

Notes to the Financial Statements

1. SEGMENT INFORMATION

a. Business segments

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

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

1. SEGMENT INFORMATION (Continued)

a. Business segments (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

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

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

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

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

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

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

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

b. Geographical segments

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

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

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

2. OPERATING PROFIT

a. Operating profit is arrived at:

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

2. OPERATING PROFIT (Continued)

b. Directors' emoluments

Directors' emoluments are as follows:

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

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

2. OPERATING PROFIT *(Continued)*

c. Emoluments of the highest paid employees

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

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

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

3. OTHER NET INCOME

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

4. NET OTHER CREDIT

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

5. BORROWING COSTS

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

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

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

6. TAXATION

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

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

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

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

6. TAXATION *(Continued)*

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

7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

8. DIVIDENDS

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

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

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

8. DIVIDENDS *(Continued)*

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

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

9. EARNINGS PER SHARE

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

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

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

10. FIXED ASSETS

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

10. FIXED ASSETS (Continued)

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

10. FIXED ASSETS (Continued)

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

10. FIXED ASSETS (Continued)

d. Properties revaluation

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

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

e. Impairment of fixed assets

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

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

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

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

11. INVESTMENTS IN SUBSIDIARIES

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

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

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

12. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

13. INTEREST IN ASSOCIATES

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

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

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

Summary financial information on associates

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

14. INTEREST IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

b. Suzhou Modern Terminals Limited ("SMTL")

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

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

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

15. AVAILABLE-FOR-SALE INVESTMENTS

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

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

16. LONG TERM RECEIVABLES

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

17. DEFINED BENEFIT PENSION SCHEMES

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

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

17. DEFINED BENEFIT PENSION SCHEMES (Continued)

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

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

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

- b. Scheme assets consist of the following:

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

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

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

17. DEFINED BENEFIT PENSION SCHEMES (Continued)

d. Movements in the scheme assets are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

18. INVENTORIES

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

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

18. INVENTORIES (Continued)

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

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

19. TRADE AND OTHER RECEIVABLES

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

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

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

20. TRADE AND OTHER PAYABLES

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

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

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

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

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

21. LONG TERM LOANS

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

21. LONG TERM LOANS *(Continued)*

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

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

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

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

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

22. DEFERRED TAXATION

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

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

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

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

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

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

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

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

23. OTHER DEFERRED LIABILITIES

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

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

24. FINANCIAL INSTRUMENTS

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

a. Interest rate risk

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

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

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

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

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

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

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

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

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

24. FINANCIAL INSTRUMENTS (Continued)

a. Interest rate risk (Continued)

(ii) (Continued)

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

24. FINANCIAL INSTRUMENTS *(Continued)*

b. Foreign currency risk

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

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

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

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

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

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

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

24. FINANCIAL INSTRUMENTS *(Continued)*

c. **Liquidity risk**

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

d. **Credit risk**

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

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

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

24. FINANCIAL INSTRUMENTS *(Continued)*

e. Fair values

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

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

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

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

25. EQUITY COMPENSATION BENEFITS

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

25. EQUITY COMPENSATION BENEFITS *(Continued)*

a. Movement in share options

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

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

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

c. Terms of share options at the balance sheet date

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

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

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

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

26. SHARE CAPITAL

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

Executive share incentive scheme

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

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

27. CAPITAL AND RESERVES

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

27. CAPITAL AND RESERVES (Continued)

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

27. CAPITAL AND RESERVES (Continued)

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

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

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

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

28. MATERIAL RELATED PARTY TRANSACTIONS

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

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

29. CONTINGENT LIABILITIES

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

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

30. COMMITMENTS

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

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

31. CHANGES IN ACCOUNTING POLICIES

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

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

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

a. HKAS 19 “Employee benefits”

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

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

31. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

32. POST BALANCE SHEET EVENTS

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

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

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

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

33. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

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