

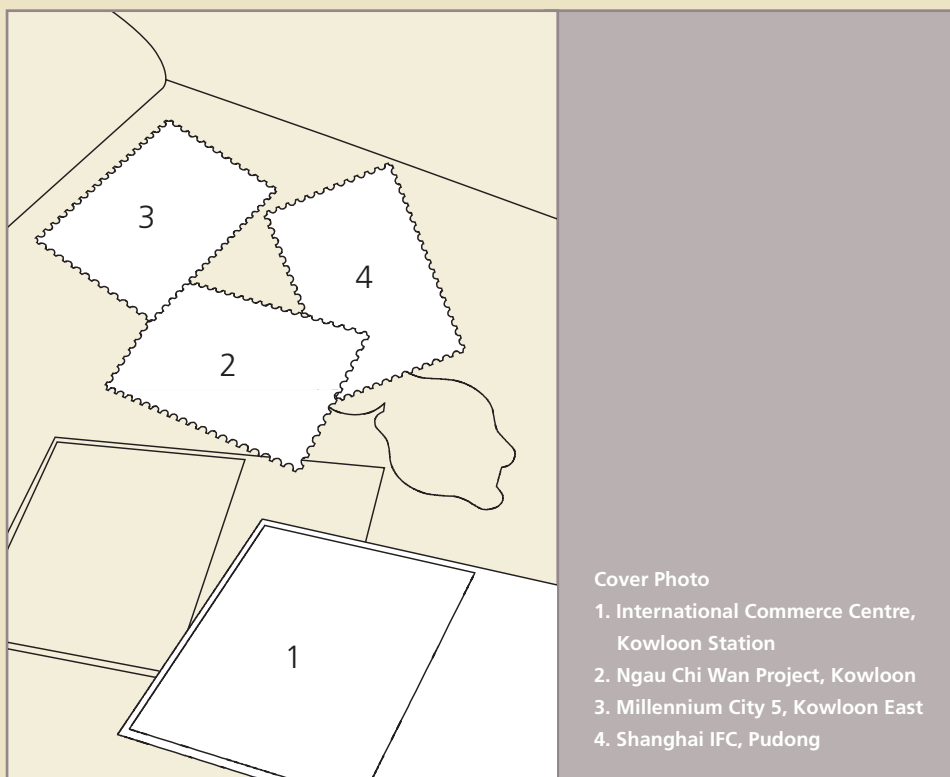


SUN HUNG KAI PROPERTIES LIMITED





Sun Hung Kai Properties' signature residences, offices and shopping malls reflect a commitment to Building Homes with Heart and highlight the Group's contribution to the territory's landmarks.



Cover Photo

1. International Commerce Centre, Kowloon Station
2. Ngau Chi Wan Project, Kowloon
3. Millennium City 5, Kowloon East
4. Shanghai IFC, Pudong



SUN HUNG KAI PROPERTIES LIMITED

Annual Report 2005/06

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Corporate Structure



As at 30 June 2006

SUN HUNG KAI PROPERTIES*

HONG KONG

MAINLAND CHINA

Property Development

- 13.2 million sq.ft. under development**
- Over 23 million sq.ft. of agriculture land (site area)

Property Investment

- 22.4 million sq.ft. completed investment properties
- 6.8 million sq.ft. under development

Property Related Businesses

Hotels

Property Management

Construction

Financial Services

Insurance

Telecoms & Information Technology

SmarTone*
55.1%

SUNeVision*
84.8%

Transportation, Infrastructure & Logistics

Transport* International
33.3%

RoadShow*
25.6%

Route 3 (CPS)
70%

Wilson Group
100%

Airport Freight Forwarding Centre
100%

Business Aviation Centre
35%

River Trade Terminal
50%

Mid-Stream Operation
50%

Logistics

Waste Management

Property Development & Investment

- 17.2 million sq.ft. under development
- 2.6 million sq.ft. completed investment properties

* Listed in Hong Kong

** Updated to September 2006

Board of Directors and Committees



Board of Directors

Executive Directors

Kwok Ping-sheung, Walter, *Chairman & Chief Executive*
Kwok Ping-kwong, Thomas, *Vice Chairman & Managing Director*
Kwok Ping-luen, Raymond, *Vice Chairman & Managing Director*
Chan Kai-ming
Chan Kui-yuen, Thomas
Kwong Chun
Wong Yick-kam, Michael
Wong Chik-wing, Mike

Non-Executive Directors

Lee Shau-kee, *Vice Chairman*
Woo Po-shing
Li Ka-cheung, Eric
Kwan Cheuk-yin, William
Lo Chiu-chun, Clement
Law King-wan
Woo Ka-biu, Jackson
(Alternate Director to Woo Po-shing)

Independent Non-Executive Directors

Chung Sze-yuen
Fung Kwok-king, Victor
Dicky Peter Yip
Wong Yue-chim, Richard

Committees

Audit Committee

Chung Sze-yuen*
Dicky Peter Yip
Li Ka-cheung, Eric

Remuneration Committee

Chung Sze-yuen*
Lo Chiu-chun, Clement
Wong Yue-chim, Richard

Nomination Committee

Wong Yue-chim, Richard*
Kwan Cheuk-yin, William
Dicky Peter Yip

* Committee Chairman

Corporate and Shareholders' Information



Corporate Information

Company Secretary

Lai Ho-kai, Ernest

Auditors

Deloitte Touche Tohmatsu

Solicitors

Woo, Kwan, Lee & Lo
Johnson, Stokes & Master
Winston Chu & Company

Registered Office

45th Floor, Sun Hung Kai Centre
30 Harbour Road
Hong Kong

Telephone : (852) 2827 8111
Facsimile : (852) 2827 2862
Website : www.shkp.com
E-mail : shkp@shkp.com

Registrars

Computershare Hong Kong
Investor Services Limited
Rooms 1712-6, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking
Corporation Limited
The Bank of Tokyo – Mitsubishi UFJ, Ltd.
Sumitomo Mitsui Banking Corporation
Mizuho Corporate Bank, Ltd.
Hang Seng Bank Limited
Standard Chartered Bank (HK) Ltd.
Industrial and Commercial Bank of China
Bank of Communications
BNP Paribas

Shareholders' Information

Share Listing

The Company's shares are listed on The Stock Exchange of Hong Kong and are traded over the counter in the United States in the form of American Depositary Receipts (ADR).

Stock Code

The Stock Exchange of Hong Kong : 16
Bloomberg : 16 HK Equity
Reuters : 0016.HK
Trading Symbol for ADR : SUHJY
CUSIP : 86676H302

Investor Relations

General Manager –
Corporate Planning
Telephone : (852) 2828 7786
Facsimile : (852) 2827 0676
E-mail : ir@shkp.com

Financial Calendar for 2005/06

Interim results announcement	3 March 2006
Interim dividend paid	27 March 2006
Final results announcement	14 September 2006
Share register closed	30 November 2006 - 7 December 2006 (both days inclusive)
Annual general meeting	7 December 2006
Final dividend payable	11 December 2006

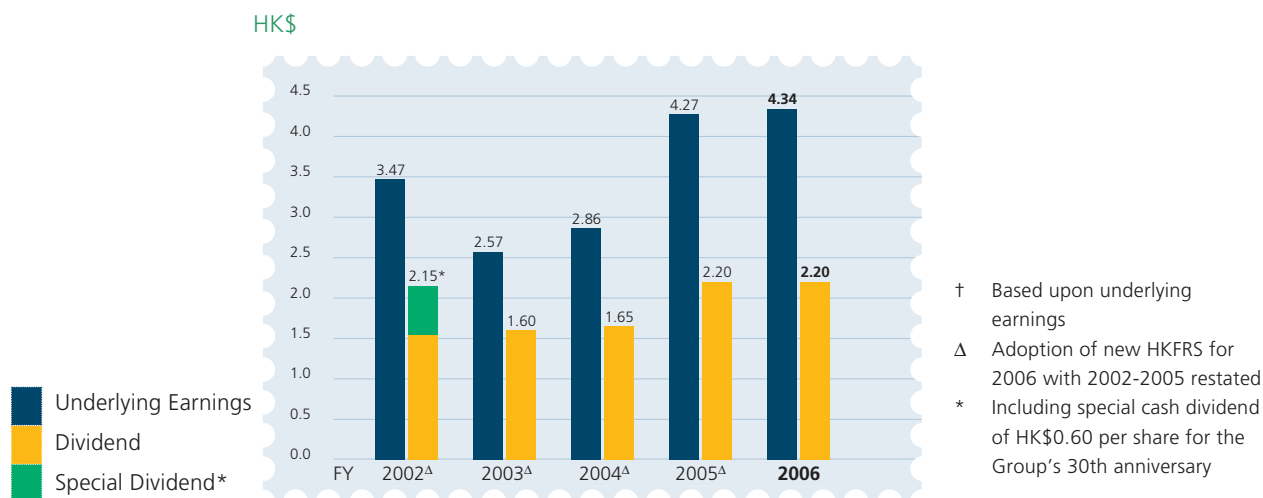
Financial Highlights

For the year ended 30 June	2006	(Restated) 2005	Change (%)
Financial Highlights (HK\$ million)			
Revenue	25,598	22,945	+11.6
Profit attributable to Company's shareholders			
– Reported	19,850	17,900	+10.9
– Underlying ¹	10,468	10,262	+2.0
Gross rental income ²	6,466	5,649	+14.5
Net rental income ²	4,615	4,067	+13.5
Financial Ratios			
Net debt to shareholders' funds (%)	13.4	11.5	1.9 ³
Dividend payout (%)	51.8	51.5	0.3 ³
Financial Information per Share (HK\$)			
Earnings			
– Reported	8.23	7.45	+10.5
– Underlying	4.34	4.27	+1.6
Dividends			
– Interim dividend	0.70	0.70	0.0
– Final dividend	1.50	1.50	0.0
– Full-Year	2.20	2.20	0.0
Shareholders' funds	67.25	59.94	12.2
Land Bank in Hong Kong (million square feet)			
Development land bank ⁴	20.0	19.9	+0.5
Completed investment properties	22.4	22.0	+1.8
Total	42.4	41.9	+1.2
Land Bank on the mainland (million square feet)			
Development land bank	17.2	6.6	+160.6
Completed investment properties	2.6	1.9	+36.8
Total	19.8	8.5	+132.9

Notes:

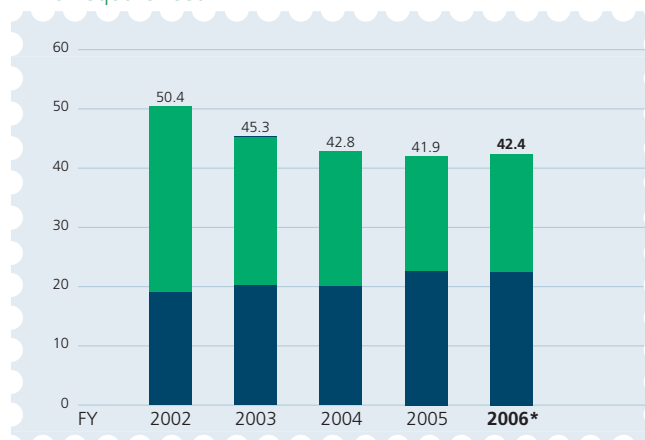
- Underlying profit attributable to Company's shareholders excluded the effect of fair value change on investment properties
- Including contributions from jointly-controlled entities and associates
- Change in percentage points, dividend payout based upon underlying profit
- Updated to September 2006 and excluding over 23 million square feet of agricultural land in terms of site area

Underlying Earnings and Dividends per Share[†]



Land Bank in Hong Kong

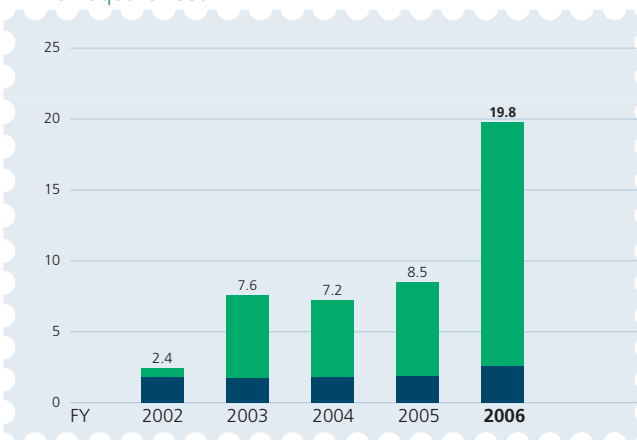
million square feet



* Updated to September 2006

Land Bank on the mainland

million square feet

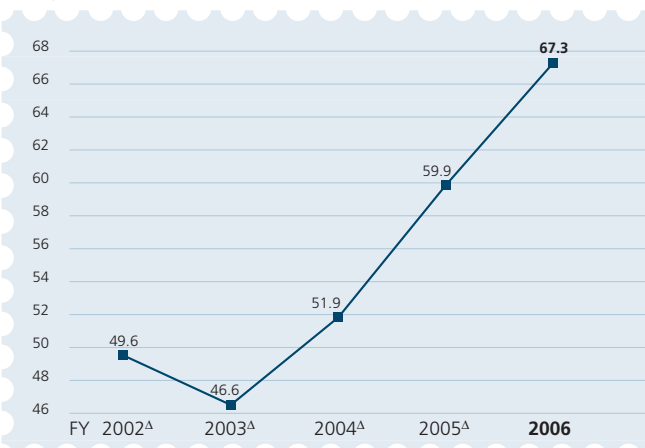


Development Land Bank

Completed Investment Properties

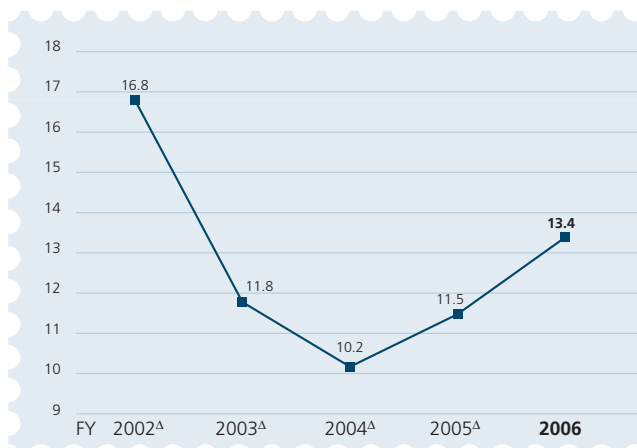
Shareholders' Funds per Share

HK\$



Net Debt to Shareholders' Funds Ratio

%



Δ Adoption of new HKFRS for 2006 with 2002-2005 restated

Chairman's Statement



Park Island Phase 5 in Ma Wan has sold over 95 per cent of the units since it went on sale in early August.



Harbour Green at Olympic Station inspires a cosmopolitan living style by adopting exquisite interior designs.

I am pleased to present my report to the shareholders.

Results

Profit attributable to the Company's shareholders for the year ended 30 June 2006 was HK\$19,850 million, including a revaluation surplus on completed investment properties of HK\$9,400 million, net of deferred tax. This represents an 11 per cent increase over last year. Earnings per share were HK\$8.23, an increase of ten per cent over last year.

Underlying profit attributable to the Company's shareholders, excluding the effect of fair-value changes on investment properties, was HK\$10,468 million, an increase of two per cent over last year. Underlying earnings per share were HK\$4.34, an increase of two per cent over last year.

Dividend

The directors have recommended the payment of a final dividend of HK\$1.50 per share for the year ended 30 June 2006. Together with the interim dividend of HK\$0.70 per share, the dividend for the full year will be HK\$2.20 per share, the same as last year.

Business Review

Property Sales

Property sales turnover for the year as recorded in the accounts was HK\$10,890 million, as compared with last year's sales of HK\$10,274 million. The Group sold and pre-sold an attributable HK\$5,102 million of properties in Hong Kong during the year, as compared to HK\$21,166 million in the previous year. Harbour Green was the only new project to go on sale during the year. The Group has sold about HK\$4,000 million worth of properties since July 2006.

The Group completed five projects consisting of 2.5 million square feet of attributable floor area during the year. The great majority of this is residential area and more than 80 per cent has been sold so far. Park Island Phase 5 in Ma Wan went on sale in early August and over 95 per cent of the units have been sold. Severn 8 on the Peak will be launched shortly.



