WHARF

Established 1886

The Wharf (Holdings) Limited

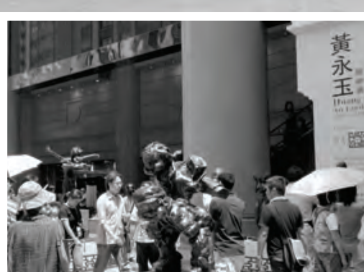
ANNUAL REPORT 2007

Stock Code: 4

To some, art imitates life;
to others, life imitates art....
As the debate goes on,
we take pride in having created a quality space
where art and life meet....

When art and life meet – A series of art exhibitions have been organised by the Group's shopping malls, including those by renowned artists e.g. Huang Yong Yu Art Exhibition (top left) and Ju Ming Sculpture Exhibition (top right) at Times Square


SHARP


黃
永
玉

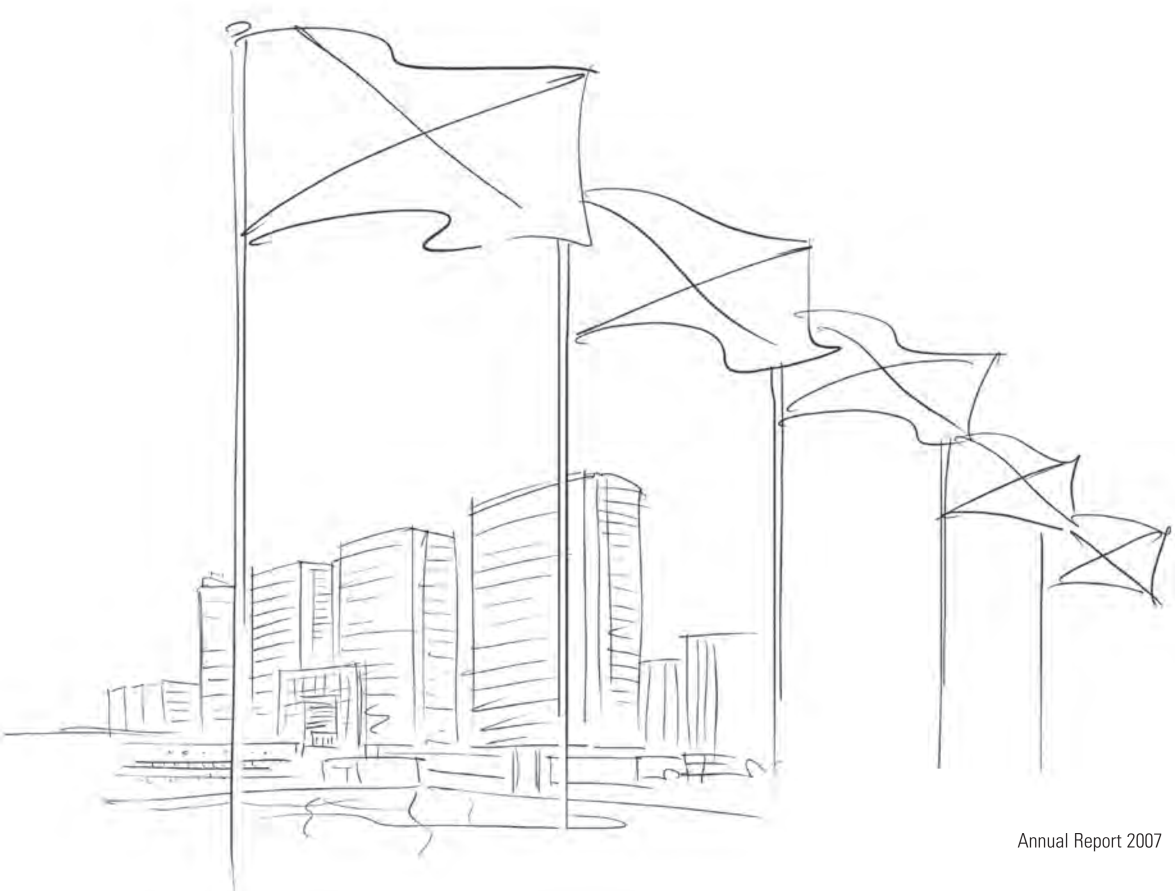
Founded in 1886, *The Wharf (Holdings) Limited* is a premier company with HK$146 billion of consolidated assets and a strategic focus on property and infrastructure in Hong Kong and the Mainland.

Core properties *Harbour City* and *Times Square* in Hong Kong represent about 52% of the Group's total assets. In 2007, their combined turnover rose by 15% to HK$5,434 million and operating profit by 18% to HK$4,035 million.

The Group is building a new tomorrow in *China* and aims to have 50% of its total assets in the Mainland in five years. Properties and port assets will lead the new expansion.

In properties, the Group has acquired 17 sites in the Mainland since mid-2005 for a total of HK$30 billion. It now commands an attributable land bank of development and investment properties of about 90 million square feet in plot ratio GFA.

Through Hong Kong-based *Modern Terminals*, the Group is developing new container terminals in Pearl River Delta and Yangtze River Delta, as well as targeting other new projects along the China Coast. It is expected that by 2011, half of Modern Terminals' throughput will be handled at existing investments in the Mainland.



Contents

Corporate Information

Board of Directors

Mr Peter K C Woo, GBS, JP, *Chairman*
Mr Gonzaga W J Li, *Senior Deputy Chairman*
Mr Stephen T H Ng, *Deputy Chairman & Managing Director*
Ms Doreen Y F Lee, *Executive Director*
Mr T Y Ng

Independent Non-executive Directors
Mr Paul M P Chan, JP*
Professor Edward K Y Chen, GBS, CBE, JP
Dr Raymond K F Ch'ien, GBS, CBE, JP
Hon Vincent K Fang, JP*
Mr Hans Michael Jebsen, BBS*
Mr James E Thompson, GBS*

* Members of the Audit Committee

Secretary

Mr Wilson W S Chan, FCIS

Auditors

KPMG

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Registrars

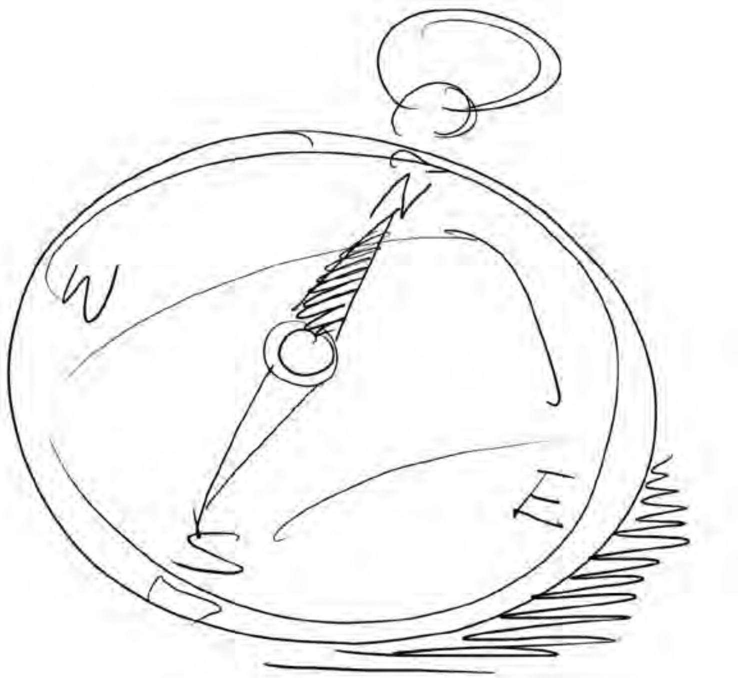
Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai, Hong Kong

Registered Office

16th Floor, Ocean Centre, Harbour City,
Canton Road, Kowloon, Hong Kong
Telephone: (852) 2118 8118
Fax: (852) 2118 8018
Website: www.wharfholdings.com

Chairman's Statement

Going forward, the Group's growth drivers will be its business initiatives in both property and logistics in China in the near- to medium-term. It is the Group's objective to achieve a 50/50 weighting in assets between the Mainland and Hong Kong in the next five years.



2007 was a good year for Hong Kong, driven by strong local economic fundamentals. Real GDP gained 6.3% marking the fourth consecutive year of strong economic growth. Hong Kong's unemployment rate reached its lowest level since March 1998 due to the buoyant local economy. The low interest rate environment, coupled with a perceived shortfall in residential supply versus demand, sparked a remarkable increase in residential prices across the board accordingly. Retail market was continuously lifted by the increasing number of arriving tourists especially from the Mainland who wanted to spend more in Hong Kong and the local consumers who were emboldened by their growing household wealth and better job security. Riding on its excellent retail management and quality, the Group's core properties, namely Harbour City and Times Square, continued to achieve remarkable sales growth in 2007. Demand for Grade A office space remained strong, underpinned by business expansion and upgrading requirements. This has benefited the Group's office portfolio during the year.

Under these favourable market conditions and supported by a strong operating base, the core businesses of the Group performed well in 2007 with robust growth in turnover and operating profit. Contribution from the Group's China property business increased quite substantially in 2007, giving rise to an encouraging year-on-year growth in profit in 2007. Going forward, the Group's growth drivers will be its business initiatives in both property and logistics in China in the near- to medium-term. It is the Group's objective to achieve a 50/50 weighting in assets between the Mainland and Hong Kong in the next five years.

Harbour City and Times Square, the core assets of the Group representing 52% of total assets, remained the top and must-visit "shoppertainment" destinations in Hong Kong for both tourists and locals. Their combined turnover grew by 15% to HK$5,434 million and operating profit by 18% to HK$4,035 million. This solid and stable stream of income will facilitate the Group's business expansion in future.

In line with its commitment towards expanding the property sector in the Mainland, the Group acquired 12 sites for development in the cities of Chengdu, Hangzhou, Suzhou, Chongqing, Nanjing, Changzhou and Wuxi during 2007 and early 2008. Overall, the Group has succeeded in acquiring 17 sites in the Mainland since the middle of 2005. The Group's attributable landbank and investment properties in terms of plot ratio GFA are currently about 90 million square feet. It is approaching our interim aim of 100 million square feet. Over the next few years, our intention is not to reduce our land bank below this general level through selective replenishment of our land bank.

The Group put up several phases of the various residential projects in the cities of Shanghai, Wuhan and Chengdu for sale/pre-sale during the year and met with overwhelming responses. These included Phases I and II of Wellington Garden in Shanghai, Wuhan Times Square in Wuhan and Tian Fu Times Square in Chengdu. Most of the units put up for pre-sales/sales were taken up quickly and the average prices achieved exceeded the Group's expectation. For Tian Fu Times Square, 97% of three selective residential blocks were successfully pre-sold at record high unit price in the city. Wuhan Times Square also successfully sold 98% of its first phase consisting of two residential towers at record high unit price in that city. Phase I of Wellington Garden in Shanghai, comprising two residential blocks, were 100% sold at excellent prices. With project completion of the relevant phases of Wuhan Times Square and Wellington Garden in 2007, profit from the sale of relevant residential units were accounted for, contributing meaningful profits to the Group during the year.

Modern Terminals' progressive investment programme in the Mainland is also bearing fruit. The first two berths of its five-berth Dachan Bay project in Western Shenzhen have commenced services in December 2007 and the remaining three berths will be commissioned in 2008. Together with its other quality projects including Taicang terminal and Mega Shekou terminal, Modern Terminals will significantly increase its presence in the region of Pearl River Delta and Yangtze River Delta. The resultant capacity in the Mainland will be larger than the existing one in Hong Kong. Modern Terminals handled a record 5.72 million TEUs in 2007 in Hong Kong, 6% higher than 2006.

The CME businesses managed to achieve satisfactory performance in an increasingly competitive environment as we continue to add value creating capabilities.

Group turnover grew by 21% to HK$16,208 million (2006: HK$13,364 million) and operating profit increased by 46% to HK$9,466 million (2006: HK$6,471 million). However, finance costs and taxation charge increased during the year. Net profit attributable to Shareholders excluding the net surplus arising from the revaluation of investment properties increased by 39% to HK$5,947 million. (2006: HK$4,285 million). Including a higher unrealised surplus from the revaluation of investment properties, net profit attributable to Shareholders was HK$13,143 million (2006: HK$10,757 million). Earnings per share were HK$5.37 (2006: HK$4.39).

Valuation of the Group's investment property portfolio on the back of rising property rentals, grew by 11% to HK$95,782 million at the end of 2007. The financial position of the Group remained strong with gearing ratio at 25.6% by the end of the year.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2006: 80 cents).

Despite the uncertain global outlook, the Asia Pacific economy is expected to remain a bright spot against a dimmer global economic landscape, on the back of the growth momentum in the Mainland economy and other Asian economies. Hong Kong will continue to benefit economically from CEPA, Individual Visit Scheme and its role as platform for the "bringing in, going out" process for Mainland enterprises.

It is expected that Hong Kong's economy will hold up well in 2008. Expected low unemployment, rising household incomes and a series of tax relief measures are likely to induce stronger levels of local consumption and fuel retail expansion as well as heightening the residential sector. The inbound tourism will likely benefit from the spill-over effects of the Beijing Olympic Games and the emergence of Macau's gaming and convention industry.

Hong Kong's longstanding economic success and reputation as Asia's international financial centre is built on the core values of the rule of law and the recognition of and the respect for private property ownership rights.

For the future, however, we are concerned when we start to see the irresponsible and arbitrary attitude taken by special interest groups towards our Group's Times Square as part of the recent movement to "reclaim" the city's "public space".

Times Square is a private property and the street level piazza is dedicated to the public solely for the purposes of pedestrian passage and passive recreation under very specific restrictions. Any act to ignore and violate the governing Deed of Dedication, which is a legally-binding agreement, would have far-reaching implications and be unacceptable to law-abiding citizens and owners of private property.

China's robust growth prospects give rise to investment opportunities for Hong Kong and overseas companies. The Group is taking on its substantial business initiative in expanding its business investment in the Mainland to capitalise from China's strong economic growth and the expected increase in its pace of urbanisation.

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

Peter K C Woo
Chairman
Hong Kong, 26 March 2008

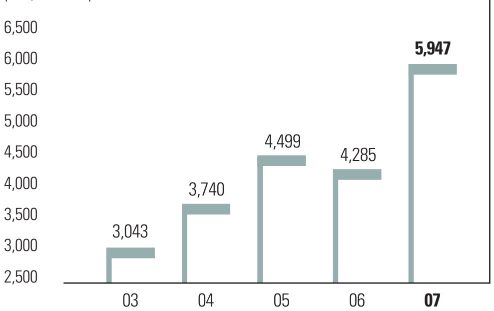
Financial Highlights

	2007 HK$ Million	2006 HK$ Million
Results		
Turnover	**16,208**	13,364
Operating profit before depreciation, amortisation, interest and tax	**10,739**	7,737
Profit before attributable property revaluation surplus	**5,947**	4,285
Group profit attributable to equity shareholders	**13,143**	10,757
Earnings per share	**HK$5.37**	HK$4.39
Dividend per share	**80 cents**	80 cents
Financial Position		
Total assets	**146,171**	119,277
Net debt	**23,565**	16,901
Shareholders' equity	**86,364**	75,162
Total equity	**92,002**	79,918
Net asset value per share	**HK$35.28**	HK$30.70
Net debt to shareholders' equity	**27.3%**	22.5%
Net debt to total equity	**25.6%**	21.1%

Group Profit Attributable to Equity Shareholders

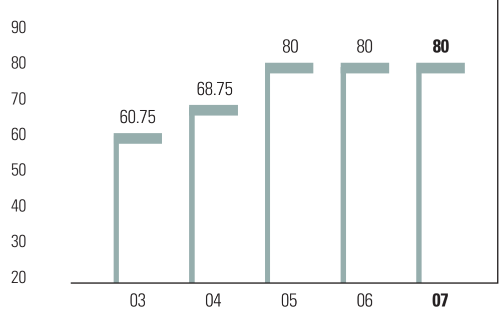
(before attributable revaluation surplus)

(HK$ Million)



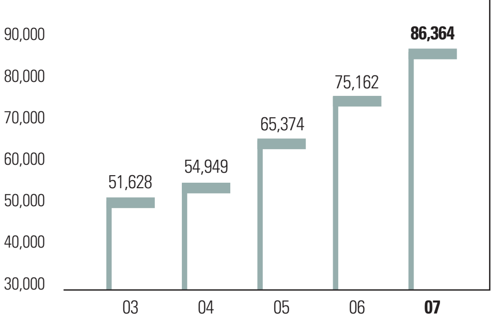
Dividend Per Share

(HK Cents)



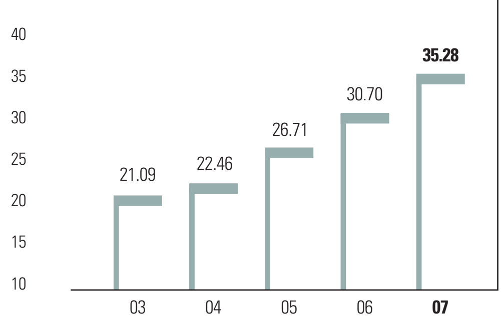
Shareholders' Equity

(HK$ Million)



Net Asset Value Per Share

(HK$)



Managing Director's Report

Business Review

Harbour City & Times Square

About 52% of Group assets; combined turnover HK$5,434 million (+15%); operating profit HK$4,035 million (+18%)

China Properties

Acquired 17 sites in the Mainland since mid-2005 for a total of HK$30 billion; it now commands an attributable land bank of development and investment properties of about 90 million square feet in plot ratio GFA

Modern Terminals

Developing new container terminals in Pearl River Delta and Yangtze River Delta; targeting other new projects along the China Coast

Other Businesses

Harbour City

The largest "shoppertainment" destination in town with a 27% year-on-year growth in average sales per square foot. A record high sales per square foot of exceeding HK$1,800 was achieved in December 2007. Renowned brands have all achieved extremely satisfactory sales performance in 2007.


VUITTON
LOUIS VUITTON
LOUIS VUITTON
LOUIS VUITTON

Left: Louis Vuitton expanded its store at Harbour City to three levels, making it the second largest LV store in the world

Right: Tenants at Harbour City continued to achieve better-than-market sales performance during 2007



Balance Sheet (Extract)

As at 31 December 2007

	HK$ Million
Properties	55,225
Hotel and club (cost less depreciation)	299
Net current liabilities	(1,596)
Other non-current liabilities	(614)
*Net business assets (before debt)	53,314

*Excluding deferred tax on revaluation surplus of investment properties

Gross Revenue

	2007 **HK$ Million**	2006 HK$ Million
Retail	**1,742**	1,472
Office	**1,336**	1,104
Serviced Apartments	**245**	202
Hotel and Club	**972**	944
	4,295	3,722

Operating Profit

	2007 **HK$ Million**	2006 HK$ Million
Retail	**1,408**	1,160
Office	**1,139**	934
Serviced Apartments	**167**	135
Hotel and Club	**353**	345
	3,067	2,574

Harbour City, the Group's core investment property asset, turned over HK$4,295 million during the year for an increase of 15% over 2006, while its operating profit grew by 19% to HK$3,067 million. Excluding the three hotels which are stated at cost less accumulated depreciation, Harbour City was valued at HK$55,225 million at the end of 2007, which represented 38% of total Group assets.

Retail

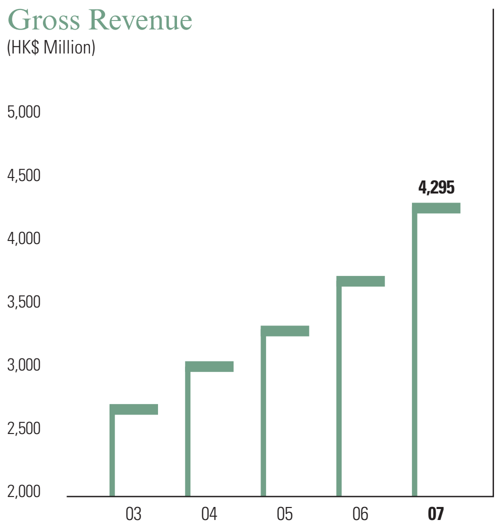
Rising household incomes, better job security and a ten-year record low unemployment rate stimulated domestic consumption. This, together with healthy growth in tourist arrivals with increased spending in Hong Kong, has driven retail sales to record levels. Turnover of Harbour City's retail sector grew by 18% to HK$1,742 million. Average retail occupancy at Harbour City was maintained at nearly 100% with favourable rental growth. Tenants at Harbour City continued to achieve better-than-market sales performance during 2007, with a 27% year-on-year growth in average sales per square foot. Shoppers' foot traffic for the year grew by 15% to 75 million and total sales in 2007 set a new record at HK$11.4 billion. Average sales per square foot in December even soared to a record high to exceed HK$1,800.

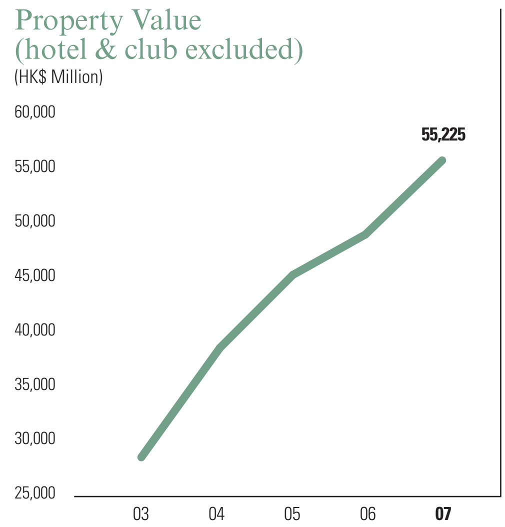
The best performing retail categories were leather goods, jewellery and watches, audio-visual products and cosmetics.

Phase I of the renovation of Ocean Centre was completed in the first quarter of 2007, with the opening of Chanel Boutique and the Italian restaurant Nobilduca. Conversion of Level 4 of Ocean Centre into 40,000 square feet of lettable space (retail and restaurants) has been substantially completed and three new restaurants offering terrace dining with panoramic seaview, namely, House of Jasmine, Kikuzen Yakiniku and Spasso were opened in the fourth quarter of 2007. In addition to the food and beverage outlets, the luxury homeware store Dentro is opening its first Kowloon outlet at Harbour City, forming a luxurious lifestyle hub with two upmarket salon and spa HH Hair & Nail and Mu-lan Spa.

Louis Vuitton expanded its store at Harbour City to three levels covering part of the second floor of Ocean Centre as well as Gateway Arcade. It is the second largest LV store in the world after the main store at Champs Elysees in Paris, France. Renovation work was completed and the new LV store has opened in March 2008. Harbour City remained one of the most sought-after shopping malls for retailers. Leasing activities remained active with the recruitment of a host of celebrated names including Berluiti, Emporio Armani, Juicy Couture, Kenzo, Lanvin, etc., while Hermès and Stella McCartney will open in 2008. Offerings at SportX and KidX have been further enriched, with the commitment of a series of new brands debuting in Hong Kong, including Freshness Burger, NBA and Oxbow. A Thai restaurant, Sweet Basil Thai Cuisine, has been opened in the SportX area to provide shoppers with additional specialty cuisines and new excitement.

The key to the success of Harbour City hinges on excellent retail management, win-win tenant-landlord partnership concept and constant trade-mix enhancement. Good clustering and segmenting review, together with powerful marketing and promotion programmes enable Harbour City to continuously excel and stay ahead in the marketplace. Forbes Travellers has selected Harbour City as one of the top 10 Asian mega-malls in April 2007 and it reflects Harbour City's good brand and reputation it has established throughout the years. Promotions at Harbour City, including the Christmas festive decorations and Chinese New Year decorations have been popular events for many locals and an attraction to tourists from the Mainland and overseas.





Right: Terrace dining with panoramic seaview at Level 4 of Ocean Centre

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

As at 31 December 2007

	% by Rental	% by Area
Fashion	36.9	22.2
Leather Goods — Shoes, Bags & Related Trades	18.8	13.0
Department Stores, Confectionery Products	13.2	22.3
Jewellery, Beauty and Accessories	10.7	5.8
Restaurant, Fast Food, F&B	6.2	15.8
Children's Wear & Related Trades, Toys	4.2	7.3
Sports Wear	3.6	3.6
Electrical & Audio-visual Equipment	2.7	2.5
Others	3.7	7.5
	100.0	100.0

Office

Underpinned by strong rental reversion, turnover from the office sector grew by 21% to HK$1,336 million.

During the year, demand for office space continued to be fueled by business expansion and upgrading requirements, together with the growing trend of decentralisation.

Office occupancy at Harbour City was committed at 95% at the end of December 2007. New lettings amounted to 626,084 square feet, about 40% of which were in-house expansions, including Benetton, City'Super, Hit Toys, Mattel, MGA, NYK Logistics, Prudential Assurance Company, Sony Computer Entertainment, etc. Others included relocation of offices from nearby buildings to the Gateway, driven by some new tenants who embarked on their office upgrading plans. New letting transactions with very favourable rental have been recorded in Harbour City, which included recent transactions recorded at over HK$40 per square foot at Tower 6 of Gateway II.

There has been an increasing trend of decentralisation from core areas to the Kowloon side in 2007. The Gateway portfolio has benefited from such a trend and become a preferred location for some commercial banks, including Mizuho Corporate Bank who took up over 47,000 square feet in December 2007. Such commitment forms a cluster with Citibank and a number of Taiwan banks like E.Sun Commercial Bank, Land Bank of Taiwan Co., Limited and Mega International Commercial Bank Co. Ltd.

Given the increasing toughness in renewal negotiations stemming from ample new supply in decentralised areas, lease renewal retention rate was 64% during the year. Nevertheless, owing to its advantageous location, ideal transportation network and vicinity support, Harbour City continues to be a natural choice for multinational, Mainland and local enterprises. The leasing and property management teams will strive to further improve the Harbour City premises to stay ahead in the competitive marketplace.

Office Occupancy at Harbour City

	Gateway II	Gateway I	Others
Total GFA (sq ft)	1,570,000	1,128,000	1,737,000
Average Occupancy	94.6%	90.5%	90.6%

Right: Office occupancy remains high with 95% committed at the end of December 2007

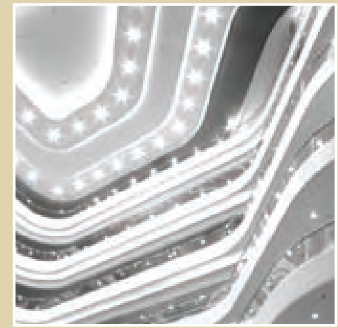
Serviced Apartments

Turnover for the serviced apartments grew by 21% to HK$245 million, on the back of higher occupancy and rental rates during the year.

