	431.1	370.9	153.2	117.0
Property investment	120.2	94.3	104.3	83.0
Property development	278.3	–	(6.0)	–
Investments	91.3	61.6	89.3	59.3
	920.9	526.8	340.8	259.3
Increase in fair value of investment properties			94.3	271.1
Other net income			48.7	42.6
Property development			–	40.7
Investments			48.7	1.9
			483.8	573.0
Associates			6.2	24.4
Property development			6.2	23.2
Investments			–	1.2
Profit before taxation			490.0	597.4

Notes to the Financial Statements (Continued)

1. SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

(ii) Assets and liabilities

	Assets		Liabilities	
	2006 HK\$ Million	2005 HK\$ Million Restated	2006 HK\$ Million	2005 HK\$ Million
Hotel and restaurants	132.1	144.8	82.0	69.0
Property investment	1,695.6	1,595.4	22.0	20.8
Property development	9.2	264.3	36.6	44.9
Investments	1,491.7	923.9	0.7	0.9
	3,328.6	2,928.4	141.3	135.6
Unallocated	1,840.2	1,519.6	249.5	216.1
Total assets/liabilities	5,168.8	4,448.0	390.8	351.7

Included in the property development segment is the Group's attributable interest in property development projects undertaken by associates, which totals HK\$0.8 million (2005: HK\$14.6 million).

(iii) Other information

	Capital expenditure		Depreciation and amortisation	
	2006 HK\$ Million	2005 HK\$ Million	2006 HK\$ Million	2005 HK\$ Million
Hotel and restaurants	23.9	34.8	25.3	25.2
Property investment	7.8	308.7	–	–
Property development	–	132.9	–	–
Total	31.7	476.4	25.3	25.2

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

1. SEGMENT REPORTING (Continued)

(b) Geographical segments

	Segment revenue		Segment results	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Hong Kong	896.0	507.4	315.9	239.9
Singapore	24.9	19.4	24.9	19.4
	920.9	526.8	340.8	259.3

No inter-segment revenue has been recorded during the current and prior years.

2. OPERATING PROFIT

(a) Operating profit is arrived:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
After charging:		
Cost of inventories sold	291.7	26.5
Depreciation and amortisation	25.3	25.2
Staff costs	105.1	92.9
Including:		
Contributions to defined contribution pension schemes (after deducting forfeiture of the Group's contribution of HK\$0.4 million (2005: HK\$0.6 million))	2.3	3.1
Increase in liability for defined benefit pension schemes	0.3	1.2
Total pension cost	2.6	4.3
Auditors' remuneration	0.6	0.5
and crediting:		
Gross rental income from investment properties	120.2	94.3
Less: direct outgoings	(12.3)	(8.4)
	107.9	85.9
Interest income on bank deposits	61.3	41.1
Dividend income from listed investments	30.0	20.5

2. OPERATING PROFIT (Continued)

(b) Directors' emoluments

	Basic salaries, housing and other allowances and benefits Fees HK\$000	Discretionary bonuses and/or performance related bonuses HK\$000	Retirement scheme contributions HK\$000	2006 Total HK\$000	2005 Total HK\$000
Executive director					
G. W. J. Li	30	780	–	810	810
Non-executive director					
T. Y. Ng	40	–	–	40	36
Independent non-executive directors					
B. S. Forsgate	40	–	–	40	40
H. M. V. de Lacy Staunton	30	–	–	30	30
M. K. Tan	40	–	–	40	40
Past Directors					
C. C. Haung	–	–	–	–	14
P. Y. C. Tsui	–	–	–	–	3
	180	780	–	960	973
Total for 2005	193	780	–		973

For the year under review, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$30,000 (2005: HK\$30,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$10,000 (2005: HK\$10,000) per annum were paid to each audit committee member.