Situated at 500 feet above the ground, The Grand Sky Pool of The Arch at the Kowloon Station sets new benchmark in luxury living.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
The Arch	1 Austin Road West, Kowloon	Residential	Joint venture	1,076,000
Park Island Phase 5	8 Pak Lai Road, Ma Wan	Residential	Joint venture	800,000
Noble Hill	38 Ma Sik Road, Sheung Shui	Residential	100	532,000
Severn 8	8 Severn Road, The Peak	Residential	100	59,000
Novotel Citygate	51 Man Tung Road, Tung Chung	Hotel	20	47,500
Total				2,514,500

Land Bank

Five sites were added to the Group's land bank in Hong Kong during the year, through agricultural land conversions, government auctions and private negotiations. The total developable gross floor area is 1.2 million square feet, most of which will be for residential use. 38 Ming Yuen Western Street in North Point is being retained as a rental property.

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
New Kowloon Inland Lot 6350, Ngau Chi Wan	Residential	100	775,000
38 Ming Yuen Western Street, North Point	Residential	100	94,000
Lot 4313 in DD124 Hung Shui Kiu, Yuen Long	Residential	74	77,000
Ngau Tam Mei Phase 2, Yuen Long	Residential	100	36,000
Kwai Chung Town Lot 215 (additional GFA)	Office	100	191,000
Total			1,173,000

Chairman's Statement



Noble Hill in Sheung Shui takes pride in its comprehensive clubhouse facilities which are a rarity in the district.



The clubhouse of Chelsea Court in Tsuen Wan reflects elegance by featuring exquisite materials.

The Group secured a prime residential/commercial site at the West Rail Tuen Mun Station overlooking Tuen Mun Park through tender in August this year. The development will comprise 1.3 million square feet of premium residential premises and a shopping mall of 269,000 square feet. It will be the only major new residential development in the heart of Tuen Mun over the next few years. The advantageous location and convenient rail and bus transport connections are sure to make this the premier project in the area. The Group also acquired a residential site of about 9,000 square feet of gross floor area in Tsing Lung Tau, at a recent government auction. It will be developed with an adjacent site owned by the Group into luxury houses in a green, low-density environment with sea views.

The recent acquisitions bring the Group's Hong Kong land bank to 42.4 million square feet, consisting of 22.4 million square feet of completed investment properties and 20 million square feet of properties under development. The Group also holds more than 23 million square feet of agricultural land in terms of site area. Most of this is along existing or planned railways in the New Territories and is in the process of land use conversion. The Group will replenish its residential development land bank through various means when appropriate opportunities arise, with an emphasis on land use conversion.

The Group entered into a 50/50 joint venture during the year to develop a landmark shopping mall project on Orchard Road in Singapore, with 1.4 million square feet of high-end retail space and luxury homes.

Property Development

Residential transactions in the primary market have picked up significantly in recent months after a relatively quiet period in the first half of the year. The secondary market has seen healthy transaction volumes and steady prices in 2006. The expectation that interest rates have peaked improved market sentiment. Homebuyers' confidence remained positive amid improved job market conditions and rising incomes.

The Arch in Kowloon has set new standards of quality, design and materials for luxury apartments, as well as for comprehensive facilities and service in the clubhouse 500 feet in the air. Approximately 90 per cent of the units have been sold and virtually all buyers have taken possession.

The Group constantly works to reinforce its brand name for quality and enhance its competitive edge in the market. It plans to complete 3.5 million square feet of properties in the coming financial year, of which 2.6 million square feet will be slated for residential development.



International Commerce Centre will be the tallest building of Hong Kong and the world's third tallest on completion. From left (right photo), HKSAR Chief Executive Donald Tsang, Group Chairman & Chief Executive Walter Kwok and Director of the Liaison Office of the Central People's Government in the HKSAR Gao Siren at the ground breaking ceremony of International Commerce Centre.

	Attributable Gross Floor Area (million square feet)				
	Residential	Shopping Centre	Office	Hotel	Total
For Sale	2.6	0.0	0.0	0.0	2.6
For Investment	0.0	0.2	0.4	0.3	0.9
Year Total	2.6	0.2	0.4	0.3	3.5

Property Investment

The Group's gross rental income, including its share from joint-venture investment properties, rose by 14.5 per cent over last year to HK\$6,466 million. Net rental income was HK\$4,615 million, an increase of 13.5 per cent over the previous year. Occupancy of the Group's rental portfolio remains high at 95 per cent.

The increase in rental income was primarily a result of positive lease renewals and higher contributions from APM mall and Four Seasons Place, which opened in March and September 2005 respectively. Continuously high demand from new and existing tenants drove office vacancies in prime areas to low levels, creating a spill-over demand for office buildings in decentralized areas. The Group's office portfolio has done well in this positive environment, registering high occupancy and increased rents.

The next four years will see the Group complete several large rental properties in Hong Kong, with more than six million square feet of floor area. These will further boost income from the Group's rental portfolio.

The most significant project the Group has under construction is International Commerce Centre above the Airport Express Kowloon Station. The project will be an ultra-modern landmark setting a new benchmark for design and quality, and the location will offer exceptionally convenient transport connections with a planned cross-border railway terminal. The entire project will contain 2.5 million square feet of office space. Preleasing of the 450,000 square feet that is scheduled for completion by the end of 2007 will begin shortly when the marketing showroom opens. The response to soft marketing has been very encouraging, with many potential tenants already registering their interest.

Chairman's Statement



IFC gains reputation for being the first office choice among multinational companies and an entertainment hub for the shoppers.



APM mall in Millennium City 5 has become the territory's major shopping destination.

The Kowloon Station development will include the integrated Elements shopping arcade, which should open by the end of 2007. Elements will set new standards in retailing with its wide-ranging mix of retailers, and aims to be Asia's most innovative shopping experience. Preleasing has been encouraging so far, attracting interest from many tenants new to Hong Kong and established brands.

Millennium City Phase 6 in Kowloon East is progressing well. It will offer approximately 400,000 square feet of superior-quality office space with state-of-the-art facilities upon completion in mid 2007. The Group is also developing a premium office project on Kwai Chung Town Lot 215. Construction of the first phase of 600,000 square feet has commenced. Upon completion of the above-mentioned projects, the Group's status as one of the largest grade-A office landlords in Hong Kong will be cemented, with a diverse portfolio of over ten million square feet. The Group is stepping up efforts to reinforce its brand name in the office sector.

The local retail sector has flourished and the Group's shopping centres attracted more visitors, benefiting retail tenants with higher traffic and turnover. The successes of the APM and IFC malls, which are both fully let, have reinforced its leading position in the retail leasing market. The Group will ensure that its shopping malls remain attractive by carrying out timely renovations and improving tenant mixes.

Renovations are progressing at New Town Plaza and Tai Po Mega Mall, and the initial phases should be complete in early 2007. Higher rental income is anticipated as a result. Regular promotional campaigns will continue in the Group's malls, to draw shoppers and boost tenants' business. World Trade Centre will undergo a major upgrade. Nine floors with 120,000 square feet of floor area will be converted to theme restaurants, entertainment and leisure facilities. Work will begin in late 2006 and will bring the total retail area to 280,000 square feet upon completion in 2008, offering patrons more shopping, entertainment and leisure options under the same roof.

The thriving business climate in Hong Kong has raised demand for high-end residential rental accommodation. The serviced suites in Four Seasons Place at IFC offer an unparalleled standard of luxury living and premium service, and have recorded satisfactory occupancy since leasing began in September 2005.



Construction of Shanghai IFC has begun and the whole project is expected to be completed by 2011.



Huai Hai Zhong Road in Puxi, Shanghai will be developed into a top-quality shopping mall, office and luxury residential complex.

Mainland Business

The mainland economy continued to show strong growth during the year. Rising incomes, increased investor confidence and continuous inflows of capital have led to buoyant property markets across the country. Administrative measures put in place for the residential market should help sustain healthy long-term development in the mainland property sector.

The Group is in the process of transferring its successful experience of operating shopping malls and offices in Hong Kong to major mainland cities. The demand for space in high-quality office, shopping mall and residential developments continued to rise, and the Group is stepping up the pace of its mainland investments to capitalize on the opportunity. It acquired a prime, 400,000-square-foot site on Huai Hai Zhong Road in Puxi, Shanghai in the first half of 2006. This site will be developed into a top-quality shopping mall, office and luxury residential complex.

Plans are under way for a world-class luxury residential project of 1.7 million square feet on the bank of the Huangpu River in Pudong. Construction has begun on Shanghai IFC, which will have four million square feet of gross floor area. It will include top-grade office space, a trendy shopping mall and two deluxe hotels in the Lujiazui financial district. The first phase with 900,000 square feet of office space will be finished in 2009 and the entire project will be completed by 2011.

The Group also took 40 per cent stakes in joint-venture projects in Hangzhou and Wuxi. They will have a combined attributable floor area of 8.5 million square feet, the majority being residential space for sale.

The Group held an attributable 19.8 million square feet of gross floor area on the mainland as at 30 June 2006, comprising 2.6 million square feet of completed investment properties and 17.2 million square feet of properties under development.

The mainland rental portfolio continued to produce good results. Shanghai Central Plaza was fully let at higher retail and office rents. Sun Dong An Plaza is undergoing an extensive upgrading into a major retail hub that befits its status as the Group's principal shopping mall in Beijing. When the renovations are complete, the mall will attract trendy young consumers with new international brands and flagship stores, becoming the shopping, dining and entertainment focus in Beijing for local residents, domestic visitors and travellers from overseas. Renovations are also planned for the office towers, which are 95 per cent occupied.

Chairman's Statement



Four Seasons Hotel with its first-class hospitality sets new standards of service quality in Hong Kong.



One of the Group's two hotels at Kowloon Station, Ritz-Carlton, will take full advantage of the hotel industry's bright prospects.

Hotels

More attractions continued to draw increasing tourist numbers to Hong Kong, while the territory's status as an international centre for trade and finance meant that the number of business travellers also rose. The Group is developing two premium hotels at Kowloon Station, to be operated by Ritz-Carlton and W Hotels, and another quality hotel in Ting Kau with about 700 guest rooms, so as to take advantage of the bright prospects for the hotel sector. The Group will also develop its first two mainland hotels as part of the Shanghai IFC project, also to be operated by Ritz-Carlton and W Hotels.

The Group's existing hotels had a good year. Occupancy and room rates at the Four Seasons have remained high since it opened last September, and the Royal Garden, Royal Park and Royal Plaza hotels enjoyed high occupancy and double-digit increases in room rates.

Telecommunications and Information Technology

SmarTone

SmarTone continued to deliver a creditable operational performance during the year, despite the pressure on profits due to increased handset subsidies and 3G costs. The company achieved growth in service revenue and average revenue per user, and made encouraging progress in 3G. Though competition is intense in the market, the Group is confident about SmarTone's prospects given its trusted brand name, seasoned management team and solid strategy, and it will continue to hold SmarTone as a long-term investment.

SUNeVision

SUNeVision saw ongoing revenue and profit growth for the period under review. iAdvantage kept building upon its position as the leading carrier-neutral data centre operator in Hong Kong and on the mainland, surpassing 70 per cent occupancy for the period under review. SUNeVision's financial position remained solid after the payment of a special cash dividend, and the company continues to hold sufficient financial resources to meet expected operational needs and support future growth. The Group is confident in the company's continuing fiscal strength and earnings prospects.



The demand for SUNeVision's iAdvantage service is anticipated to grow.



Transport International's flagship company KMB continues to uplift its service to strengthen competitiveness.

Transportation and Infrastructure

Transport International Holdings

Transport International Holdings (TIH) has faced a challenging operating environment in Hong Kong. Its flagship company Kowloon Motor Bus has been losing passengers to new railway lines while dealing with rising operating cost from higher fuel prices, wages and tunnel tolls. TIH recorded a higher profit from its mainland transport businesses and will continue to look for investment opportunities on the mainland in view of the positive long-term outlook there. The presale of its Manhattan Hill residential development in West Kowloon will boost TIH's financial position. RoadShow, the TIH subsidiary in the media sales business, achieved satisfactory results.

Other Infrastructure Businesses

The Wilson Group did well during the year, while both the River Trade Terminal and Airport Freight Forwarding Centre are operating satisfactorily. Traffic on the Route 3 (CPS) remained steady during the year. The Group's infrastructure projects are all in Hong Kong, and given their potential returns and strong cash flows over time, the Group will continue to hold them as long-term investments.

Corporate Finance

The Group is in a robust financial position, with low gearing and high interest coverage. Its net debt to shareholders' funds ratio was low at 13.4 per cent as at 30 June 2006, reflecting the Group's prudent financial management.

The Group placed 89 million shares in early May at an underwritten price of HK\$89, raising net proceeds of HK\$7,837 million. This put the Group in a better financial position for future expansion, both in Hong Kong and on the mainland.

The Group is constantly looking for ways to control interest costs. Its excellent credit rating and ample liquidity in the market helped create an enthusiastic response to the Group's self-arranged, five-year HK\$12,000 million dual-tranche syndicated credit facility and ten-year HK\$1,800 million in bonds under the EMTN programme. The Group has ample stand-by unsecured banking facilities on a committed basis to meet business development needs.

Chairman's Statement



The concierge service in office buildings makes the Group stand apart in customer service.



SHKP Club membership exceeds 240,000 and it continues to offer exclusive privileges such as show flat previews to its members.

The majority of the Group's borrowings are denominated in Hong Kong dollars, so they pose a negligible foreign exchange risk. The Group has taken no speculative positions in derivatives.

A strong financial position and market leadership have earned the Group an A1 rating with a stable outlook from Moody's and an A rating with a stable outlook from Standard & Poor's, which are the highest ratings the two agencies have assigned to any Hong Kong developer.

Customer Service

Superior customer service is one thing that sets the Group apart. Its two property management subsidiaries, Hong Yip Service Company and Kai Shing Management Services, are dedicated to offering residents and tenants the best service and customer care, as well as working to promote a greener Hong Kong. The companies are well recognized for their commitment to excellence and have won numerous awards for service, eco-friendly maintenance and landscaping. The Group continues to set new standards for service, and its introduction of concierge service in office buildings has been well received.

The SHKP Club recently celebrated its tenth anniversary and membership surpassing 240,000. The Club regularly stages a variety of events for the benefit of its members and the community at large. It initiated a 'Loving Home' campaign during the year under review, generating widespread interest and participation from members and the public. The Club's co-brand VISA card offers members a broad spectrum of shopping benefits.

Corporate Governance

Maintaining high standards of corporate governance is a cornerstone of the Group's business philosophy. This is achieved through an effective Board of Directors, timely disclosure of information and a proactive investor relations programme. Audit, Remuneration and Nominating Committees are all in place, and the Group will continue its efforts to stay at the forefront of best corporate governance practices.

The Group's sophisticated management and good corporate governance are recognized by the investment community. Some of the various accolades received during the year included the Group being named Asia's best property company by *FinanceAsia* magazine for the fourth consecutive year and best developer in both Asia and Hong Kong by *Euromoney* magazine for the second year running.



SHKP Book Club organizes a series of events and evokes enthusiastic response from the public.



The Group initiates an extensive programme along with The Chinese University of Hong Kong to promote mental health.

Corporate Citizenship

The Group supports numerous charitable and educational programmes. It began the SHKP Book Club to promote reading and personal development through events such as seminars, book fairs and book review competitions. The Book Club receives enthusiastic support from local schools, and its new Young Writers' Debut competition has attracted a great deal of interest. The Group also offers scholarships to many students at both local and mainland educational institutions.

The Group is collaborating with The Chinese University of Hong Kong on an extensive programme to promote mental health in Hong Kong. This will be a high-profile initiative to tackle the problem and raise public awareness through education. The Group also encourages its staff to become involved in community work via the SHKP Volunteer Team.

Staff development and training is another area that receives the Group's encouragement and support. A wide variety of courses provide staff members with the opportunity to develop both professionally and personally. The Group also provides career opportunities through its management trainee and other recruitment programmes.

Prospects

The global economy is expected to keep growing in the year ahead despite monetary tightening in most industrialized countries and high oil prices. The high likelihood that the two-year interest rate hike cycle in the US has come to an end should be a positive for the macro environment. The mainland economy is expected to keep growing, but at a healthier and more sustainable pace after the implementation of macro-control measures earlier this year. Against this background, Hong Kong's economy should continue to grow steadily in the year ahead.