Strong and persistent demand from all sectors, particularly the finance sector and China business boosted both occupancy and rental rates. At the end of December 2007, committed occupancy at Gateway Apartments soared to over 90%. Following a successful lease of a newly renovated penthouse unit with considerable rental increment, the second penthouse unit renovation was completed in December 2007 and is now being marketed at a promising rate.

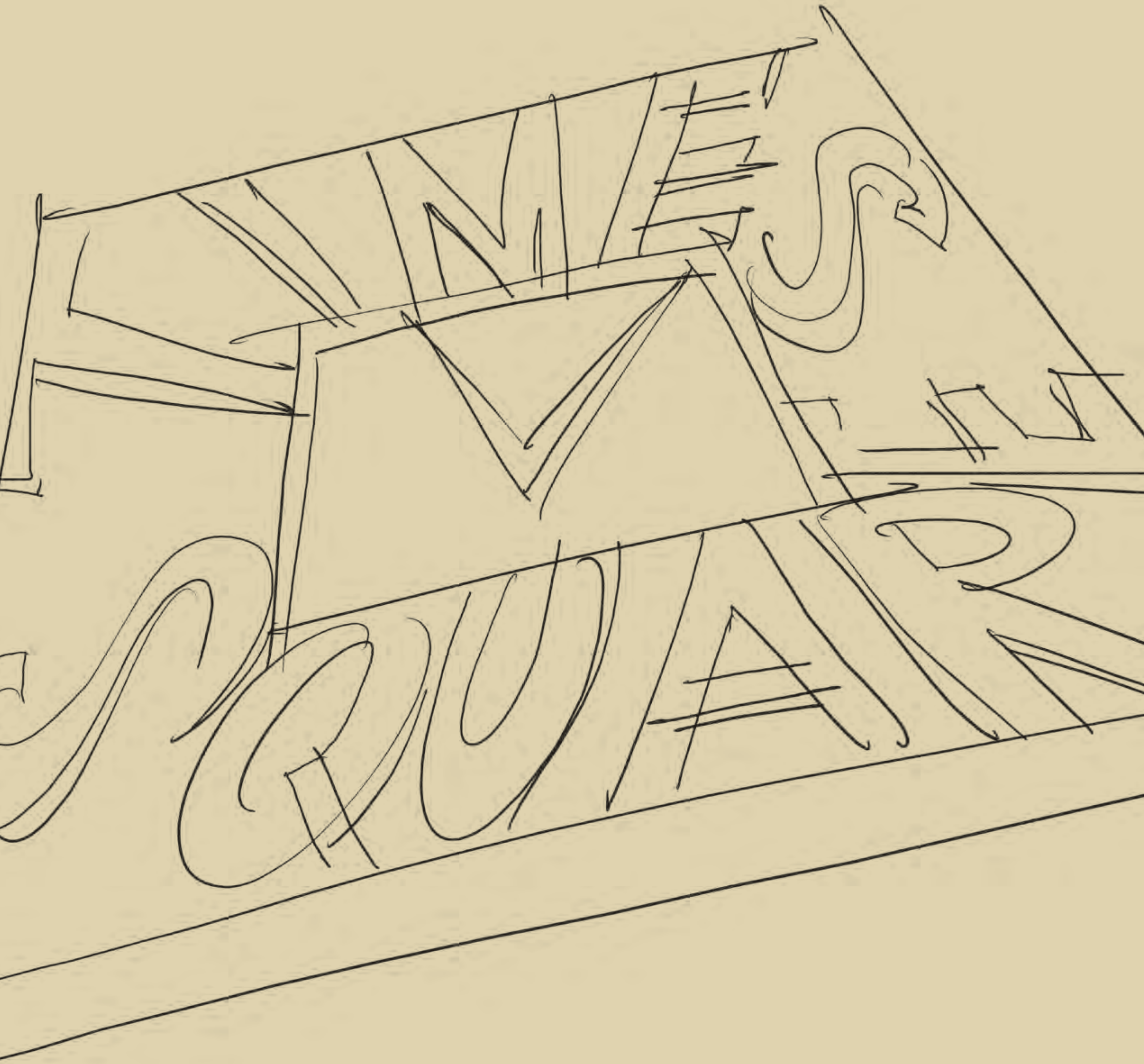
Harbour City: Portfolio Information

	Gross Floor Area (sq ft)	Gross Revenue (HK$ Million)	Average Occupancy (%)	Year-end Valuation (HK$ Million)
Retail	1,948,000	1,742	100	19,146
Office	4,435,000	1,336	92	29,859
Serviced Apartments	670,000	245	87	6,220
Hotel and Club *(stated at amortised cost)*	1,360,000	972	90	5,270



Successful zoning, constant trade mix refinement, strong branding and marketing programmes continued to contribute to Times Square's success as the leading "shoppertainment" destination in Causeway Bay

Times Square




京香港
2008
2008

Balance Sheet (Extract)

As at 31 December 2007

	HK$ Million
Properties	21,100
Net current liabilities	(348)
Other non-current liabilities	(295)
*Net business assets (before debt)	20,457

*Excluding deferred tax on revaluation surplus of investment properties

Gross Revenue

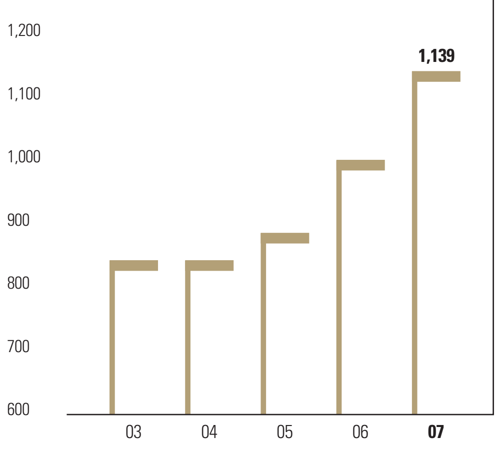
	2007 HK$ Million	2006 HK$ Million
Retail	**774**	706
Office	**365**	294
	1,139	1,000

Operating Profit

	2007 HK$ Million	2006 HK$ Million
Retail	**658**	598
Office	**310**	242
	968	840

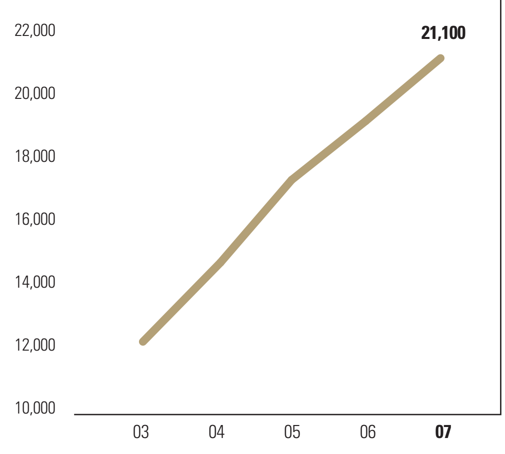
Gross Revenue

(HK$ Million)



Property Value

(HK$ Million)



Left: Apple Countdown at Times Square remains one of the most popular festive event in town

Times Square, another core investment property asset of the Group, turned over HK$1,139 million during 2007, for an increase of 14% over 2006. Operating profit increased by 15% to HK$968 million. Times Square was valued at HK$21,100 million at the end of 2007, which represented 14% of total Group assets.

Retail

Turnover from Times Square's retail sector grew by 10% to HK$774 million.

Average retail occupancy was maintained at 99%, with favourable rental growth. Leasing activities remained robust during the year, with the recruitment of a host of international brand names including Burberry, Chanel Beaute, Kate Spade and Juicy Couture. Excitement and traffic at the mall will be further boosted with Gucci's commitment of over 3,700 square feet of lettable retail space on the second floor. In a bid to further strengthen the Food Forum, the Group has signed up four new restaurants, namely 798

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

As at 31 December 2007

	% by Rental	% by Area
Fashion	30.8	18.0
Jewellery, Beauty and Accessories	20.9	10.3
Restaurant, Fast Food, F&B	13.0	27.2
Department Stores, Confectionery Products	12.7	20.7
Electrical & Audio-visual Equipment & Entertainment	11.2	13.1
Sports Wear	7.7	5.2
Others	3.7	5.5
	100.0	100.0

Below: With the numerous art and cultural activities held, Times Square has become a rendezvous where art and life meet

unit & co., Hunan Garden, Queen's Konditorei and MIX during the year and all of them have opened by the end of the year.

Successful zoning at Times Square enables shoppers' traffic to be distributed evenly around the retail mall. With its constant trade-mix refinement and strong branding and marketing programmes including its popular annual Apple Countdown, Times Square remains a top venue for talk-of-the-town events and a leading and must-visit shopping landmark in Causeway Bay. Over the years, it has also evolved into an art and cultural hub by supporting and organizing exhibitions of both local artists and world-renowned art masters including Ju Ming, Huang Yong Yu and Jimmy Liao. In a bid to consolidate Times Square's edge, active recruitment of debut international labels will be one of the main focuses.

Office

Turnover for the office sector edged up by 24% to HK$365 million, triggered by strong rental reversion. Committed office occupancy stood high at 98% at the end of 2007.

Times Square remained the preferred location for many multinationals engaged in the service or consumer goods sectors. New lettings during the year amounted to 153,666 square feet and most of them were in-house expansions. In addition to two major new letting transactions in Times Square recorded in June and August 2007, there was a third major new letting transaction recorded in October when Standard Life (Asia) Ltd took up over 17,000 square feet at Tower One. Lease renewal retention rate was maintained at 68% during the year, with renewals including Cosmopolitan Cosmetics, DHC and McDonald's.

Times Square: Portfolio Information

	Gross Floor Area (sq ft)	Gross Revenue (HK$ Million)	Average Occupancy (%)	Year-end Valuation (HK$ Million)
Retail	936,000	774	99	12,689
Office	1,033,000	365	96	8,411

On Times Square's Open Piazza...

Times Square is a landmark for locals and tourists alike. It was recently embroiled in some debate about "public space", perhaps without the full knowledge of the terms of the Deed of Dedication governing the subject. The full text of the Deed is available for inspection at http://www.timessquare.com.hk/pdf/TS_deed.pdf.

To set the record straight, the piazza area at the street level of Times Square is a private property. The following clause is worth noting:

> *This Deed of Dedication notwithstanding the said Dedicated Area is and shall remain the property of the Owner and the public shall not acquire prescriptive rights over the same under the English Prescription Act 1832 or under the doctrine of the Lost Modern Grant by virtue of the public's right of pedestrian passage and use of the said Dedicated Area as open space and passive recreation ground and the said Dedicated Area shall continue to be subject to and to have the benefit of all the terms and conditions of the said Crown Leases and shall continue to be included as part of the Owner's site for the purpose of calculating plot ratio and site coverage for any future redevelopment of the said Lots.* ***(Clause 3.(5))***

On this private property, the street level piazza is dedicated to the public solely "for the purposes of pedestrian passage and passive recreation" under very specific restrictions and conditions in accordance with the Deed of Dedication, which include the following clauses:

> *Noisy and disorderly conduct and every other practice in the opinion of the Owner likely to cause annoyance or nuisance or to interfere with the use and enjoyment of the said Dedicated Area as open space and passive recreation ground are forbidden;* ***(Clause 3.(2).(c).(vii))***

> *No person shall bring or cause to be brought onto the said Dedicated Area any food or drinks except (if at all) under any by-laws or rules the Owner may think fit to make; and* ***(Clause 3.(2).(c).(ix))***

> *No person shall in the said Dedicated Area wilfully obstruct, disturb, interrupt or annoy any other person in the proper use of the said Dedicated Area, or wilfully, obstruct, disturb or interrupt any servant employee or person employed by the Owner in the proper execution of his duty or of any work in connection with the laying out maintenance landscaping or upkeep of the said Dedicated Area.* ***(Clause 3.(2).(c).(xi))***

> *The Owner shall throughout the period during which the said Building and shall be situated on the said Lots at its own expenses and to the satisfaction of the Director keep and maintain the said Dedicated Area in a clean and tidy condition and free from any obstruction. If and when called upon so to do by the Director, the Owner shall carry out such works for the removal of any obstruction from the said Dedicated Area as the Director shall reasonably require and, in the event of the Owner being unable or incapable of effecting any such removal, the Director may do so or procure the said forthwith.* ***(Clause 3.(2).(f))***

> *Subject to the prior written approval of the Director, the Owner reserves the full right to place or permit the placing of temporary structures on the said Dedicated Area from time to time for the purpose of temporary exhibitions and displays provided that the same shall not impede the general right of pedestrian passage and use of the said Dedicated Area as a passive recreation ground as aforesaid. Any provision in this respect shall be exclusive to the Owner provided however that any such exhibitions and displays may be organised by organisations as approved by the Owner and the Owner may charge such organisations for their use of electricity/water or related facilities and other services of the Owner in respect of such exhibitions and displays.* ***(Clause 3.(2).(j))***

> *The Owner reserves the full right to evict and/or remove any person from the said Dedicated Area who is found by the Owner to be committing any act of nuisance or disorderly conduct on the said Dedicated Area.* ***(Clause 3.(2).(k))***

The Group has acquired 17 sites in the Mainland since mid-2005 for a total of HK$30 billion. It now commands an attributable land bank of development and investment properties of about 90 million square feet in plot ratio GFA.

China Properties


LOUIS VUITTON

Balance Sheet (Extract)

As at 31 December 2007

	HK$ Million
Investment properties	6,095
Other properties and fixed assets	2,016
	8,111
Interest in jointly controlled entities	4,237
Property inventory and development	8,419
Net current liabilities	(1,349)
Other non-current liabilities	(1,458)
Net business assets (before debt)	17,960

All three completed investment properties, namely Beijing Capital Times Square, Shanghai Times Square and the retail podium of Chongqing Times Square, performed satisfactorily. Total revenue was up by 21% and operating profit by 52% during the year.

Solid growth in development profit from China properties was recorded during the year. Relevant development profit from sales of two launched projects jumped to HK$718 million (2006: HK$2 million). Wellington Garden, a high-end residential and office-apartment development in Shanghai, has launched its first phase of two residential blocks since mid-2006 and all launched units were sold at excellent unit price in the city by the end of 2007. Wuhan Times Square also successfully sold 98% of its first phase consisting of two residential towers at record high unit price in that city as at the year-end.

The second phase of both projects has been launched since mid-December of 2007, with favourable responses. Profits arising from the disposal of the second phase of both projects would be booked in 2008. The residential and apartment units of Wuhan Times Square were completed in January 2008, with the rest comprising retail and a hotel, scheduled for completion during 2008.

Tian Fu Times Square in Chengdu launched its pre-sale of two residential towers in September 2007 and all units were promptly sold within a few days. Pre-sale of the second phase comprising the third residential block has been launched since mid-January 2008 and was met with enthusiastic responses. Overall, 97% of these three residential blocks were successfully pre-sold at record high unit price in the city. Construction work of the remaining project comprising retail, office, hotel and residential is well underway and development completion is scheduled in 2009-2011.

Other Projects under Development

Dalian Times Square is a retail and residential complex, with attributable plot ratio GFA of 1.5 million square feet. Superstructure works are in progress and the development is scheduled for completion by the fourth quarter of 2008. The 180,000-square-foot shopping mall, targeting for opening in the fourth quarter of 2008, has secured the commitment of a host of top-notch brands including Dior, Fendi, Giorgio Armani, Gucci, Hermès, Louis Vuitton (over 10,000 square feet), Prada, Versace, etc. The two residential blocks atop the retail podium, with a total GFA of about 1.3 million square feet are scheduled for pre-sale in 2008 by two phases.

Shanghai Wheelock Square, with attributable plot ratio GFA of 1.2 million square feet, comprises a top quality Grade A office tower plus a retail annex. Superstructure work is in progress. The development is scheduled for completion by 2009.

Left: A league of super deluxe retailers will be joining Dalian Times Square on its opening in the last quarter of 2008

Two high-end residential projects in Shanghai, No. 1 Xin Hua Road (新華路) and Jingan Garden are progressing according to plan.

No. 10 Gaoxin District (高新區) in Chengdu, with attributable plot ratio GFA of 4.4 million square feet, is planned for residential and commercial developments. Construction work for phase one is in progress and the project is expected to be completed in phases between 2009–2011.

Superbly located in Shuangliu Development Zone (雙流發展區), the Group's third site in Chengdu will be developed into a mixed-use complex comprising an outlet mall, hotel and residential space with attributable plot ratio GFA of 9.8 million square feet. Construction of the outlet mall commenced in December 2007 and is scheduled for completion by early 2009.

The Group's sites in the Nanchang District (南長區), Wuxi, comprise two parcels of land planned for an upscale residential project with an attributable plot ratio GFA of 8.9 million square feet and a high-rise commercial development project with an attributable plot ratio GFA of 3.0 million square feet respectively. Development of residential blocks on the first parcel is expected to be completed in phases between 2010–2014. The 339-metre super tower at Taihu Plaza will be the tallest landmark of Wuxi and its construction work is scheduled for completion by 2012.

In September 2007, the Group acquired its fourth site in Chengdu at a public auction for RMB7,242 million. Superbly located on Hongxing Road (紅星路) in the prime Jinjiang District (錦江區), the site is right in the heart of Chengdu's vibrant business centre. The parcel has a total site area of more than 590,000 square feet, roughly the same size of Hong Kong's Harbour City, and offers attributable plot ratio GFA of 4.7 million square feet. It will be developed into a mixed-use project comprising Grade A offices, a five-star hotel and a high-end retail complex, with the retail portion commanding about one-third of the total floor area. Planning of the development is underway. Preliminary construction work commenced at the end of 2007.

The Group's first site acquired in Suzhou is superbly located between Jinji Lake (金雞湖) and Dushu Lake (獨墅湖) in the eastern side of the city next to a 27-hole golf club. It will be developed into premier deluxe low density residences with attributable plot ratio GFA of 2.2 million square feet. Construction work will commence in mid-2008. The project is scheduled for completion by 2010.

The Group's second lot in Suzhou is ideally located in the Suzhou Industrial Park (蘇州工業園區) next to Qing Jian Hu (青劍湖) and Wei Ting Sun Island Golf & Resorts (唯亭太陽島高爾夫俱樂部). It was acquired in July 2007, through a joint venture, which committed a price of RMB1,010 million at a public auction. The Group and the China Merchants Property group will jointly develop the site on a 50:50 ownership basis. The project will be a residential development with attributable plot ratio GFA of 908,000 square feet. Planning is well underway. The project is expected to be completed by 2012.

The Group's first lot in Hangzhou is superbly situated in a prime area in the Xihu District (西湖區), Zhuantang town (轉塘鎮) and is in the proximity of Songcheng (宋城) next to West Lake International Golf & Country Club (西湖國際高爾夫俱樂部). It comprises four land parcels, which was acquired through a joint-venture company at a public auction for RMB3,091 million in late August 2007. The Group and Jindu Group, a leading developer in Hangzhou, have each taken a 50% stake in the joint-venture company. These connected sites have a total site area of more than 2.0 million square feet and offer attributable plot ratio GFA of 2.0 million square feet. The project is scheduled for completion by 2012.

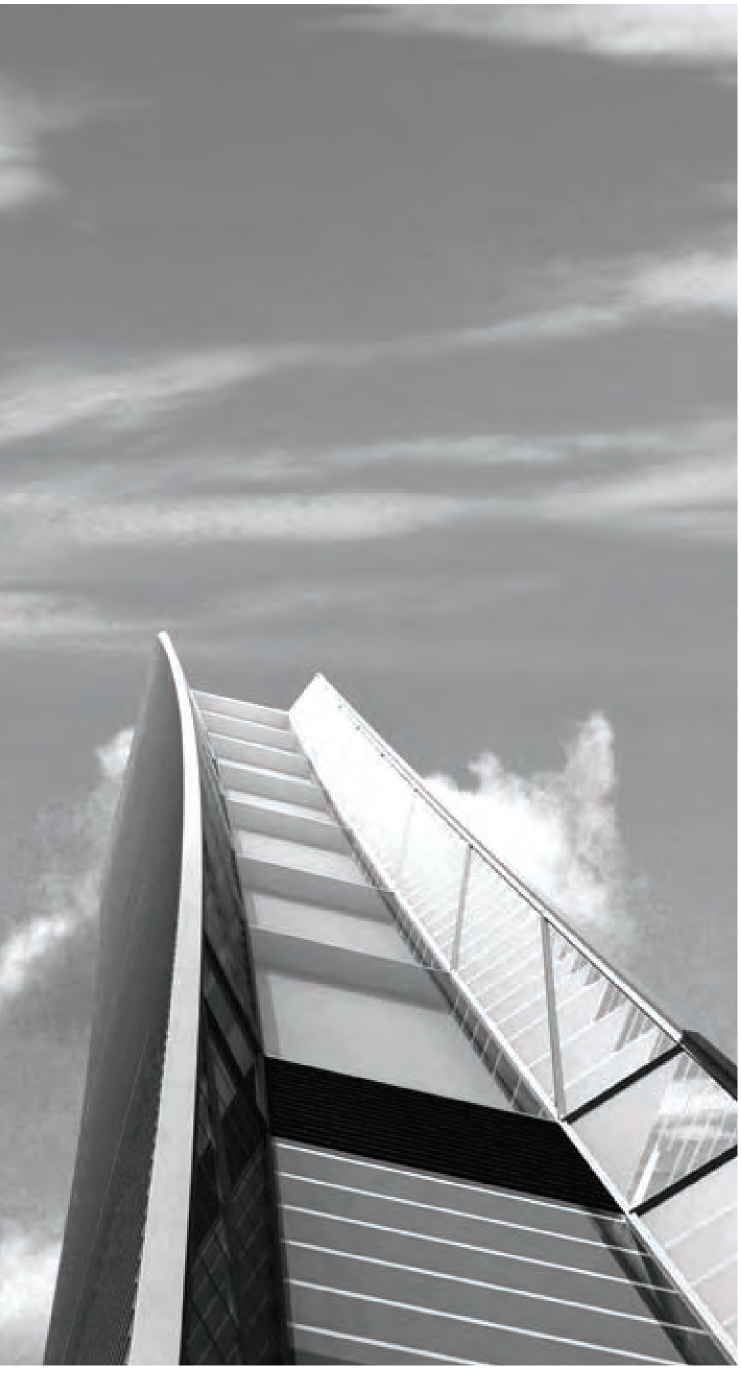
In November 2007, the Group acquired a land parcel in Nanan District (南岸區), Chongqing at a public auction through a joint-venture company for RMB7,500 million. The Group and China Overseas group will jointly develop the site on a 40:60 ownership basis. Ideally located at Danzishi (彈子石) of Nanan District, next to Yangtze River (長江), the parcel boasts a total site area of about 6.1 million square feet and offers attributable plot ratio GFA of 9.0 million square feet. It will be developed into a high-end residential and commercial project. The project is expected to be completed by 2014.

China Property List

	Project Nature	Attributable Plot Ratio GFA (sq. ft.)	Status	Completion	Effective % Owned
Beijing Capital Times Square	Office/Retail	1,114,000	For Lease	1999	88
Shanghai Times Square	Office/Retail/Apartment	973,000	For Lease	1999	100
Chongqing Times Square	Office/Retail	591,800	For Lease	2004	100
Wellington Garden Tower 3 (Shanghai)	Residential *	209,100	For Sale	2007	59
Wuhan Times Square Towers 3 & 4	Residential	24,300	For Sale	2007	100
Wuhan Times Square Towers 1, 2, 8 & 9	Hotel/Residential *	1,002,000 #	Under Construction	2008	100
Dalian Times Square	Retail/Residential	1,529,000	Under Construction	2008	100
Shanghai Wheelock Square+	Office/Retail	1,228,000	Under Construction	2009	98
No.1 Xin Hua Road (Shanghai)	Residential	206,000	Under Construction	2009	85
Tian Fu Times Square (Chengdu)++	Office/Retail/Hotel/Residential	4,856,200 #	Under Construction	2009-2011	100
Wuxi Taihu Plaza Project					
Taihu Plaza Project (Wuxi)	Residential	8,949,000	Under Construction	2010-2014	100
Wuxi Super Tower	Office/Retail/Hotel/Residential *	3,023,000	Under Planning	2012	100
No.10 Gaoxin District (Chengdu)	Office/Retail/Residential	4,422,000	Under Construction	2011	100
Lot No. 68210 Suzhou Industrial Park	Residential	2,192,000	Under Planning	2010	100
Chengdu IFC (Chengdu)	Office/Retail/Hotel/Residential	4,724,000	Under Planning	2011	100
Jingan Garden (Shanghai)	Residential *	773,000	Under Planning	2011	55
Shuangliu Development Zone (Chengdu)	Retail/Hotel/Residential *	9,807,000	Under Planning	2012	100
Changzhou Dinosaur Park Project	Hotel/Residential	8,681,000	Under Planning	2012	67
Jiangbei City Project (Chongqing)	Residential	2,524,000 (55%) ##	Under Planning	2012	37
Zhuantang Town Project (Hangzhou)	Retail/Residential	2,005,000 (50%) ##	Under Planning	2012	50
Nanjing Xianlin Project	Residential	2,263,000 (50%) ##	Under Planning	2012	50
Hangzhou CBD Project	Office/Retail/Hotel/Residential	1,280,000 (40%) ##	Under Planning	2012	27
Suzhou Wei Ting Project, Suzhou Industrial Park	Residential	908,000 (50%) ##	Under Planning	2012	50
Suzhou Industrial Park					
Xiandai Da Dao	Residential	9,765,000	Under Planning	2013	53
Suzhou Super Tower	Office/Retail/Hotel/Apartment	3,780,000	Under Planning	2013	53
Wuxi Old Canal Development	Office/Residential	8,740,000	Under Planning	2013	100
Danzishi Project (Chongqing)	Retail/Residential	9,039,000 (40%) ##	Under Planning	2014	40

+ Formerly known as Lot 1717 Nan Jing Xi Road ++ Formerly known as No. 11 Dong Da Jie * Residential includes office-apartments
# Partly pre-sold ## Being attributable percentage held through jointly controlled entities and the respective GFA are shown on an attributable basis

Right: Chongqing Times Square reported satisfactory performance in 2007



In December 2007, the Group acquired a land parcel in Qixia/Xianlin New District (棲霞區／仙林新區) of Nanjing through a joint-venture company at a public auction for RMB2,410 million. The Group and the China Merchants Property group have each taken a 50% stake in the joint-venture company. The site boasts a site area of about 3.6 million square feet and offers plot ratio GFA of 4.5 million square feet, of which 2.3 million square feet is attributable to the Group. Planning is underway to develop the site into a high-end residential project. With the relocation of Nanjing University (南京大學) into the district and the completion of Xianlin metro station in the near future, this well-known university town's community facilities and transportation network will be further enhanced. The project is scheduled for completion by 2012.