2. OPERATING PROFIT (Continued)

(c) Emoluments of the highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31st December, 2006 of the five highest paid employees of the Group, none of whom is a Director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Basic salaries, housing allowances, and other allowances and benefits in kind	4.6	4.4
Retirement scheme contributions	0.3	0.3
Discretionary bonuses and/or performance-related bonuses	0.5	0.5
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	5.4	5.2

The emoluments of the five highest paid individuals are within the following bands:

Bands (in HK\$)	2006 <i>Number of individuals</i>	2005 <i>Number of individuals</i>
Not more than \$1,000,000	1	2
\$1,000,001 – \$1,500,000	4	3
\$1,500,001 – \$2,000,000	–	–

3. OTHER NET INCOME

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Release of deferred income	0.8	3.9
Profit/(loss) on disposal of available-for-sale investments (including HK\$1.7 million (2005: HK\$Nil) transferred from the investments revaluation reserve)	47.9	(2.0)
Write-back of provision for impairment in value of property held for redevelopment	–	40.7
	48.7	42.6

4. 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) Taxation in the consolidated profit and loss account represents:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Current taxation		
Provision for Hong Kong profits tax for the year	47.6	31.8
Overprovision in respect of prior years	(0.2)	–
	47.4	31.8
Deferred taxation		
Origination and reversal of temporary differences	3.4	1.1
Change in fair value of investment properties	16.5	47.4
	19.9	48.5
Total tax charge	67.3	80.3

4. TAXATION (Continued)

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

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Profit before taxation	490.0	597.4
Notional tax on accounting profit calculated at applicable tax rates	85.8	104.5
Tax effect of non-deductible expenses	2.6	1.2
Tax effect of non-taxable revenue	(20.9)	(25.4)
Overprovision in respect of prior years	(0.2)	–
Actual total tax charge	67.3	80.3

- (d) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK\$58.9 million (2005: HK\$174.2 million).

6. DIVIDENDS

- (a) Dividends attributable to the year

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Interim dividend declared and paid of 5.0 cents (2005: 5.0 cents) per share	15.8	15.8
Final dividend of 24.0 cents proposed after the balance sheet date (2005: 12.0 cents) per share	75.6	37.8
	91.4	53.6

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

6. DIVIDENDS (Continued)

(b) Dividends 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 12.0 cents per share (2005: 12.0 cents per share)	37.8	37.8

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$422.7 million (2005: HK\$517.1 million) and on 315.0 million (2005: 315.0 million) ordinary shares in issue throughout the year ended 31st December, 2006. For the year under review and the preceding year, there is no difference between the basic and diluted earnings per share.

8. CHANGES IN ACCOUNTING POLICIES

HKAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures"

In prior years, in calculating the Group's obligations in respect of defined benefit pension schemes, any cumulative unrecognised actuarial gain or loss exceeding 10% of the greater of the present value of the defined benefit obligations and the fair value of scheme assets, was recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees participating in the schemes. Otherwise, the actuarial gain or loss was not recognised.

With effect from 1st January, 2006, the Group has adopted, retrospectively, the provisions set out in an amendment to HKAS 19 whereby all actuarial gains or losses of all defined benefit pension schemes may be recognised outside the profit and loss account. The effect of adoption of this revised policy is to decrease shareholders' equity as at 1st January, 2006 and 1st January, 2005 by HK\$4.7 million and HK\$8.2 million respectively. This change has no significant impact on the Group's results.

Notes to the Financial Statements (Continued)

9. FIXED ASSETS

	Group					Total HK\$ Million
	Investment properties HK\$ Million	Property held for redeve- lopment HK\$ Million	Hotel property HK\$ Million	Other fixed assets HK\$ Million	Leasehold land HK\$ Million	
(a) Cost or valuation						
Balance at						
1st January, 2005	973.0	57.9	67.2	155.9	15.9	1,269.9
Additions	316.9	141.4	16.3	24.0	–	498.6
Disposals	–	–	–	(21.8)	–	(21.8)
Provision for impairment written back	–	40.7	–	–	–	40.7
Reclassification	–	(240.0)	–	–	–	(240.0)
Revaluation surplus	271.1	–	–	–	–	271.1
Balance at 31st December, 2005 and at 1st January, 2006	1,561.0	–	83.5	158.1	15.9	1,818.5
Additions	7.7	–	2.1	25.5	–	35.3
Disposals	–	–	–	(22.3)	–	(22.3)
Revaluation surplus	94.3	–	–	–	–	94.3
Balance at 31st December, 2006	1,663.0	–	85.6	161.3	15.9	1,925.8
Accumulated depreciation and amortisation						
Balance at 1st January, 2005	–	–	55.5	121.7	0.6	177.8
Charge for the year	–	–	5.8	19.4	–	25.2
Written back on disposals	–	–	–	(21.8)	–	(21.8)
Balance at 31st December, 2005 and at 1st January, 2006	–	–	61.3	119.3	0.6	181.2
Charge for the year	–	–	6.2	19.0	0.1	25.3
Written back on disposals	–	–	–	(22.3)	–	(22.3)
Balance at 31st December, 2006	–	–	67.5	116.0	0.7	184.2
Net book value						
At 31st December, 2006	1,663.0	–	18.1	45.3	15.2	1,741.6
At 31st December, 2005	1,561.0	–	22.2	38.8	15.3	1,637.3