The residential property market is expected to fare better as mortgage interest rates peak. Steadily rising incomes, a better job market and more marriages will support the demand for new homes, while the supply of new units will fall in the next few years. Affordability for homebuyers is also relatively high. All these factors suggest that prices in the future will gradually rise.

Chairman's Statement



Convenient transportation and deluxe clubhouse of Manhattan Hill at West Kowloon will attract professionals and upgraders.



Situated on a prime site, Severn 8 on The Peak offers prestige and tranquil living environment.

The Group will continue replenishing its Hong Kong land bank through various means including farmland conversion, so as to step up residential completions over the long term. It will also maintain its practice of offering premium-quality developments with modern designs supported by comprehensive clubhouse facilities, to satisfy the aspirations of modern homebuyers. The Group's reputation for quality has earned it a trusted brand name, a fact that is evidenced by media surveys of the public. The Group will make maximum use of its brand identity and the enhanced marketability it provides to raise development margins on new projects.

The rental portfolio will continue to perform well with higher rents for new leases and renewals, as the demand for office and retail space remains strong. Office rents will continue to climb moderately as a result of a tight supply of new space and continued demand from new and existing tenants. Office rents in decentralized districts will start catching up with those in core areas, while higher retail sales fuelled by improving employment and rising incomes will support retail rents.

Property development on the mainland will contribute to the Group's growth over the long term. The Group is developing a number of landmark projects on the mainland, which should enhance its market positioning there. It will also keep looking for opportunities to develop residential projects in selected major cities. The administrative measures put in place recently to cool the property market will provide a better opportunity for the Group to lay the foundation for future growth.

The Group is now developing over six million square feet of property in Hong Kong that will be held for rent. These projects and others on the mainland will further boost the Group's rental income over the medium to long term. The Group will consider reconfiguring its investment property portfolio through various means, to increase asset turnover and improve return on equity. One such vehicle being evaluated is a REIT, which would be a new business for recurrent income while optimizing the rental portfolio through expansion of the REIT.

The Group plans to complete 2.6 million square feet of residential space for sale in the current financial year. Major residential projects that will go on the market in the next nine months include Severn 8 on the Peak, Manhattan Hill in West Kowloon and The Vineyard in Yuen Long. Barring unforeseen circumstances, the results for the coming financial year are expected to be satisfactory.



Chairman & Chief Executive Walter Kwok (centre) and Vice Chairmen & Managing Directors Thomas Kwok (right) and Raymond Kwok (left).

Appreciation

Non-executive director Mr Law King-wan will soon retire from the Company's board after having been with the Group since its very beginning. He has made an immense contribution to the Group's growth and success over the years, and I would like to thank Mr Law for his dedication and loyalty.

I would also like to take this opportunity to express my gratitude to my fellow directors for their guidance, and to thank all our staff for their dedication and hard work.

Kwok Ping-sheung, Walter

Chairman & Chief Executive

Hong Kong, 14 September 2006





Review of Operations



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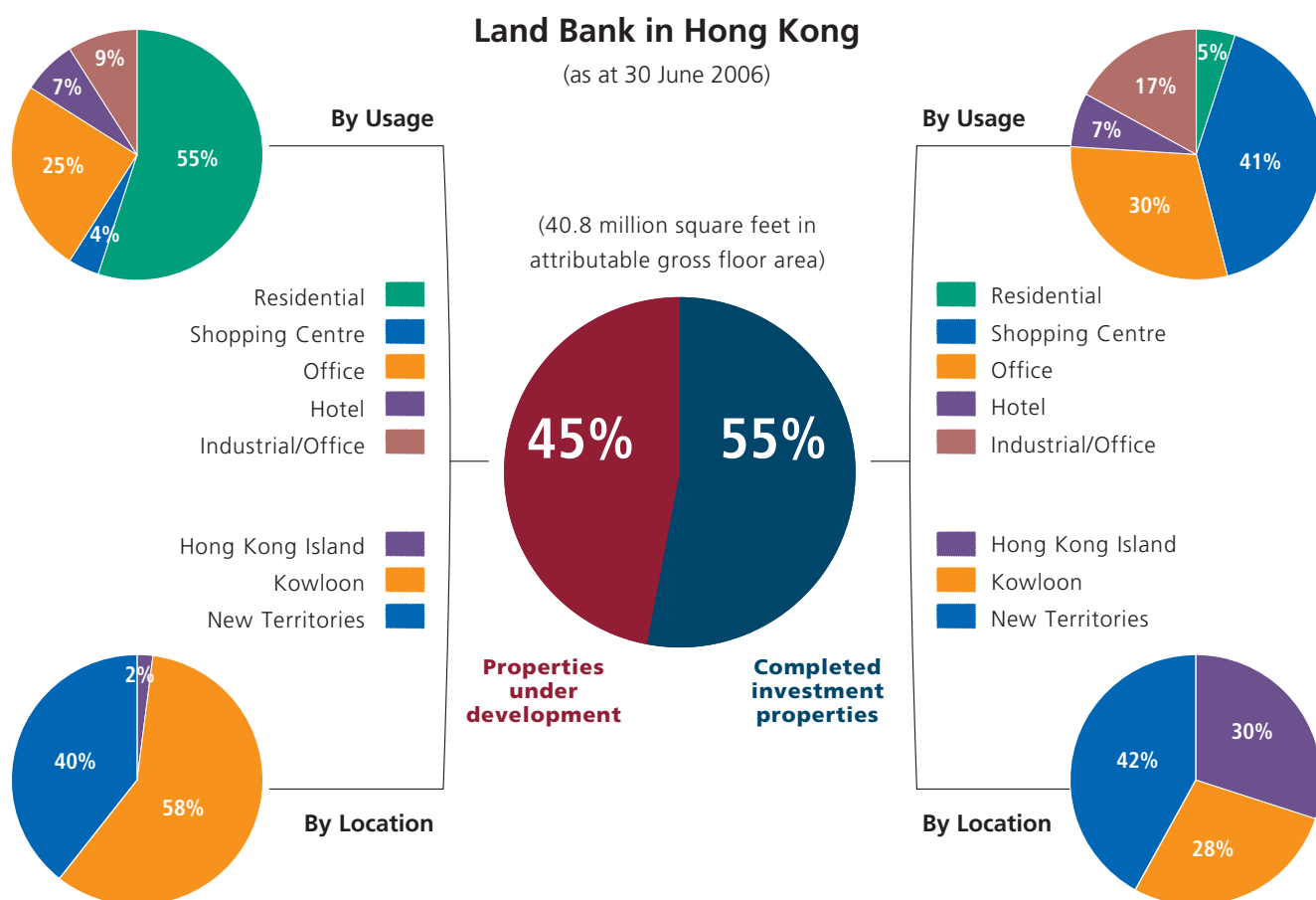
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Customer Service

The Arch, Kowloon Station

Highlights

- Acquired or completed land use conversion of five sites in Hong Kong, with aggregate gross floor area of 1.2 million square feet
- Won West Rail Tuen Mun Station development tender and acquired a residential site in Tsing Lung Tau in August and September 2006, respectively, with combined gross floor area of about 1.6 million square feet
- Sizeable Hong Kong land bank of 42.4 million square feet of gross floor area, including two latest additions
- Over 23 million square feet of agricultural land reserves in terms of site area



The Group's land bank in Hong Kong stood at 40.8 million square feet as at 30 June 2006, with composition shown in the charts above. The Group replenishes its development land bank to meet future development needs through various means, including government land auctions, public tenders, private purchases and farmland conversions. Sites acquired during the year added 1.2 million square feet of developable gross floor area. Details of the new additions are provided on

page 9 of the Chairman's Statement. The Group won the rights to develop a project above the West Rail Tuen Mun Station in August 2006. This will include 1.3 million square feet of premium residential premises and a regional shopping mall of 269,000 square feet. The Group also acquired a residential site of about 9,000 square feet of gross floor area in Tsing Lung Tau through government land auction in September this year. It will be developed with an adjacent site

owned by the Group into luxury houses. These new sites bring the Group's Hong Kong land bank to 42.4 million square feet, of which 20 million square feet are properties under development and the remaining 22.4 million square feet completed investment properties. Detailed breakdown of the Group's latest land bank in Hong Kong is shown below.

The 20 million square feet of properties under development comprise 13.2 million square feet for sale and 6.8 million square feet intended as a long-term investment. The Group holds a diverse portfolio in terms of usage. The majority of the development land bank is residential premises for sale. Major shopping malls and prime office developments make up over 70 per cent of the completed investment properties.

The Group's land bank is geographically diverse. About 56 per cent of its development land bank is in urban areas and 44 per cent in the New Territories. About 42 per cent of completed investment properties are spread over various new towns in the New Territories and 58 per cent in Kowloon and Hong Kong Island.

The Group also owns over 23 million square feet of agricultural land in terms of site area, in various new towns along existing or planned rail lines. Most of these sites are being converted into residential use, with the majority already in the advanced stage of conversion.

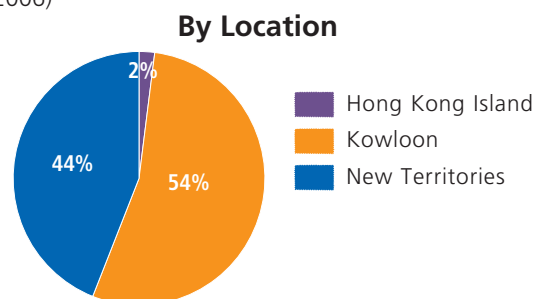
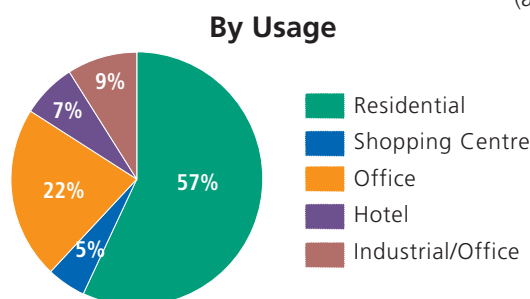
Composition of land bank in Hong Kong (as at September 2006)

	Development for sale	Development for investment	Attributable Gross Floor Area (million square feet) Completed investment properties	Total
Usage				
Residential	11.5	–	1.2	12.7
Shopping Centre	–	1.0	9.2	10.2
Office	–	4.5	6.8	11.3
Hotel	–	1.3	1.5	2.8
Industrial/Office*	1.7	–	3.7	5.4
Total	13.2	6.8	22.4	42.4
Location				
Hong Kong Island	0.5	–	6.6	7.1
Kowloon	5.8	4.9	6.3	17.0
New Territories	6.9	1.9	9.5	18.3
Total	13.2	6.8	22.4	42.4

* Industrial/Office properties include godowns

Properties Under Development in Hong Kong

(as at September 2006)



The Group also entered into a 50-50 joint venture during the year to develop a signature shopping mall in Singapore's famed shopping district on Orchard Road. The project will include a large shopping mall and luxury residences with total gross floor area of 1.4 million square feet.

The Group's land bank on mainland China is described under Mainland China Business on page 49.



Property Development

The Group's trusted brand name for quality enhances marketability and development margins on new projects. It will continue satisfying homebuyers by offering premium-quality developments with modern designs and comprehensive clubhouse facilities.



1. YOHO Town, Yuen Long
2. Park Island, Ma Wan
3. Severn 8, The Peak
4. The Arch, Kowloon Station

Park Island, Ma Wan

Property Development



The deluxe clubhouse at Severn 8 on the Peak offers premium facilities including a tastefully designed banquet room.

Highlights

- **Hong Kong development land bank of 20 million square feet by gross floor area**
- **Completed 2.5 million square feet of residential properties for sale**
- **Harbour Green at Olympic Station put on sale**

Most of the Group's 20-million-square-foot development land bank in Hong Kong is designated as residential properties for sale. The majority of projects will be large estates offering a wide range of unit sizes catering to different customer preferences.

Offering residents a carefree lifestyle with the highest quality of products and services is always a priority for the Group. This commitment has earned the Group a stellar reputation, and its recognized brand name gives added attraction and marketability to new projects.

Property Sales

The Group sold or presold an attributable HK\$5,102 million of properties in Hong Kong during the year ended 30 June 2006, compared to HK\$21,166 million in the previous year. Harbour Green at Olympic Station was the only major project to go on sale during the year. Park Island Phase 5 went on sale in August this year with over 95 per cent of the units sold so far. Since July 2006, the Group has sold about HK\$4,000 million worth of properties in Hong Kong.

The Group will continue offering new projects for sale as planned. Major developments to go on the market over the next few months include Severn 8 on the Peak, Manhattan Hill in West Kowloon and The Vineyard in Yuen Long.

Project Completion Schedule

The Group completed five projects with an aggregate attributable gross floor area of 2.5 million square feet during the year, as described in the Chairman's Statement on page 9. Almost all of this is residential area and over 80 per cent has been sold so far. The Arch in Kowloon, another landmark project of the Group, was completed during the year. It has redefined luxury apartments with its superior quality, modern design and comprehensive clubhouse facilities. Approximately 90 per cent of the units have been sold. The success of The Arch contributed to a marked increase in development margins during the year.

The Group plans to complete 3.5 million square feet of properties in the coming financial year, of which 2.6 million square feet will be residential units for sale. The Group expects to complete an annual average of 2.7 million square feet of residential property in the next three years, taking advantage of its brand and solid market fundamentals to improve margins and boost profitability.



A rare low-density development, The Vineyard in Yuen Long, will be surrounded by one million square feet of greenery.



The Harbour Green at Olympic Station provides wide range of layouts and easy accessibility.



The third clubhouse of Park Island on Ma Wan will have a 70-metre resort hotel-style outdoor swimming pool.

Property Development

Major Projects Under Development by Year of Completion

Location	Project Name	Group's Interest (%)	Residential
Projects to be completed in financial year 2006/07			
Airport Railway Olympic Station Development Package 3	Harbour Green	Joint Venture	1,110,000
Ngau Tam Mei Phase 1, Yuen Long	The Vineyard	100	383,000
New Kowloon Marine Lot 3, West Kowloon	Manhattan Hill	33	358,000
Airport Railway Kowloon Station Development Packages 5, 6 & 7 (first phase)		Joint Venture	742,000
392 Kwun Tong Road	Millennium City 6	100	-
Tsuen Wan Inland Lot 5 & Lot 429 in DD 399, Ting Kau		100	-
Year Total			2,593,000
Projects to be completed in financial year 2007/08			
Yuen Long Town Lot 504 (first stage)	YOHO Town Phase 2	100	600,000
Kowloon Inland Lot 11076, Hung Hom		50	777,000
Shun Ning Road/Po On Road, Sham Shui Po		Joint Venture	112,000
Sha Tin Town Lots 421, 438 and 496		100	691,000
Ma Wan Development	Park Island Phase 6	Joint Venture	80,000
18-30 Bedford Rd., Tai Kok Tsui		100	55,000
Airport Railway Kowloon Station Development Packages 5, 6 & 7 (second phase)		Joint Venture	267,000
Year Total			2,582,000
Projects to be completed in financial year 2008/09			
New Kowloon Inland Lot 6308, Prince Edward Road East	Rhine Harbour	100	1,025,000
Yuen Long Town Lot 504 (second stage)	YOHO Town Phase 2	100	854,000
Tuen Mun Town Lot 465		100	621,000
Lot 4038 in DD 120, Yuen Long		100	308,000
Ngau Tam Mei Phase 2, Yuen Long		100	36,000
Airport Railway Kowloon Station Development Packages 5, 6 & 7 (third phase)		Joint Venture	-
Kwai Chung Town Lot 215 (first phase)		100	-
129 Hoi Bun Road, Kwun Tong		100	-
Year Total			2,844,000
Projects to be completed in financial year 2009/10 and beyond			
West Rail Tuen Mun Station Development		Joint Venture	1,286,000
New Kowloon Inland Lot 6350, Ngau Chi Wan		100	775,000
Kwu Tung, Sheung Shui		100	672,000
Ap Lei Chau Inland Lot 129		35	316,000
Shek Wu Wai, Yuen Long		50	227,000
Lot 4313 in DD 124, Hung Shui Kiu		74	77,000
Pak Sha Tsuen, Yuen Long		100	49,000
Tuen Mun Town Lot 461, Lam Tei		100	27,000
Tsing Lung Tau Lots 67 and 68		100	19,500
Airport Railway Kowloon Station Development Packages 5, 6 & 7 (fourth phase)		Joint Venture	-
Kwai Chung Town Lot 215 (second phase)		100	-
Total			3,448,500

Attributable Gross Floor Area (square feet)

Shopping Centre	Office	Hotel	Total
--------------------	--------	-------	-------

-	-	-	1,110,000
-	-	-	383,000
18,000	-	-	376,000
171,000	-	-	913,000

-	402,000	-	402,000
-	-	310,000	310,000

189,000	402,000	310,000	3,494,000
----------------	----------------	----------------	------------------

249,000	-	-	849,000
16,000	-	-	793,000
22,000	-	-	134,000
-	-	-	691,000
-	-	-	80,000
-	-	-	55,000
-	1,121,000	606,000	1,994,000

287,000	1,121,000	606,000	4,596,000
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205,000	-	-	1,230,000
-	-	-	854,000
-	-	-	621,000
-	-	-	308,000
-	-	-	36,000
-	622,000	-	622,000

26,000	574,000	-	600,000
-	292,000	-	292,000

231,000	1,488,000	-	4,563,000
----------------	------------------	----------	------------------

269,000	-	-	1,555,000
-	-	-	775,000
-	-	-	672,000
-	-	-	316,000
-	-	-	227,000
-	-	-	77,000
-	-	-	49,000
-	-	-	27,000
-	-	-	19,500
-	752,000	417,000	1,169,000

-	497,000	-	497,000
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269,000	1,249,000	417,000	5,383,500
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High quality and excellent handover service of Noble Hill in Sheung Shui get great appreciation from the owners.