The Group through Harbour Centre Development Limited ("HCDL"), also acquired five excellent sites in the cities of Chongqing, Suzhou, Hangzhou and Changzhou during 2007. Acquisition of the first four sites has been made through partnering with strong local property companies while the remaining site in Changzhou is wholly-owned by HCDL. Descriptions of these projects are as follows:

In September 2007, HCDL acquired a land lot in Jiangbei City (江北城) of Jiangbei District (江北區), Chongqing, through a joint-venture company at a public auction, for RMB2,540 million. HCDL and the China Overseas group will jointly develop the land, on a 55:45 ownership basis. Superbly located in the eastern side of Jiangbei City, facing Yangtze River (長江) in the east and north and Jialing River (嘉陵江) in the south, the land lot has a total site area of about one million square feet and offers attributable plot ratio GFA of 2.5 million square feet. It will be developed into a high-end residential project. Development completion is scheduled in 2012.

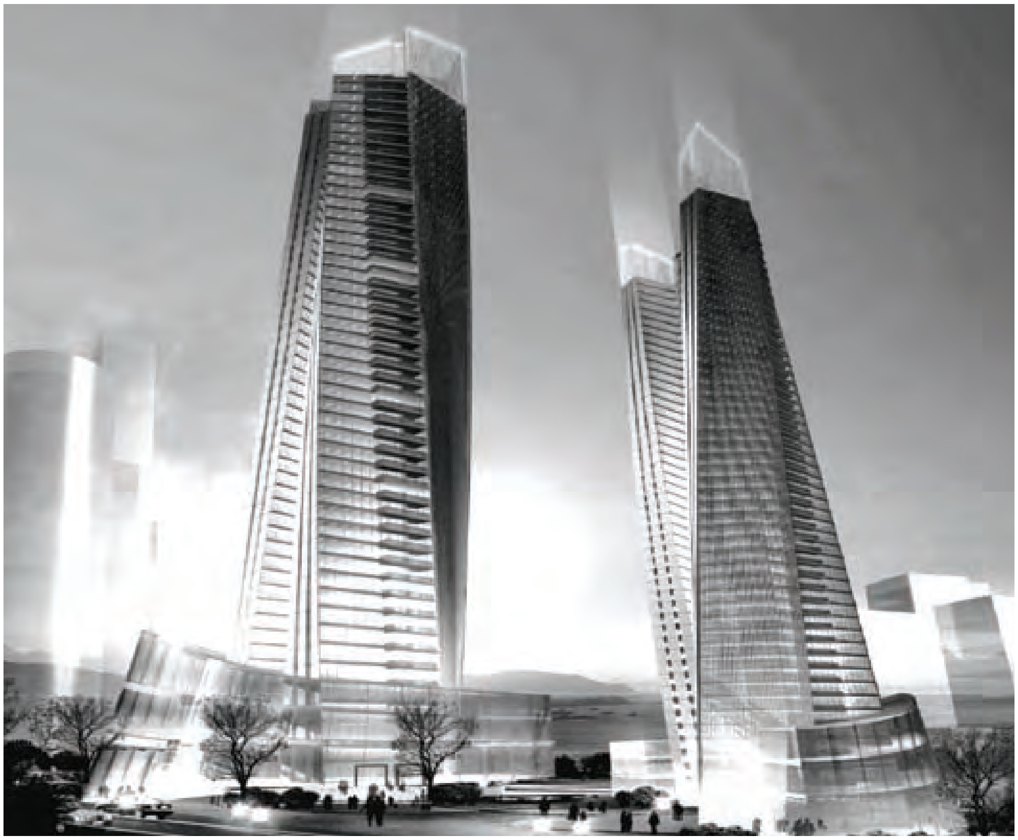
In early October 2007, HCDL acquired two land parcels on Xinghu Jie (星湖街) and Xiandai Da Dao (現代大道) in Suzhou Industrial Park (蘇州工業園區) respectively for a total of RMB3,073 million through a joint-venture company between HCDL and Zhong Xin Suzhou Industrial on a 80:20 ownership basis. The parcels command a total site area of about 5.65 million square feet and offer attributable plot ratio GFA of 13.5 million square feet. A 420-metre skyscraper landmark, the tallest development in Suzhou, will be built at the site of Xinghu Jie while the site at Xiandai Da Dao will be for residential development. The project is scheduled for completion by 2013.

Following the acquisition of the Suzhou site, HCDL entered into an agreement with Greentown China Holdings Limited in mid-October 2007 for the joint development of a land parcel in Hangzhou. HCDL and Greentown China Holdings Limited have taken respectively 40% and 60% stake in the joint-venture company. Superbly situated in the new Hangzhou Central Business District (錢江新城) and frontal to the Qingtang Jiang (錢塘江), the site boasts a total site area of about 907,000 square feet and offers plot ratio GFA of 3.2 million square feet of which 1.3 million square feet is attributable to the Group. The plan is to develop the site into a commercial, hotel and residential complex. Development completion is scheduled in 2012.

The Group through HCDL, also acquired a land parcel in Xinbei District (新北區) of Changzhou at a public auction for RMB1,470 million. The parcel commands a total site area of about 4.4 million square feet and offers a plot ratio GFA of 8.7 million square feet. Ideally located in the prime area of Xinbei District, the parcel is just five kilometres away from the city centre, in the vicinity of China Changzhou Dinosaur Land theme park (中華恐龍園) and Xin Qu Park (新區公園). It boasts superb

Left: Suzhou Super Tower, a 420-metre skyscraper landmark and the tallest development in Suzhou, is scheduled for completion by 2013

Right: The Jiangbei City site, which offers an attributable plot ratio GFA of 2.5 million square feet, will be developed into a high-end residential project



air-sea-land transportation links including Changzhou Civil Aviation Airport and Huning Express Railway. The project is scheduled for completion in 2012.

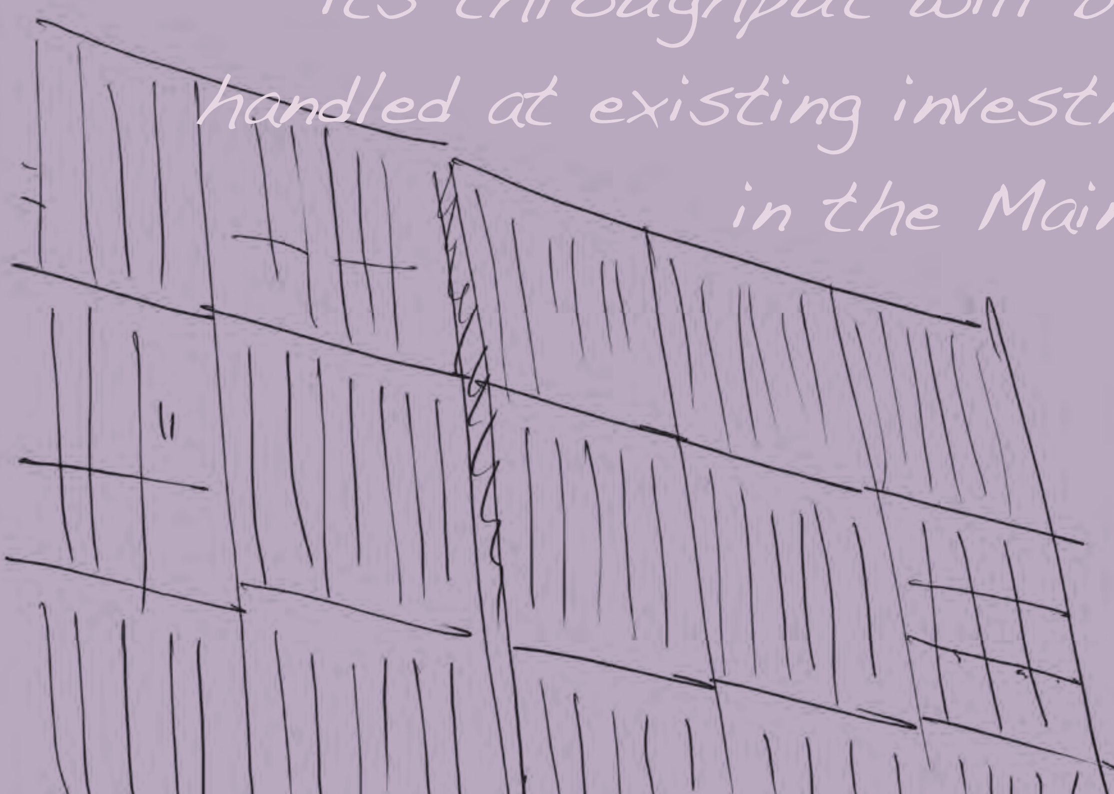
New Acquisitions

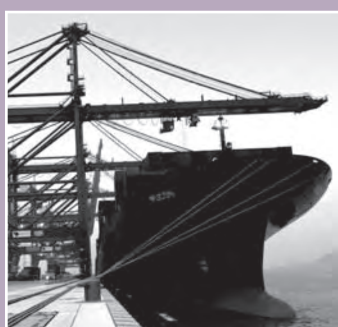
In January 2008, the Group acquired one prime site (three pieces of land lot) in Wuxi as detailed hereunder.

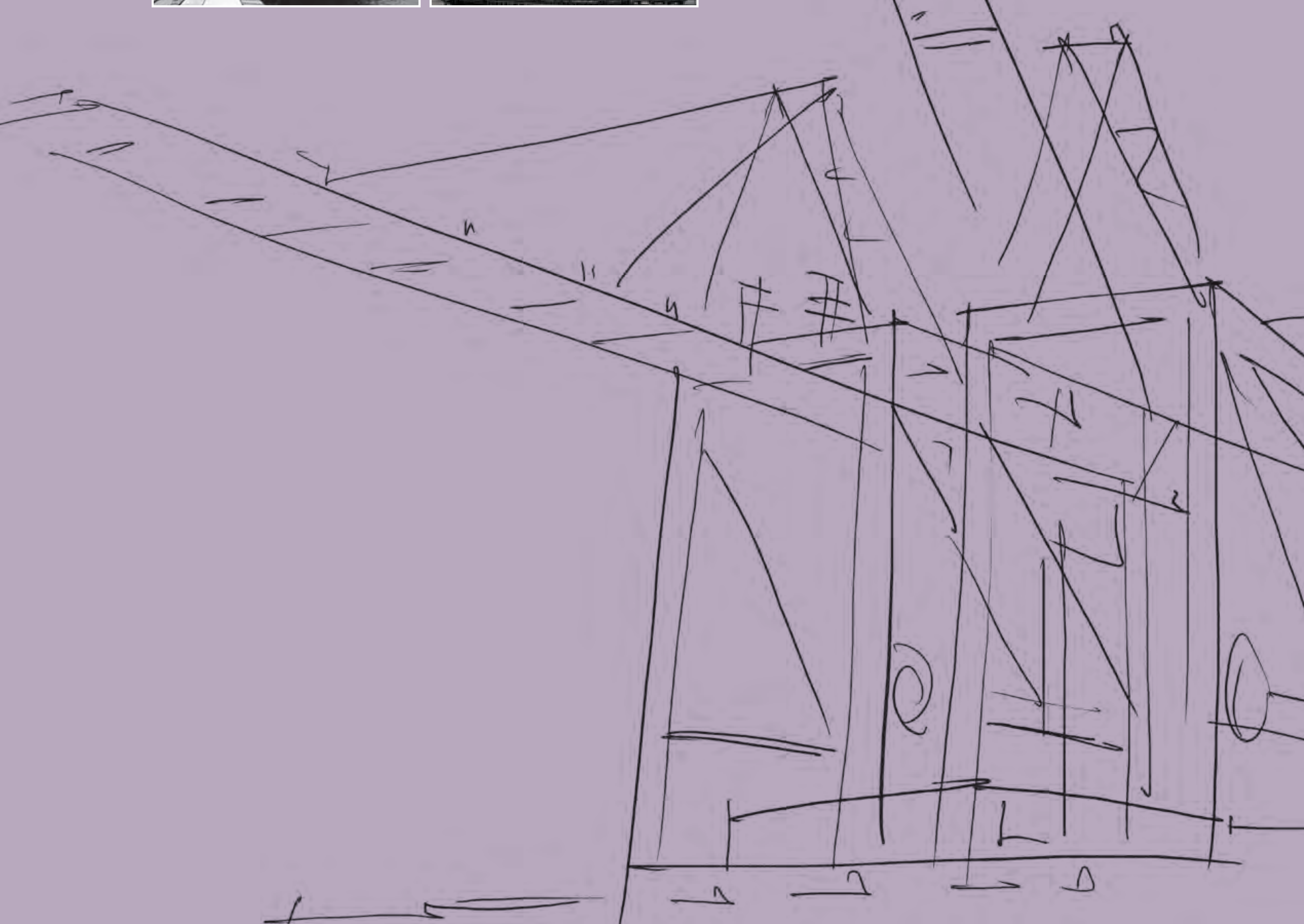
The Group acquired another three land parcels in the city of Wuxi at a public auction in January 2008. Superbly located in Nanchang District (南長區) of Wuxi alongside the 2,500-year-old ancient canal, these land parcels boast a site area of 4.8 million square feet and offer plot ratio GFA of 8.7 million square feet. It is planned for commercial and residential development. Ongoing discussion with prospective property partner is underway and no fixed decision has yet been made.

Modern Terminals

Modern Terminals is developing new container terminals in Pearl River Delta and Yangtze River Delta, as well as targeting other new projects along the China Coast. It is expected that by 2011, half of its throughput will be handled at existing investments in the Mainland.








63
73
MAERSK
71

Balance Sheet (Extract)

As at 31 December 2007

	HK$ Million
Fixed assets	11,480
Interest in associates / jointly controlled entities	4,310
Goodwill	297
Net current liabilities	(760)
Other non-current liabilities	(265)
Net business assets (before debt)*	15,062

* Modern Terminals has net debt of HK$9,602 million, which is non-recourse to the Company and other subsidiaries of the Group.

Underpinned by buoyant export from South China, container throughput in the Pearl River Delta region grew by 14% during 2007, with Shenzhen terminals registering a growth rate of 19% and Hong Kong terminals 8%. Shenzhen's market share rose slightly from 52% (for 2006) to 55%, while Hong Kong's dropped from 48% to 45%.

For Modern Terminals, throughput in Hong Kong grew by 6% to 5.72 million TEUs during 2007, on the back of an increase in Intra-Asia services, to maintain a market share of 33.2% in Kwai Tsing. In Shenzhen, Chiwan Container Terminal, in which Modern Terminals holds an 8% attributable stake, handled 4.0 million TEUs and Shekou Container Terminals, in which Modern Terminals holds a 30% stake (to be eventually diluted to 20% with the completion of the remainder of the entire facilities), handled 3.31 million TEUs.

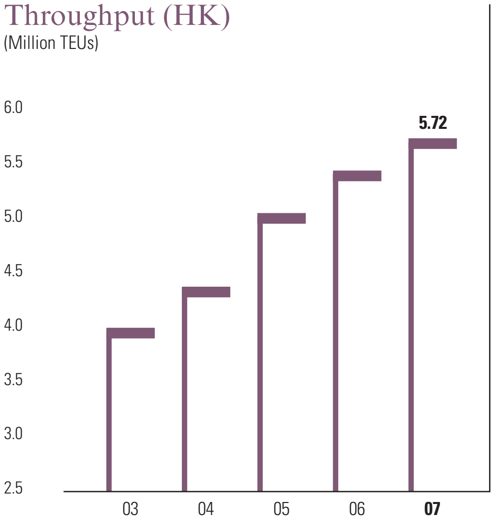
Consolidated revenue and operating profit rose by 4% and 5% to HK$3,213 million and HK$1,829 million respectively.

With substantial consolidation in the container port industry in 2006, and having achieved the previous set of company growth targets, Modern Terminals reviewed its position within the new industry structure. This review confirmed Modern Terminals' strong positioning due to a number of key factors:

- Greater China remained the trade growth engine for the world.
- Modern Terminals focused on China and already had a foothold in the two largest manufacturing regions (Pearl River Delta and Yangtze River Delta) through investments in Chiwan Container Terminal and Shekou Container Terminals (both in Shenzhen), and new terminal projects in Taicang (Suzhou) and Dachan Bay (Shenzhen).
- Regional players were able to realise similar economic advantages to the newly consolidated global players and there were no scale disadvantages to strong regional players such as Modern Terminals.

Left: Modern Terminals' Hong Kong throughput grew to 5.72 million TEUs in 2007

Right: Modern Terminals' market share in Kwai Tsing stands at 33.2%



Confidence in Modern Terminals' position resulted in a raising of long-term growth targets and the establishment of a new vision, Vision 2015, to build the company for tomorrow. Vision 2015 states that:

Modern Terminals provides the physical gateway for the container and cargo flows that drive the development of China's economy and the prosperity and well-being of its people.

Modern Terminals is relentlessly driven by its uncompromising standards and recognised for our world-class people, container terminals and services. The company is cherished by customers and stakeholders as their preferred partner.

Modern Terminals' vision matches the growing needs of China's trade with the following targets:

- By 2010, building on Modern Terminals' successful operations in Hong Kong, Dachan Bay and Taicang, it has secured significant terminal developments in the Mainland, ensuring continued strong growth. Its throughput and company value are doubled in comparison to 2005.
- By 2015, Modern Terminals would have expanded its presence in the Pearl and Yangtze River Deltas and has significant operations in the key growth regions of China, including the Bohai Gulf. Its throughput and company value are doubled in comparison to 2010.

Modern Terminals first acquired a 51% stake in Taicang Port (Phase 1) in 2004 and has since invested in a 70% stake in Taicang International Gateway and expanded the port from two to six container berths with a capacity of 3.5 million TEUs. Throughput has grown at a compound annual growth rate of over 75% since the original investment, rising to about one million TEUs in 2007, which was 77% higher than a year earlier.

The most recent new port project, Da Chan Bay Terminal One in Shenzhen (65%-owned), was launched in December 2007 with two berths. Construction of the remaining three berths is on schedule for commissioning in 2008.

By 2011, Modern Terminals expects half of its container throughput to be handled at existing investments in the Mainland. In the last 18 months, the pipeline of development projects has been substantially strengthened. Strategic framework agreements have been signed with Dalian Port (PDA) Co., Ltd. and the Dalian Municipal Government (Liaoning) and Zhoushan Port Authority (Zhejiang). These agreements, along with further expansion at the existing terminals in Taicang and Dachan Bay, ensure that Modern Terminals can continue to expand and deliver its Vision 2015.

Other Businesses

Other Hong Kong Properties

Plaza Hollywood registered a turnover growth of 9% to HK$302 million, thanks to favourable rental growth during the year. Average occupancy was maintained at 99% throughout 2007.

Bellagio is a residential development in Sham Tseng overlooking the Tsing Ma Bridge. Out of the total of 3,345 units in the development, cumulative sales have reached 3,266 units (or 98%) by the end of 2007.

Leasing activities for our Peak property portfolio during 2007 remained robust. Chelsea Court was fully let at the end of 2007. Committed occupancy at the end of December 2007 at Mountain Court and 1 Plantation Road was maintained at 96% and 98% respectively. Favourable rental growth in all new lettings and renewals was recorded. Driven by strong demand for luxurious residential units on the Peak, a record high unit rent of HK$61 per square foot has been achieved from the new letting of Penthouse A - House 1 of 1 Plantation Road at the end of 2007.

Balance Sheet (Extract)

As at 31 December 2007

	HK$ Million
Properties	14,151
Interest in associates	121*
Property inventory and development	815
Second mortgage debtors	14
Net current liabilities	(362)
Other non-current liabilities	(157)
**Net business assets (before debt)	14,582

* Including mainly 1/3 interest in Bellagio
** Excluding deferred tax on revaluation surplus of investment properties

Major Property List

	Project Nature	Attributable GFA (sq ft)	% Owned	Status
Plaza Hollywood	Retail	562,000	100	For Lease
Wharf T&T Square	Office/Retail	395,000	100	For Lease
Delta House	Office	349,000	100	For Lease
1 Plantation Road	Residential	97,000	100	For Lease
Mountain Court	Residential	49,900	100	For Lease
Chelsea Court	Residential	43,000	100	For Lease
77 Peak Road	Residential	32,000	100	For Lease
Star House - various units	Retail	50,800	67	For Lease
Cable TV Tower - various units	Industrial	566,000	100	For Lease/Own Use
Strawberry Hill - various units	Residential	16,000	100	For Lease/Sale
Bellagio Towers 1,2,3 & 5	Retail/Residential	35,400	33	For Lease/Sale
Kowloon Godown	Industrial-Office/Retail	1,575,200	100	Under Planning
Cable TV Tower South	Industrial	584,600	100	Under Planning
Yau Tong Godown	Retail/Residential	255,700	100	Under Planning
Yau Tong JV Project	Office/Retail/Residential	720,200	15.6	Under Planning

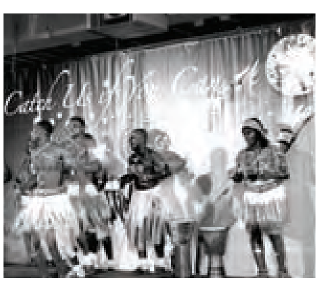
In line with the Group's policy, the Group continues to actively look for opportunities to dispose of its non-core properties, following successful disposal of the Group's remaining stock in Grandtech Centre in Shatin in May 2007.

Marco Polo Hotels

Marco Polo Hotels currently has a portfolio of nine operating hotels in the Asia Pacific Region.

The three hotels in Harbour City performed solidly during the year. Total hotel and club revenue was HK$972 million, and a 6% growth in average room rate was achieved. Despite a steady increase in average room rates, consolidated occupancy during the year was sustained at a healthy level of 90%, which is the same as last year.

Following the opening of Marco Polo Parkside in Beijing in June 2007, two new deluxe Marco Polo hotels in Wuhan (at Wuhan Times Square) and Chengdu (at Tian Fu Times Square) are scheduled to open in mid-2008 and 2012 respectively. Currently, three additional Marco Polo hotels are planned for the Wuxi, Suzhou and Changzhou markets.



i-CABLE

In 2007, i-CABLE successfully adjusted to the new competitive environment to establish a lower cost base to preserve its profitability despite substantial pressure on revenue. Investment in new businesses also began to bear fruit. Accordingly, it is well placed for further development. For the full year, net profit after tax was almost unchanged at HK$183 million (2006: HK$181 million), despite a decrease in turnover to HK$2,304 million (2006: HK$2,548 million).

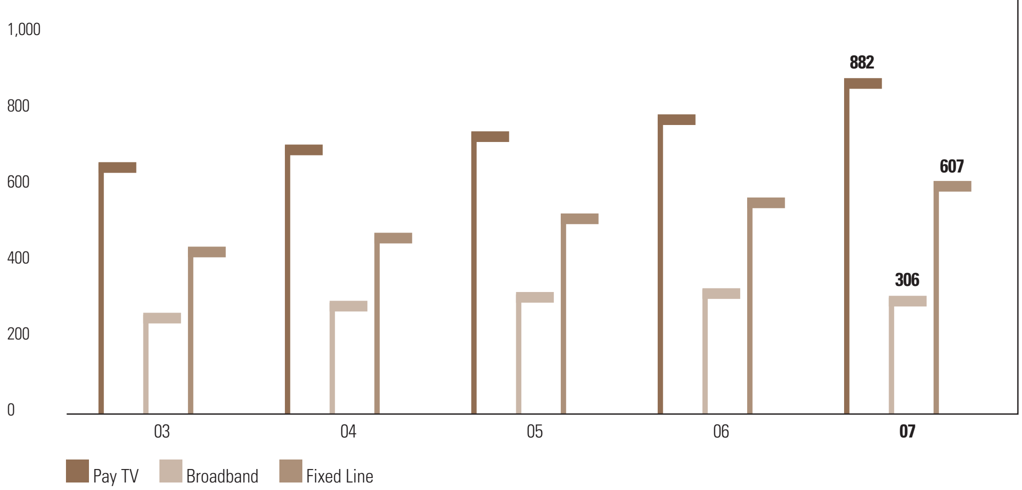
Anchoring on its content strength as well as its adjusted marketing strategy, customer retention exceeded all plans and the Pay TV subscriber base grew by 12% in the year to 882,000. However, both subscription and advertising revenue weakened and combined to reduce total turnover and operating profit for this sector to HK$1,595 million (2006: HK$1,895 million) and HK$179 million (2006: HK$248 million) respectively. Nevertheless, both turnover and operating profit in the fourth quarter were higher than in the third quarter, partly for seasonal reasons.

Building for future growth, i-CABLE continued to acquire new channels to meet the diverse viewing tastes of subscribers. Among the new channels introduced during the year included PGA Tour, NEO Sports, Nat Geo Wild and Aljazeera. i-CABLE has also acquired exclusive broadcasting rights with a sweep of all of the world's top international sporting events up to 2012. They include 2010 FIFA World Cup, 2010 Winter Olympics and 2012 Summer Olympics.

On the Broadband front, subscriber base and turnover consolidated as i-CABLE preferred revenue and profit preservation over market share gains. Turnover slipped marginally to HK$588 million (2006: HK$596 million) as the subscriber base dipped to 306,000 (2006: 328,000). However, operating profit for this sector increased by 40% to set a new record with HK$180 million (2006: HK$129 million).

New content was introduced to the multimedia platform during the year to enhance value, including the launching of a new online service "i-CABLE IPTV" with four free channels to widen the video attraction of i-CABLE's portal. i-CABLE broke new ground when it was appointed official "New Media Broadcaster" of the 2008 Beijing Olympics for Hong Kong. It was the first time such rights were granted for the world's most prestigious sporting event.

Growth of Pay TV/Broadband Subscribers and Fixed Line Installment
(in thousands)



Wharf T&T

Against a backdrop of improved market landscape and booming network as well as IT demand brought about by the recovery of the economy, 2007 was a reasonably good year for Wharf T&T.

The legacy voice business showed signs of stabilisation, particularly in terms of volatility. In a comparatively less crowded market, Business voice started to "bottom out". Data, backed by the hardware and system integration capabilities of COL, continued to deliver strong year-on-year growth to surpass voice as the primary revenue driver. The "Strictly Business" strategy directed the company to work even harder on service quality. Such efforts began to pay off as reflected in the feedback from customers in the 2007 Customer Satisfaction Survey.

The fixed line installed base grew by 45,000 or 8% to 607,000, representing an overall market share of 13%. Business lines grew by 53,000 or 15% to 408,000 (for an 18% market share) while residential lines fell by 8,000 or 4% to 199,000 (for a 10% market share). Total outgoing IDD volume (including wholesale and retail) increased by 11% to 706 million minutes (2006: 638 million).