Notes to the Financial Statements (Continued)

9. FIXED ASSETS (Continued)

	Group					Total HK\$ Million
	Investment properties HK\$ Million	Property held for redeve- lopment HK\$ Million	Hotel property HK\$ Million	Other fixed assets HK\$ Million	Leasehold land HK\$ Million	

(b) The analysis of cost or valuation of the above assets is as follows:

2006 valuation	1,663.0	–	–	–	–	1,663.0
Cost less provisions	–	–	85.6	161.3	15.9	262.8
	1,663.0	–	85.6	161.3	15.9	1,925.8
2005 valuation	1,561.0	–	–	–	–	1,561.0
Cost less provisions	–	–	83.5	158.1	15.9	257.5
	1,561.0	–	83.5	158.1	15.9	1,818.5

(c) Tenure of title to properties at cost or valuation:

Long term lease held in Hong Kong

Over 50 years	1,663.0	–	85.6	–	15.9	1,764.5
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(d) Properties valuation

The Group's investment properties in Hong Kong have been revalued as at 31st December, 2006 by Knight Frank Petty Limited, an independent firm of professional surveyors, on an open market value basis. The surplus or deficit arising on revaluation is recognised directly in the consolidated profit and loss account.

9. FIXED ASSETS (Continued)

(e) Properties schedule at 31st December, 2006

Address	Lot number	Year of completion	Stage of completion	Lease expiry	Site area (sq.ft.)	Approximate gross floor areas (sq.ft.)	Usage	Attributable interest
Investment properties								
The Marco Polo Hongkong Hotel (Commercial Section)	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	*	34,000 136,700	Office Retail	100% 100%
Harbour City Tsimshatsui								
Various units at Star House Tsimshatsui	KML 10 S.A.	1966	Completed	2863	N/A	50,780	Retail	100%
Hotel property								
The Marco Polo Hongkong Hotel Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	58,814	664 rooms	Hotel	100%

* This investment property forms part of The Marco Polo Hongkong Hotel.

- (f) The Group leases out its investment properties under operating leases which generally run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may contain a contingent rent element which is based on various percentages of tenants' sales receipts.

Contingent rental income earned by the Group for the year amounted to HK\$27.4 million (2005: HK\$21.6 million).

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

	2006 HK\$ Million	2005 HK\$ Million
Within 1 year	68.6	80.2
After 1 year but within 5 years	65.9	126.1
	134.5	206.3

10. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, recoverable/repayable on demand and interest free.

Details of subsidiaries at 31st December, 2006 are shown on page 69.

11. INTEREST IN ASSOCIATES

	Group	
	2006 HK\$ Million	2005 HK\$ Million
Share of net tangible assets	0.8	14.6

Details of associates at 31st December, 2006 are shown on page 69.