Residential units and serviced apartments of Airport Railway Kowloon Station Development Packages 5, 6 & 7 are expected to be completed by mid 2007.

Property Development



YOHO Town sets a focal point of high grade residential project in Yuen Long with exclusive clubhouse facilities and green ambience.



The project in Sha Tin Town Lots 421, 438 and 496 will offer about 500 units of low-rise luxury apartments and houses.

Status of Major Developments

Harbour Green

Airport Railway Olympic Station Development Package 3 (Joint venture)

Site area : 185,000 square feet
Gross floor area : 1.1 million square feet
Units : 1,514
Expected completion : September 2006

Harbour Green at Olympic Station consists of five residential towers containing units ranging from a standard 600 square feet to penthouses of over 5,000 square feet. The project's flat mix and deluxe clubhouse are designed to satisfy the lifestyle aspirations of modern urban sophisticates. Buyers should take possession in the first half of 2007.

Sha Tin Town Lots 421, 438, 496 (100% owned)

Site area : 371,000 square feet
Gross floor area : 691,000 square feet
Units : about 500
Expected completion : first half of 2008

This project is made up of three sites in close proximity. It is being developed into 691,000 square feet of low-rise luxury apartments and a number of houses. The foundations have been laid and construction of the superstructure will begin soon.

YOHO Town Phase 2

Yuen Long Town Lot 504 (100% owned)

Site area : 318,000 square feet
Gross floor area : 1.4 million square feet
(residential)
249,000 square feet (retail)
Units : about 2,000
Expected completion : from 2008 in phases

Phase 2 is strategically located at the centre of the YOHO Town project. The development is supported by a comprehensive road and rail transport network, and Phase 2 will include a shopping mall, offering added convenience to the neighbourhood.

Tuen Mun Town Lot 465, Castle Peak Road

(100% owned)

Site area : 478,000 square feet
Gross floor area : 621,000 square feet
Units : about 550
Expected completion : first half of 2009

This will be a low-rise apartment development with a number of detached houses, surrounded by a tranquil, green environment. Site formation is under way and work on the foundations is expected to begin by end of this year.

Rhine Harbour

New Kowloon Inland Lot 6308, Prince Edward Road East

(100% owned)

Site area : 137,000 square feet
Gross floor area : 1 million square feet (residential)
205,000 square feet (retail)
Units : about 1,200
Expected completion : first half of 2009

Construction has begun on what will be a new focal point and shopping destination in Kowloon East. The residential units will set new standards of luxury in the district, including rare four-bedroom flats.

Kwu Tung, Sheung Shui

(100% owned)

Site area : 1.7 million square feet
Gross floor area : 672,000 square feet
Units : About 340
Expected completion : second half of 2009

With total gross floor area of 672,000 square feet, the Group plans to build a low-density project adjacent to the Beas River, consisting of about 340 houses surrounded by lots of greenery and a tranquil environment. Construction will commence soon.



Rhine Harbour will be a landmark development in Kowloon East.



The Kwu Tung project will have about 340 houses nestling in green environment.

Property Development



The Ngau Chi Wan project will be developed into about 700 luxury residential apartments with most units enjoying Victoria Harbour views.



West Rail Tuen Mun Station Development will be the only major new residential development in the area over the next few years.

New Kowloon Inland Lot 6350, Ngau Chi Wan

(100% owned)

Site area : 66,500 square feet
Gross floor area : 775,000 square feet
Number of units : about 700
Expected completion : beyond 2009

The Group acquired this prime site by Kowloon Peak at a government land auction in September 2005. It will be developed into about 700 luxury residential units, most with panoramic views of urban Kowloon and the harbour.

West Rail Tuen Mun Station Development

(Joint venture)

Site area : 286,000 square feet
Gross floor area : 1.3 million square feet (residential)
269,000 square feet (retail)
Number of units : about 1,900
Expected completion : beyond 2009

The Group won this project in August 2006. It will have 1.3 million square feet of premium residential premises overlooking Tuen Mun Park and a shopping mall of 269,000 square feet. It will be the only major new residential development in the heart of Tuen Mun over the next few years. A convenient location with nearby railway and bus transport connections is expected to make it a trend-setting project in the area.

Millennium City 6

392 Kwun Tong Road (100% owned)

Site area : 30,000 square feet
Gross floor area : 402,000 square feet
Expected completion : mid 2007

Work on the superstructure is progressing smoothly. The expected mid-2007 completion will add another premium office tower to the Group's Millennium City development that has transformed Kowloon East into a new commercial hub. The latest tower will feature the same modern design and facilities as previous phases, to suit the needs of modern business.

Airport Railway Kowloon Station Development Packages 5, 6 and 7

(Joint venture)

Site area : 790,000 square feet
Gross floor area : 5.4 million square feet (total)
4.7 million square feet
(attributable)

Expected completion : from 2007 in phases

The development will consist of 2.5 million square feet of top-quality offices, one million square feet of residential units and serviced apartments, another million square feet of hotel space and 0.9 million square feet of retail space. It will include the tallest building in Hong Kong, International Commerce Centre, featuring ultra-modern facilities and all the amenities demanded by contemporary commercial tenants. The first tower of over 700,000 square feet of residential units and serviced apartments is under construction and completion is expected by mid 2007.

Kwai Chung Town Lot 215 (100% owned)

Site area : 89,000 square feet
Gross floor area : 1.1 million square feet
Expected completion : from 2008 in phases

The Group is planning to build a premium office development on this site near the Kwai Fong MTR station, with construction proceeding in two phases. The first phase will contain about 600,000 square feet of office space. Work on the superstructure began recently and completion is scheduled for late 2008.



International Commerce Centre with its ultra-modern facilities will cater to the demands of contemporary commercial tenants and is to be completed in phases from 2007.



The project in Kwai Chung Town Lot 215 will offer premium office space near the Kwai Fong MTR station.

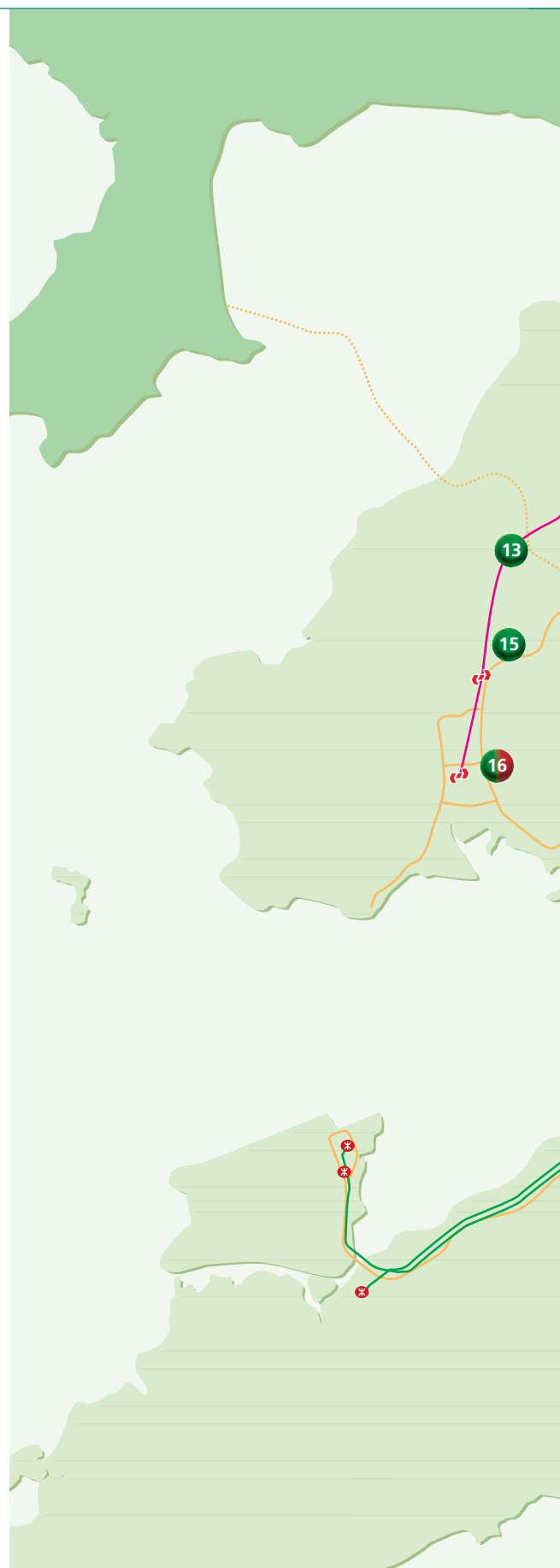
Property Development

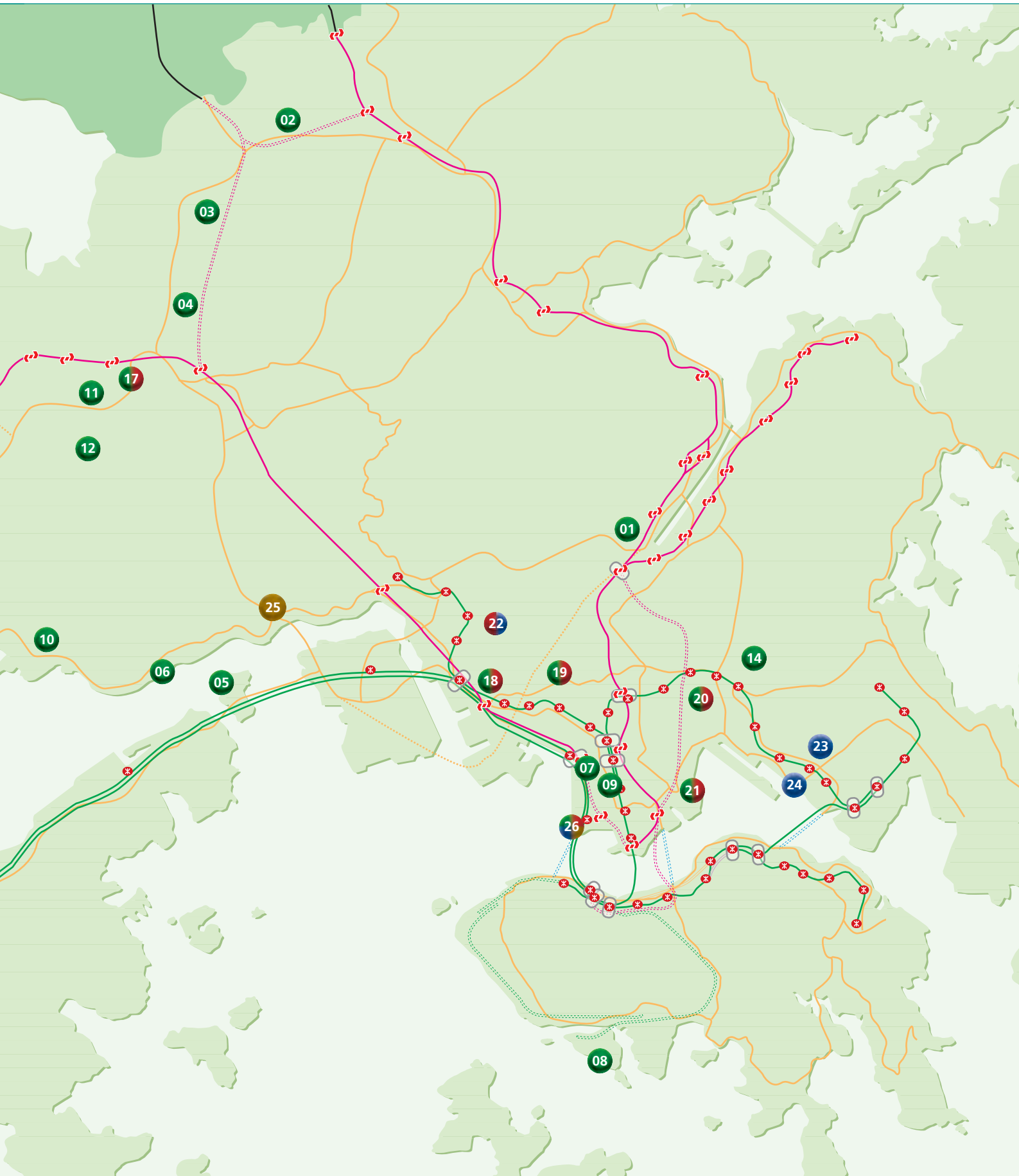
Major Projects Under Development

● Residential
 ● Shopping Centre
 ● Office
 ● Hotel

- | | | |
|--------------------------------------|-----------|---|
| ● | 01 | Sha Tin Town Lots 421, 438 & 496 |
| ● | 02 | Kwu Tung |
| ● | 03 | Shek Wu Wai |
| ● | 04 | The Vineyard |
| ● | 05 | Park Island Phase 6 |
| ● | 06 | Tsing Lung Tau Lots 67 and 68 |
| ● | 07 | Harbour Green |
| ● | 08 | Ap Lei Chau Inland Lot 129 |
| ● | 09 | 18-30 Bedford Road |
| ● | 10 | Tuen Mun Town Lot 465 |
| ● | 11 | Lot 4038 in DD120, Yuen Long |
| ● | 12 | Pak Sha Tsuen |
| ● | 13 | Lot 4313 in DD124, Hung Shui Kiu |
| ● | 14 | New Kwoloon Island Lot 6350, Ngau Chui Wan |
| ● | 15 | Tuen Mun Town Lot 461, Lam Tei |
| ● | 16 | West Rail Tuen Mun Station Development |
| ● | 17 | YOHO Town Phase 2 |
| ● | 18 | Manhattan Hill |
| ● | 19 | Shun Ning Road / Po On Road |
| ● | 20 | Rhine Harbour |
| ● | 21 | Kowloon Inland Lot 11076 |
| ● | 22 | Kwai Chung Town Lot 215 |
| ● | 23 | Millennium City Phase 6 |
| ● | 24 | 129 Hoi Bun Road |
| ● | 25 | Tsuen Wan Inland Lot 5 & Lot 429 in DD399, Ting Kau |
| ● | 26 | Airport Railway Kowloon Station Development Packages 5, 6 & 7 |

— KCR	— MTR
- - - KCR (under construction/ planning)	- - - MTR (under planning)
— Major Highway	- - - Cross Harbour Tunnel
- - - Major Highway (under construction)	— Railway Interchange







Property Investment

The local retail sector has flourished and the Group's shopping centres keep attracting more visitors, benefiting retail tenants with higher traffic and turnover. The Group will keep its malls fresh with renovations and refinements to tenants mix. Its office portfolio also produced good returns as growing demand from new and existing tenants generated high occupancy and increased rents.