Total turnover for the year rose by 5% to HK$1,460 million (2006: HK$1,384 million) while operating profit improved to HK$47 million from a loss of HK$64 million. Positive free cash flow increased to HK$80 million (2006: HK$52 million).

Financial Review

Results Review

Liquidity and Financial Resources

Human Resources

Financial Review

(I) REVIEW OF 2007 RESULTS

Turnover

The Group's turnover for 2007 reached a record high at HK$16,208 million, an increase of HK$2,844 million or 21% over 2006. The remarkable revenue growth was mainly underpinned by the achievement of double-digit revenue increase by the Property Investment segment and higher contribution from property sales both in Hong Kong and China, as recognised by the Property Development segment.

Property investment revenue grew by 15% to HK$6,506 million. Excluding hotel revenue, the Group's total rental billing increased by 17% to HK$5,534 million, made up by a 17% increase in revenue by the Hong Kong properties to HK$5,118 million and a 21% increase by the China properties to HK$416 million.

Property Development segment recorded a total revenue of HK$2,336 million (2006: HK$293 million), including HK$1,619 million mainly attributable to the sales of the Wellington Garden and Wuhan Times Square residential units in China and HK$717 million mainly attributable to the sales of the last three Gough Hill houses in Hong Kong during the year.

The Logistics segment reported aggregate revenue HK$3,625 million (2006: HK$3,506 million), mainly reflecting a 6% increase in throughput handled by Modern Terminals.

CME's revenue dropped by 4% to HK$3,797 million (2006: HK$3,947 million). i-CABLE reported a decrease in revenue by HK$244 million or 10% to HK$2,304 million under severe competition in its marketplace. This unfavourable variance was partly mitigated by an increase in revenue from other CME businesses.

Operating Profit

The Group's operating profit increased sharply by HK$2,995 million or 46% to HK$9,466 million (2006: HK$6,471 million). Apart from the favourable performance of the Property Investment and Property Development segments, the Investment segment also recorded exceptionally strong results and helped boost the Group's underlying operating profit.

Property Investment segment benefited from the continuing rental reversion and high occupancy rate. This segment continued to be an organic growth driver of the Group, recording a robust increase in operating profit by HK$728 million or 18% to HK$4,701 million.

Property Development segment contributed a particularly strong growth in profit to HK$1,127 million (2006: loss of HK$4 million). Profit recognition of property sales included HK$718 million attributable to the sold units at Wellington Garden and Wuhan Times Square in China and HK$409 million mainly attributable to the sales of the three Gough Hill houses in Hong Kong.

Logistics segment recorded a marginal increase in operating profit to HK$1,914 million, primarily owing to the increase in revenue of Modern Terminals resulting from a 6% increase in its throughput.

CME segment reported a 35% increase in operating profit to HK$365 million despite its decrease in revenue mainly as a result of its effective control over expenditures. Despite substantial pressure on its revenue, i-CABLE successfully established a lower cost base to preserve its profitability and recorded an operating profit of HK$179 million for its Pay television and HK$180 million for its Internet and multimedia segments, respectively. Wharf T&T performed well and contributed HK$47 million operating profit against a loss of HK$64 million recorded in 2006.

Investment segment produced a strong operating profit of HK$1,756 million (2006: HK$677 million) mainly due to the profit of HK$1,672 million recognised on disposal of certain available-for-sale investments.

Increase in Fair Value of Investment Properties
The Group's investment properties were revalued by an independent valuer giving a revaluation surplus of HK$9,352 million (2006: HK$7,868 million).

The attributable net surplus of HK$7,196 million (2006: HK$6,472 million), after the related deferred tax and minority interest in total of HK$2,156 million (2006: HK$1,396 million) was credited to the profit and loss account of the Group.

Finance Costs
Finance costs increased by HK$318 million to HK$1,142 million for the year under review (2006: HK$824 million) primarily as a consequence of the increase in Modern Terminals' borrowings to meet with its expanding port investment expenditures. The charge was after capitalisation of HK$187 million (2006: HK$70 million) for the Group's related assets. The Group's average effective borrowing rate was 4.8% p.a., compared to 4.7% p.a. in 2006.

Share of Results (after tax) of Associates and Jointly Controlled Entities
The share of results of associates increased by HK$126 million to HK$322 million (2006: HK$196 million), reflecting the inclusion of the profit contribution from Modern Terminals' port investment in Mega SCT in Shekou. Contribution from the jointly controlled entities of HK$27 million was also related to terminal business in China, which began to bear fruit.

Taxation
Taxation charge for the year was HK$4,247 million, (2006: HK$2,429 million), which included deferred taxation of HK$2,110 million (2006: HK$1,364 million) on the revaluation surplus of investment properties. Apart from this higher deferred tax charge, the increase in taxation was also attributable to increase in the People's Republic of China ("PRC") income tax and land appreciation tax ("LAT") charged against the profit from sales of China properties and the making of an additional provision of HK$336 million in respect of certain tax cases concerning interest deductibility under dispute with the Inland Revenue Department.

Minority Interests
Minority interests increased by HK$182 million to HK$819 million, simply reflecting the increase in net profits of the non-wholly-owned subsidiaries.

Profit Attributable to Equity Shareholders
The Group's profit attributable to equity shareholders increased by HK$2,386 million or 22% to HK$13,143 million (2006: HK$10,757 million). Earnings per share were HK$5.37 (2006: HK$4.39).

Excluding the net investment property revaluation surplus of HK$7,196 million (2006: HK$6,472 million), the Group's net profit attributable to equity shareholders would be HK$5,947 million (2006: HK$4,285 million), an increase of HK$1,662 million or 39% over 2006.

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Equity

As at 31 December 2007, the Group's net asset value attributable to equity shareholders increased by 15% to HK$86,364 million or HK$35.28 per share, from HK$75,162 million or HK$30.70 per share respectively as at 31 December 2006.

The Group's total equity, including minority interests, was HK$92,002 million as at 31 December 2007, increased by 15% from HK$79,918 million as at 31 December 2006.

In January 2008, the Company completed its rights issue for 306 million new shares at HK$30 each with a net proceeds of HK$9,110 million received and, accordingly, increased the Group's total equity to about HK$101,112 million.

Supplemental Information on Net Asset Value ("NAV")

Below is to better reflect the underlying NAV attributable to equity shareholders by adjusting the book NAV, which is prepared based on the Hong Kong Financial Reporting Standards ("HKFRSs"):

	NAV to Equity Shareholders	
	Total *HK$ Million*	**Per share** *HK$*
Book NAV (based on HKFRSs) as at 31 December 2007	86,364	35.28
Adjustments for:		
Modern Terminals (67.6%)		
based on the latest transaction price in 2005	7,086	2.89
i-CABLE (73.6%)		
based on year-end market price (@HK$1.59 p.s.)	691	0.28
Hotel properties		
based on year-end independent valuation	4,210	1.72
Deferred tax for surplus on revaluation of investment properties in Hong Kong *	12,111	4.95
Adjusted underlying NAV as at 31 December 2007	110,462	45.12
Adjusted underlying NAV as at 31 December 2006	98,198	40.11

* *As there is no capital gains tax in Hong Kong, total deferred tax liability in the amount of HK$12.1 billion 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 Hong Kong Accounting Standard ("HKAS") 40 and HKAS-Interpretation ("HKAS-Int") 21 is adjusted for the above calculation in order to provide a better understanding of the underlying NAV.*

Net Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group's net cash inflow generated from operating activities was HK$4.1 billion, increased by HK$0.4 billion from HK$3.7 billion in 2006 primarily due to an increase in operating profit by HK$3.0 billion less a net increase in cash outflow under trading properties caused by acquisitions of various sites in China. Net cash of HK$9.4 billion spent for investing activities mainly consisted of Modern Terminals' payment of HK$3.2 billion for the rationalisation of its interest in Mega SCT and HK$4.2 billion for investments in jointly controlled entities involved in property development projects in China.

Capital Expenditure and Commitments

The capital expenditure incurred by the Group's core businesses during the year and related capital commitments at 31 December 2007 are analysed as follows:

Business Unit/Company	Capital Expenditure 2007 *HK$ Million*	Capital Commitments as at 31 December 2007: Authorised and Contracted for *HK$ Million*	Authorised but not Contracted for *HK$ Million*
Property Investments/Others	589	88	57
Wharf T&T	276	108	141
Modern Terminals (67.6%-owned)	2,757	2,613	2,318
i-CABLE (73.6%-owned)	305	722	135
	3,927	3,531	2,651
As at 31 December 2006	4,569	4,573	3,635

The above capital expenditure incurred by the Property Investment segment was mainly related to 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 incurred substantially for procurement of production and broadcasting equipment and additions to programming library while that for Modern Terminals was mainly incurred for construction of the Dachan Bay Phase I and Taicang Phase II ports. i-CABLE and Modern Terminals, 73.6% and 67.6%-owned respectively by the Group, funded their own capital expenditure programmes.

Apart from the above capital expenditure, the Group also incurred HK$9.0 billion for its trading properties under development in China, including HK$4.2 billion for projects undertaken through joint ventures, during 2007. In February 2007, Modern Terminals paid HK$3.2 billion in cash on completion of the rationalisation of the interests in Shekou container terminals under an agreement signed in December 2006 with China Merchants Holdings (International) Company Limited ("CMH"). On this completion, Modern Terminals and CMH injected their respective equity interests in Shekou containers terminals into a newly setup joint venture, Mega SCT, in which Modern Terminals initially holds 30% equity interests.

As at 31 December 2007, apart from the above capital commitments, the Group also committed to properties under development in China, both by the Group's subsidiaries and through jointly controlled entities, of a total amount of HK$61.5 billion (2006: HK$17.0 billion), including land cost of about HK$18.0 billion payable by instalments mainly in 2008 and 2009. These developments will be executed by stages in the forthcoming years and funded by the Group's internal financial resources, bank and other borrowings and the HK$9.1 billion proceeds from the rights issue as mentioned above. Other available resources include the HK$2.9 billion available-for-sale investments and potential proceeds from sales and pre-sales of properties.

Debts and Gearing

The Group's net debt increased by HK$6.7 billion to HK$23.6 billion as at 31 December 2007 (2006: HK$16.9 billion), which was made up of HK$31.3 billion in debts less HK$7.7 billion in bank deposits and cash. Included in the Group's debts were loans of HK$9.7 billion (2006: HK$5.5 billion) and HK$1.9 billion (2006: Nil) borrowed by its non-wholly-owned subsidiaries, Modern Terminals and HCDL respectively, which are without recourse to the Company and other subsidiaries of the Group.

As at 31 December 2007, the ratio of net debt to shareholders' equity was 27.3% and to total equity was 25.6%, compared to 22.5% and 21.1% at 31 December 2006, respectively.

In January 2008, the net proceeds of HK$9.1 billion in respect of the above-mentioned rights issue was received, which reduced the Group's net debt significantly and lowered the Group's gearing accordingly.

Finance and Availability of Facilities

The Group's available loan facilities and debt securities totally amounting to HK$49.7 billion, of which HK$31.3 billion were drawn and outstanding at 31 December 2007, are analysed as below:

	31 December 2007			
	Available Facility *HK$ Billion*	**Total Debts** *HK$ Billion*		**Undrawn Facility** *HK$ Billion*
Company/wholly-owned subsidiaries				
Committed facilities	27.3	18.9	60%	8.4
Uncommitted facilities	1.1	–	0%	1.1
	28.4	18.9	60%	9.5
Non-wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	17.1	9.7	31%	7.4
– Harbour Centre Development Limited	2.0	1.9	6%	0.1
– i-CABLE Communications Limited	0.6	–	0%	0.6
– Others	1.6	0.8	3%	0.8
	49.7	31.3	100%	18.4

As at 31 December 2007, HK$4,189 million of debt and certain banking facilities of the Group was secured by mortgage over properties under development, certain fixed assets, certain available-for-sale investments and certain bank deposits with total carrying value of HK$11,253 million (2006: HK$3,527 million).

The Group's debts were primarily denominated in Hong Kong dollar ("HKD"), United States dollar ("USD") and Renminbi ("RMB"). RMB borrowings were used to fund the Group's property development and port-related equity investments in China.

The use of derivative financial instruments was strictly controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate and foreign currency exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in HKD and RMB, to facilitate the Group's business and investment activities. As at 31 December 2007, the Group also maintained a portfolio of available-for-sale investments, primarily in blue-chip securities, with an aggregate market value of HK$2.9 billion, which is immediately available for liquidation to meet the Group's future investment commitments. The accumulated attributable surplus of the investments at 31 December 2007 amounted to HK$0.8 billion (2006: HK$1.3 billion) and is retained in reserves until the related investment is sold. Performance of the portfolio was favourably in line with market.

(III) HUMAN RESOURCES

The Group has approximately 12,600 employees as at 31 December 2007 (2006: 12,000). Employees are remunerated according to 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 ended 31 December 2007 amounted to HK$2,408 million, compared to HK$2,331 million for 2006.

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2007, all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2007, they have confirmed that they have complied with the Model Code during the financial year.

(C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balance composition of executive and non-executive directors. Four Board meetings were held during the financial year ended 31 December 2007. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
Chairman	
Mr Peter K C Woo, *GBS, JP*	3
Senior Deputy Chairman	
Mr Gonzaga W J Li	4
Deputy Chairman & Managing Director	
Mr Stephen T H Ng	4
Executive Director	
Ms Doreen Y F Lee	4
Non-executive Directors	
Mr T Y Ng	3
Independent Non-executive Directors	
Mr Paul M P Chan, *JP*	4
Professor Edward K Y Chen, *GBS, CBE, JP*	2
Dr Raymond K F Ch'ien, *GBS, CBE, JP*	1
Hon Vincent K Fang, *JP*	3
Mr Hans Michael Jebsen, *BBS*	1
Mr James E Thompson, *GBS*	3

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

(ii) Operation of the Board

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

(E) NON-EXECUTIVE DIRECTORS

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

(F) REMUNERATION OF DIRECTORS

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

Two Remuneration Committee meetings were held during the financial year ended 31 December 2007. Attendance of the Members is set out below:

Members	Attendance at Meetings
Mr Peter K C Woo, GBS, *JP Chairman*	2
Mr Hans Michael Jebsen, *BBS*	1
Mr James E Thompson, *GBS*	2

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code. Given below are the main duties of the Remuneration Committee:

(a) to consider the Company's policy and structure for all remuneration of Directors and senior management;

(b) to determine the specific remuneration packages of all executive Directors and senior management;

(c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and

(e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended 31 December 2007 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and senior management;

(b) consideration of the emoluments for all Directors and senior management; and

(c) review of the level of fees for Directors and Audit Committee Members.

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally granted by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK$50,000 per annum per Director (proposed to be increased to HK$60,000 per annum with retroactive effect from 1 January 2007), payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK$15,000 per annum per Member (proposed to be increased to HK$20,000 per annum with retroactive effect from 1 January 2007), payable to those Directors of the Company who are also Members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(G) NOMINATION OF DIRECTORS

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

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

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided by KPMG, the external auditor of the Company, amounted to HK$16 million and HK$3 million respectively.

(I) AUDIT COMMITTEE

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

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

Four Audit Committee meetings were held during the financial year ended 31 December 2007. Attendance of the Members is set out below:

Members	**Attendance at Meetings**
Hon Vincent K Fang, *JP Chairman*	3
Mr Paul M P Chan, *JP*	3
Mr Hans Michael Jebsen, *BBS*	1
Mr James E Thompson, *GBS*	3

(i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(a) to consider the appointment of the external auditor and any questions of resignation or dismissal;

(b) to discuss with the external auditor before the audit commences, the nature and scope of the audit;

(c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:

(i) any changes in accounting policies and practices;
(ii) major judgmental areas;
(iii) significant adjustments resulting from the audit;
(iv) the going concern assumption;
(v) compliance with accounting standards; and
(vi) compliance with stock exchange listing rules and legal requirements in relation to financial reporting;

(d) to discuss problems and reservations (if any) arising from the audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary); and

(e) to review the audit programme of the internal audit function.

(ii) The work performed by the Audit Committee for the financial year ended 31 December 2007 is summarised below:

(a) approval of the remuneration and terms of engagement of the external auditor;

(b) review of the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

(c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;

(d) discussion with the external auditor before the audit commences, the nature and scope of the audit;

(e) review of the audit programme of the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems; and

(g) meeting with the external auditor without executive Board members present.

(J) INTERNAL CONTROL

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

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

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. The head of Internal Audit Department reports to the Audit Committee.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2007. Based on the result of the review, in respect of the financial year ended 31 December 2007, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2007, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2007:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgements and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(L) COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND TRADING OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 126 to 127.

An analysis of the principal activities and geographical locations of trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 73 to 75.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group and appropriations of profits for the financial year ended 31 December 2007 are set out in the Consolidated Profit and Loss Account on page 66.

Appropriations of profits and movements in reserves during the financial year are set out in Note 28 to the Financial Statements on pages 105 to 108.

DIVIDENDS

An interim dividend of 36 cents per share was paid on 18 October 2007. The Directors now recommended for adoption at the Annual General Meeting to be held on Tuesday, 27 May 2008 the payment on 3 June 2008 to Shareholders on record as at 27 May 2008 of a final dividend of 44 cents per share in respect of the financial year ended 31 December 2007. This recommendation has been disclosed in the Financial Statements.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 10 to the Financial Statements on pages 82 to 84.

DONATIONS

The Group made donations during the financial year totalling HK$5.9 million.

DIRECTORS

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

Mr P M P Chan, Professor E K Y Chen, Dr R K F Ch'ien and Hon V K Fang are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries, its ultimate holding company or any subsidiary of such ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that there existed certain outstanding options to subscribe for ordinary shares of i-CABLE Communications Limited ("i-CABLE") granted under i-CABLE's Share Option Scheme (the "i-CABLE Scheme") to certain executives/employees of i-CABLE or its subsidiaries, one of whom was a Director of the Company during the financial year. Under the rules of the i-CABLE Scheme (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from time to time in force), shares of i-CABLE would be issued at such prices, not being less than 80% of i-CABLE's average closing prices on the Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the board of directors of i-CABLE. During the financial year, no share of i-CABLE was issued to any Director of the Company under the i-CABLE Scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITORS

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

By Order of the Board
Wilson W S Chan
Company Secretary

Hong Kong, 26 March 2008

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers etc.

(i) Directors

Peter K C Woo, *GBS, JP, Chairman* (Age: 61)
Mr Woo has resumed the role of Chairman of the Company since 2002 after having also served in that capacity from 1986 to 1994. He also serves as the Chairman of the Company's Remuneration Committee. He is also the chairman of Wheelock and Company Limited ("Wheelock"), Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited in Singapore.

Mr Woo was appointed a Justice of the Peace in 1993 and awarded the Gold Bauhinia Star in 1998 by the Hong Kong SAR Government. He has for many years been actively engaged in community and related services, both locally and in the international arena, and has held various Government appointments. He has been appointed a non-official member of the Commission on Strategic Development since June 2007. He had served as the chairman of Hospital Authority from 1995 to 2000, the council chairman of Hong Kong Polytechnic University from 1993 to 1997 and the Government-appointed chairman of the Hong Kong Trade Development Council from 2000 to 2007. He was the chairman of the Hong Kong Environment and Conservation Fund Committee set up in 1994 which he co-funded with the Government. He also served as a deputy chairman in 1991 to Prince of Wales Business Leaders Forum, and as a member of the International Advisory Council of JPMorgan Chase & Co., National Westminster Bank, Banca Nazionale del Lavoro, Elf Aquitaine of France and General Electric of America. He has received Honorary Doctorates from various universities in the USA, Australia and Hong Kong.

Gonzaga W J Li, *Senior Deputy Chairman* (Age: 78)
Mr Li joined the Company in 1980 as a Director and was appointed as the general manager in 1982. He became Deputy Chairman and Managing Director in 1989, appointed Chief Executive in 1992 and became Chairman in 1994. He relinquished the title of Chairman and Chief Executive and has assumed the title of Senior Deputy Chairman of the Company since 2002. He is also the senior deputy chairman of Wheelock and the chairman of Harbour Centre Development Limited ("HCDL"), the chief executive officer and a director of Wharf China Limited. He is also a director of WPL and Joyce Boutique Holdings Limited ("Joyce").

Stephen T H Ng, *Deputy Chairman and Managing Director* (Age: 55)
Mr Ng joined the Company in 1981 and became Managing Director in 1989. He has been a director, deputy chairman and chief executive officer of i-CABLE Communications Limited ("i-CABLE") since 1999 and became its chairman since 2001. He is also the deputy chairman of Wheelock, the chairman and chief executive officer of Wharf T&T Limited, a director of Joyce and became its chairman since 2007, the chairman of Modern Terminals Limited ("Modern Terminals"). He serves as a member of the General Committee of The Hong Kong General Chamber of Commerce.

Doreen Y F Lee, *Executive Director* (Age: 51)
Ms Lee joined the Company in 1984. She has been a Director of the Company since 2003 and became an Executive Director in March 2007. She was also appointed as managing director of Wharf Estates Limited and Wharf Estates China Limited ("WECL"), both wholly-owned subsidiaries of the Company, in 2005. She is also the managing director of Harbour City Estates Limited and Times Square Limited. She is responsible for overseeing the investment properties of the Group, particularly, two core properties of the Group, namely, Harbour City and Times Square in Hong Kong and also the Group's Times Square in Beijing, Shanghai, Chongqing and Dalian. Ms Lee is also a director of Joyce. Ms Lee is a graduate of The University of Hong Kong where she obtained her bachelor's degree in Arts (Hon).

Paul M P Chan, *JP, Director* (Age: 53)
Mr Chan has been an independent Non-executive Director of the Company since September 2004. He also serves as a member of the Company's Audit Committee. He is the chairman of PCP CPA Limited. He is also an independent non-executive director of publicly listed Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited, China Resources Land Limited and China Communications Services Corporation Limited. He was appointed the chairman of the Legal Aid Services Council in September 2006.

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

Mr Chan has over 30 years' experience in accounting and finance field and is a former president of the HKICPA. He is also a former president of the ACCA – Hong Kong. In 2007, he was appointed a Justice of the Peace. In 2008, he was appointed a member of Shanghai City's Chinese People's Political Consultative Conference.

Edward K Y Chen, *GBS, CBE, JP, Director* (Age: 63)
Professor Chen has been an independent Non-executive Director of the Company since 2002. He was the president of Lingnan University in Hong Kong from September 1995 to August 2007. He is an honorary professor and a distinguished fellow of the Centre of Asian Studies at the University of Hong Kong. He was a member of the Legislative Council of Hong Kong from 1991 to 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997. He was also a member of the Hong Kong SAR Basic Law Consultative Committee from 1985 to 1990. He is a director of First Pacific Company Limited and Asia Satellite Telecommunications Holdings Limited. He is currently chairman of the Hong Kong Committee for Pacific Economic Cooperation.

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

Raymond K F Ch'ien, *GBS, CBE, JP, Director* (Age: 56)
Dr Ch'ien has been an independent Non-executive Director of the Company since 2002. He is chairman of CDC Corporation and its subsidiary, China.com Inc, and chairman of MTR Corporation Limited and Hang Seng Bank Limited. Dr Ch'ien serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited and VTech Holdings Limited.

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

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

Hon Vincent K Fang, *JP, Director* (Age: 64)
Mr Fang has been an independent Non-executive Director of the Company since 1993. He also serves as a member and chairman of the Company's Audit Committee. He is the chief executive officer of Toppy Company (Hong Kong) Limited and managing director of Fantastic Garments Limited.

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

Hans Michael Jebsen, *BBS, Director* (Age: 51)
Mr Jebsen has been an independent Non-executive Director of the Company since 2001. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He is the chairman of Jebsen and Company Limited and also a non-executive director of Hysan Development Company Limited as well as vice chairman and a Board Member of Danfoss A/S, Denmark. He currently holds a number of public offices, namely, the vice-president and a trustee of World Wide Fund for Nature Hong Kong, the chairman of the Friend's Committee of the Asian Cultural Council Hong Kong, a Board Member of the Asian Cultural Council Board of Trustees, affiliate of the Rockefeller Brothers Fund, New York, an honorary fellow and an appointed court member of the Hong Kong University of Science & Technology, as well as a member of the Council for Sustainable Development, Hong Kong European Union Business Co-operation Committee of the Hong Kong Trade Development Council, Advisory Council of Asia Society Hong Kong Center and Advisory Board of the Hong Kong Red Cross. He is also an Honorary Citizen and Municipal Economic Advisor as well as a Committee Member of the CPPCC Jilin City, China.

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

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

T Y Ng, *Director* (Age: 60)
Mr Ng joined the Company in 1985 and has been a Director of the Company since 1998. He is also a director of HCDL, Joyce and WPL, and also the managing director of WECL. He is an associate member of both the HKICPA and the Chartered Institute of Management Accountants.

James E Thompson, *GBS, Director* (Age: 68)
Mr Thompson has been an independent Non-executive Director of the Company since 2001. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He established his company, Crown Worldwide, in Japan in 1965. He is the member of the American Chamber of Commerce ("ACC") in Hong Kong and was appointed as the chairman of ACC in 2003. He also serves on Hong Kong – United States Business Council, the Hong Kong Japan Business Co-operation Committee, and the Hong Kong Korea Business Roundtable. Mr Thompson has lived in Hong Kong for 30 years and has served on the Trade Development Council, the ICAC Advisory Committee as well as other government and charitable committees. He was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2003.

Notes:

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

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

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

(B) Directors' Interests in Shares

At 31 December 2007, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, the Company's parent company and a fellow subsidiary, namely, Wheelock and WPL, and two subsidiaries of the Company, namely, i-CABLE and Modern Terminals, and the percentages which the shares represented to the issued share capitals of the five companies respectively are also set out below:

	No. of Ordinary Shares (Percentage of Issued Capital)	Nature of Interest
The Company		
Mr Gonzaga W J Li	686,549 (0.0280%)	Personal interest
Mr Stephen T H Ng	650,057 (0.0266%)	Personal interest
Mr T Y Ng	178,016 (0.0073%)	Personal interest
Wheelock		
Mr Gonzaga W J Li	1,486,991 (0.0732%)	Personal interest
Mr Stephen T H Ng	300,000 (0.0148%)	Personal interest
Mr T Y Ng	70,000 (0.0034%)	Personal interest
WPL		
Mr Gonzaga W J Li	2,900 (0.0001%)	Personal interest
i-CABLE		
Mr Gonzaga W J Li	68,655 (0.0034%)	Personal interest
Mr Stephen T H Ng	1,065,005 (0.0528%)	Personal interest
Mr T Y Ng	17,801 (0.0009%)	Personal interest
Modern Terminals		
Mr Hans Michael Jebsen	3,787 (5.40%)	Corporate interest

Notes:

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

(ii) Subsequent to the financial year end, Mr Gonzaga W J Li, Mr Stephen T H Ng and Mr T Y Ng fully subscribed for their pro rata rights entitlements under a 1-for-8 rights issue by the Company and they were accordingly allotted 85,818 shares, 81,257 shares and 22,252 shares of the Company respectively on 16 January 2008. Consequently, Mr Gonzaga W J Li, Mr Stephen T H Ng and Mr T Y Ng were interested in 772,367 shares, 731,314 shares and 200,268 shares of the Company respectively following such allotments.