(a) Summary financial information on associates:

	2006		2005	
	Total HK\$ Million	Attributable interest HK\$ Million	Total HK\$ Million	Attributable interest HK\$ Million
Assets	273.8	54.8	388.1	77.6
Liabilities	(270.0)	(54.0)	(315.1)	(63.0)
Equity	3.8	0.8	73.0	14.6
Revenues	49.3	9.9	215.2	43.0
Profit before taxation	35.8	7.2	140.8	28.9
Taxation	(5.0)	(1.0)	(22.3)	(4.5)
Profit after taxation	30.8	6.2	118.5	24.4

12. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Listed investments in Hong Kong	276.7	23.5
Listed investments outside Hong Kong	1,172.3	870.0
Unlisted investments	41.0	29.3
	1,490.0	922.8
Market value of listed investments	1,449.0	893.5

Included in the above equity securities are investments in a listed company, the carrying value of which constituted more than 10% of the Group's total assets at 31st December, 2006. Details of this listed company are shown as follows:

Name of company	Place of incorporation	Percentage of total issued ordinary shares held
Hongkong Land Holdings Limited	Bermuda	1.55%

13. LONG TERM RECEIVABLES

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

14. EMPLOYEE BENEFITS

(a) Defined benefit pension schemes

	Group	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i> Restated
Defined benefit pension schemes	6.7	4.4

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contribution from both employers and employees, which are in accordance with recommendations made by actuaries based on their valuation. The latest valuations of the schemes as at 31st December, 2006 were performed either internally or by Watson Wyatt Hong Kong Limited, using the projected unit credit method with funding ratios 110.1% and 108.3% respectively.

14. EMPLOYEE BENEFITS (Continued)

(a) Defined benefit pension schemes (Continued)

(i) The amount recognised in the consolidated balance sheet is as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i> Restated
Present value of funded obligations	(76.9)	(60.2)
Fair value of scheme assets	83.6	64.6
	6.7	4.4

(ii) Scheme assets consist of the following:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Equity securities	61.0	35.9
Debt securities	18.4	26.3
Deposits and cash	4.2	2.4
	83.6	64.6

(iii) Movements in the present value of the defined benefit obligations are as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
At 1st January	60.2	68.3
Net benefits paid and transferred	5.1	(11.2)
Employee contributions	0.6	0.6
Current service cost	2.3	3.1
Interest cost	2.5	2.6
Actuarial losses/(gains)	6.2	(3.2)
At 31st December	76.9	60.2

14. EMPLOYEE BENEFITS (Continued)

(a) Defined benefit pension schemes (Continued)

(iv) Movements in the scheme assets are as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
At 1st January	64.6	68.8
Contributions paid	1.5	1.6
Net benefits paid and transferred	5.1	(11.2)
Employee contributions	0.6	0.6
Expected return on scheme assets	4.5	4.7
Actuarial gains	7.3	0.1
At 31st December	83.6	64.6

(v) Expense recognised in the consolidated profit and loss account is as follows:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Current service cost	2.3	3.1
Interest cost	2.5	2.6
Expected return on scheme assets	(4.5)	(4.7)
Net actuarial losses recognised	–	0.2
	0.3	1.2

The expense is recognised in the following line items in the consolidated profit and loss account:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Direct costs and operating expenses	0.2	1.0
Selling and marketing expenses	0.1	0.2
	0.3	1.2
Actual return on scheme assets	11.8	4.9

14. EMPLOYEE BENEFITS (Continued)

(a) Defined benefit pension schemes (Continued)

- (vi) The principal actuarial assumptions used as at 31st December, 2006 (expressed as a range) are as follows:

	2006	2005
Discount rate at 31st December	3.75-5%	4.25-5%
Expected rate of return on scheme assets	5-8%	5-8%
Future salary increases		
2006	N/A	2-4%
2007 onwards	2-4%	2-4%

- (vii) Historical information:

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Present value of the defined benefit obligations	(76.9)	(60.2)
Fair value of scheme assets	83.6	64.6
Surplus in the schemes	6.7	4.4
Experience adjustments arising on scheme liabilities	3.5	(2.0)
Experience adjustments arising on scheme assets	7.3	0.1

- (viii) The Group recognised actuarial gains amounted to HK\$1.1 million (2005: HK\$3.5 million) for the year ended 31st December, 2006 directly in the consolidated statement of recognised income and expense. The cumulative amount of actuarial losses recognised amounted to HK\$3.6 million (2005: HK\$4.7 million) as at 31st December, 2006.