1



2



3



4

1. Two IFC, Central
2. International Commerce Centre, Kowloon Station
3. East Point City, Tseung Kwan O
4. Tai Po Mega Mall

Property Investment



After the renovations of New Town Plaza in Sha Tin are over, its position as a major shopping centre in Hong Kong will be further reinforced.

Highlights

- **22.4 million square feet of completed property held as long-term investment**
- **Portfolio about 95 per cent occupied**
- **HK\$6,466 million in gross rental income including contributions from joint-venture properties**
- **HK\$4,615 million in net rental income**

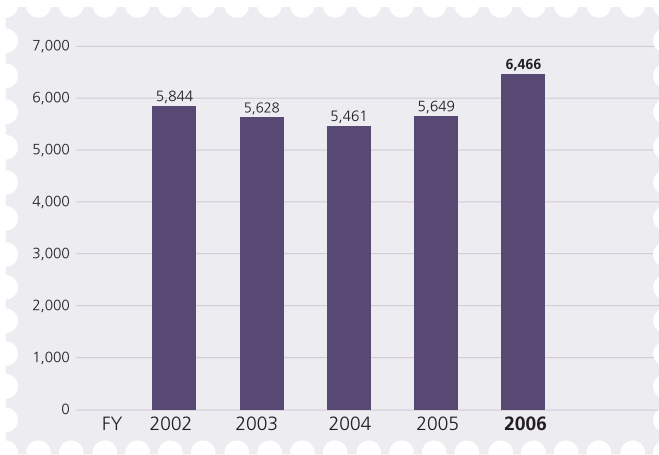
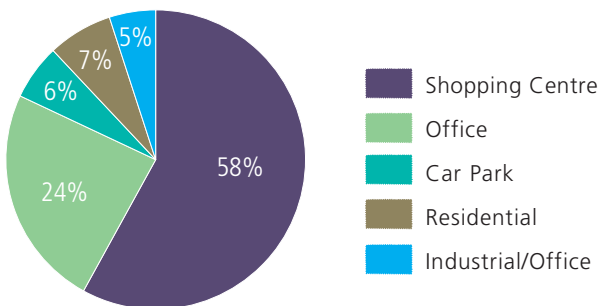
Gross rental income including contributions from joint-venture properties increased 14.5 per cent during the year to HK\$6,466 million, while net rental income increased 13.5 per cent to HK\$4,615 million. Occupancy remained high at 95 per cent. Higher contributions from new completions and higher rents for renewals and new leases contributed to this respectable performance.

Retail rents rose modestly during the year as growth in retail sales and tourist arrivals remained solid. Expansion from existing operators and new comers setting up their outlets in Hong Kong are principal drivers for demand.

Strong demand and limited supply together contributed to a very favourable performance in office rents over the year. Limited new office space in the core business districts had led to a spill-over effect that benefited offices in non-core areas. Demand remained keen as various business sectors such as financial firms, wealth management houses and trading entities continued with their expansion.

Gross Rental Income*

HK\$ million

**Gross Rental Income by Sector***

* Including contributions from jointly-controlled entities and associates

The Group believes that to maintain its leading market position, proactive effort to enhance the value of its investment property portfolio is a must. Grand Century Place in Mong Kok and Tsuen Wan Plaza underwent renovations and upgrades on different scales during the year to offer customers a fresh shopping experience. Renovations are progressing at New Town Plaza in Shatin and Tai Po Mega Mall, and the initial phases should be completed in early 2007. A major upgrade will start at World Trade Centre in Causeway Bay at the end of this year, with nine floors being converted from offices to retail space.

Regular reviews of tenant composition and large-scale promotions helped boosting traffic flow. The Group puts a premium on customer satisfaction, which helps engender loyalty and keep occupancies high. Two-way communication with tenants through surveys and day-to-day interaction enables the Group to serve them better by ensuring that their needs are understood and met.



Conversion process for the nine office floors of the World Trade Centre in Causeway Bay into retail space will begin by the end of this year.



The Grand Century Place in Mong Kok has been renovated and its tenants mix refined to offer fresh shopping experience to shoppers.

Property Investment



Four Seasons Place offers prime accommodation with wide range of facilities for city dwellers.



The quality of Dynasty Court on the Peak is highly appreciated by the sophisticated and high expectation clients.

Completed Investment Properties

Shopping Centres

Rents rose modestly in the Group's 9.2-million-square-foot Hong Kong shopping centre portfolio during the year amid high occupancy. APM in Kowloon East has been very popular since its opening in the second quarter of 2005, due to its unique market positioning for late-night shopping that appeals to young people. IFC Mall remained a major attraction in Central, and both IFC Mall and APM are virtually fully let. The Group's other major malls also performed well, with Tai Po Mega Mall, Grand Century Place in Mong Kok and East Point City in Tseung Kwan O almost fully occupied.

Offices

The Group owns a network of 6.8 million square feet of premium office space spreading over various strategic locations in Hong Kong. Overall occupancy remained high over the year and increased rentals were recorded for both renewals and new leases. Offices in IFC in Central are 99 per cent let. The various phases of Millennium City in Kowloon East are over 95 per cent occupied. The Group's other premium offices in prime locations, such as Central Plaza and Sun Hung Kai Centre in Wan Chai and Grand Century Place in Mong Kok, all recorded an occupancy of 95 per cent or more.

Residential

The Group holds more than one million square feet of residential property for lease, including luxury developments like Dynasty Court and Hillsborough Court in Mid-Levels. SignatureHomes oversees high-end leasing for the Group, and is dedicated to offering tenants comprehensive personal one-stop service.

Other Properties

The Group owns about 30,000 car parking bays, generating steady rental income. The Group also owns a number of industrial buildings, godowns and data centres. Some of the industrial premises are being evaluated for conversion into other uses such as office or hotel.

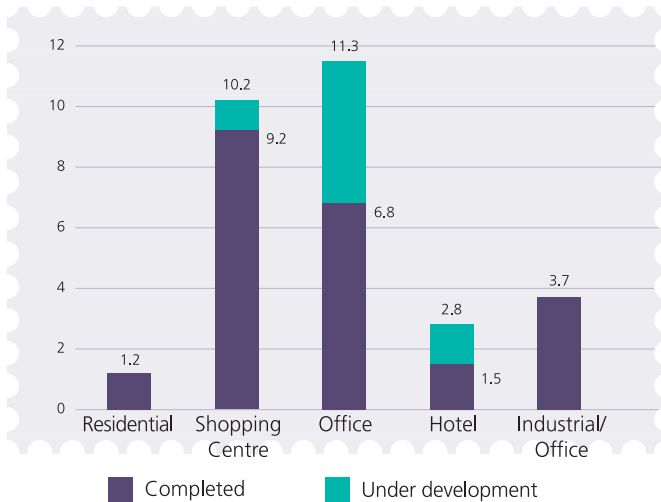
Investment Properties Under Development

The Group has been optimizing its investment property mix over the years, gradually increasing the proportion of high-grade investment properties in prime locations by building new landmark projects and replacing selective non-core properties.

Major investment properties under development include International Commerce Centre (ICC) at Kowloon Station and Millennium City Phase 6. Construction of ICC began during the year and is scheduled for completion in phases from late 2007. Pre-leasing of the first 450,000 square feet of offices will commence once the marketing office is opened.

Investment Properties: Completed and Under Development

million square feet



Millennium City Phase 6 in Kowloon East is expected to be completed in mid 2007. It will contain around 400,000 square feet of premium office space. The Group is also developing a premium decentralized office development at Kwai Chung Town Lot 215. Construction of the first phase of 600,000 square feet has commenced. All these developments will feature state-of-the-art facilities and modern designs to meet the evolving needs of business tenants.

The Group has an attributable 6.8 million square feet of new investment properties under development. The majority is slated to be grade-A office space with the latest technology and modern facilities. The remaining will be shopping malls, up-market hotels and suites.

Major Investment Properties Under Development

Shopping Centres

- YOHO Town Phase 2 on Yuen Long Town Lot 504
- New Kowloon Inland Lot 6308, Prince Edward Road East
- West Rail Tuen Mun Station Development

Offices

- Millennium City Phase 6
- International Commerce Centre at Kowloon Station
- Kwai Chung Town Lot 215



Focus on worldwide brands and regular promotion campaigns keeps IFC mall attracting thousands of visitors.



Millennium City 6 in Kowloon East will contain around 400,000 square feet of premium office space, and is expected to be completed in mid 2007.

Property Investment

Major Completed Investment Properties

Project	Location	Lease Expiry	Group's Interest (%)	Residential
Hong Kong Island				
One IFC	1 Harbour View Street, Central	2047	50	–
Two IFC & IFC Mall	8 Finance Street, Central	2047	50	–
Four Seasons Hotel and Four Seasons Place	8 Finance Street, Central	2047	50	–
Sun Hung Kai Centre	30 Harbour Road, Wan Chai	2127	100	–
Central Plaza	18 Harbour Road, Wan Chai	2047	50	–
World Trade Centre	280 Gloucester Road, Causeway Bay	2842	100	–
Harbour Centre	25 Harbour Road, Wan Chai	2128	33.3	–
Dynasty Court (Blocks 2 & 3)	23 Old Peak Road	2886	100	341,000
Pacific View (Blocks 2 & 3)	38 Tai Tam Road	2047	100	274,000
Hillsborough Court (Block 4)	18 Old Peak Road	2884	100	159,500
Kowloon				
Millennium City 1*	388 Kwun Tong Road	2047	100	–
Millennium City 2	378 Kwun Tong Road	2047	50	–
Millennium City 3	370 Kwun Tong Road	2047	70	–
Millennium City 5	418 Kwun Tong Road	2047	100	–
Grand Century Place	193 Prince Edward Road West, Mong Kok	2047	100	–
Royal Plaza Hotel	193 Prince Edward Road West, Mong Kok	2047	100	–
The Sun Arcade	28 Canton Road, Tsim Sha Tsui	2047	100	–
The Royal Garden	69 Mody Road, Tsim Sha Tsui	2127	100	–
Kerry Hung Kai Godown	3 Fat Tseung Street, Cheung Sha Wan	2047	50	–
APEC Plaza	49 Hoi Yuen Road, Kwun Tong	2047	100	–
Peninsula Tower	538 Castle Peak Road, Cheung Sha Wan	2047	100	–
New Tech Plaza	34 Tai Yau Street, San Po Kong	2047	100	–
Hing Wah Centre	82-84 To Kwa Wan Road	2099	100	–
New Territories				
New Town Plaza I	18 Shatin Centre Street, Sha Tin	2047	100	–
New Town Plaza III	2-8 Shatin Centre Street, Sha Tin	2047	100	–
New Town Tower	10-18 Pak Hok Ting Street, Sha Tin	2047	100	–
Grand Central Plaza	138 Shatin Rural Committee Road, Sha Tin	2047	100	–
Royal Park Hotel	8 Pak Hok Ting Street, Sha Tin	2047	100	–
Metroplaza Tower I & Shopping Centre	223 Hing Fong Road, Kwai Chung	2047	100	–
Landmark North	39 Lung Sum Avenue, Sheung Shui	2047	100	–
Tai Po Mega Mall	9 On Pong Road, Tai Po	2047	100	–
Tsuen Wan Plaza	5-21 Pak Tin Par Street, Tsuen Wan	2047	100	–
East Point City Shopping Centre	8 Chung Wa Road, Tseung Kwan O	2047	100	–
Sun Yuen Long Centre Shopping Arcade	8 Long Yat Road, Yuen Long	2047	87.5	–
Park Central Shopping Centre	Tseung Kwan O Town Lots 57 & 66	2047	57.52/25	–
Yuen Long Plaza Shopping Arcade	249-251 Castle Peak Road, Yuen Long	2047	100	–
Uptown Plaza Shopping Arcade	9 Nam Wan Road, Tai Po	2047	100	–
Grand City Plaza	1-17 Sai Lau Kok Road, Tsuen Wan	2047	100	–
Citygate	Tung Chung Town Lot 2	2047	20	–
Sunhing Hungkai Godown	8 Wong Chuk Yeung Street, Sha Tin	2047	100	–
Advanced Technology Centre	2 Choi Fat Street, Sheung Shui	2047	100	–

* Including the attributable share in areas held by SUNeVision, in which the Group has an 84.8 per cent interest.

Review of Operations Property Investment

Attributable Gross Floor Area (square feet)

Shopping Centre	Office	Hotel	Industrial/ Office	Total
–	392,000	–	–	392,000
320,000	566,000	–	–	886,000
–	–	550,000	–	550,000
53,400	850,600	–	–	904,000
–	700,000	–	–	700,000
162,000	350,000	–	–	512,000
20,500	80,000	–	–	100,500
–	–	–	–	341,000
–	–	–	–	274,000
–	–	–	–	159,500

27,000	890,000	–	–	917,000
–	133,000	–	–	133,000
–	108,000	–	–	108,000
598,000	308,000	–	–	906,000
725,000	475,000	–	–	1,200,000
–	–	400,000	–	400,000
204,800	–	–	–	204,800
–	–	295,000	–	295,000
–	–	–	285,000	285,000
–	–	–	240,000	240,000
–	–	–	202,000	202,000
–	–	–	184,000	184,000
–	–	–	182,700	182,700

1,300,000	–	–	–	1,300,000
350,000	–	–	–	350,000
–	96,000	–	–	96,000
236,000	505,000	–	–	741,000
–	–	258,000	–	258,000
600,000	569,000	–	–	1,169,000
181,500	375,500	–	–	557,000
588,800	–	–	–	588,800
583,000	–	–	–	583,000
415,000	–	–	–	415,000
245,000	–	–	–	245,000
195,000	–	–	–	195,000
145,000	–	–	–	145,000
120,000	–	–	–	120,000
35,100	137,200	–	–	172,300
99,000	32,000	–	–	131,000
–	–	–	500,000	500,000
–	–	–	142,000	142,000



Millennium City 5 premium-quality offices maintain high occupancy.



The top-quality office in Kowloon Station Packages 5, 6 & 7 will become the focal point of the area upon completion.