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

(i) there were no interests, both long and short positions, held as at 31 December 2007 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and

(ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

(C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at (i) 31 December 2007, and (ii) 16 January 2008, being the date of allotment of rights shares under a 1-for-8 rights issue by the Company, respectively, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at such dates as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names	No. of Ordinary Shares (Percentage of Issued Capital) As at 31 December 2007		As at 16 January 2008	
(i) Lynchpin Limited	172,337,029	(7.04%)	193,879,157	(7.04%)
(ii) Star Attraction Limited	172,337,029	(7.04%)	193,879,157	(7.04%)
(iii) Wheelock Properties Limited	172,337,029	(7.04%)	193,879,157	(7.04%)
(iv) Myers Investments Limited	172,337,029	(7.04%)	193,879,157	(7.04%)
(v) Wheelock Corporate Services Limited	172,337,029	(7.04%)	193,879,157	(7.04%)
(vi) WF Investment Partners Limited	1,051,602,051	(42.96%)	1,183,652,306	(42.98%)
(vii) Wheelock and Company Limited	1,223,939,080	(50.01%)	1,377,531,463	(50.02%)
(viii) HSBC Trustee (Guernsey) Limited	1,223,939,080	(50.01%)	1,377,531,463	(50.02%)
(ix) JPMorgan Chase & Co.	146,448,525	(5.98%)	–	–

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

All the interests stated above represented long positions and as at 31 December 2007, there were no short positions recorded in the Register.

(D) Executive Share Incentive Scheme of the Company

(i) Summary of the Scheme

(a) Purpose of the Scheme:
To give executives of the Group the opportunity of acquiring an equity participation in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Company's continued growth and success.

(b) Participants of the Scheme:
Any employee of the Company or any of its subsidiaries holding an executive, managerial, supervisory or similar position, including a Director of the Company or any of its subsidiaries holding executive office, who accepts the offer of the grant of an option in accordance with the terms of the Scheme.

(c) (i) Total number of ordinary shares of HK$1.00 each in the capital of the Company (the "Shares") available for issue under the Scheme as at 31 December 2007:
106,732,831

(ii) Percentage of the issued share capital that it represents as at 31 December 2007:
4.36%

(d) Maximum entitlement of each participant under the Scheme as at 31 December 2007:
Not more than:

(i) 10% of the maximum number of Shares available for subscription under the terms of the Scheme; and

(ii) in terms of amount of the aggregate subscription price, such amount of aggregate subscription price in respect of all the Shares for which an employee is granted options in any financial year as would exceed five times his or her gross annual remuneration.

(e) Period within which the Shares must be taken up under an option:

Within 10 years from the date on which the option is granted or such shorter period as the Board of Directors may approve.

(f) Minimum period for which an option must be held before it can be exercised:

One year from the date on which the option is granted.

(g) (i) Price payable on application or acceptance of the option:
HK$1.00

(ii) The period within which payments or calls must or may be made or loans of such purposes must be repaid:
Seven days after the offer date of an option.

(h) Basis of determining the exercise price:

Pursuant to rule 17.03 (9) of the Listing Rules, the exercise price must be at least the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

(i) The remaining life of the scheme:
Two months

(ii) Details of Share Options Granted
No share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the financial year.

(E) Directors' Interests in Competing Business

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

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

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

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

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

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

(F) Major Customers and Suppliers

For the year ended 31 December 2007:

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

(ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) Bank Loans, Overdrafts and other Borrowings

Particulars of all such bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2007 which are repayable on demand or within a period not exceeding one year are set out in Note 22 to the Financial Statements on page 95. Those which would fall due for repayment after a period of one year are particularised in Note 22 to the Financial Statements on page 95.

Set out below is information regarding certain borrowings of the Group outstanding as at 31 December 2007, all in the form of debt securities issued by wholly-owned subsidiaries of and guaranteed by the Company:

Name of Subsidiary/Borrower	Description of Debt Securities Issued	Outstanding Principal Amount
(1) Wharf Finance (BVI) Limited	HK$ Guaranteed Fixed Rate Notes due 2008	HK$300 Million
	HK$ Guaranteed Floating Rate Notes due 2008	HK$100 Million
	HK$ Guaranteed Fixed Rate Notes due 2008	HK$300 Million
	HK$ Guaranteed Fixed Rate Notes due 2008	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2008	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2008	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2009	HK$300 Million
	HK$ Guaranteed Floating Rate Notes due 2009	HK$100 Million
	HK$ Guaranteed Floating Rate Notes due 2010	HK$200 Million
	HK$ Guaranteed Fixed Rate Notes due 2011	HK$200 Million
	HK$ Guaranteed Floating Rate Notes due 2013	HK$300 Million
	HK$ Guaranteed Fixed Rate Notes due 2016	HK$250 Million
(2) Wharf Finance Limited	US$ Guaranteed Fixed Rate Notes due 2017	US$400 Million

(H) Interest Capitalised

The amount of interest (all being borrowing costs) capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 79.

(I) Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2007.

(J) Disclosure of Connected Transactions

Set out below is information in relation to connected transactions involving the Company and/or its subsidiaries (the "Group") which were substantially disclosed in the announcements of the Company dated 27 July 2007, 6 September 2007, 9 November 2007 and 6 December 2007 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Suzhou Property Joint Venture

On 26 July 2007, a wholly-owned subsidiary of the Company together with a wholly-owned subsidiary of China Merchants Property Development Co., Ltd. (a Mainland company publicly listed on the Shenzhen Stock Exchange) ("CMP"), jointly on 50:50 ownership basis, succeeded in bidding for a piece of land in Suzhou with a site area of approximately 184,000 sq. m. (the "Suzhou Land") at a price of RMB1,010 million (equal to about HK$1,044 million).

For the purpose of bidding and joint development of the Suzhou Land, the Company entered into a framework agreement (the "Suzhou Framework Agreement") with CMP on 26 July 2007. Subsequently on 6 September 2007, a joint venture agreement (the "Suzhou JV Agreement") was entered into between a wholly-owned subsidiary of the Company and a wholly-owned subsidiary of CMP relating to the formation of a joint venture company, 50% owned by each of the Group and CMP group, for the purpose of development of the Suzhou Land into residential properties.

As CMP is a non wholly-owned subsidiary of China Merchants Group Limited ("CMG") which holds 50.86% shareholding interest in CMP through China Merchants Shekou Industrial Zone Company, and CMG is an indirect substantial shareholder of Modern Terminals, which is a 67.6%-owned subsidiary of the Company, CMP together with its subsidiaries are regarded as connected persons of the Company. Therefore, the entering into of the Suzhou Framework Agreement and the Suzhou JV Agreement constituted connected transactions for the Company under the Listing Rules.

(ii) Chongqing Property Joint Venture

On 9 November 2007, the Group together with China Overseas Land & Investment Ltd. ("China Overseas") group succeeded in bidding for a piece of land in Chongqing, PRC (the "Chongqing Land") with a site area of approximately 6.1 million sq. ft. at a consideration of RMB7,500 million (equal to about HK$7,860 million) (the "Chongqing Transaction"). The Group and China Overseas group will jointly develop the Chongqing Land, on a 40:60 ownership basis, into a residential, office and retail development.

As China Overseas is a joint venture partner of HCDL group for property development of another piece of land in Chongqing central business district, and HCDL is an indirect non wholly-owned listed subsidiary of the Company, China Overseas is regarded as a connected person of the Company. The entering into of the Chongqing Transaction together with the joint development of the Chongqing Land therefore constituted a connected transaction for the Company under the Listing Rules.

(iii) Nanjing Property Joint Venture

On 6 December 2007, the Group together with CMP group succeeded in bidding for a piece of land in Nanjing with a site area of approximately 3,578,000 sq. ft. (the "Nanjing Land") at a price of RMB2,410 million (equal to about HK$2,535 million). The Group and CMP group with jointly develop the Nanjing Land, on a 50:50 ownership basis, into residential properties.

As CMP is a non wholly-owned subsidiary of CMG, which holds 50.86% shareholding interest in CMP through China Merchants Shekou Industrial Zone Company Limited, and CMG is an indirect substantial shareholder of Modern Terminals, which is a 67.6%-owned subsidiary of the Company, CMP together with its subsidiaries are regarded as connected persons of the Company. Therefore, the acquisition of the Nanjing Land constituted a connected transaction for the Company under the Listing Rules.

The purpose of the transactions set out under (J)(i), (J)(ii) and (J)(iii) above is for broadening the assets and earnings base of the Group.

(iv) Tenancy Agreements with City Super Limited

There exist certain tenancy arrangements (the "City Super Transactions") respectively made by two wholly-owned subsidiaries of the Company as the landlords with City Super Limited ("City Super") as the tenant, particulars of which were previously disclosed in an announcement of the Company dated 5 January 2005. The City Super Transactions are for the purpose of earning rental revenue for the Group and certain particulars are as follows:

Location of the City Super store premises	**Amount of rent received by the Group for the year ended 31 December 2007** *HK$ Million*
1. Tenancy agreement in respect of B101-B109, Basement 1, Times Square, Causeway Bay, Hong Kong	30.79
2. Tenancy agreement in respect of Shops 3001-3002 and 3103-3104, Level 3, Gateway Arcade, Harbour City, Kowloon, Hong Kong	29.15

The City Super Transactions are regarded as continuing connected transactions for the Company under the Listing Rules by reason of the fact that City Super is 39.08% effectively owned by The Lane Crawford Joyce Group (BVI) Limited which in turn is indirectly wholly-owned by a trust the settlor of which is the Chairman of the Company (the "Trust").

(v) *Tenancy Agreement with Joyce Boutique Limited*
There exists a tenancy agreement between a wholly-owned subsidiary of the Company as the landlord and Joyce Boutique Limited ("JBL") as the tenant, particulars of which were previously disclosed in an announcement of the Company dated 16 January 2006. This tenancy transaction (the "JBL Transaction") is for the purpose of earning rental revenue for the Group and certain particulars are as follows:

Location of the JBL shop	**Amount of rent received by the Group for the year ended 31 December 2007** ***HK$ Million***
G106 Ground Floor, No. 17-19 Canton Road, Harbour City, Kowloon, Hong Kong	14.36

The JBL Transaction is regarded as a continuing connected transaction under the Listing Rules by reason of the fact that JBL is indirectly 51.9%-owned by the Trust.

(vi) *Tenancy Agreement with Ferragamo Retail HK Limited*
There exists a tenancy agreement between a wholly-owned subsidiary of the Company as the landlord and Ferragamo Retail HK Limited ("Ferragamo") as the tenant, particulars of which were previously disclosed in an announcement of the Company dated 18 January 2006. This tenancy transaction (the "Ferragamo Transaction") is for the purpose of earning rental revenue for the Group and certain particulars are as follows:

Location of the Ferragamo shop	**Amount of rent received by the Group for the year ended 31 December 2007** ***HK$ Million***
Portions of Ground Floor and Level 1, Ocean Centre, Harbour City, Kowloon, Hong Kong	15.20

The Ferragamo Transaction is regarded as a continuing connected transaction under the Listing Rules by reason of the fact that Ferragamo is indirectly 40%-owned by the Trust.

The rentals receivable by the Group from the City Super Transactions, the JBL Transaction and the Ferragamo Transaction are subject to annual cap amounts previously disclosed in the abovementioned announcements dated 5 January 2005, 16 January 2006 and 18 January 2006 respectively of the Company.

(vii) Confirmation from the Directors etc.

(i) The Directors, including the independent Non-executive Directors, of the Company have reviewed the City Super Transactions, the JBL Transaction and the Ferragamo Transaction (collectively, the "Transactions") mentioned under Sections (J)(iv), (J)(v) and (J)(vi) above and confirmed that the Transactions were entered into:

(1) by the Group in the ordinary and usual course of its business;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(ii) Furthermore, the auditors of the Company have advised the following:

(1) the Transactions had been approved by the Company's Board of Directors;

(2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and

(3) the relevant cap amounts, where applicable, have not been exceeded during the year ended 31 December 2007.

Report of the Independent Auditor

TO THE SHAREHOLDERS OF THE WHARF (HOLDINGS) LIMITED
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of The Wharf (Holdings) Limited (the "Company") set out on pages 66 to 127, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2008

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Note	**2007** *HK$ Million*	2006 *HK$ Million*
Turnover	1	**16,208**	13,364
Other net income	3	**1,684**	415
		17,892	13,779
Direct costs and operating expenses		**(5,660)**	(4,653)
Selling and marketing expenses		**(721)**	(701)
Administrative and corporate expenses		**(772)**	(688)
Operating profit before depreciation, amortisation, interest and tax		**10,739**	7,737
Depreciation and amortisation	2	**(1,273)**	(1,266)
Operating profit	2	**9,466**	6,471
Increase in fair value of investment properties		**9,352**	7,868
Net other credit	4	**184**	100
		19,002	14,439
Finance costs	5	**(1,142)**	(824)
Share of results after tax of:			
Associates	13	**322**	196
Jointly controlled entities	14	**27**	12
Profit before taxation		**18,209**	13,823
Taxation	6	**(4,247)**	(2,429)
Profit for the year		**13,962**	11,394
Profit attributable to:			
Equity shareholders	7	**13,143**	10,757
Minority interests		**819**	637
		13,962	11,394
Dividends attributable to equity shareholders	8		
Interim dividend paid		**881**	881
Final dividend proposed		**1,212**	1,077
		2,093	1,958
Earnings per share	9		
Basic		**HK$5.37**	HK$4.39
Diluted		**HK$5.35**	HK$4.39

The notes and principal accounting policies on pages 73 to 127 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 ***HK$ Million***	2006 *HK$ Million*
Non-current assets			
Fixed assets			
Investment properties		**95,782**	86,684
Leasehold land		**3,775**	3,662
Other property, plant and equipment		**15,056**	11,852
	10	**114,613**	102,198
Goodwill and other intangible assets	12	**302**	306
Interest in associates	13	**3,661**	781
Interest in jointly controlled entities	14	**5,076**	788
Available-for-sale investments	15	**2,858**	2,921
Long term receivables	16	**362**	371
Programming library		**184**	186
Defined benefit pension scheme assets	17	**239**	230
Deferred tax assets	23(a)	**360**	429
Derivative financial assets	25	**17**	17
		127,672	108,227
Current assets			
Properties for sale	18	**9,235**	5,784
Inventories		**97**	85
Trade and other receivables	19	**1,396**	1,400
Derivative financial assets	25	**54**	12
Bank deposits and cash	20	**7,717**	3,769
		18,499	11,050
Current liabilities			
Trade and other payables	21	**(5,678)**	(4,926)
Short term loans and overdrafts	22	**(6,720)**	(4,667)
Derivative financial liabilities	25	**(107)**	(3)
Taxation payable	6(e)	**(1,420)**	(390)
		(13,925)	(9,986)
Net current assets		**4,574**	1,064
Total assets less current liabilities		**132,246**	109,291

Consolidated Balance Sheet

At 31 December 2007

	Note	**2007** **HK$ Million**	2006 HK$ Million
Non-current liabilities			
Long term loans	22	**(24,562)**	(16,003)
Deferred taxation	23(a)	**(15,325)**	(13,116)
Other deferred liabilities	24	**(261)**	(254)
Derivative financial liabilities	25	**(96)**	–
		(40,244)	(29,373)
NET ASSETS		**92,002**	79,918
Capital and reserves			
Share capital	27	**2,448**	2,448
Reserves		**83,916**	72,714
Shareholders' equity	28(a)	**86,364**	75,162
Minority interests	28(a)	**5,638**	4,756
TOTAL EQUITY		**92,002**	79,918

The notes and principal accounting policies on pages 73 to 127 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Company Balance Sheet

At 31 December 2007

	Note	**2007** *HK$ Million*	2006 *HK$ Million*
Non-current assets			
Interest in subsidiaries	11	**9,595**	13,371
Long term receivables	16	**347**	347
		9,942	13,718
Current assets			
Trade and other receivables		**1**	–
Bank deposits and cash	20	**3,844**	15
		3,845	15
Current liabilities			
Trade and other payables		**(81)**	(25)
Taxation payable		**–**	(2)
		(81)	(27)
Net current assets/(liabilities)		**3,764**	(12)
NET ASSETS		**13,706**	13,706
Capital and reserves			
Share capital	27	**2,448**	2,448
Reserves		**11,258**	11,258
SHAREHOLDERS' EQUITY	28(b)	**13,706**	13,706

The notes and principal accounting policies on pages 73 to 127 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Note	**2007** **HK$ Million**	2006 HK$ Million
Surplus on revaluation of available-for-sale investments	28(a)	**443**	875
Actuarial (loss)/gain on defined benefit pension schemes	28(a)	**(5)**	55
Exchange difference	28(a)	**542**	161
Others	28(a)	**43**	20
Investments revaluation reserves transferred to the consolidated profit and loss account on disposal of available-for-sale investments	28(a)	**(894)**	(3)
Investments revaluation reserves transferred to the consolidated profit and loss account on impairment of available-for-sale investments	28(a)	**50**	–
Share of reserves of associates/jointly controlled entities	28(a)	**45**	16
Net gains not recognised in the consolidated profit and loss account		**224**	1,124
Profit for the year	28(a)	**13,962**	11,394
Total recognised income for the year			
Attributable to equity shareholders		**13,160**	11,741
Attributable to minority interests		**1,026**	777
Total		**14,186**	12,518

The notes and principal accounting policies on pages 73 to 127 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	**2007** **HK$ Million**	2006 HK$ Million
Cash generated from operations	(a)	**5,744**	5,130
Interest paid		**(1,240)**	(887)
Interest received		**136**	148
Dividends received from associates		**191**	262
Dividends received from investments		**253**	191
Hong Kong profits tax paid		**(887)**	(1,153)
Overseas tax paid		**(71)**	(15)
Net cash generated from operating activities		**4,126**	3,676
Investing activities			
Purchase of fixed assets		**(3,623)**	(3,608)
Additions to programming library		**(130)**	(143)
Net (increase)/decrease in interest in associates		**(2,734)**	794
Net increase in interest in jointly controlled entities		**(4,230)**	–
Purchase of available-for-sale investments		**(4,295)**	(1,327)
Proceeds from disposal of fixed assets		**40**	650
Proceeds from disposal of investment properties		**695**	264
Proceeds from sale of available-for-sale investments		**5,579**	1,008
Repayment of long term receivables		**9**	47
Placing of pledged deposits		**(686)**	–
Redemption of deposits with financial institutions		**–**	156
Net cash inflow from acquisition of subsidiaries		**–**	79
Net cash used in investing activities		**(9,375)**	(2,080)
Financing activities			
Shares issued on exercise of share options		**–**	5
Net drawdown of long term loans		**11,766**	4,120
Net repayment of short term loans and overdrafts		**(1,153)**	(2,263)
Issue of shares by subsidiaries to minority interests		**197**	188
Advances from minority interests		**–**	8
Dividends paid to equity shareholders of the Company		**(1,958)**	(1,958)
Dividends paid to minority interests		**(341)**	(279)
Net cash generated from/(used in) financing activities		**8,511**	(179)
Increase in cash and cash equivalents		**3,262**	1,417
Cash and cash equivalents at 1 January		**3,769**	2,352
Cash and cash equivalents at 31 December		**7,031**	3,769
Analysis of the balance of cash and cash equivalents			
Bank deposits and cash	(b)	**7,031**	3,769

The notes and principal accounting policies on pages 73 to 127 form part of these financial statements.

NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2007 **HK$ Million**	2006 *HK$ Million*
Operating profit	**9,466**	6,471
Interest income	**(136)**	(147)
Dividends receivable from investments	**(253)**	(192)
Depreciation	**1,091**	1,133
Amortisation	**182**	133
(Profit)/loss on disposal of fixed assets	**(32)**	10
Other net income	**(1,684)**	(415)
Impairment loss on investments	**50**	–
Increase in properties under development for sale	**(4,751)**	(1,194)
Decrease/(increase) in completed properties for sale	**1,100**	(40)
(Increase)/decrease in inventories	**(13)**	45
Decrease/(increase) in trade and other receivables	**4**	(866)
Increase in trade and other payables	**625**	233
Increase/(decrease) in derivative financial liabilities	**106**	(7)
Increase in defined benefit pension scheme assets	**(18)**	(25)
Increase/(decrease) in other deferred liabilities	**7**	(9)
Cash generated from operations	**5,744**	5,130

(b) Cash and cash equivalents

	2007 **HK$ Million**	2006 *HK$ Million*
Bank deposits and cash in the consolidated balance sheet	**7,717**	3,769
Less : Pledged bank deposits	**(686)**	–
Cash and cash equivalents in the consolidated cash flow statement	**7,031**	3,769

Notes to the Financial Statements

1. SEGMENT INFORMATION

a. Business segments

i. Revenue and results	Revenue 2007 HK$ Million	Revenue 2006 HK$ Million	Results 2007 HK$ Million	Results 2006 HK$ Million
Property investment	**6,506**	5,677	**4,701**	3,973
Hong Kong	**5,118**	4,390	**4,151**	3,498
China	**416**	343	**197**	130
Hotels	**972**	944	**353**	345
Communications, media and entertainment ("CME")	**3,797**	3,947	**365**	270
Pay television	**1,595**	1,895	**179**	248
Internet and multimedia	**588**	596	**180**	129
Telecommunications	**1,460**	1,384	**47**	(64)
Others	**154**	72	**(41)**	(43)
Logistics	**3,625**	3,506	**1,914**	1,887
Terminals	**3,216**	3,096	**1,764**	1,727
Others	**409**	410	**150**	160
Property development	**2,336**	293	**1,127**	(4)
Hong Kong/others	**717**	280	**409**	(6)
China	**1,619**	13	**718**	2
	16,264	13,423	**8,107**	6,126
Investment and others	**272**	285	**1,756**	677
Inter-segment revenue (Note)	**(328)**	(344)	**–**	–
	16,208	13,364	**9,863**	6,803
Unallocated items			**(397)**	(332)
Operating profit			**9,466**	6,471
Increase in fair value of investment properties			**9,352**	7,868
Net other credit			**184**	100
Telecommunications			**–**	(100)
Property development			**184**	200
			19,002	14,439
Finance costs			**(1,142)**	(824)
Associates			**322**	196
Property development			**86**	96
Terminals			**236**	100
Jointly controlled entities				
Terminals			**27**	12
Profit before taxation			**18,209**	13,823

1. SEGMENT INFORMATION (Continued)

a. Business segments (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	2007	2006
	HK$ Million	*HK$ Million*
Property investment	**104**	91
CME	**224**	253
	328	344

	Assets		**Liabilities**	
	2007	2006	**2007**	2006
ii. Assets and liabilities	***HK$ Million***	*HK$ Million*	***HK$ Million***	*HK$ Million*
Property investment	**98,504**	88,959	**5,184**	3,896
Hong Kong	**89,647**	81,900	**1,716**	1,462
China	**8,330**	6,666	**3,170**	2,279
Hotels	**527**	393	**298**	155
CME	**4,592**	4,835	**965**	977
Pay television	**1,160**	1,243	**354**	384
Internet and multimedia	**509**	631	**129**	133
Telecommunications	**2,857**	2,939	**480**	460
Others	**66**	22	**2**	–
Logistics	**16,922**	11,138	**10,817**	6,330
Terminals	**16,732**	10,935	**10,767**	6,276
Others	**190**	203	**50**	54
Property development	**16,696**	7,542	**4,966**	978
Hong Kong	**2,000**	2,359	**121**	122
China	**14,696**	5,183	**4,845**	856
	136,714	112,474	**21,932**	12,181
Unallocated	**9,457**	6,803	**32,237**	27,178
Total assets/liabilities	**146,171**	119,277	**54,169**	39,359

Segment assets held through jointly controlled entities and associates included in above are:

	2007	2006
	HK$ Million	*HK$ Million*
CME	**59**	–
Logistics	**4,310**	1,201
Property development	**4,368**	368
	8,737	1,569

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

1. SEGMENT INFORMATION (Continued)

a. Business segments (Continued)

iii. Other information	Capital expenditure 2007 HK$ Million	Capital expenditure 2006 HK$ Million	Increase in interests in associates and jointly controlled entities 2007 HK$ Million	Increase in interests in associates and jointly controlled entities 2006 HK$ Million	Depreciation and amortisation 2007 HK$ Million	Depreciation and amortisation 2006 HK$ Million
Property investment	**583**	430	**–**	–	**122**	98
Hong Kong	**214**	297	**–**	–	**20**	15
China	**149**	97	**–**	–	**21**	18
Hotels	**220**	36	**–**	–	**81**	65
CME	**581**	655	**59**	–	**890**	950
Pay television	**159**	238	**–**	–	**318**	320
Internet and multimedia	**68**	64	**–**	–	**144**	188
Telecommunications	**276**	309	**–**	–	**385**	418
Others	**78**	44	**59**	–	**43**	24
Logistics	**2,763**	3,484	**2,911**	–	**261**	218
Terminals	**2,757**	3,446	**2,911**	–	**248**	204
Others	**6**	38	**–**	–	**13**	14
Property development	**–**	–	**4,230**	–	**–**	–
China	**–**	–	**4,230**	–	**–**	–
Group total	**3,927**	4,569	**7,200**	–	**1,273**	1,266

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

b. Geographical segments

	Revenue 2007 HK$ Million	Revenue 2006 HK$ Million	Operating profit 2007 HK$ Million	Operating profit 2006 HK$ Million
Hong Kong	**13,924**	12,858	**8,395**	6,380
China	**2,096**	476	**876**	56
Singapore	**188**	30	**195**	35
Revenue/operating profit	**16,208**	13,364	**9,466**	6,471

	Assets 2007 HK$ Million	Assets 2006 HK$ Million
Hong Kong	**110,495**	101,311
China	**34,348**	16,773
Singapore	**1,328**	1,193
Group total	**146,171**	119,277

	Capital expenditure 2007 HK$ Million	Capital expenditure 2006 HK$ Million	Increase in interests in associates and jointly controlled entities 2007 HK$ Million	Increase in interests in associates and jointly controlled entities 2006 HK$ Million
Hong Kong	**1,222**	1,514	**61**	–
China	**2,705**	3,055	**7,139**	–
Group total	**3,927**	4,569	**7,200**	–

2. OPERATING PROFIT

a. Operating profit is arrived at:

	2007 *HK$ Million*	2006 *HK$ Million*
After charging/(crediting):		
Depreciation		
– assets held for use under operating leases	**91**	91
– other fixed assets	**1,000**	1,042
	1,091	1,133
Amortisation		
– programming library	**131**	100
– leasehold land (Note 10)	**47**	30
– other intangible assets (Note 12)	**4**	3
Total depreciation and amortisation	**1,273**	1,266
Staff costs	**2,408**	2,331
including:		
– Contributions to defined contribution pension schemes including MPF schemes (after a forfeiture of HK$5 million (2006: HK$6 million))	**87**	82
– (Income)/expenses recognised in respect of defined benefit pension schemes (Note 17)	**(11)**	9
Auditors' remuneration		
– audit services	**16**	12
– other services	**3**	1
Cost of trading properties sold during the year	**1,096**	275
Net foreign exchange loss/(gain), including impact of forward foreign exchange contracts	**13**	(92)
Rental charges under operating leases in respect of telecommunications equipment and services	**101**	136
Rental income less direct outgoings	**(4,441)**	(3,777)
including:		
– Contingent rentals	**(457)**	(323)
Interest income	**(136)**	(147)
Dividend income from listed investments	**(136)**	(71)
Dividend income from unlisted investments	**(117)**	(121)
(Profit)/loss on disposal of fixed assets	**(32)**	10
Rental income under operating leases in respect of owned plant and machinery	**(81)**	(95)

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	2007 Total emoluments HK$'000	2006 Total emoluments HK$'000
Board of Directors								
Peter K C Woo	**100**	**9,994**	**8,000**	**12**	**–**	**–**	**18,106**	15,605
Gonzaga W J Li	**60**	**4,717**	**6,000**	**–**	**–**	**–**	**10,777**	9,300
Stephen T H Ng	**60**	**4,208**	**8,000**	**240**	**–**	**–**	**12,508**	11,116
Doreen Y F Lee	**60**	**3,209**	**3,500**	**342**	**–**	**–**	**7,111**	6,629
T Y Ng	**60**	**1,081**	**625**	**6**	**–**	**–**	**1,772**	1,344
Independent Non-executive Directors								
Paul M P Chan	**80**	**–**	**–**	**–**	**–**	**–**	**80**	65
Edward K Y Chen	**60**	**–**	**–**	**–**	**–**	**–**	**60**	50
Raymond K F Ch'ien	**60**	**–**	**–**	**–**	**–**	**–**	**60**	50
Vincent K Fang	**80**	**–**	**–**	**–**	**–**	**–**	**80**	65
Hans Michael Jebsen	**80**	**–**	**–**	**–**	**–**	**–**	**80**	65
James E Thompson	**80**	**–**	**–**	**–**	**–**	**–**	**80**	65
Past Directors								
Erik B Christensen	**–**	**–**	**–**	**–**	**–**	**–**	**–**	69
	780	**23,209**	**26,125**	**600**	**–**	**–**	**50,714**	44,423
Total for 2006	670	21,490	21,580	545	–	138		44,423

In 2007, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK$60,000 (2006: HK$50,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK$20,000 (2006: 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 31 December 2007, emolument (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) of one employee (2006: one) 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.

Aggregate emoluments	**2007** **HK$ Million**	2006 HK$ Million
Basic salaries, housing and other allowances, and benefits in kind	**9**	6
Contributions to pension schemes	**–**	–
Discretionary bonuses and/or performance related bonuses	**2**	2
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
Total	**11**	8

Bands *(in HK$)*	**2007** **Number**	2006 Number
$7,500,001 – $8,000,000	**–**	1
$10,500,001 – $11,000,000	**1**	–

3. OTHER NET INCOME

Other net income mainly represents net profit on disposal of available-for-sale investments of HK$1,672 million (2006: HK$53 million) which included a revaluation surplus of HK$853 million (2006: HK$3 million) transferred from the investments revaluation reserves and net profit on disposal of investment and other properties of HK$12 million (2006: HK$362 million).

4. NET OTHER CREDIT

	2007 **HK$ Million**	2006 HK$ Million
Write-back of provisions for properties	**184**	200
Write off of broadcasting and communications equipment	**–**	(100)
	184	100

5. FINANCE COSTS

	2007 ***HK$ Million***	2006 *HK$ Million*
Interest on:		
Bank loans and overdrafts repayable with five years	**887**	478
Other loans repayable within five years	**158**	332
Loans repayable over five years	**143**	75
Fair value cost on currency swaps	**96**	–
Other finance costs	**45**	9
	1,329	894
Less: Amount capitalised	**(187)**	(70)
	1,142	824

a. Interest was capitalised at annual rates of between 4.2% to 6.0% (2006: 4.4% to 5.1%).

b. Included in total interest costs are amounts totalling HK$1,048 million (2006: HK$624 million) in respect of interest bearing borrowings that are at amortised cost.

6. TAXATION

Taxation charged to consolidated profit and loss account represents:

	2007 ***HK$ Million***	2006 *HK$ Million*
Current income tax		
Hong Kong profits tax	**1,203**	814
Underprovision in respect of prior years (Note 6(g))	**352**	134
Overseas taxation	**175**	2
	1,730	950
Land appreciation tax ("LAT") in the PRC	**239**	–
Deferred tax		
Change in fair value of investment properties	**2,110**	1,364
Origination and reversal of temporary differences	**196**	166
Benefit of previously unrecognised tax losses now recognised	**(28)**	(51)
	2,278	1,479
	4,247	2,429

6. TAXATION (Continued)

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% (2006: 17.5%).

On 27 February 2008, the Hong Kong SAR Government announced a proposed reduction in the profits tax rate from 17.5% to 16.5% applicable to the operations in Hong Kong with effect from the year of assessment 2008/2009. This will trigger a recalculation of the net deferred tax liabilities, mainly for the revaluation surplus on the investment properties, as at 1 January 2008, which would likely be reduced by approximately HK$750 million and will impact the Group's 2008 financial statements.

b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.

c. Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including borrowings costs and all property development expenditures.

d. On 16 March 2007, the Standing Committee of the Tenth National People's Congress of the PRC approved the income tax law, which will change the tax rate from 33% to 25% for certain subsidiaries operating in the PRC effective from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

e. Taxation payable in the balance sheet is expected to be settled within one year.

f. Tax attributable to associates and jointly controlled entities for the year ended 31 December 2007 of HK$35 million (2006: HK$25 million) is included in the share of results of associates and jointly controlled entities.

g. The Group is currently in the process of providing information to the Inland Revenue Department of HKSAR 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 stage of collecting information, provisions have been made only to the extent that the estimated tax assessments have been issued and the tax risk that can be reliably estimated. In 2007, a provision of HK$336 million was made for the disputes as part of the underprovision for income tax. However, the final outcomes are subject to uncertainties and resulting liabilities may or may not exceed the provisions.

h. **Reconciliation between the actual total tax charge and profit before taxation at applicable tax rates**

	2007 *HK$ Million*	2006 *HK$ Million*
Profit before taxation	**18,209**	13,823
Notional tax on profit before taxation calculated at applicable tax rates	**3,357**	2,510
Tax effect of non-deductible expenses	**122**	46
Tax effect of non-taxable revenue	**(193)**	(227)
Net underprovision in respect of prior years	**352**	134
Tax effect of tax losses not recognised	**68**	82
Tax effect of unrecognised tax losses utilised	**(86)**	(65)
Tax effect of previously unrecognised tax losses now recognised as deferred tax assets	**(28)**	(51)
Effect of change in tax rate on deferred tax balances	**(201)**	–
LAT on trading properties	**239**	–
Deferred LAT on change in fair value of investment properties	**617**	–
Actual total tax charge	**4,247**	2,429

7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

Profit attributable to equity shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$1,958 million (2006: HK$1,958 million).

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2007	2006
	HK$ Million	*HK$ Million*
Interim dividend declared and paid of 36 cents (2006: 36 cents) per share	**881**	881
Final dividend of 44 cents (2006: 44 cents) per share proposed after the balance sheet date	**1,212**	1,077
	2,093	1,958

a. The amount of the proposed final dividend in respect of 2007 is based on 2,754 million shares (2006: 2,448 million shares) as enlarged by the Rights Issue completed by the Company in January 2008. The proposed final dividends after the balance sheet dates have not been recognised as liabilities at the balance sheet dates.

b. The final dividend of HK$1,077 million for 2006 was approved and paid in 2007.

9. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings attributable to ordinary equity shareholders for the year of HK$13,143 million (2006: HK$10,757 million) and the weighted average of 2,448 million (2006: 2,448 million) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the earnings attributable to ordinary equity shareholders for the year of HK$13,143 million (2006: HK$10,757 million) and the weighted average of 2,456 million (2006: 2,448 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares resulting from the Rights Issue which was completed in January 2008.

10. FIXED ASSETS

	Group						
	Investment properties HK$ Million	Properties under or held for redevelopment HK$ Million	Hotel and club properties HK$ Million	Broad-casting & commun-ications equipment HK$ Million	Other properties and fixed assets HK$ Million	Leasehold land HK$ Million	Total HK$ Million
a. Cost or valuation							
Balance at 1 January 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 31 December 2006 and 1 January 2007	**86,684**	**2,348**	**661**	**9,515**	**10,453**	**3,995**	**113,656**
Exchange adjustment	**225**	**53**	**–**	**–**	**73**	**73**	**424**
Additions	**196**	**2,436**	**13**	**313**	**737**	**102**	**3,797**
Disposals	**(683)**	**–**	**–**	**(140)**	**(224)**	**–**	**(1,047)**
Reclassification	**8**	**166**	**–**	**(1)**	**366**	**(15)**	**524**
Revaluation surpluses/write back/ (write off)	**9,352**	**157**	**–**	**–**	**(2)**	**–**	**9,507**
Balance at 31 December 2007	**95,782**	**5,160**	**674**	**9,687**	**11,403**	**4,155**	**126,861**
Accumulated depreciation, amortisation and impairment losses							
Balance at 1 January 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 31 December 2006 and 1 January 2007	**–**	**–**	**517**	**5,869**	**4,739**	**333**	**11,458**
Exchange adjustment	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Charge for the year	**–**	**–**	**32**	**638**	**421**	**47**	**1,138**
Written back on disposals	**–**	**–**	**–**	**(135)**	**(221)**	**–**	**(356)**
Balance at 31 December 2007	**–**	**–**	**549**	**6,372**	**4,947**	**380**	**12,248**
Net book value							
At 31 December 2007	**95,782**	**5,160**	**125**	**3,315**	**6,456**	**3,775**	**114,613**
At 31 December 2006	86,684	2,348	144	3,646	5,714	3,662	102,198

10. FIXED ASSETS (Continued)

	Group						
	Investment properties *HK$ Million*	Properties under or held for redevelopment *HK$ Million*	Hotel and club properties *HK$ Million*	Broad-casting & commun-ications equipment *HK$ Million*	Other properties and fixed assets *HK$ Million*	Leasehold land *HK$ Million*	Total *HK$ Million*
b. The analysis of cost or valuation of the above assets is as follows:							
2007 valuation	**95,782**	**–**	**–**	**–**	**–**	**–**	**95,782**
Cost less provisions	**–**	**5,160**	**674**	**9,687**	**11,403**	**4,155**	**31,079**
	95,782	**5,160**	**674**	**9,687**	**11,403**	**4,155**	**126,861**
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
c. Tenure of title to properties:							
At 31 December 2007							
Held in Hong Kong							
Long lease	**75,312**	**–**	**125**	**–**	**2**	**82**	**75,521**
Medium lease	**13,055**	**608**	**–**	**–**	**2,955**	**1,251**	**17,869**
Short lease	**1,320**	**–**	**–**	**–**	**–**	**–**	**1,320**
	89,687	**608**	**125**	**–**	**2,957**	**1,333**	**94,710**
Held outside Hong Kong							
Medium lease	**6,095**	**4,552**	**–**	**–**	**505**	**2,442**	**13,594**
	95,782	**5,160**	**125**	**–**	**3,462**	**3,775**	**108,304**
At 31 December 2006							
Held in Hong Kong							
Long lease	66,833	–	144	–	2	80	67,059
Medium lease	13,278	606	–	–	3,010	1,185	18,079
Short lease	1,430	–	–	–	–	–	1,430
	81,541	606	144	–	3,012	1,265	86,568
Held outside Hong Kong							
Long lease	2	–	–	–	–	–	2
Medium lease	5,141	1,742	–	–	279	2,397	9,559
	86,684	2,348	144	–	3,291	3,662	96,129

10. FIXED ASSETS (Continued)

d. Properties revaluation

The Group's investment properties have been revalued as at 31 December 2007 by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and the PRC. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties and allowing for reversionary potential.

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

Property investment revenue includes gross rental income from investment properties of HK$4,618 million (2006: HK$3,802 million).

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 the 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 31 December 2007, a deficit of HK$157 million (2006: 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.

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	
	2007	2006
	HK$ Million	*HK$ Million*
Within 1 year	**4,072**	3,945
After 1 year but within 5 years	**4,306**	4,273
After 5 years	**172**	197
	8,550	8,415

11. INTEREST IN SUBSIDIARIES

	Company	
	2007	2006
	HK$ Million	*HK$ Million*
Unlisted shares, at cost less provision	**7,765**	7,314
Amounts due from subsidiaries	**26,569**	30,866
	34,334	38,180
Amounts due to subsidiaries	**(24,739)**	(24,809)
	9,595	13,371

Details of principal subsidiaries at 31 December 2007 are shown on pages 126 to 127.

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. Amounts due to subsidiaries are unsecured, non-interest bearing with no fixed terms of payment.

12. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill ***HK$ Million***	**Other intangible assets** ***HK$ Million***	**Total** ***HK$ Million***
Cost			
Balance at 1 January 2006	297	–	297
Additions	–	12	12
Balance at 31 December 2006 and 31 December 2007	**297**	**12**	**309**
Accumulated amortisation			
Balance at 1 January 2006	–	–	–
Charge for the year	–	3	3
Balance at 31 December 2006 and 1 January 2007	**–**	**3**	**3**
Charge for the year	**–**	**4**	**4**
Balance at 31 December 2007	**–**	**7**	**7**
Net carrying value			
At 31 December 2007	**297**	**5**	**302**
At 31 December 2006	297	9	306

Goodwill is mainly related to the Group's terminals business. As at 31 December 2007, 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 2007 HK$ Million	2006 HK$ Million
Share of net tangible assets	**1,660**	274
Goodwill	**1,790**	61
Amounts due from associates	**219**	450
Amounts due to associates	**(8)**	(4)
	3,661	781

a. Details of principal associates at 31 December 2007 are shown on page 127.

b. Included in the amounts due from associates are loans totalling HK$120 million (2006: HK$352 million) advanced to an associate involved in the Bellagio property development project, which is interest bearing. The loans are unsecured and are repayable as may from time to time be agreed among the shareholders. Amounts due from associates are neither past due nor impaired.

c. Mega Shekou Container Terminals Limited ("Mega SCT")

On 14 December 2006, Modern Terminals Limited ("Modern Terminals"), 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 Rationalisation Agreement").

As of 31 December 2006, Modern Terminals had effective interests in Shekou Container Terminals Phase I and II ("SCT I and II") of 10.0% and 9.8% respectively and these were accounted for as associates of the Group as at 31 December 2006.

Under the Rationalisation Agreement, CMH acquired the equity interests held by the other shareholders of SCT I and II and upon its completion, both CMH and Modern Terminals injected their interests in SCT I and II and Shekou Container Terminal (Phase III) Limited ("SCT III") into a new company, Mega SCT. CMH and Modern Terminals initially held 70% and 30% equity interests in the Mega SCT respectively ("the Transaction") and Modern Terminals paid HK$3,168 million in relation to the Transaction, which was completed on 22 February 2007.

Under the Rationalisation Agreement, CMH is responsible for arranging financing for all the construction and development costs of the berths to be developed. Subject to satisfaction of the relevant conditions therein, the completion of the Rationalisation Agreement would take place in four stages. In consideration of the construction and development of berths by CMH, the equity interests held by Modern Terminals in Mega SCT will gradually decrease from 30% upon stage 1 completion to 20% upon stage 4 completion. Stage 1 completion was completed on 22 February 2007. Stage 2 completion will take place after berth no. 7 of SCT III has been completed and become commercially operational or one year after stage 1 completion, whichever is later. As at 31 December 2007, stage 2 completion had not been completed.

The Group's share of profits of SCT I and II for the period from 1 January 2007 to 22 February 2007 was HK$6 million. The Group's share of profits of Mega SCT for the period from 23 February 2007 to 31 December 2007 was HK$176 million. If the Rationalisation Agreement had occurred on 1 January 2007, the Group's share of profits from Mega SCT would have been HK$209 million.

13. INTEREST IN ASSOCIATES (Continued)

c. Mega Shekou Container Terminals Limited ("Mega SCT") (Continued)

Details of net assets acquired and the goodwill that arose from the Transaction of HK$1,790 million are as follows:

	HK$ Million
Purchase consideration:	
– Cash paid	3,168
– Fair value of assets exchanged	232
– Costs directly attributable to the Acquisition	4
– Adjustment sum received and receivable	(712)
Total purchase consideration	2,692
Less: Fair value of net assets acquired	(902)
Goodwill	1,790

The major components of assets acquired and liabilities assumed arising from the Transaction are as follows:

	Fair value *HK$ Million*	**Carrying value** *HK$ Million*
Fixed assets	1,119	992
Cash and cash equivalents	174	174
Net working capital excluding cash	(203)	(203)
Non-current liabilities	(188)	(188)
	902	775

The acquired tangible assets primarily comprised of land and buildings, plant and equipment and accounts receivables. The liabilities assumed primarily comprised accounts payables and other current liabilities.

d. Summary financial information on associates

	2007		2006	
	Total *HK$ Million*	**Attributable interest** *HK$ Million*	Total *HK$ Million*	Attributable interest *HK$ Million*
Assets	**16,441**	**2,513**	8,238	1,129
Liabilities	**(3,677)**	**(853)**	(4,645)	(855)
Equity	**12,764**	**1,660**	3,593	274
Revenue	**4,110**	**883**	3,929	737
Profit before taxation	**1,715**	**352**	1,628	221
Taxation	**(85)**	**(30)**	(136)	(25)
Profit for the year	**1,630**	**322**	1,492	196

14. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Share of net assets	**2,269**	734
Goodwill	**54**	54
	2,323	788
Amounts due from jointly controlled entities	**2,753**	–
	5,076	788

Details of principal jointly controlled entities at 31 December 2007 are shown on page 127.

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment. The amounts are not past due nor impaired.

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

	2007	2006
	HK$ Million	*HK$ Million*
Non-current assets	**2,797**	1,192
Current assets	**2,068**	188
Non-current liabilities	**(2,554)**	(622)
Current liabilities	**(42)**	(24)
Net assets	**2,269**	734
Revenue	**160**	121
Profit for the year	**27**	12

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Listed investments stated at market value		
– in Hong Kong	**1,347**	1,568
– outside Hong Kong	**1,454**	1,296
Unlisted investments	**57**	57
	2,858	2,921

Unlisted investments included HK$35 million (2006: HK$16 million) stated at cost.

Fair value of individually impaired available-for-sale investments amounted to HK$173 million (2006: HK$8 million). These were determined to be impaired on the basis of material decline in their fair value below cost and there are indications that these may not be recovered. Impairment losses were recognised in consolidated profit and loss account.

16. LONG TERM RECEIVABLES

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

17. EMPLOYEE RETIREMENT BENEFITS

a. Defined benefit pension schemes

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Defined benefit pension scheme assets	**239**	230

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 31 December 2007 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 two principal schemes were 144% and 105% respectively.

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

	2007	2006
	HK$ Million	*HK$ Million*
Fair value of scheme assets	**1,130**	1,005
Present value of funded obligations	**(891)**	(775)
	239	230

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.

(ii) Scheme assets consist of the following:

	2007	2006
	HK$ Million	*HK$ Million*
Equity securities	**803**	761
Debt securities	**247**	164
Deposits and cash	**80**	80
	1,130	1,005

17. EMPLOYEE RETIREMENT BENEFITS (Continued)

a. Defined benefit pension schemes (Continued)

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

	2007 **HK$ Million**	2006 HK$ Million
At 1 January	**775**	712
Benefits paid by the schemes	**(65)**	(37)
Current service cost	**31**	29
Employees' contribution	**2**	2
Interest cost	**29**	31
Actuarial losses	**119**	38
At 31 December	**891**	775

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

	2007 **HK$ Million**	2006 HK$ Million
At 1 January	**1,005**	855
Group's contributions paid to the schemes	**3**	33
Benefits paid by the schemes	**(65)**	(37)
Employees' contribution	**2**	2
Actuarial expected return on scheme assets	**71**	59
Actuarial gains	**114**	93
At 31 December	**1,130**	1,005

(v) (Income)/expenses recognised in the consolidated profit and loss account are as follows:

	2007 **HK$ Million**	2006 HK$ Million
Current service cost	**31**	29
Interest cost	**29**	31
Actuarial expected return on scheme assets	**(71)**	(59)
Net transitional liability recognised	**–**	8
	(11)	9

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

Actual return on scheme assets	**(185)**	(153)

17. EMPLOYEE RETIREMENT BENEFITS (Continued)

a. Defined benefit pension schemes (Continued)

(vi) The principal actuarial assumptions used as at 31 December 2007 (expressed as a range) are as follows:

		2007	2006
Discount rate at 31 December		**3.45% – 3.5%**	3.75% – 5.0%
Expected rate of return on scheme assets		**7.0% – 8.0%**	5.0% – 8.0%
Future salary increases	– 2007	**N/A**	2.0% – 4.0%
	– 2008 thereafter	**3.0% – 4.5%**	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.

(vii) Historical information

	2007 **_HK$ Million_**	2006 *HK$ Million*
Fair value of scheme assets	**1,130**	1,005
Present value of the defined benefit obligations	**(891)**	(775)
Surplus in the scheme	**239**	230
Experience adjustments arising on scheme liabilities	**-6%**	9%
Experience adjustments arising on scheme assets	**10%**	2%

(viii) The Group recognised an actuarial loss amounting to HK$5 million (2006: gain of HK$55 million) for the year ended 31 December 2007 directly in equity. The cumulative amount of actuarial gains recognised amounted to HK$147 million (2006: HK$152 million) as at 31 December 2007.

b. Defined contribution pension schemes

A number of defined contribution pension schemes (including the Mandatory Provident Fund) administered by independent trustees 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 by the Group are expensed as incurred and may be reduced by contributions forfeited from those employees who have left the scheme prior to full vesting of the contributions.

18. PROPERTIES FOR SALE

	Group 2007 HK$ Million	Group 2006 HK$ Million
Properties under development for sale	**8,865**	5,416
Completed properties for sale	**370**	368
	9,235	5,784

a. The properties under development for sale are expected to be substantially completed and recovered after more than one year.

b. Included in properties under development for sale are deposits of HK$2,616 million (2006: HK$581 million) paid for the acquisition of certain land sites/properties located in China.

c. Properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value. The total carrying value of properties stated at net realisable value at 31 December 2007 was HK$45 million (2006: HK$102 million).

d. In 2007, net provisions totalling HK$27 million (2006: HK$108 million) charged to the consolidated profit and loss account in prior years for properties under development for sale and completed properties for sale were written back as a result of the increase in net realisable value of certain properties.

e. The carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	Group 2007 HK$ Million	Group 2006 HK$ Million
Held in Hong Kong		
Long lease	**–**	3
Medium lease	**941**	1,028
	941	1,031
Held outside Hong Kong		
Medium lease	**4,635**	1,905
	5,576	2,936

19. TRADE AND OTHER RECEIVABLES

a. Ageing analysis

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis as at 31 December 2007 as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Trade receivables		
0 – 30 days	**505**	331
31 – 60 days	**222**	229
61 – 90 days	**35**	70
Over 90 days	**59**	72
	821	702
Other receivables	**575**	698
	1,396	1,400

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be virtually recoverable within one year.

b. Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The balance and the movement of the allowance for bad and doubtful debts as at 31 December 2007 and 31 December 2006 is not significant.

c. Trade receivables that are not impaired

As at 31 December 2007, 75% (2006:72%) of the Group's trade receivables were not impaired, of which 85% (2006: 80%) was either not past due or less than two months past due.

Based on past experience of the Group, it is determined that no impairment allowance is necessary in respect of these balances as these are considered to be fully recoverable. The Group dose not hold any collateral over these balances.

20. BANK DEPOSITS AND CASH

	Group		Company	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Bank deposits and cash				
– not pledged	**7,031**	3,769	**3,844**	15
– pledged	**686**	–	**–**	–
	7,717	3,769	**3,844**	15

Bank deposits and cash at 31 December 2007 included Renminbi balances of HK$1,639 million equivalent (2006: HK$587 million) in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 31 December 2007 as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Trade payables		
0 – 30 days	**194**	332
31 – 60 days	**76**	88
61 – 90 days	**13**	18
Over 90 days	**52**	169
	335	607
Rental and customer deposits	**1,476**	1,249
Other payables	**3,867**	3,070
	5,678	4,926

The amount of trade and other payables that is expected to be settled after more than one year is HK$975 million (2006: HK$1,096 million), which is mainly for rental and customer deposits. 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 or are payable on demand.

22. LONG TERM LOANS

	Group 2007 HK$ Million	Group 2006 HK$ Million
Bonds and notes (unsecured)		
HK dollar fixed rate notes due 2007	**–**	651
HK dollar fixed rate notes due 2008	**1,209**	607
HK dollar fixed rate notes due 2009	**304**	302
HK dollar fixed rate notes due 2011	**206**	204
HK dollar fixed rate notes due 2016	**256**	253
HK dollar floating rate notes due 2007	**–**	150
HK dollar floating rate notes due 2008	**100**	100
HK dollar floating rate notes due 2009	**101**	101
HK dollar floating rate notes due 2010	**200**	200
HK dollar floating rate notes due 2013	**300**	300
US dollar fixed rate notes due 2007	**–**	2,808
US dollar fixed rate notes due 2017	**3,120**	–
	5,796	5,676
Bank loans (secured)		
Due within 1 year	**619**	–
Due after more than 2 years but not exceeding 5 years	**1,621**	101
Due after more than 5 years	**1,949**	605
	4,189	706
Bank loans (unsecured)		
Due within 1 year	**4,792**	1,058
Due after more than 1 year but not exceeding 2 years	**3,185**	2,800
Due after more than 2 years but not exceeding 5 years	**12,520**	8,811
Due after more than 5 years	**800**	1,619
	21,297	14,288
Total loans	**31,282**	20,670
Less: Amounts due within 1 year	**(6,720)**	(4,667)
Total long term loans	**24,562**	16,003

a. All the interest bearing borrowings are carried at amortised cost except for loans in an amount of HK$2,076 million (2006: HK$4,926 million) which are carried at their fair value. None of the non-current interest bearing borrowings are expected to be settled within one year.

b. Included in the Group's total loans are bank loans totalling HK$11,582 million (2006: HK$5,488 million) borrowed by non-wholly-owned subsidiaries, Modern Terminals and Harbour Centre Development Limited ("HCDL"). The loans are without recourse to the Company and its other subsidiaries.

c. As at 31 December 2007, certain banking facilities of the Group were secured by mortgages over properties under development, certain fixed assets, certain available-for-sale investments and certain bank deposits with an aggregate carrying value of HK$11,253 million (2006: over certain fixed assets with a carrying value of HK$3,527 million).

d. Certain of the 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 levels. During the year under review, all these covenants have been complied with by the Group.

23. DEFERRED TAXATION

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

	Group 2007 HK$ Million	Group 2006 HK$ Million
Deferred tax liabilities	**15,325**	13,116
Deferred tax assets	**(360)**	(429)
Net deferred tax liabilities	**14,965**	12,687

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

	Depreciation allowances in excess of the related depreciation HK$ Million	Revaluation of investment properties HK$ Million	Others HK$ Million	Future benefit of tax losses HK$ Million	Total HK$ Million
Balance at 1 January 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 31 December 2006 and 1 January 2007	**2,126**	**11,341**	**(2)**	**(778)**	**12,687**
Charged to the consolidated profit and loss account	**61**	**2,110**	**–**	**107**	**2,278**
Balance at 31 December 2007	**2,187**	**13,451**	**(2)**	**(671)**	**14,965**

23. DEFERRED TAXATION (Continued)

b. Deferred tax assets unrecognised

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

	Group 2007 HK$ Million	2006 HK$ Million
Deductible temporary differences	**(1)**	(2)
Future benefit of tax losses	**(962)**	(909)
Net deferred tax assets unrecognised	**(963)**	(911)

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 31 December 2007. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from China operations expire five years after the relevant accounting year end date.

24. OTHER DEFERRED LIABILITIES

	Group 2007 HK$ Million	2006 HK$ Million
Club debentures issued (non-interest bearing)	**219**	220
Deferred revenue	**42**	33
Others	**–**	1
	261	254

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

25. FINANCIAL INSTRUMENTS

Exposure to interest rate, foreign currency, equity price, 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

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 through regular review to determine the strategy as to having the funding in floating/fixed rate mix appropriate to its current business portfolio.

(i) The Group has entered into a number of interest rate swaps ("IRS") for hedging certain fixed rate interest bearing notes with the notional amounts matching exactly the principal amounts of the respective borrowings. 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 principal amount and expiry dates of the IRS outstanding at 31 December 2007 were as follows:

	2007 ***HK$ Million***	2006 *HK$ Million*
Expiring within 1 year	**1,200**	2,990
Expiring after more than 1 year but not exceeding 5 years	**600**	1,450
Expiring after 5 years	**250**	–
	2,050	4,440

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 31 December 2007 were as follows:

	2007		2006	
	Positive fair value ***HK$ Million***	**Negative fair value** ***HK$ Million***	Positive fair value *HK$ Million*	Negative fair value *HK$ Million*
Expiring within 1 year	**9**	**1**	12	3
Expiring after more than 1 year but not exceeding 5 years	**11**	**–**	17	–
Expiring after 5 years	**6**	**–**	–	–
	26	**1**	29	3

25. FINANCIAL INSTRUMENTS (Continued)

a. Interest rate risk (Continued)

(ii) The following table details the interest rate profile of the Group's borrowings at the balance sheet date, after taking into account the effect of IRS.

	2007		2006	
	Effective interest rate %	***HK$ Million***	Effective interest rate %	*HK$ Million*
Fixed rate borrowings				
Bonds and notes	**6.1**	**3,120**	–	–
Floating rate borrowings				
Bonds and notes	**4.4**	**2,676**	5.8	5,676
Bank loans	**4.1**	**25,486**	4.3	14,994
		28,162		20,670
Total borrowings		**31,282**		20,670

(iii) *Sensitivity analysis*

At 31 December 2007, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would decrease/increase the Group's profit and total equity by approximately HK$152 million (2006: HK$106 million). This takes into account the effect of interest bearing bank deposits as at 31 December 2007.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2006.

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 except the equity investments in China.

The Group's primary foreign currency exposures arise mainly from its property development and investment activities and port-related equity investments in China. During the year, total exchange gain mainly arising from the translation of the net investments in these China subsidiaries, associates and jointly controlled entities amounted to HK$587 million (2006: HK$177 million) for the Group, which has been dealt with as an equity movement. Where appropriate and available on a cost-efficient manner, the Group seeks to finance these investments by RMB borrowings with reference to the future RMB funding requirements.

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. Most of the Group's borrowings are denominated in the functional currency of the entity taking out the loans or in case of group companies whose functional currency is in HKD, in either HKD or USD. Given this, the management does not expect that there will be any significant currency risk associated with the Group's borrowings.

25. FINANCIAL INSTRUMENTS (Continued)

b. Foreign currency risk (Continued)

(i) *Exposure to currency risk*

The following tables detail the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the Group's entities to which they relate.

	2007				2006			
	USD Million	***RMB Million***	***JPY Million***	***AUD Million***	*USD Million*	*RMB Million*	*JPY Million*	*AUD Million*
The Group								
Bank deposits and cash	**80**	**34**	**–**	**–**	1	23	–	–
Trade and other payables	**(21)**	**(277)**	**–**	**–**	(15)	(77)	–	–
Bank loans and other loans	**(400)**	**–**	**–**	**–**	(359)	(90)	–	–
Gross exposure arising from recognised assets and liabilities	**(341)**	**(243)**	**–**	**–**	(373)	(144)	–	–
Inter-company balances	**–**	**5**	**–**	**–**	–	395	–	–
Notional amount of forward foreign exchange contracts								
– at fair value through profit or loss	**76**	**–**	**(12,772)**	**39**	470	–	–	–
– cash flow hedge	**–**	**1,088**	**–**	**–**	–	–	–	–
Notional amount of currency swaps on borrowings	**400**	**–**	**(45,764)**	**–**	–	–	–	–
Overall net exposure	**135**	**850**	**(58,536)**	**39**	97	251	–	–

Additionally, the PRC subsidiaries of the Group were exposed to HKD/USD by holding HKD/USD denominated bank deposits and cash, bank loans and inter-company borrowings in the amount of HK$983 million, HK$1,325 million and HK$1,795 million, respectively, as at 31 December 2007 (2006: HK$78 million, HK$1,288 million and HK$1,600 million respectively).

	2007				2006			
	USD Million	***RMB Million***	***JPY Million***	***AUD Million***	*USD Million*	*RMB Million*	*JPY Million*	*AUD Million*
The Company								
Bank deposits and cash	**22**	**–**	**–**	**–**	–	–	–	–

25. FINANCIAL INSTRUMENTS (Continued)

b. Foreign currency risk (Continued)

(i) Exposure to currency risk (Continued)

The total notional amounts of outstanding forward foreign exchange contracts and currency swaps as at 31 December 2007 was HK$2,372 million (2006: HK$3,664 million) and HK$3,120 million (2006: HK$Nil) respectively. The net fair values of these contracts at 31 December 2007 were as follows:

	2007		2006	
	Positive fair value *HK$ Million*	**Negative fair value *HK$ Million***	Positive fair value *HK$ Million*	Negative fair value *HK$ Million*
Forward foreign exchange contracts				
– at fair value through profit or loss	**–**	**106**	–	–
– cash flow hedge	**45**	**–**	–	–
Currency swaps				
– at fair value through profit or loss	**–**	**96**	–	–
	45	**202**	–	–

During the year, an amount of HK$199 million loss (2006: HK$20 million gain) was recognised on the forward foreign exchange contracts.

(ii) Sensitivity analysis

The approximate changes in the Group's profit and total equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date are as follows:

– a 5% increase/decrease in the foreign exchange rate of JPY against USD will decrease/increase the Group's profit and total equity by approximately HK$210 million (2006: HK$ Nil).

– the impact on the Group's profit and total equity is not expected to be material in response to possible changes in the foreign exchange rates of other currencies to which the Group is exposed.

The sensitivity analysis includes balances between group companies where the denomination is in a currency other than the functional currencies of the Group's entities to which they relate.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group's entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Results of the analysis as presented above represent an aggregation of the effects on each of the Group entities' profit and equity measured in the respective functional currencies, translated into HKD at exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

25. FINANCIAL INSTRUMENTS (Continued)

c. Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments.

Listed investments held in the available-for-sale portfolio have been chosen taking reference to their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

At 31 December 2007, it is estimated that an increase/decrease of 10% in the market value of the Group's listed available-for-sale investments, with all other variables held constant, would not affect the Group's profit unless there are impairments. The Group's total equity would increase/decrease by HK$280 million (2006: HK$286 million). The analysis is performed on the same basis for 2006.

d. Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are substantially 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.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

		Contractual undiscounted cash flow				
	Carrying amount *HK$ Million*	**Total** *HK$ Million*	**Within 1 year or on demand** *HK$ Million*	**More than 1 year but less than 2 years** *HK$ Million*	**More than 2 years but less than 5 years** *HK$ Million*	**More than 5 years** *HK$ Million*
At 31 December 2007						
Bank loans and other loans (Note)	**(31,282)**	**(35,437)**	**(7,759)**	**(4,472)**	**(16,023)**	**(7,183)**
Trade and other payables	**(5,678)**	**(5,678)**	**(4,703)**	**(599)**	**(360)**	**(16)**
Other deferred liabilities (club debentures issued)	**(219)**	**(219)**	**–**	**–**	**–**	**(219)**
Forward foreign exchange contracts, at fair value through profit or loss	**(106)**	**(106)**	**(106)**	**–**	**–**	**–**
	(37,285)	**(41,440)**	**(12,568)**	**(5,071)**	**(16,383)**	**(7,418)**
At 31 December 2006						
Bank loans and other loans (Note)	(20,670)	(23,244)	(5,433)	(4,133)	(10,716)	(2,962)
Trade and other payables	(4,926)	(4,926)	(3,830)	(674)	(402)	(20)
Other deferred liabilities (club debentures issued)	(220)	(220)	–	–	–	(220)
	(25,816)	(28,390)	(9,263)	(4,807)	(11,118)	(3,202)

Note:
The contractual undiscounted cash flow for bank loans and other loans includes cash flow for interest rate swaps and currency swaps.

25. FINANCIAL INSTRUMENTS (Continued)

e. Credit risk

The Group's credit risk is primarily attributable to rental, other trade and service receivables and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established the credit policies and procedures in each of its core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

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

The Group has no significant concentrations of credit risk. 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 30, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

f. Fair value estimation

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

The fair values of receivables, bank balances and other current assets, payables and accruals and current borrowings 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. The fair value of currency swaps are determined based on the amount that the Group would receive or pay to terminate the swaps.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 31 December 2006. 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.

26. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 30 June 1998, to replace a former scheme previously adopted on 29 September 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.

During the years ended 31 December 2007 and 31 December 2006, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme and no options (2006: 200,000) were exercised to subscribe for ordinary shares under the Company's Executive Share Incentive Scheme.

As at 31 December 2007, there were no unexercised share options.

27. SHARE CAPITAL

	2007 No. of shares *Million*	2006 No. of shares *Million*	**2007 *HK$ Million***	2006 *HK$ Million*
Authorised				
Ordinary shares of HK$1 each	**3,600**	3,600	**3,600**	3,600
Issued and fully paid				
Ordinary shares of HK$1 each	**2,448**	2,448	**2,448**	2,448

a. Rights Issue

Subsequent to 31 December 2007, the Company completed the Rights Issue exercise as detailed in Note 33 and increased its issued share capital by 306 million shares to 2,754 million shares.

b. Executive share incentive scheme

There were no outstanding options to subscribe for ordinary shares of the Company as at 31 December 2007 and 31 December 2006.

28. CAPITAL AND RESERVES

	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserve HK$ Million	Investments revaluation reserves HK$ Million	Exchange and other reserves HK$ Million	Revenue reserves HK$ Million	Total shareholders' equity HK$ Million	Minority interests HK$ Million	Total equity HK$ Million
	Shareholders' equity								
a. The Group									
Balance at 1 January 2006	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	–	–	–	–	–	(1,077)	(1,077)	–	(1,077)
Dividends declared in respect of the current year (Note 8)	–	–	–	–	–	(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 31 December 2006	2,448	7,751	7	1,272	252	63,432	75,162	4,756	79,918

28. CAPITAL AND RESERVES (Continued)

	Shareholders' equity								
	Share capital HK$ *Million*	Share premium HK$ *Million*	Capital redemption reserve HK$ *Million*	Investments revaluation reserves HK$ *Million*	Exchange and other reserves HK$ *Million*	Revenue reserves HK$ *Million*	Total shareholders' equity HK$ *Million*	Minority interests HK$ *Million*	Total equity HK$ *Million*
a. The Group (Continued)									
Balance at 1 January 2007	**2,448**	**7,751**	**7**	**1,272**	**252**	**63,432**	**75,162**	**4,756**	**79,918**
Surplus on revaluation of available-for-sale investments	–	–	–	301	–	–	301	142	443
Actuarial (loss)/gain on defined benefit pension schemes	–	–	–	–	–	(9)	(9)	4	(5)
Exchange difference	–	–	–	–	489	–	489	53	542
Others	–	–	–	–	20	(4)	16	27	43
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	(853)	–	–	(853)	(41)	(894)
Transfer to the consolidated profit and loss account on impairment of available-for-sale investments	–	–	–	43	–	–	43	7	50
Share of reserves of associates/jointly controlled entities	–	–	–	–	30	–	30	15	45
Net income/(expense) recognised directly in equity	–	–	–	(509)	539	(13)	17	207	224
Profit for the year	–	–	–	–	–	13,143	13,143	819	13,962
Total recognised income and expenses	–	–	–	(509)	539	13,130	13,160	1,026	14,186
Dividends approved in respect of the previous year (Note 8)	–	–	–	–	–	(1,077)	(1,077)	–	(1,077)
Dividends declared in respect of the current year (Note 8)	–	–	–	–	–	(881)	(881)	–	(881)
Shares issued by a subsidiary	–	–	–	–	–	–	–	197	197
Dividends paid to minority interests	–	–	–	–	–	–	–	(341)	(341)
Balance at 31 December 2007	**2,448**	**7,751**	**7**	**763**	**791**	**74,604**	**86,364**	**5,638**	**92,002**

28. CAPITAL AND RESERVES (Continued)

	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserve HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
b. The Company					
Balance at 1 January 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	–	–	–	(1,077)	(1,077)
Dividends declared in respect of the current year (Note 8)	–	–	–	(881)	(881)
Exercise of share options	–	5	–	–	5
Balance at 31 December 2006 and 1 January 2007	**2,448**	**7,751**	**7**	**3,500**	**13,706**
Profit for the year	**–**	**–**	**–**	**1,958**	**1,958**
Dividends approved in respect of the previous year (Note 8)	**–**	**–**	**–**	**(1,077)**	**(1,077)**
Dividends declared in respect of the current year (Note 8)	**–**	**–**	**–**	**(881)**	**(881)**
Balance at 31 December 2007	**2,448**	**7,751**	**7**	**3,500**	**13,706**

c. Reserves of the Company available for distribution to equity shareholders of the Company at 31 December 2007 amounted to HK$3,500 million (2006: HK$3,500 million).

d. 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.

e. After the balance sheet date the Directors proposed a final dividend of 44 cents per share (2006: 44 cents per share) amounting to HK$1,212 million (2006: HK$1,077 million). This dividend has not been recognised as a liability at the balance sheet date.

f. Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratios and cash flow requirements, taking into account its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and minority interests.

28. CAPITAL AND RESERVES (Continued)

f. Capital management (Continued)

The net debt-to-equity ratios as at 31 December 2007 and 2006 are as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Secured		
Bank loans	**4,189**	706
Unsecured		
Bonds and notes	**5,796**	5,676
Bank loans	**21,297**	14,288
Total loans (Note 22)	**31,282**	20,670
Less: Bank deposits and cash (Note 20)	**(7,717)**	(3,769)
Net debt	**23,565**	16,901
Shareholders' equity	**86,364**	75,162
Total equity	**92,002**	79,918
Net debt-to-shareholders' equity ratio	**27.3%**	22.5%
Net debt-to-total equity ratio	**25.6%**	21.1%

29. 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 31 December 2007:

a. As disclosed in Note 13, loans totalling HK$120 million (2006: HK$352 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 31 December 2007, the Group earned rental income totalling HK$405 million (2006: HK$318 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).

30. CONTINGENT LIABILITIES

As at 31 December 2007, 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$33,616 million (2006: HK$23,334 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil.

As at the 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.

31. COMMITMENTS

The Group's outstanding commitments on expenditures as at 31 December 2007 included below:

	Group					
	2007			2006		
	Hong Kong *HK$ Million*	**China** *HK$ Million*	**Total** *HK$ Million*	Hong Kong *HK$ Million*	China *HK$ Million*	Total *HK$ Million*
a. Capital expenditure						
Authorised and contracted for	**243**	**2,544**	**2,787**	522	3,513	4,035
Authorised but not contracted for	**704**	**1,870**	**2,574**	737	2,841	3,578
	947	**4,414**	**5,361**	1,259	6,354	7,613
b. Programming and others						
Authorised and contracted for	**744**	**–**	**744**	538	–	538
Authorised but not contracted for	**77**	**–**	**77**	57	–	57
	821	**–**	**821**	595	–	595
c. Properties under development						
Authorised and contracted for	**–**	**15,272**	**15,272**	7	4,074	4,081
Authorised but not contracted for	**–**	**32,155**	**32,155**	–	12,941	12,941
	–	**47,427**	**47,427**	7	17,015	17,022
d. Properties under development undertaken by jointly controlled entities attributable to the Group						
Authorised and contracted for	**–**	**5,759**	**5,759**	–	–	–
Authorised but not contracted for	**–**	**8,290**	**8,290**	–	–	–
	–	**14,049**	**14,049**	–	–	–
e. Expenditure for operating leases						
Within one year	**72**	**–**	**72**	78	–	78
After one year but within five years	**56**	**–**	**56**	104	–	104
Over five years	**68**	**–**	**68**	78	–	78
	196	**–**	**196**	260	–	260

(i) Commitments for properties under development by the Group's subsidiaries or through jointly controlled entities included outstanding land cost attributable to the Group of HK$17,995 million payable by instalments in 2008 and 2009. Other commitments under the categories are mainly construction cost for the forthcoming years.

(ii) Commitments for capital expenditure in China are mainly related to Modern Terminals' port expenditure for the Dachan Bay and Taicang projects.

(iii) The Group leases a number of properties and telecommunication 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.

32. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations 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 112 to 125 summarises the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group.

The adoption of the new and revised HKFRSs has no significant impacts to the financial statements of the Group for the years ended 31 December 2007 and 31 December 2006, except for the presentation requirements following the adoption of HKFRS 7, Financial Instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures.

a. HKFRS 7, Financial instruments: Disclosures

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosure about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial Instruments: Disclosure and presentation. These disclosures are provided in Note 25 to the financial statements.

b. HKAS 1, Presentation of financial statements: Capital disclosures

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group objectives, policies and processes for managing capital. These new disclosures are set out in Note 28(f) to the financial statements.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact to the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 35).

33. POST BALANCE SHEET EVENTS

a. After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in Note 8.

b. The Company's Rights Issue

On 28 November 2007, the Company announced that it proposed to issue 305,984,578 new ordinary shares of HK$1 each by way of a rights issue in the proportion of one rights share for every eight ordinary shares then held by qualifying shareholders at a subscription price of HK$30 per rights share.

The Company completed the Rights Issue and increased its issued share capital by 305,984,578 shares to 2,753,861,207 shares on 16 January 2008. These newly issued shares rank *pari passu* in all respects with the existing shares. The net proceeds of the Rights Issue of approximately HK$9,110 million have been received and will be applied by the Group mainly for the capital requirements in respect of its expanding property investments in China.

c. HCDL's Rights Issue

On 5 February 2008, HCDL, 66.8%-owned by the Group, proposed to issue 157,500,000 new ordinary shares of HK$0.50 each by way of a rights issue in the proportion of one rights share for every two existing ordinary shares then held by qualifying shareholders at a subscription price of HK$12.80 per rights share. This rights issue was fully underwritten by the Company.

In March 2008, HCDL completed its rights issue and received the proceeds of approximately HK$2,000 million, of which HK$1,560 million was paid by the Company for its subscription under the underwriting arrangement and, accordingly, the Group increased its interest in HCDL from 66.8% to 70.4%. The new shares issued rank *pari passu* in all respects with the existing shares.

34. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in Note 32.

35. 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 31 December 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 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
HK(IFRIC)-11, HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC)-12, Service concession arrangements	1 January 2008
HK(IFRIC)-13, Customer loyalty programmes	1 July 2008
HK(IFRIC)-14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
HKAS 1 (Revised), Presentation of financial statements	1 January 2009
HKAS 23 (Revised), Borrowing costs	1 January 2009
HKFRS 8, Operating segments	1 January 2009

36. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2007 to be Wheelock and Company Limited, incorporated and listed in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 26 March 2008.

Principal Accounting Policies

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 32 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The Group has not applied any new standard or interpretation that is not yet effect for the current accounting period.

b. Basis of preparation of the financial statements

The consolidated financial statements made up to 31 December comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note (z).

c. Basis of consolidation

i. Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

c. Basis of consolidation (Continued)

i. Subsidiaries and minority interests (Continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

ii. Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate or jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

In the individual company balance sheets, its investment in associates and jointly controlled entities are stated at cost less impairment losses.

iii. Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the consolidated profit and loss account.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

d. Fixed assets

i. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated profit and loss account. Rental income from investment properties is accounted for as described in note (s)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note (i).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property and recognised at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated profit and loss account.

ii. Hotel and club properties

Hotel and club properties are stated at cost less accumulated depreciation and impairment losses.

iii. Broadcasting and communications equipment

Broadcasting and communications equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes materials, direct labour and an appropriate proportion of overheads and borrowing costs directly attributable to the acquisition, construction or production of such equipment which necessarily takes a substantial period of time to get ready for its intended use.

iv. Other properties and fixed assets held for own use

Other properties and fixed assets held for own use are stated at cost less accumulated depreciation and impairment losses.

v. Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated profit and loss account on the date of retirement or disposal.

e. Depreciation of fixed assets

Depreciation is calculated to write-off the cost of items of fixed assets, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

i. Investment properties

No depreciation is provided on investment properties.

ii. Hotel and club properties

Depreciation is provided on the cost of the leasehold land of hotel and club properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

iii. Broadcasting and communications equipment

Depreciation is provided on a straight line basis on the cost of the equipment at rates determined by the estimated useful lives of the assets of two to 20 years.

e. Depreciation of fixed assets (Continued)

iv. Other properties and fixed assets held for own use

Depreciation is provided on the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Costs of the buildings thereon are depreciated on a straight line basis over their estimated useful lives of 40 years.

Depreciation is provided on a straight line basis on the cost of other fixed assets held for own use at rates determined by the estimated useful lives of these assets of three to 25 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

f. Investments in debt and equity securities

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated profit and loss account as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated profit and loss account.

Dated debt securities that the Group and/or the Company has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investments revaluation reserves in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in the investments revaluation reserves in equity is recognised in the consolidated profit and loss account.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

g. Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated profit and loss account. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

h. Hedging

i. Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated profit and loss account. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated profit and loss account.

ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the consolidated profit and loss account.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the consolidated profit and loss account (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in the consolidated profit and loss account in the same period or periods during which the hedged forecast transaction affects the consolidated profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the consolidated profit and loss account.

iii. Hedge of net investment in a foreign operation

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in the consolidated profit and loss account. The ineffective portion is recognised immediately in the consolidated profit and loss account.

i. Leased assets

An arrangement comprising a transaction or a series of transactions is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease (see note (d)(i)); and

– and held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii. Assets held under operating leases

(a) Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

(b) The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property (see note (d)(i)).

iii. Assets held under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note (e).

Impairment losses are accounted for in accordance with the accounting policy as set out in note (k). Finance charges implicit in the lease payments are charged to the consolidated profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

j. Programming library

Programming library consists of presentation rights for commissioned programmes and acquired programmes for showing on the Group's television channels, and commissioned programmes and films for licensing purposes.

Presentation rights are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and any impairment losses. Amortisation is charged to the consolidated profit and loss account on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred. Cost of in-house programmes are written-off in the period in which they are incurred.

Commissioned programmes and films for licensing purposes comprise direct production costs and production overheads, and are stated at the lower of amortised cost or net realisable value. Costs are amortised on an individual programme/film basis in the ratio of the current year's gross revenues to management's forecast of the total ultimate gross revenues from all sources.

Both the period and method of amortisation are reviewed annually.

k. Impairment of assets

i. Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses arising on equity securities are not reversed (including those provided during the interim financial reporting).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated profit and loss account. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale investments, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the consolidated profit and loss account. The amount of the cumulative loss that is recognised in the consolidated profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated profit and loss account.

  Impairment losses recognised in the consolidated profit and loss account in respect of available-for-sale equity investments are not reversed through the consolidated profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in the investments revaluation reserves in equity.

k. Impairment of assets (Continued)

i. Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated profit and loss account.

ii. Impairment of other assets

The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

– Recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised as an expense in the consolidated profit and loss account whenever the carrying amount exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting).

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

l. Properties for sale

i. Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties held for sale comprises all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for completed properties for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

ii. Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, finance costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is estimated by the management, based on the expected selling price in the ordinary course of business less the anticipated costs of completion and the estimated costs necessary to make the sale.

n. Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

o. Interest-bearing borrowings

Interest-bearing borrowings for which there is a hedging relationship with a derivative financial instrument, which does not qualify for hedge accounting are initially recognised at fair value less transaction costs. At each balance sheet date the fair value is remeasured and any change in fair value is recognised in the consolidated profit and loss account.

Other interest-bearing borrowings are initially recognised at fair value less transaction costs. Subsequent to initial recognition, the interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated profit and loss account over the period of the borrowings together with any interest and fees payable using the effective interest method.

p. Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

r. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of overseas subsidiaries are dealt with in a separate component of equity and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated profit and loss account. On disposal of an overseas subsidiary, the cumulative amount of the exchange differences recognised in equity which relate to that overseas subsidiary is included in the calculation of the profit or loss on disposal. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

s. Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:

i. Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised in the accounting period in which they are earned.

ii. Income arising from the sale of properties for sale is recognised upon the completion of the sales and purchase agreement or the issue of occupation permit by the relevant government authorities, whichever is later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under other payables.

iii. Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.

iv. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

v. Interest income is recognised as it accrues using the effective interest method.

vi. *Deferred revenue*

Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

t. Borrowing costs

Borrowing costs are expensed in the consolidated profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

u. Income tax

i. Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

ii. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

iii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

iv. Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

v. Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii. the Group and the party are subject to common control;

iii. the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv. the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

w. Financial guarantees issued, provisions and contingent liabilities

i. Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated profit and loss account on initial recognition of any deferred income.

ii. Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

x. Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products, or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

y. Employee benefits

i. Defined benefit pension schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

Any actuarial gains and losses are fully recognised in equity in the period they occur.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme less past service cost.

ii. Shared based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated profit and loss account for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserves).

iii. Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

z. Significant accounting estimates and judgements

Key sources of estimation uncertainty

Notes 17 and 25 contain information about the assumptions and their risk relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

– Valuation of investment properties

Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

z. Significant accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

– Assessment of useful economic lives for depreciation of fixed assets

In assessing the estimated useful lives of fixed assets, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of fixed assets annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

– Assessment of impairment of non-current assets

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– Assessment of provision for properties for sale

Management determines the net realisable value of completed properties for sale by using (i) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (ii) internal estimates of costs based on quotes by suppliers.

Management's assessment of net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate, and estimates may need to be adjusted in later periods.

– Recognition of deferred tax assets

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

Principal Subsidiaries, Associates and Jointly Controlled Entities

At 31 December 2007

	Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital (except otherwise stated)/registered and paid up capital	Effective equity interest to the Company	Principal activities
	Properties				
#	**Wharf Estates Limited**	Hong Kong	2 HK$1 shares	100%	Holding company
	Harbour City Estates Limited	Hong Kong	20,000 HK$10 shares	100%	Property
	Wharf Realty Limited	Hong Kong	2 HK$1 shares	100%	Property
	Times Square Limited	Hong Kong	2 HK$10 shares	100%	Property
#	**Wharf Estates Development Limited**	Hong Kong	2 HK$1 shares	100%	Holding company
	Plaza Hollywood Limited	Hong Kong	10,000 HK$1 shares	100%	Property
	Delta Realty Limited	Hong Kong	2 HK$1 shares	100%	Property
	Feckenham Limited	Hong Kong	2 HK$10 shares	100%	Property
	Framenti Company Limited	Hong Kong	2 HK$1 shares	100%	Property
	HKRT Peak Properties Limited	Hong Kong	3,000,000 HK$10 shares	100%	Property
	Hong Tai Yuen Limited	Hong Kong	500,000 HK$1 shares	100%	Property
	New Tech Centre Limited	Hong Kong	10,000 HK$1 shares	100%	Property
	Olinda Limited	Hong Kong	2 HK$10 shares	100%	Property
	Spring Wealth Investments Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
#	**Wharf China Limited**	Cayman Islands	500,000,000 US$1 shares	100%	Holding company
	Wharf Estates China Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
	Beijing Capital Times Square Development Company Limited	The People's Republic of China	US$59,000,000	88%	Property
	Shanghai Long Xing Property Development Company Limited	The People's Republic of China	US$45,000,000	100%	Property
	Dalian Times Square Development Company Limited	The People's Republic of China	RMB420,000,000	100%	Property
	Han Long Development (Wuhan) Company Limited	The People's Republic of China	US$33,100,000	100%	Property
	Long Qing Property Development (Chongqing) Company Limited	The People's Republic of China	US$194,000,000	100%	Property
	Shanghai Jiu Zhou Property Development Company Limited	The People's Republic of China	US$30,000,000	85%	Property
	Shanghai Long Shen Real Estate Development Company Limited	The People's Republic of China	US$22,330,000	55%	Property
	Shanghai Wellington Garden Estate Development Company Limited	The People's Republic of China	US$16,666,666	59%	Property
	Shanghai Wheelock Square Development Limited	The People's Republic of China	US$80,000,000	98%	Property
	Wharf Estates (Wuxi) Company Limited	The People's Republic of China	US$143,080,000	100%	Property
	龍茂房地產開發(成都)有限公司	The People's Republic of China	HK$750,000,000	100%	Property
	龍潤房地產開發(成都)有限公司	The People's Republic of China	HK$820,000,000	100%	Property
	龍昌綜合開發(成都)有限公司	The People's Republic of China	HK$315,000,000	100%	Property
	蘇州蘇龍地產發展有限公司	The People's Republic of China	US$165,000,000	100%	Property
	龍錦綜合開發(成都)有限公司	The People's Republic of China	HK$775,000,000	100%	Property
*	**Harbour Centre Development Limited**	Hong Kong	315,000,000 HK$0.5 shares	67%	Holding company
	蘇州高龍房產發展有限公司	The People's Republic of China	RMB925,268,493	53%	Property
	九龍倉(常州)置業有限公司	The People's Republic of China	US$99,000,000 (paid in February 2008)	67%	Property
	Logistics				
	Wharf Transport Investments Limited	Hong Kong	2 HK$1 shares	100%	Holding company
	The "Star" Ferry Company, Limited	Hong Kong	1,440,000 HK$5 shares	100%	Public transport
	Hong Kong Tramways, Limited	Hong Kong	21,937,500 HK$5 shares	100%	Public transport
	Modern Terminals Limited	Hong Kong	70,116 HK$1,000 shares	68%	Container terminal
	Shenzhen Dachan Bay Modern Port Development Company, Limited	The People's Republic of China	RMB2,475,550,000	44%	Container terminal
	Suzhou Modern Terminals Limited	The People's Republic of China	RMB822,500,000	48%	Container terminal
	Hotels				
#	**Marco Polo Hotels Limited**	Cayman Islands	500,000,000 US$1 shares	100%	Holding company
	Marco Polo Hotels Management Limited	Hong Kong	2 HK$10 shares	100%	Hotel management
	The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	67%	Hotel and property
	The Marco Polo Hotel (Hong Kong) Limited	Hong Kong	1,000 HK$1 shares	100%	Hotel operation
	The Prince Hotel Limited	Hong Kong	2 HK$1 shares	100%	Hotel operation
	Wuhan Marco Polo Hotels Company Limited	The People's Republic of China	US$3,850,000	100%	Hotel management

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital (except otherwise stated)/registered and paid up capital	Effective equity interest to the Company	Principal activities
CME				
# **Wharf Communications Limited**	Hong Kong	1,000,000 HK$10 shares	100%	Holding company
COL Limited	Hong Kong	40,000 HK$500 shares	100%	Computer services
Hong Kong Cable Enterprises Limited	Hong Kong	2 HK$1 shares	74%	Advertising airtime, programming licensing and channel carriage services
Hong Kong Cable Television Limited	Hong Kong	750,000,000 HK$1 shares	74%	Pay television services
* i-CABLE Communications Limited	Hong Kong	2,016,792,400 HK$1 shares	74%	Holding company
i-CABLE Network Limited	Hong Kong	100 HK$1 shares 2 HK$1 non-voting deferred shares	74%	Network operation services
i-CABLE Satellite Television Limited	Hong Kong	2 HK$1 shares	74%	Non-domestic television services and programming licensing
i-CABLE Network Operations Limited	Hong Kong	500,000 HK$1 shares	74%	Internet and multimedia services
Sundream Motion Pictures Limited	Hong Kong	10,000,000 HK$1 shares	74%	Film production
Rediffusion Satellite Services Limited	Hong Kong	1,000 HK$10 shares	74%	Satellite television services
EC Telecom Limited	Hong Kong	2 HK$1 shares	100%	Telecommunication
Wharf T&T Limited	Hong Kong	100,000,000 HK$1 shares	100%	Telecommunication
Investment and others				
Wharf Limited	Hong Kong	2 HK$10 shares	100%	Management services
Wharf Finance Limited	Hong Kong	2 HK$1 shares	100%	Finance
Wharf Finance (BVI) Limited	British Virgin Islands/International	500 US$1 shares	100%	Finance
# Wharf Hong Kong Limited	Cayman Islands	500,000,000 US$1 shares	100%	Holding company

Associates	Place of incorporation/ operation	Class of shares	Effective equity interest to the Company	Principal activities
Logistics				
Mega Shekou Container Terminals Limited	British Virgin Islands	Ordinary	20%	Holding company
Shekou Container Terminals Limited	The People's Republic of China	Ordinary	20%	Container terminal operations
Shekou Container Terminals (Phase II) Limited	The People's Republic of China	Ordinary	20%	Container terminal operations
Shekou Container Terminals (Phase III) Limited	The People's Republic of China	Ordinary	20%	Container terminal operations

Jointly controlled entities	Place of incorporation/ operation	Class of shares	Effective equity interest to the Company	Principal activities
Property				
重慶嘉江房地產開發有限公司	The People's Republic of China	Ordinary	40%	Property
蘇州雙湖房地產有限公司	The People's Republic of China	Ordinary	50%	Property
重慶豐盈房地產開發有限公司	The People's Republic of China	Ordinary	37%	Property
杭州綠城海企房地產開發有限公司	The People's Republic of China	Ordinary	27%	Property
Logistics				
Taicang International Container Terminals Company Limited	The People's Republic of China	Ordinary	34%	Container terminal operations

Notes:

(a) All the subsidiaries listed above were indirect subsidiaries of the Company except where marked #.

(b) The above list gives the principal subsidiaries, associates and jointly controlled entities of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

\# Subsidiaries held directly by the Company
* Listed companies

Schedule of Principal Properties

At 31 December 2007

	Approximate Gross Floor Areas (Sq.ft.)					
Address	**Total**	**Office**	**Retail**	**Residential**	**Others**	**(Remarks)**
Investment Properties in Hong Kong						
Harbour City , Tsimshatsui						
Ocean Terminal	658,000	–	658,000	–	–	
Ocean Centre	901,000	677,000	224,000	–	–	
Wharf T&T Centre	257,000	257,000	–	–	–	
World Commerce Centre	257,000	257,000	–	–	–	
World Finance Centre	512,000	512,000	–	–	–	
Ocean Galleries	386,000	–	386,000	–	–	
Gateway I	1,236,000	1,128,000	108,000	–	–	
Gateway II	2,640,000	1,570,000	400,000	670,000	–	
The Marco Polo Hongkong Hotel (Commercial Section)	206,000	34,000	172,000	–	–	
Times Square						
Sharp Street East, Causeway Bay	1,969,000	1,033,000	936,000	–	–	
Others						
Plaza Hollywood, 3 Lung Poon Street, Diamond Hill	562,000	–	562,000	–	–	
Wharf T&T Square, Hoi Bun Road, Kwun Tong	395,000	330,000	65,000	–	–	
Delta House, 3 On Yiu Street, Shatin	349,000	349,000	–	–	–	
26-27/F, World-Wide House, Central	21,000	21,000	–	–	–	
Units at Cable TV Tower, Hoi Shing Road, Tsuen Wan	566,000	–	–	–	566,000	(Industrial)
Units at Strawberry Hill, 8 Plunkett's Road, The Peak	16,000	–	–	16,000	–	
77 Peak Road, The Peak	32,000	–	–	32,000	–	
Chelsea Court, 63 Mount Kellett Road, The Peak	43,000	–	–	43,000	–	
Mountain Court, 11-13 Plantation Road, The Peak	49,900	–	–	49,900	–	
1 Plantation Road, The Peak	97,000	–	–	97,000	–	
Units at Star House, 3 Salisbury Road, Kowloon	50,800	–	50,800	–	–	
	11,203,700	6,168,000	3,561,800	907,900	566,000	
Investment Properties in China						
Beijing Capital Times Square 88 West Changan Avenue, Beijing	1,114,000	724,000	390,000	–	–	
Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai	973,000	331,000	447,000	195,000	–	
Chongqing Times Square, 100 Zou Rong Road, Yuzhong District, Chongqing	591,800	13,800	578,000	–	–	
	2,678,800	1,068,800	1,415,000	195,000	–	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
346,719	KPP 83	2012	1966	N/A	100%
126,488	KML 11 S.A.	2880	1977	N/A	100%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.D.	2880	1983	N/A	100%
(a)	KML 11 S.B. & D.	2880	1981/83	N/A	100%
(a)	KML 11 R.P.	2880	1994	N/A	100%
(a)	KML 11 S.B. & D.	2880	1998/99	N/A	100%
(b)	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	67%
112,441	IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A., B & R.P., IL 722 & IL 718	2850/60/80	1993	N/A	100%
280,510	NKIL 6160	2047	1997	N/A	100%
48,438	KTIL 713	2047	1991	N/A	100%
70,127	STTL 422	2047	1999	N/A	100%
N/A	IL 8432	2053	1979	N/A	100%
N/A	TWTL 218	2047	1992	N/A	100%
N/A	RBL 512 & 1004	2027/28	1974/77	N/A	100%
76,728	RBL 836	2029	1951	N/A	100%
29,640	RBL 556 R.P.S.A. & S.B.	2035	2001	N/A	100%
32,145	RBL 522, 639, 661	2027	2001	N/A	100%
97,670	RBL 534 S.E. & F.	2028	2002	N/A	100%
N/A	KML 10 S.A.	2863	1966	N/A	67%
141,007	N/A	2044	1999	N/A	88%
148,703	N/A	2043	1999	N/A	100%
95,799	N/A	2050	2004	N/A	100%

Address	Total	Office	Retail	Residential	Others	(Remarks)
	Approximate Gross Floor Areas (Sq.ft.)					
Hotels and Clubs in Hong Kong						
Harbour City , Tsimshatsui						
The Marco Polo Hongkong Hotel	553,000	–	–	–	553,000	(Other represents a 664-room hotel)
Gateway	313,000	–	–	–	313,000	(Other represents a 433-room hotel)
Prince	359,000	–	–	–	359,000	(Other represents a 393-room hotel)
Pacific Club Kowloon	139,000	–	–	–	139,000	(Club House)
	1,364,000	–	–	–	1,364,000	
Property Developments in Hong Kong						
Cable TV Tower South Chai Wan Kok Street, Tsuen Wan	584,600	–	–	–	584,600	(Industrial)
Kowloon Godown, 1-3 Kai Hing Road, Kowloon Bay	1,575,200	–	82,900	–	1,492,300	(Industrial)
Yau Tong Godown, 5 Tung Yuen Street, Kowloon	255,700	–	42,600	213,100	–	
	2,415,500	–	125,500	213,100	2,076,900	
Property Developments in Hong Kong (undertaken by associates)						
Bellagio, 33 Castle Peak Road, Sham Tseng, Towers 1,2,3 & 5	35,400	–	10,400	25,000	–	($33^1/_3$% attributable to the Group – Note c)
Various Lots at Yau Tong Bay, Yau Tong, Kowloon	720,200	83,100	36,800	600,300	–	(15.6% attributable to the Group – Note c)
	755,600	83,100	47,200	625,300	–	
Property Developments in China						
Wellington Garden - Tower 3 183 Huai Hai Xi Road, Xuhui District, Shanghai	209,100	–	–	209,100*	–	
Wuhan Times Square, 160 Yan Jiang Da Dao						
Jiangan District, Wuhan – Towers 3 & 4	24,300	–	–	24,300	–	
– Towers 1, 2, 8 & 9	1,002,000	–	–	592,000*	410,000	(Other represents a 371-room hotel) (275,000 s.f. residential area pre-sold)
Dalian Times Square Ren Min Road, Zhongshan District, Dalian	1,529,000	–	188,000	1,341,000	–	
No.1 Xin Hua Road 176, Huai Hai Xi Road, Changning District, Shanghai	206,000	–	–	206,000	–	
Shanghai Wheelock Square 1717, Nan Jing Xi Road, Jingan District, Shanghai	1,228,000	1,149,000	79,000	–	–	
Jingan Garden 398, Wanhangdu Road, Jingan District, Shanghai	773,000	–	–	773,000*	–	
Tian Fu Times Square, Chengdu Junction of Dong Da Jie & Fu He, Jinjiang District	4,856,200	1,066,000	204,600	2,810,600	775,000	(Other represents a 611-room hotel) (493,000 s.f. residential area pre-sold)
No.10 Gaoxin District, Chengdu Junction of Zhan Hua Road and Fu Cheng Avenue	4,422,000	985,000	110,000	3,327,000	–	
Suzhou Industrial Park Lot No. 68210 Suzhou Industrial Park	2,192,000	–	–	2,192,000	–	
Wuxi Taihu Plaza project						
Wuxi Super Tower	3,023,000	1,311,000	32,000	1,050,000*	630,000	(Other represents a 345-room hotel)
Taihu Plaza, Nanchang District, Wuxi	8,949,000	–	–	8,949,000	–	

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	67%
(a)	KML 11 S.B.	2880	1981	N/A	100%
(a)	KML 11 S.D.	2880	1983	N/A	100%
48,309	KIL 11179	2021	1990	N/A	100%
66,000	TWIL 36	2047	N/A	Planning stage	100%
165,809	NKIL 5805, 5806 & 5982	2047	N/A	Planning stage	100%
42,625	YTIL 4SA & adjoining Government land	2047	N/A	Planning stage	100%
N/A	Lot 266 in DD 390	2051	2005	Completed	33 1/3%
769,626	R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay	2047	N/A	Planning stage	15.6%
80,482	N/A	2045	2007	Completed	59%
188,090	N/A	2073	2007	Completed	100%
		2053/73	2008	Superstructure in progress	
171,356	N/A	2039/69	2008	Superstructure in progress	100%
118,220	N/A	2064	2009	Substructure in progress	85%
136,432	N/A	2049	2009	Superstructure in progress	98%
170,825	N/A	2043/63	2011	Planning stage	55%
761,520	N/A	2045/75	2011	Superstructure/Substructure in progress	100%
884,459	N/A	2046/76	2011	Substructure in progress	100%
3,654,152	N/A	2076	2010	Planning stage	100%
313,867	N/A	2047/57	2012	Planning stage	100%
3,314,418	N/A	2078	2014	Substructure in progress	100%

	Approximate Gross Floor Areas (Sq.ft.)					
Address	**Total**	**Office**	**Retail**	**Residential**	**Others**	**(Remarks)**
Property Developments in China (Continued)						
Shuangliu Development Zone, Chengdu Junction of Shuang Nan Avenue and Guang Hua Avenue, Shuangliu County	9,807,000	–	686,000	8,309,000*	812,000	(Other represents a 852-room hotel)
Chengdu IFC Junction of Hongxing Road and Da Ci Si Road, Jinjiang District	4,724,000	2,226,000	1,248,000	490,000	760,000	(Other represents a 600-room hotel)
Changzhou Dinosaur Park Project China Dinosaur Park, Xinbei District, Changzhou, Jiangsu Province	8,681,000	–	–	7,838,000	843,000	(Other represents a 405-room hotel)
Suzhou Industrial Park Project						
Suzhou Super Tower, Xing Hu Jie,	3,780,000	1,302,000	30,000	1,627,000	821,000	(Other represents a 600-room hotel)
Xiandai Da Dao, Suzhou Industrial Park, Suzhou	9,765,000	–	–	9,765,000	–	
	65,170,600	8,039,000	2,577,600	49,503,000	5,051,000	
Property Developments in China (undertaken by jointly controlled entities)						
Hangzhou Zhuantang Town Project Zhuantang Town, Zhi Jiang National Tourist Resort, Xihu District, Hangzhou	2,005,000	–	83,000	1,922,000	–	(50% attributable to the Group – Note c)
Suzhou Wei Ting Project South of Lin Hu Road, East & West sides of Ying Hu Road Suzhou Industrial Park	908,000	–	–	908,000	–	(50% attributable to the Group – Note c)
Nanjing Xian Lin Project West of Xian Lin Lake, North of Xian Lin Da Dao Xian Lin Xin Qu	2,263,000	–	–	2,263,000	–	(50% attributable to the Group – Note c)
Chongqing Danzishi Project Danzishi, Nanan District	9,039,000	–	706,000	8,333,000	–	(40% attributable to the Group – Note c)
Chongqing Jiangbei City Project Zone B of Jiangbei City, Jiang Bei District, Chongqing	2,524,000	–	–	2,524,000	–	(55% attributable to the Group – Note c)
Hangzhou CBD Project West of Wang Jiang Dong Road, North of Zhi Jiang Road, East Side is Bounded by Planning Road, South of Fu Chun Road, Qianjiang New City, Shangcheng District, Hangzhou	1,280,000	190,000	26,000	917,000	147,000	(Other represents a 160-room hotel) (40% attributable to the Group – Note c)
	18,019,000	190,000	815,000	16,867,000	147,000	
TOTAL	**101,607,200**	**15,548,900**	**8,542,100**	**68,311,300**	**9,204,900**	

* Residential includes office-apartments

Notes :
(a) Components of Harbour City, which has a total site area of 428,719 sq. ft.
(b) Part of The Marco Polo Hongkong Hotel building.
(c) The floor areas of properties held through jointly controlled entities and associates are shown on an attributable basis.
(d) Subsequent to 31 December 2007, the Group acquired a new site (three land parcels) in Wuxi with developable GFA of approximately 8.7 million square feet in January 2008.

Site Area (Sq.ft.)	Lot Number	Lease Expiry	Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
3,900,589	N/A	2047/77	2012	Planning stage	100%
590,481	N/A	2047	2011	Planning stage	100%
4,427,804	N/A	2047/77	2012	Planning stage	67%
229,069	N/A	2047/77	2013	Planning stage	53%
5,425,454	N/A	2077	2013	Planning stage	53%
2,046,685	N/A	2047/77	2012	Planning stage	50%
1,976,237	N/A	2077	2012	Planning stage	50%
3,578,071	N/A	2077	2012	Planning stage	50%
6,080,656	N/A	2047/57	2014	Planning stage	40%
1,002,408	N/A	2057	2012	Planning stage	37%
906,921	N/A	2047/77	2012	Planning stage	27%

Ten-year Financial Summary

	2007	2006	Restated 2005	Restated 2004	2003
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	*HK$ Million*
Summary of Profit and Loss Account					
Turnover	**16,208**	13,364	12,543	11,953	11,253
Group profit attributable to shareholders	**13,143**	10,757	13,888	3,767	3,043
Prior year adjustment	**–**	–	–	8,910	–
Restated amount	**13,143**	10,757	13,888	12,677	3,043
Dividends	**2,093**	1,958	1,958	1,683	1,487
Earnings per share (HK$)	**5.37**	4.39	5.67	5.18	1.24
Dividends per share (cents)	**80**	80	80	68.75	60.75
Summary of Balance Sheet					
Fixed assets	**114,613**	102,198	90,658	78,916	71,120
Goodwill and other intangible assets	**302**	306	297	297	347
Long term deposits	**–**	–	–	156	156
Associates	**3,661**	781	1,638	1,583	2,075
Jointly controlled entities	**5,076**	788	896	348	–
Available-for-sale investments	**2,858**	2,921	1,677	1,654	1,392
Long term receivables	**362**	371	410	426	439
Other assets	**423**	416	293	158	432
Deferred tax assets	**360**	429	468	118	112
Derivative financial assets	**17**	17	54	–	–
Current assets	**18,499**	11,050	8,101	6,482	5,089
Total assets	**146,171**	119,277	104,492	90,138	81,162
Current liabilities	**(13,925)**	(9,986)	(9,873)	(8,604)	(11,160)
Long term loan/deferred liabilities	**(24,823)**	(16,257)	(14,418)	(13,463)	(12,605)
Deferred taxation	**(15,325)**	(13,116)	(11,672)	(9,447)	(1,748)
Derivative financial liabilities	**(96)**	–	(3)	–	–
	92,002	79,918	68,526	58,624	55,649
Representing :					
Share capital	**2,448**	2,448	2,448	2,447	2,447
Reserves	**83,916**	72,714	62,926	52,502	49,181
Shareholders' equity	**86,364**	75,162	65,374	54,949	51,628
Minority interests	**5,638**	4,756	3,152	3,675	4,021
	92,002	79,918	68,526	58,624	55,649

	Restated 2002 *HK$ Million*	Restated 2001 *HK$ Million*	Restated 2000 *HK$ Million*	Restated 1999 *HK$ Million*	Restated 1998 *HK$ Million*
Summary of Profit and Loss Account					
Turnover	11,333	11,725	12,023	10,521	10,840
Group profit attributable to shareholders	2,303	2,519	2,480	3,217	1,922
Prior year adjustment	(44)	–	14	294	(51)
Restated amount	2,259	2,519	2,494	3,511	1,871
Dividends	1,370	1,908	1,908	1,881	1,790
Earnings per share (HK$)	0.92	1.03	1.02	1.51	0.82
Dividends per share (cents)	56	78	78	78	78
Summary of Balance Sheet					
Fixed assets	69,044	74,445	77,237	73,362	71,651
Goodwill and other intangible assets	397	419	–	–	–
Long term deposits	156	468	–	–	–
Associates	3,367	3,389	4,972	5,197	3,842
Jointly controlled entities	–	–	–	–	–
Available-for-sale investments	1,178	1,088	1,901	5,258	7,107
Long term receivables	459	485	433	506	349
Other assets	468	533	570	575	653
Deferred tax assets	108	–	–	–	–
Derivative financial assets	–	–	–	–	–
Current assets	5,945	7,637	7,390	12,536	8,529
Total assets	81,122	88,464	92,503	97,434	92,131
Current liabilities	(11,420)	(12,181)	(12,893)	(10,345)	(13,469)
Long term loan/deferred liabilities	(16,673)	(17,441)	(17,156)	(26,802)	(22,322)
Deferred taxation	(1,614)	(467)	(478)	(507)	(518)
Derivative financial liabilities	–	–	–	–	–
	51,415	58,375	61,976	59,780	55,822
Representing :					
Share capital	2,447	2,447	2,446	2,446	2,295
Reserves	45,287	52,198	55,504	51,966	49,624
Shareholders' equity	47,734	54,645	57,950	54,412	51,919
Minority interests	3,681	3,730	4,026	5,368	3,903
	51,415	58,375	61,976	59,780	55,822

Note:
Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.

A Chinese version of this Annual Report is available from the Company upon request.
如有需要，可向本公司索取本年報之中文版本。

Concept, design and printing: iOne Financial Press Limited

WHARF

Established 1886

www.wharfholdings.com