(b) Defined contribution pension schemes

A number of defined contribution pension schemes (including the Mandatory Provident Fund) are available to the employees of the Group. For defined contribution pension schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds. The contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

15. INVENTORIES

	Group	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Property held for sale/under development for sale	4.7	240.0
Hotel consumables	2.9	3.5
	7.6	243.5

- (a) Property under development for sale is stated at the lower of cost and net realisable value. The total carrying value of property stated at net realisable value at 31st December, 2006 was HK\$4.7 million (2005: HK\$240.0 million).
- (b) At 31st December, 2006, the carrying value of long term leasehold land situated in Hong Kong included in property held for sale was HK\$2.8 million (2005: property under development for sale, HK\$158.5 million).

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Trade debtors				
Due within 30 days	48.4	39.3	–	–
Due after 30 days but within 60 days	6.6	2.5	–	–
Due after 60 days but within 90 days	0.9	0.1	–	–
Over 90 days	–	0.1	–	–
	55.9	42.0	–	–
Other receivables	12.2	49.5	1.4	1.0
Amounts due from fellow subsidiaries	10.7	14.3	–	–
	78.8	105.8	1.4	1.0

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. The above includes deposits paid amounting to HK\$0.7 million (2005: HK\$0.9 million) which are expected to be recovered after one year.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$ Million	2005 HK\$ Million	2006 HK\$ Million	2005 HK\$ Million
Trade creditors				
Due within 30 days	14.0	11.2	–	–
Due after 30 days but within 60 days	5.6	3.9	–	–
Due after 60 days but within 90 days	–	0.4	–	–
Over 90 days	–	–	–	–
	19.6	15.5	–	–
Other payables and provisions	81.8	88.5	0.4	0.6
Amounts due to fellow subsidiaries	11.3	4.8	–	–
Amounts due to associate	27.8	25.2	–	–
	140.5	134.0	0.4	0.6

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK\$16.5 million (2005: HK\$18.6 million) which are expected to be settled after one year.

18. DEFERRED INCOME

The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2006 HK\$ Million	2005 HK\$ Million
Balance at 1st January	1.6	5.2
Additions	–	0.3
Credited to the consolidated profit and loss account	(0.8)	(3.9)
Balance at 31st December	0.8	1.6

19. DEFERRED TAXATION

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

	Group			Total <i>HK\$ Million</i>
	Depreciation allowances in excess of the related depreciation <i>HK\$ Million</i>	Revaluation of investment properties <i>HK\$ Million</i>	Retirement scheme assets <i>HK\$ Million</i>	
Balance at 1st January, 2005	12.9	144.1	1.5	158.5
Charged to the consolidated profit and loss account	1.1	47.4	–	48.5
Balance at 31st December, 2005 and at 1st January, 2006	14.0	191.5	1.5	207.0
Charged/(credited) to the consolidated profit and loss account	3.7	16.5	(0.3)	19.9
Balance at 31st December, 2006	17.7	208.0	1.2	226.9

- (b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31st December, 2006 and 2005.

20. SHARE CAPITAL

	2006		2005	
	No. of shares <i>Million</i>	<i>HK\$ Million</i>	No. of shares <i>Million</i>	<i>HK\$ Million</i>
Authorised				
Ordinary shares of HK\$0.50 each	380.0	190.0	380.0	190.0
Issued and fully paid				
Ordinary shares of HK\$0.50 each	315.0	157.5	315.0	157.5

Notes to the Financial Statements (Continued)

21. RESERVES

	Share premium <i>HK\$ Million</i>	Investments revaluation reserve <i>HK\$ Million</i>	Revenue reserve <i>HK\$ Million</i>	Total <i>HK\$ Million</i>
(a) The Group				
Balance at 1st January, 2005				
As previously reported	542.0	272.5	2,533.6	3,348.1
Prior year adjustment for HKAS 19	–	–	(8.2)	(8.2)
As restated	542.0	272.5	2,525.4	3,339.9
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	–	133.4	–	133.4
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments				
– Associate	–	(1.5)	–	(1.5)
Actuarial gains on defined benefit pension schemes	–	–	3.5	3.5
	–	131.9	3.5	135.4
Profit for the year	–	–	517.1	517.1
Total recognised income and expense	–	131.9	520.6	652.5
Dividend approved in respect of the previous year	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	(15.8)	(15.8)
Balance at 31st December, 2005 (as restated)	542.0	404.4	2,992.4	3,938.8
Balance at 1st January, 2006				
As previously reported	542.0	404.4	2,997.1	3,943.5
Prior year adjustment for HKAS 19	–	–	(4.7)	(4.7)
As restated	542.0	404.4	2,992.4	3,938.8
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	–	309.8	–	309.8
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	–	1.7	–	1.7
Actuarial gains on defined benefit pension schemes	–	–	1.1	1.1
	–	311.5	1.1	312.6
Profit for the year	–	–	422.7	422.7
Total recognised income and expense	–	311.5	423.8	735.3
Dividend approved in respect of the previous year	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	(15.8)	(15.8)
Balance at 31st December, 2006	542.0	715.9	3,362.6	4,620.5