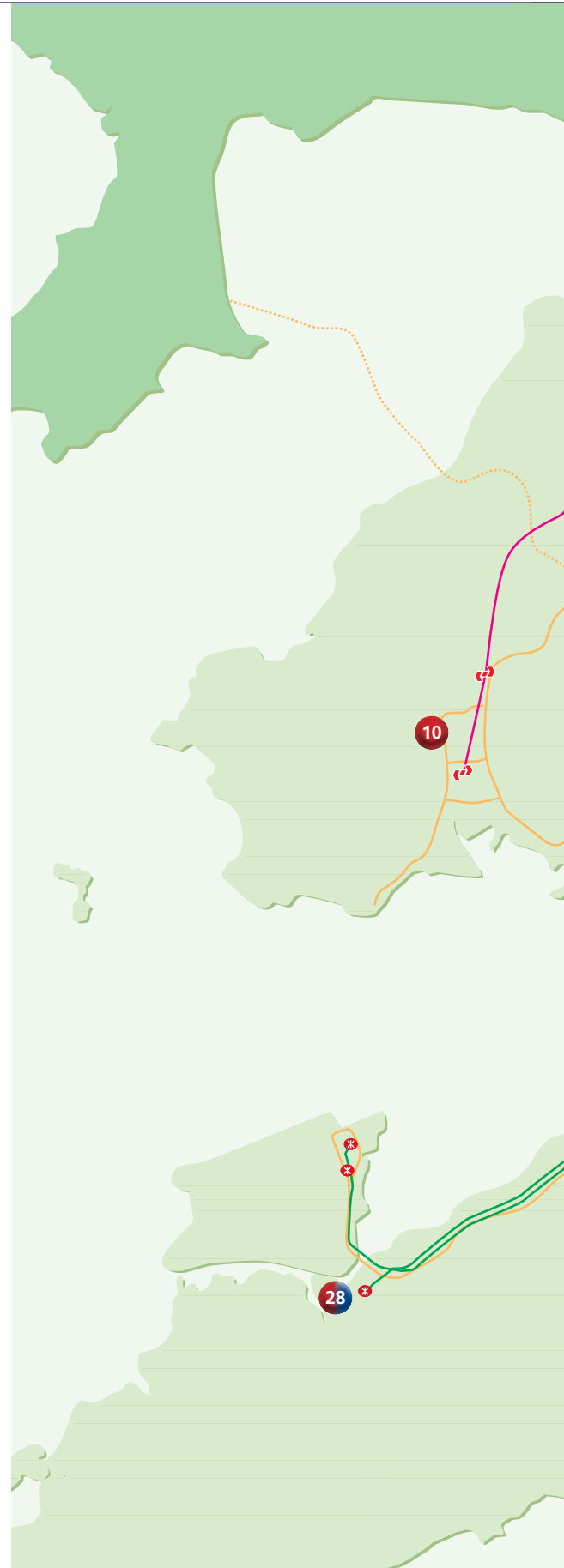
Property Investment

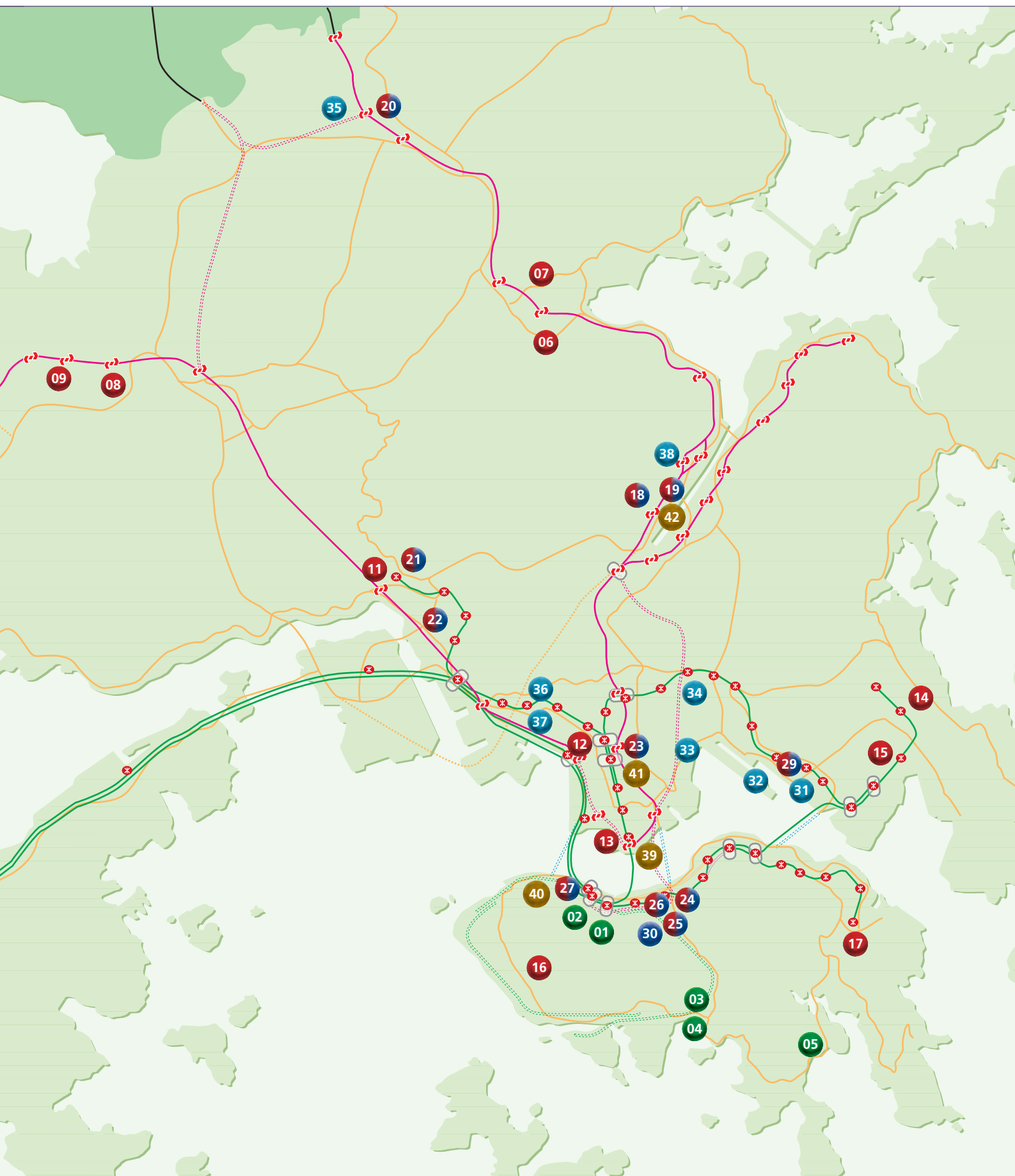
Major Completed Investment Properties

- Residential ● Shopping Centre ● Office
● Industrial / Office ● Hotel

●	01	Dynasty Court
●	02	Hillsborough Court
●	03	63 Deep Water Bay Road
●	04	51 & 55 Deep Water Bay Road
●	05	Pacific View
●	06	Uptown Plaza
●	07	Tai Po Mega Mall
●	08	Sun Yuen Long Centre
●	09	Yuen Long Plaza
●	10	Chelsea Heights
●	11	Tsuen Wan Plaza
●	12	New Kowloon Plaza
●	13	The Sun Arcade
●	14	East Point City
●	15	Park Central
●	16	Chi Fu Landmark
●	17	New Jade Shopping Arcade
●	18	New Town Plaza / New Town Tower
●	19	Grand Central Plaza
●	20	Landmark North
●	21	Grand City Plaza
●	22	Metroplaza
●	23	Grand Century Place
●	24	World Trade Centre
●	25	Sun Hung Kai Centre
●	26	Harbour Centre
●	27	IFC
●	28	Citygate
●	29	Millennium City Phases 1, 2, 3 & 5
●	30	Central Plaza
●	31	APEC Plaza
●	32	Infotech Centre
●	33	Hing Wah Centre
●	34	New Tech Plaza
●	35	Advanced Technology Centre
●	36	Peninsula Tower
●	37	Kerry Hung Kai Godown
●	38	Sunhing Hungkai Godown
●	39	The Royal Garden
●	40	Four Seasons Hotel & Four Seasons Place
●	41	Royal Plaza Hotel
●	42	Royal Park Hotel

- KCR
- - - KCR (under construction/ planning)
— Major Highway
- - - Major Highway (under construction)
— MTR
- - - MTR (under planning)
- - - Cross Harbour Tunnel
 Railway Interchange







Mainland China Business

Mainland development projects will contribute to the Group's long-term growth and market position, with an emphasis on landmark commercial and residential projects in selected major cities.



1. Shanghai IFC, Shanghai
2. Huai Hai Zhong Road project, Shanghai
3. Sun Dong An Plaza, Beijing
4. Central Plaza, Shanghai

Luxury project in Wei Fong,
Shanghai



Shanghai IFC will have world-class shopping mall and offices equipped with the state-of-the-art facilities. Completion for the entire project is scheduled for 2011 and it will be one of the prominent landmarks in Shanghai.

Highlights

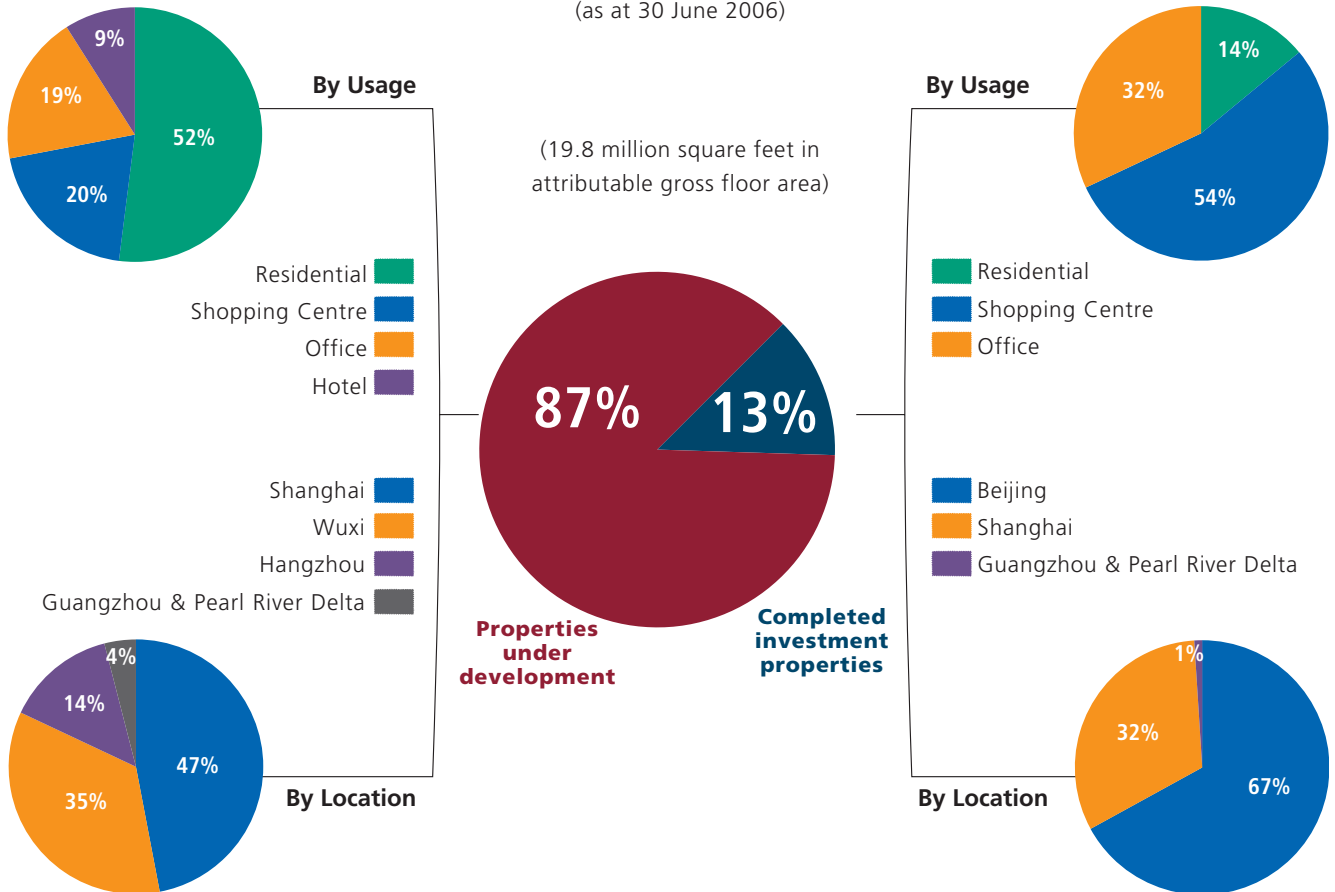
- **Development land bank increased to 17.2 million square feet, on top of 2.6-million-square-foot investment property portfolio**
- **Acquired a prime residential/commercial site on Huai Hai Zhong Road in Puxi, Shanghai**
- **Entered into two joint ventures to develop large-scale residential/commercial complexes in Hangzhou and Wuxi**
- **Started construction of Shanghai IFC in Lujiazui**

The Group took significant strides in mainland property investment during the year, making several major acquisitions, while its rental portfolio continued to produce good results. The Group is confident that the Central Government's efforts to curb over-investment in certain sectors are paving the way for healthy economic growth over time, and it remains optimistic about the long-term prospects for mainland investments. The Group will continue investing on the mainland incrementally, focusing on property business in major cities.

As at 30 June 2006, the Group held 2.6 million square feet of completed investment properties as long-term investments, consisting mainly of offices and shopping centres in prime locations. On top of this, the Group owns another 17.2 million square feet of properties under development on the mainland, about half of which will be high-end residences.

Land Bank on the Mainland

(as at 30 June 2006)



The project in Huai Hai Zhong Road is located in the busiest commercial district of Puxi and will be linked to the interchange of three MTR lines, attracting huge commuters.



The world-class luxury residential Wei Fong project has a sweeping view of Huangpu River in Pudong.

Mainland China Business



Set to become the highest quality residential community, Taihu New City Project in Wuxi is surrounded by natural environments of Taihu.



Qianjiang New City Project in Hangzhou will have luxury residences, serviced apartments, offices and retail outlets with total gross area of 6 million square feet.

Major Projects Under Development

SHANGHAI

Shanghai IFC

Lujiazui, Shanghai (100% owned)

Construction is proceeding on this 4-million-square-foot development in the bustling Pudong finance and trade zone in Shanghai. The project will contain a world-class shopping mall and offices with the state-of-the-art facilities and amenities comparable to IFC in Central in Hong Kong. Shanghai IFC will also have two top-class hotels managed by Ritz-Carlton and W Hotels. The first phase of 900,000 square feet of premium office space is expected to be completed in 2009. Completion for the entire project is scheduled for 2011.

Wei Fong, Shanghai

 (100% owned)

This project is located on the waterfront of Huangpu River, the most prestigious residential area of Pudong, with a panoramic view of the famous Bund. The Group will apply its expertise in developing luxury residences and build 1.7 million square feet of high-quality residential units and serviced apartments in two phases from 2009. Upon completion, it is set to become one of the new icons of Pudong district and will set new standards for luxury residences in the area.

Huai Hai Zhong Road Lot 3, Shanghai

 (Joint venture)

The Group acquired a prime site on Huai Hai Zhong Road in Puxi, Shanghai during the year. This 400,000-square-foot site will be developed into a top-quality mall, offices and luxury residential complex. It will be linked to a new MTR station which will form a transport hub for the interchange of three MTR lines.

GUANGZHOU AND PEARL RIVER DELTA

The Woodland

Zhongshan 5 Road, Zhongshan

 (Joint venture)

The Woodland is a low-rise development being built in phases. The second phase of the development was completed during the year and over 85 per cent of the units have been sold. Following the success of the first two phases, the Group is finalizing the planning for the third phase, which will contain about 650,000 square feet of quality residential units.

OTHER CITIES

Qianjiang New City Project, Hangzhou

 (40% owned)

This project is on the waterfront of Qian Tang River. It is located in the core area of the central business district of Qianjiang New City and next to the planned new city government headquarters. It has a total gross floor area of 6 million square feet, comprising luxury residences, serviced apartments, offices and retail space.

Taihu New City Project, Wuxi (40% owned)

This large-scale development is in Wuxi's Taihu New City, which is a new focus of development by the local authority. The project will consist of about 15 million square feet of residential units, serviced apartments, offices and retail space, to be completed in phases. It is set to become the highest quality residential community in Wuxi, surrounded by the natural and tranquil environment of Taihu.

Major Completed Properties

The Group's 2.6-million-square-foot completed investment property portfolio in the mainland consists mainly of key projects primarily in Beijing and Shanghai. All these projects are in prime districts and produce satisfactory leasing returns.

Sun Dong An Plaza

138 Wangfujing Dajie, Beijing (Joint venture)

Sun Dong An Plaza is a recognized landmark in Beijing. The 1.3-million-square-foot shopping mall, operated and owned by the Group except for 16,000 square metres operated by the mainland partner, is undergoing a major revamp, repositioning it as a major attraction for young shoppers with international brands and trendy stores. The revamp, to be completed prior to the 2008 Olympic Games, will reinforce the mall's position as a shopping, dining and entertainment focus for both local residents and tourists. Renovation plans are in hand for the 430,000 square feet of offices, which are 95 per cent let.

Central Plaza

381 Huai Hai Zhong Road, Shanghai (80% owned)

Central Plaza is in the busy Puxi commercial district in Shanghai, with about 590,000 square feet of top-quality office and retail space. Its prime location makes it a favourite with multinational

Major Completed Mainland Investment Properties

Project	Location	Lease Expiry	Group's Interest	Attributable Gross Floor Area (square feet)			
				Residential	Shopping Centre	Office	Total
Sun Dong An Plaza	138 Wangfujing Dajie, Beijing	2043	Joint venture	–	1,128,000	430,000	1,558,000
Central Plaza	381 Huai Hai Zhong Road, Shanghai	2044	80%	–	106,000	366,000	472,000
Shanghai Arcadia	88 GuangYuan Xi Road, Shanghai	2064	97%	316,000	26,000	–	342,000



Renovations of the Sun Dong An Plaza in Beijing will be completed well before the 2008 Olympic Games, to further reinforce the mall's position as an entertainment hub for both locals and tourists.

companies and retailers. Performance was highly satisfactory during the year, with all the office and retail space let with higher rents.

Arcadia Shanghai

88 Guang Yuan Xi Road, Shanghai (97% owned)

Arcadia Shanghai in Xuhui consists of two serviced apartment blocks completed in 1999 and a residential tower completed in 2004. The total gross floor area is about 640,000 square feet. The Group is holding Grand Mayfair as a rental property. It has around 300,000 square feet of gross floor area, and leasing was satisfactory during the year.



Property Related Businesses

Hong Kong's status of an international centre for trade and finance drew more business travellers and new attractions also brought in more tourists. The Group is developing two premium hotels at Kowloon Station and another quality hotel at Ting Kau. These and its existing hotels will capitalize on the hospitality industry's bright prospects.



1. Royal Park Hotel, Sha Tin
2. Royal Plaza Hotel, Mong Kok
3. Royal Garden Hotel, Tsim Sha Tsui
4. Four Seasons Hotel, Central

Four Seasons Hotel, Central



The Royal Garden Hotel with its exquisite facilities retains a competitive edge in the market.

HOTELS

Visitor arrivals to Hong Kong have shown steady growth, both for tourists and business travellers. The Individual Visit Scheme that began in July 2003 enables people from 44 mainland cities to visit Hong Kong on their own. The government is playing an active role in developing tourist attractions to enhance the city's attractiveness as a tourist destination. The Group's hotels are well positioned to reap the benefits of Hong Kong's thriving tourism industry, and recorded high occupancy and increased average room rates during the year.

The **Four Seasons Hotel** opened in September 2005 and all rooms were available for guests by the beginning of November. It has some of the largest guest rooms in Hong Kong and first-class restaurant, banquet and spa facilities, setting a new standard for luxury hotels. The hotel's performance has exceeded expectations, and it has developed a loyal following among Hong Kong's most affluent and sophisticated consumers. The hotel has earned a variety of accolades from international travel writers in the Condé Nast Traveller's 2006 Hot List for its outstanding guestrooms, world-class spa and French restaurant Caprice.

The **Royal Garden Hotel** once again achieved good results for the year. The newly renovated Palace Rooms are already making a noticeable impact on the hotel's meeting and banquet business, and are expected to make a solid contribution to the hotel's profits. The Sabatini Ristorante Italian, Inagiku Japanese Restaurant and The Royal Garden Chinese Restaurant continue to perform well despite a competitive market.

The **Royal Plaza Hotel** continued to see business growth during the year under review. Efforts were made to expand the international market and generate more business in the corporate segment by broadening distribution channels and offering a variety of accommodation options. A flexible pricing strategy in the restaurant outlets has resulted in a substantial increase in average guest spending. Renovations are planned to enhance the quality of the guest rooms and offer greater diversity in food and beverage selections. The Executive Floor guest rooms will acquire a stylish new look and the Grand Ballroom will also be refurbished to suit market trends.

Review of Operations Property Related Businesses

The period under review saw the **Royal Park Hotel** record growth in both gross operating profit and average room rate. The year also saw the completion of the main lobby renovations and opening of the One+One Bar, reinforcing the hotel's position as an elegant, contemporary establishment. The hotel plans to further broaden its clientele base and would actively pursue new markets by participating in major trade events in China and overseas.

With increasing visitor arrivals expected to continue, the outlook for the hotel will be promising. The Group is optimistic about the prospects for the local hospitality industry and plans to take advantage of this opportunity by building two new hotels as part of its Kowloon Station development; one to be run by the Ritz-Carlton group and the other by W Hotels. Another quality hotel in Ting Kau is also under development, offering about 700 guest rooms upon completion.



Renovation of the main lobby of Royal Park Hotel has been completed to offer enhanced service to the customers.



The Royal Plaza Hotel will be refurbished to offer elegant and contemporary accommodation.



Equipped with top-class room facilities, Four Seasons Hotel has developed a loyal clientele from most affluent and sophisticated consumers in Hong Kong.

Property Related Businesses



Kai Shing Managing Director Jimmy Wong (right) accepts award of Best Brand Enterprise from the Director-General of Trade and Industry, Raymond Young.



Hong Yip Vice Chairman and Chief Executive Alkin Kwong (left) receives the Employees Gold Star Award from Employees Retraining Board Chairman Michael Tien.

Property Management

The Group's member property management companies, the **Hong Yip Service Company Limited** and **Kai Shing Management Services Limited**, are on the frontline fulfilling the Group's pledge of providing the finest customer service. The companies constantly enhance the quality of service to residents and commercial tenants, and consequently, have won numerous awards for quality service and green property management. Together, they manage 207 million square feet of residential, commercial and industrial premises, including about a quarter of a million households.

Kai Shing, one of the largest property management companies in Hong Kong, won a multitude of awards from various organizations during the year under review. It won the grand prize in the Hong Kong Eco-Business awards, presented by the Environmental Campaign Committee, while also being named the Best Brand Enterprise 2006 by the Hong Kong Productivity Council and the Business Superbrands 2006.

Hong Yip got several honours in the Energy Efficiency Awards presented by the Electrical & Mechanical Services Department and won gold award with BeneVille in the Hong Kong Eco-Business Awards. Hong Yip also received plenty of awards in 2005-06 Quality Building Management Competitions, organized by different district offices.

The companies constantly innovate to provide unmatched services to the clients which are beyond their expectations. Kai Shing continues to add new features to its super-e-management system, and this year introduced a lightning detection system to improve safety in the swimming pools. Hong Yip's superior service and excellent customer relations won awards, given by the local magazines. The company also received Q-Mark quality certification for the third year running.

Premises Managed by the Group

million square feet



Kai Shing continues to expand its business on the mainland and is currently fulfilling 16 mainland management contracts. It is all set to take on the management of the Group's Shanghai IFC and Huai Hai Zhong Road projects on completion.

Both Hong Yip and Kai Shing remain committed to providing the finest customer service and fulfilling the Group's pledge of building homes with heart.



Security team employs its professional training to offer the best service.



Comprehensive training is arranged for the staff to regularly upgrade their service standard.



Well-trained frontline staff serves residents with care from the heart.



Property Related Businesses



The Group's continuous employment of stringent measures to ensure safety at construction sites has been widely recognized.

Construction

The construction division completed projects totaling 3.8 million square feet of floor area during the year, including The Arch, Noble Hill, Park Island Phase 5 and Severn 8. Turnover was HK\$4,814 million (on a progressive completion basis). Another \$23 million turnover was recorded by joint venture companies.

Major projects in progress include Harbour Green, Manhattan Hill, YOHO Town Phase 2, Millennium City Phase 6, Park Island Phase 6, The Vineyard, a hotel in Ting Kau, and Kowloon Station Development. Kowloon Station Development Packages 5, 6 & 7 will include International Commerce Centre, which will be a new Hong Kong landmark rising to 490 metres.

YOHO Town Phase 1 and Millennium City Phase 5 both won top honours in the 2006 Quality Building Awards, for residential and non-residential developments. The awards are an encouraging recognition of the Group's commitment to quality.

The construction division has several wholly-owned subsidiaries carrying out related business to complement its activities. The **Everlight Engineering Company Limited, Everfield Engineering Company Limited, Eversun Engineering Company Limited, Aegis Engineering Company Limited**, and the new **Sanfield Landscape Company Limited** provide various construction-related services to the Group as well as third party clients. Services include electrical and fire prevention systems, construction plant and machinery, and landscaping. The division also supplies concrete to the Group and external contractors through associate **Glorious Concrete (HK) Limited**.



Regular training is provided to the staff to update their knowledge of latest construction technology.

Financial Services

The financial services division made up of the **Hung Kai Finance Company Limited** and **Honour Finance Company Limited** offers home mortgages, mortgage servicing, deposit taking and other services to support the Group's property development business. The division remained profitable despite stiff competition in the sector.

Insurance

Sun Hung Kai Properties Insurance Limited saw turnover increase modestly to HK\$299.8 million in the period under review. This was despite an ongoing soft market. The company posted a net profit before taxation of HK\$118.5 million, a 17 per cent increase as compared with HK\$101.3 million in the previous year. The company continued to offer a comprehensive range of products through diverse channels including direct marketing, professional intermediaries and the Internet. It responded to intense market competition by repackaging products and designing innovative new ones to tap niche markets with a view to achieving healthy growth.



International Commerce Centre showcases the Group's constant endeavours in introducing new building technology to uplift quality.



Quality construction remains the Group's top priority.



The Group's introduction of fire and water alarm system on construction sites proved effective and guaranteed smooth operation.

Telecommunications and Information Technology



SmarTone will explore and develop new revenue streams by introducing new services to cater to different customer segments.

Telecommunications

SmarTone Telecommunications Holdings Limited posted further growth in service revenue and saw improvements in key operating indices, despite the mature, highly-competitive mobile market. Profits were adversely affected however by a significant increase in handset subsidies and 3G costs.

The company's mobile business in Hong Kong, SmarTone-Vodafone, achieved continued improvements in average revenue per user, data revenue and churn rate. This reflects its unique customer franchise, recognized brand, attractive service offerings, focused distribution and efforts at customer relationship management. It is on track towards revenue growth from 3G, as evidenced by a steady growth in 3G customers and their significantly higher average revenue per user. The 3G customer base currently stands at 160,000, or just over 20 per cent of post-paying customers. Its total customer base increased to 1,063,000 as at 30 June 2006.

SmarTone-Vodafone introduced a range of new service propositions for consumers and businesses during the year, to meet customers' rising expectations. These further extend the company's leadership in service and innovation.

Going forward, the company will continue to focus on increasing revenue and market share with its targeted and differentiated propositions for specific customer segments. It will also explore and develop new revenue streams from additional services. The Group is confident that SmarTone will enhance value for shareholders over the longer term, despite continuing pressure on profitability, and it will maintain its interest in the company as a strategic investment.

Information Technology

The profit of **SUNeVision Holdings Ltd** grew significantly during the 2005/06 financial year, generating a net profit of HK\$339 million compared with HK\$146 million in the previous financial year.

Turnover was HK\$276 million, an 11 percent increase over the previous year. Factors behind the growth included higher revenues from the company's Internet data centre and last-mile connectivity businesses, driven by increased demand. The year's gross profit of HK\$109 million was also higher than in the previous year, reflecting price improvements across the company's businesses. Gross margin for the year was 39 per cent, two per cent points higher than the previous year.

Other revenue, being revenue in addition to turnover from operations, was HK\$181 million. This was substantially higher than in the last financial year, largely as a result of the one-time redemption of several bond holdings and the one-time distributions from an equity technology investment. Operating expenditures were HK\$48 million, similar to that of the previous year. Profit from operations was HK\$241 million. Including the effect of revaluation of investment properties and equity technology investments, and allowing for taxation and minority interests, net profit for the financial year was HK\$339 million.

iAdvantage continued to strengthen its position as the leader in carrier-neutral data centre facilities and services in Hong Kong and China during the year. It kept on meeting the demands of global financial services, telecommunications carriers, IT service providers, multinational corporations and government authorities with its carrier-neutral, world-class facilities and services. Overall data centre occupancy during the year was approximately 70 per cent, a significant improvement over the previous year. Demand for iAdvantage's service is anticipated to grow.

SUNeVision's consumer-enabling and property-related technology businesses continued to deliver value-added services to the customers during the year. Productivity improved and the Group's extensive property footing provided valuable opportunities.

SUNeVision's financial position remained solid after the payment of a special cash dividend, and the company continues to hold sufficient resources to meet expected operational needs and support future growth. The Group is confident in the company's continuing fiscal strength and earnings prospects.



iAdvantage data centres continue to make an important contribution to SUNeVision's revenues.

Transportation, Infrastructure & Logistics



Transport International continues to provide quality service with its expert staff and updated bus fleet.



Control room equipped with advanced technology to monitor the traffic flow and ensure smooth operation of Route 3 (CPS).

Franchised Bus Operation

Transport International Holdings Limited (TIH) (formerly known as The Kowloon Motor Bus Holdings Limited), a publicly-listed company mainly engaged in franchised public bus operations in Hong Kong, is 33.3 per cent owned by the Group. TIH faced another challenging year in 2005. It experienced a 20 per cent drop in net profit to HK\$584.2 million due mainly to the upsurge in oil prices and increased competition from new railways. On a positive note, the company has successfully renewed the franchise for operating franchised public bus services in Hong Kong until 1 July 2017. Revenue and earnings of its non-franchised transport operations in Hong Kong also showed healthy growth, and the results of its joint ventures on the Mainland were encouraging.

RoadShow Holdings Limited, 73 per cent owned by TIH, is a publicly-listed company engaged in providing multi-media services in the out-of-home media market. The Group had an effective interest of about 25.6 per cent in the company as at 30 June 2006.

Toll Road

The Group owns 70 per cent of the **Route 3 (CPS) Company Limited**, which has a 30-year build-operate-transfer franchise on the dual three-lane north-south expressway between Yuen Long and Ting Kau running from 1995 to 2025.

The 3.8-kilometre Tai Lam Tunnel and 6.3-kilometre Tsing Long Highway provide a direct link from Lok Ma Chau and northwest New Territories to the container ports in Kwai Chung, Hong Kong International Airport, Disney theme park and the urban areas. The route reduces congestion on Tuen Mun Road and the Tolo Highway and offers a faster, safer, more convenient link for commuters.

The company recorded higher revenue during the year, which was partially offset by increased interest expense. Average traffic volume remained steady during the year under review.

Transport Infrastructure Management

The Group owns the **Wilson Group**, a prominent player in Hong Kong's parking, tunnel, bridge and toll road management business.

Parking

Wilson Parking continues to be preeminent among Hong Kong's parking operators, with 254 sites and 77,000 bays. Superior performance and a record of excellent service enabled the company to win a number of new public and private parking contracts. Wilson Parking has raised efficiency and honed its competitive edge by introducing more automation to its already sophisticated operations. The company's high-tech operational support centre is capable of closely monitoring and controlling its car parks, and a new car park information management system with state-of-the-art telemetry and software permits timely performance measurement and strict quality assurance.

Tunnel, bridge and toll road management

The Wilson Group manages and maintains the Route 3 (CPS) – the Tai Lam Tunnel and Tsing Long Highway linking the northwest and southwest New Territories. Its subsidiary Tsing Ma Management oversees the Tsing Ma Control Area, ensuring safe and smooth passage on the vital road link between Hong Kong International Airport and the urban areas. The Wilson Group's professional management of transport infrastructure and related security during the December 2005 World Trade Organization conference in Hong Kong won high praise from government officials.

The Wilson Group is committed to fully utilizing the latest smart technologies with its partners and clients in transport control and management. Its Autotoll subsidiary introduced electronic road toll collection with windscreen-mounted tags to Hong Kong, and the company reached an agreement with Guangdong's sole electronic toll collector, whereby customers will be able to use Autotoll to pay road tolls in Guangdong. The Wilson Group also won the contract to provide the latest user-friendly and versatile parking solutions at Hong Kong International Airport.

Port Business

The Group increased its stake in the **River Trade Terminal Company Limited** to 50 per cent in the year under review. The facility occupies a 65-hectare site in Tuen Mun with 3,000 metres of quay front, and provides container handling, storage and other port-related services. It handled over two million TEUs in 2005. The company has been steadily expanding its market share in river trade with measures to enhance operational efficiency.

The **Hoi Kong Container Services Company Limited** and **Faith and Safe Transportation Company Limited** are 50 per cent owned by the Group. The two companies provide comprehensive midstream service and yard storage, and are among the largest midstream operators in Hong Kong.



Wilson Group employs most advanced technology and professional expertise in the management of its transport infrastructure.

Transportation, Infrastructure & Logistics



Benefited by mainland's robust economy, occupancy of the Airport Freight Forwarding Centre continued to rise during the year.

Air Transport & Logistics Business

The **Airport Freight Forwarding Centre Company Limited** operates a world-class air freight facility at Hong Kong International Airport with over 1.3 million square feet of warehouse space for tenants. Occupancy continued to rise during the year, fuelled by the mainland's thriving economy and brisk trade.

Sun Hung Kai Logistics Holdings Limited and **Expresslink Logistics Limited** are Group subsidiaries offering comprehensive air cargo support services like storage, loading and unloading, collection and delivery, palletization and containerization.

The **Hong Kong Business Aviation Centre Limited** holds the franchise to serve private aircraft flying in or out of Hong Kong. The centre handled over 2,000 flights last year. To meet the rising demand, it has recently signed an agreement with Hong Kong Airport Authority to construct a second hangar, with completion target in 2007. The Group owns 35 per cent of the company.

Waste Management

The Group remains active in environmental protection through its 20 per cent stakes in both **Green Valley Landfill Limited** and **South China Transfer Limited**, working towards a cleaner, greener Hong Kong.

Green Valley operates a 100-hectare landfill site in Tseung Kwan O, which the company built to handle 43 million tonnes of waste. South China built and operates the territory's largest refuse transfer station, on the reclaimed area adjacent to the Stonecutters Island. The station processes about 2,600 tonnes of waste daily.

Both companies are cooperating closely with the government to limit the overall amount of refuse created in the territory following the introduction of the Construction Waste Charging Scheme at the end of 2005, helping preserve the local environment.

Other Investment Holdings

The Group has a 19.9 per cent interest in **USI Holdings Limited**, a publicly-listed company in the property and apparel businesses. The company's 2005 net profit rose strongly to HK\$368.5 million, as a result of good property sales and an upward revaluation of investment property values.

The Group sold its 50 per cent interest in **New-Alliance Asset Management (Asia) Limited** to its joint-venture partner Alliance Capital Management LP, generating a substantial profit.



Vice Chairman & Managing Director Raymond Kwok (fifth left), Executive Director of Sun Hung Kai Properties (Financial Services) Amy Kwok (first left) and bankers at the loan signing ceremony.

The Group's financial position remained strong, characterized by low gearing and a high margin of interest coverage. Its net debt to shareholders' funds ratio stayed low at 13.4 per cent, reflecting the Group's prudent financial management.

There was an enthusiastic response to the Group's self-arranged, five-year HK\$12,000 million dual-tranche syndicated credit facility in March 2006. The facility came at very attractive terms and was used partly to repay some existing debt. The Group has ample stand-by banking facilities on a committed basis, all of which are unsecured. This robust financial health was boosted further by proceeds of HK\$7,837 million from a share placement in May 2006, putting the Group in an excellent position for future business expansion. The Group continued its efforts to maintain an extended debt-maturity profile and issued a total of HK\$1,800 million in ten-year bonds through its Euro Medium Term Note programme in November 2005 and January/February 2006.

The overwhelming majority of the Group's borrowings are denominated in Hong Kong dollars, meaning that they carry negligible foreign exchange risk. The Group has no speculative positions in derivatives.

The Group's credit rating from both Moody's and Standard & Poor's is the highest among Hong Kong developers, reflecting its strong financial position and market leadership.

Credit Ratings

	Foreign Currency	Local Currency	Rating Outlook
Moody's	A1	A1	Stable
Standard & Poor's	A	A	Stable

新地會 10 週年



Customer Service

The Group leads the way with excellent customer service, and it is dedicated to offering residents convenience and green environments, efforts that have earned widespread recognition.



1



2



3

1. Planting greenery in estates
2. Serving residents with care
3. Malls' Care Ambassadors at your service

SHKP Club members celebrate its tenth anniversary

Customer Service



SHKP Club celebrates its tenth anniversary by staging a series of Loving Home Campaign.

Customer satisfaction is the Group's top priority. It constantly endeavours to improve standards and expand the scope of services in every part of its operations. The Group pays close attention to customers' feedback, and as a result, the products and services it provides maximize customer satisfaction.

It has created channels to identify customers' needs and gauge market trends, in order to form a competitive market strategy. The Group evaluates customers' feedback to enhance its property value and service quality, which has been highly appreciated by the market.

Properties developed by the Group are acknowledged as the symbol of premier quality, and have established a strong brand name in the industry. The Group's inter-departmental handover team wins praise from the customers by providing the best services. The handover of Noble Hill in Sheung Shui, during the review period, was ranked first for its superb services, in a research conducted by an electronic media organization.

Hong Yip and Kai Shing, the Group's two property management companies, consistently won distinguished awards for after-sales service during the year. Hong Yip was

named Outstanding Property Management Company for two consecutive years in the Outstanding Enterprise Awards, presented by a local financial magazine and it was also awarded the grand prize for Customer Relationship Excellence Award – Customer Satisfaction Quality System by the Asia Pacific Customer Service Consortium. Kai Shing was certified for ISO10002 by Hong Kong Quality Assurance Agency. Kai Shing was among the first property management companies awarded for this worldwide recognition. Meanwhile, the Group continues to enhance its property management service by introducing the hotel concierge service style to its office buildings, setting a new standard in customer care services.



Conducting surveys is one of the effective ways to gauge market trends and evaluate customer feedback.

SHKP Club, established for the purpose of improving two-way communication with the customers, celebrated its tenth anniversary in 2006. The SHKP Club and its members have established a long and intimate relationship over the years, and the membership has exceeded 240,000. A Loving Home Campaign was also organized to celebrate its tenth anniversary. The campaign included several competitions, seminars and activities which evoked enthusiastic response. To appreciate members' lasting support, two exclusive celebration parties were organized for decade-old members and star members at The Arch's clubhouse, as the Club and its members hand in hand, created a new milestone.

Taking full advantage of the information technology, the Group has provided the platforms of internet and e-mail to its customers for giving their feedback or making queries about its products and services. The Group through its website offers an enhanced communication and provides the most up-to-date information to its customers.



Customer Care Ambassadors provide all-round assistance to the shoppers, with a touch of warmth.



The Group enhances its property management by introducing the hotel concierge service to its office buildings.



Property management staff not only serves with care but also builds a friendly relationship with the residents.



Group's excellent handover quality wins continuous praise from the owners.

Maintaining high standards of business ethics and corporate governance has always been one of the Group's prime tasks. It believes that conducting its business in an open and responsible manner and following good corporate governance practices serves its long-term interests and those of its shareholders by maximizing returns. Details of the Group's investor relations initiatives and the recognition it has received for good management can be found under Investor Relations on page 74.

Corporate Governance Practices

Rigorous standards of corporate governance enhance the Group's accountability and transparency, earning the confidence of shareholders and the public. The Group complied with the provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") throughout the period under review, except there is no separation of the roles of chairman and chief executive. The board of directors continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance.

Board of Directors

Composition

The board has 18 directors – eight executive directors, six non-executive directors and four independent non-executive directors. Further details of the composition of the board can be found on page 4. All directors give sufficient time and attention to the Group's affairs. The board believes that the balance between executive and non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group.

Non-executive directors provide the Group with diversified expertise and experience. Their views and participation in board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account.

In compliance with rule 3.10 of the Listing Rules, the Group has four independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules. No independent non-executive director has served the Group for more than nine years.

Independent non-executive directors are identified as such in all corporate communications containing the names of the directors.

Walter Kwok Ping-sheung (Chairman), Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen (Vice Chairmen and Managing Directors) are brothers. Besides this, there are no family or other material relationships among members of the board.

Board Meetings

The full board met in person on four regular occasions during the year under review. At the meetings the directors discussed and formulated overall strategies for the Group, monitored financial performance and discussed the annual and interim results, as well as other significant matters. Daily operational matters are delegated to management.

At least 14 days notice of all board meetings was given to all directors, and all directors were given the opportunity to include matters for discussion in the agenda. An agenda and accompanying board papers are sent in full to all directors at least three days in advance of every board meeting.

The company secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed. He also keeps detailed minutes of each meeting, which are available to all directors.

Each director's meeting attendance record is set out below:

Director	Meetings attended/Total
Executive directors	
Kwok Ping-sheung Walter	4/4
Kwok Ping-kwong Thomas	4/4
Kwok Ping-luen Raymond	4/4
Chan Kai-ming	4/4
Chan Kui-yuen Thomas	4/4
Kwong Chun	3/4
Wong Yick-kam Michael	3/4
Wong Chik-wing Mike	4/4
Non-executive directors	
Lee Shau-kee	2/4
Woo Po-shing	2/4
Kwan Cheuk-yin William	4/4
Lo Chiu-chun Clement	2/4
Law King-wan	3/4
Li Ka Cheung Eric	1/4
Independent non-executive directors	
Chung Sze-yuen	4/4
Fung Kwok-king Victor	0/4
Yip Dicky Peter	4/4
Wong Yue Chim Richard	2/4

All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and services of the company secretary, who is responsible for providing directors with board papers and related materials and ensuring that board procedures are followed.

Should a potential conflict of interest involving a substantial shareholder or a director arise, the matter will be discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues. Board committees, including the Audit, Remuneration and Nomination committees, all follow the applicable practices and procedures used in board meetings for committee meetings.

Group Chairman

Walter Kwok Ping-sheung is the Group's Chairman and Chief Executive. This is at variance with paragraph A.2.1 of the Code, which suggests that the roles of Chairman and Chief Executive Officer should be separate and not performed by the same individual. Although the Group's Chairman and Chief Executive is the same individual, power and authority are not concentrated as responsibilities are also shared with the two vice-chairmen and all major decisions are made in consultation with members of the board and appropriate board committees, as well as top management. There are four independent non-executive directors on the board offering independent and different perspectives. The board is therefore of the view that there are adequate balance of power and safeguards in place.

The Chairman is primarily responsible for leading the board and ensuring that it functions effectively and smoothly. Directors are encouraged to participate actively in all board and committee meetings.

Training and Support for Directors

All directors must keep abreast of their collective responsibilities. The Group provides briefings and other training to develop and refresh the directors' knowledge and skills. The Group continuously updates all directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Compliance with Model Code

The Group follows the Model Code for Securities Transactions by Directors of Listed Issuers in appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for directors in their dealings in Group securities. Each director had fully complied with the Model Code during the year ended 30 June 2006.

Remuneration Committee

The Remuneration Committee was established in June 2005. The chairman is Sir Chung Sze-yuen, an independent non-executive director of the company, and the other members are Richard Wong Yue-chim and Clement Lo Chiu-chun. All members are non-executive directors of the company, with the majority of members being independent non-executive directors.

The Remuneration Committee is responsible for formulating and recommending remuneration policy to the board, determining the remuneration of executive directors and members of senior management and reviewing and making recommendations on compensation-related issues. The Committee consults with the chairman on its proposals and recommendations, and also has access to professional advice if deemed necessary. The Committee is also provided with other resources enabling it to discharge its duties. The Remuneration Committee's specific terms of reference are posted on the Group's web site.

The Remuneration Committee held one meeting during the year ended 30 June 2006. The attendance record of each member appears below:

Committee member	Meetings attended/Total
Chung Sze-yuen	1/1
Wong Yue-chim Richard	1/1
Lo Chiu-chun Clement	0/1

The Remuneration Committee reviewed matters relating to remuneration for directors and senior management, as well as discussed the Group's remuneration policy.

Corporate Governance

Nomination Committee and Appointment of Directors

The Nomination Committee was established in June 2005 and is chaired by Richard Wong Yue-chim, an independent non-executive director of the company. Other members of the Committee are Dicky Peter Yip and William Kwan Cheuk-yin. All members are non-executive directors of the company with the majority being independent non-executive directors.

The Nomination Committee is responsible for formulating policy and making recommendations to the board on nominations, appointment of directors and board succession. The Committee develops selection procedures for candidates, and will consider different criteria including appropriate professional knowledge and industry experience, as well as consult external recruitment professionals when required. The Committee also reviews the size, structure and composition of the board and assesses the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties. The Nomination Committee's specific terms of reference are posted on the Group's web site.

The Nomination Committee held one meeting during the year ended 30 June 2006. The attendance record of each member appears below:

Committee member	Meetings attended/Total
Wong Yue-chim Richard	1/1
Yip Dicky Peter	1/1
Kwan Cheuk-yin William	1/1

The Nomination Committee discussed and reviewed the board composition of the Company as well as other related matters. There was no vacancy and no nomination of directors for the year ended 30 June 2006.

Non-executive directors are appointed for a specific term of two or three years. All directors retire from office by rotation and are subject to re-election at an annual general meeting at least once every three years.

Audit Committee and Accountability

The Board is responsible for presenting a balanced and clear assessment of the Group's performance and prospects. It is also responsible for preparing the accounts that give a true and fair view of the Group's financial position on a going-concern basis and other price-sensitive announcements and other financial disclosures. Management provides all relevant information and records to the board, giving it the relevant information it needs to discharge these responsibilities.

In compliance with rule 3.21 of the Listing Rules, an Audit Committee was established in 1999. Its chairman is Sir Chung Sze-yuen, an independent non-executive director, and the other members are Peter Dicky Yip and Eric Li Ka-cheung. The majority of the Committee members are independent non-executive directors.

No former partner of the company's existing auditing firm acted as a member of the Audit Committee within one year from ceasing to be a partner or having any financial interest in the auditing firm.

The duties of the Audit Committee include:

- reviewing the Group's financial control, internal control and risk management systems;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control system;
- considering findings of major investigations of internal control matters;
- reviewing the internal audit programme and ensuring the internal audit function is adequately resourced and effective;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter and questions raised by the auditor to management, and management's response to such questions;
- reporting to the board on matters relating to the Code;
- meeting with the external auditor to discuss issues regarding audit if considered necessary (and in the absence of management if appropriate).

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee's specific terms of reference are posted on the Group's web site.

The Audit Committee held two meetings during the year ended 30 June 2006. The attendance record of each member appears below:

Committee member	Meetings attended/Total
Chung Sze-yuen	2/2
Yip Dicky Peter	1/2
Li Ka-cheung Eric	2/2

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee reviewed the interim and final results of the Group as well as discussed and approved financial and other reports for the year under review. The Committee also reviewed the Group's internal audit activities and discussed audit plans for the upcoming year.

The Audit Committee monitors the audit and non-audit service rendered to the Group by its external auditors and ensures their engagement in other non-audit services will not impair their audit independence or objectivity. An independence confirmation has been obtained from Deloitte Touche Tohmatsu which confirms for the year ended 30 June 2006 and thereafter to the date of this Annual Report, the Group's external auditors are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by external auditors for the year ended 30 June 2006 amounted to HK\$11 million and HK\$5 million respectively. The non-audit services mainly consist of taxation, review and other reporting services.

Internal Control

The board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems. The board conducts regular reviews of the Group's internal control system. The system is designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The system includes a well-established organizational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

The board conducted a review of the Group's internal control system for the year ended 30 June 2006, including financial, operational and compliance control, and risk management functions. The board assesses the effectiveness of internal control by considering reviews performed by the Audit Committee, executive management and both internal and external auditors.

The Internal Audit Department follows a risk-and-control-based approach. Different audit areas are assigned risk ratings and an audit plan is formulated in a risk-weighted manner so that priorities and appropriate audit frequency is given to areas with higher risks. The department performs regular financial and operational reviews on the Group. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee. The Internal Audit Department monitors the follow-up actions agreed upon in response to its recommendations.

The board monitored the Group's progress on corporate governance practices throughout the year under review. Periodic meetings were held, and circulars or guidance notes were issued to directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

Delegation by the Board

The board formulates overall Group strategy. Given the diversity and volume of the Group's business, responsibility for execution and daily operations is delegated to management. The board gave clear directions as to the powers of management, and periodically reviews all delegations to management to ensure that they are appropriate and continue to be beneficial to the Group as a whole.

All committees have specific terms of reference clearly defining their powers and responsibilities. All committees are required by their terms of reference to report to the board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the board's approval before taking any action.

Shareholder Relations

The Group follows a policy of disclosing relevant information to shareholders in a timely manner. The Group's annual general meeting (the "AGM") allows the directors to meet and communicate with shareholders. The Chairman is actively involved in organizing the AGM and personally chairs it, to ensure that shareholders' views are communicated to the board. The Chairman proposes separate resolutions for each issue to be considered. In addition to the Chairman, members of the Audit, Remuneration and Nomination committee also attend the AGM to answer questions from shareholders.

AGM proceedings are reviewed from time to time to ensure that the company follows best corporate governance practices. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The procedures for demanding and conducting a poll are explained at the beginning of the meeting, and (except where a poll is required) the number of proxies for and against filed in respect of each resolution is revealed where appropriate. Vote results are posted on the company's web site on the day of the AGM.



Vice Chairman & