Managing Director's Report

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Financial Review

(I) RESULTS REVIEW

Turnover

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

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

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

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

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

Operating Profit

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

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

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

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

Other Items

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

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

Borrowing Costs

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

Share of Profits less Losses of Associates and Jointly Controlled Entities

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

Taxation

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

Minority Interests

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

Profit Attributable to Equity Shareholders

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

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

(II) LIQUIDITY AND FINANCIAL RESOURCES

Total Equity

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

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

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

Supplemental Information on Net Asset Value ("NAV")

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

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

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

Net Cash Generated from the Group's Operating Activities

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

Capital Expenditure

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

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

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

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

Debt and Gearing

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

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

Finance and Availability of Facilities

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

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

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

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

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

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

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

(III) HUMAN RESOURCES

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