21. RESERVES (Continued)

	Share premium <i>HK\$ Million</i>	Investments revaluation reserve <i>HK\$ Million</i>	Revenue reserve <i>HK\$ Million</i>	Total <i>HK\$ Million</i>
(b) The Company				
Balance at 1st January, 2005	542.0	–	169.1	711.1
Profit for the year	–	–	174.2	174.2
Dividend approved in respect of the previous year	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	(15.8)	(15.8)
Balance at 31st December, 2005 and at 1st January, 2006	542.0	–	289.7	831.7
Profit for the year	–	–	58.9	58.9
Dividend approved in respect of the previous year	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	(15.8)	(15.8)
Balance at 31st December, 2006	542.0	–	295.0	837.0

Notes:

- (i) *The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The investments revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of available-for-sale investments.*
- (ii) *Reserves of the Company available for distribution to shareholders at 31st December, 2006 amounted to HK\$295.0 million (2005: HK\$289.7 million).*

22. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK\$34.2 million (2005: HK\$28.1 million) which included management fees of HK\$28.4 million (2005: HK\$23.2 million) and marketing fees of HK\$5.8 million (2005: HK\$4.9 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. The management agreement, entered into on 2nd January, 2004, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules but are exempted under the provisions of the Listing Rules which were in force prior to 31st March, 2004 from the requirements relating to connected transactions.
- (b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11th April, 2003 to 10th April, 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK\$73.8 million (2005: HK\$61.7 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

23. CONTINGENT LIABILITIES

As at 31st December, 2006, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK\$3.1 million (2005: HK\$41.5 million). At 31st December, 2005, HK\$38.4 million of such facilities was secured by a deposit with bank of HK\$38.4 million.

24. COMMITMENTS

Capital commitments outstanding at 31st December, 2006 not provided for in the financial statements were as follows:

	Group	
	2006 HK\$ Million	2005 HK\$ Million
Contracted but not provided for	78.9	27.4
Authorised but not contracted for	4.6	6.2
	83.5	33.6

25. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 6(a).

26. COMPARATIVE FIGURES

Certain comparative figures in the consolidated balance sheet have been adjusted as a result of the changes in accounting policies for defined benefit pension schemes and the consolidated statement of changes in equity has been replaced by the consolidated statement of recognised income and expense in accordance with the requirement in the amendment to HKAS 19.

27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place in each of its core business and the exposures to these credit risks are monitored on an ongoing basis. The Group does not have a significant concentration of credit risk.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements 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.

(c) Foreign currency risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in Hong Kong dollars.

(d) Fair value

The fair values of debtors, bank balances and other liquid funds, creditors and accruals and current provisions approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

28. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

Note 14 contain information about the assumptions and their risk factors relating to defined benefit pension scheme obligations. 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 external 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 sales evidence as available on the market and the appropriate capitalisation rate.

– *Assessment of the 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 judgment based on the experience of the Group.

Management reviews the useful lives of fixed assets periodically. 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.

(b) Critical accounting judgments in applying the Group's accounting policies

Management considers that there are no critical accounting judgements in applying the Group's accounting policies.

29. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new statements have not been adopted since they are only effective after 31st December, 2006.

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1st January, 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1st January, 2007

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 them is unlikely to have a significant impact on the Group's results of operations and financial position.

30. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company is The Wharf (Holdings) Limited, a company incorporated and listed in Hong Kong.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 7th March, 2007.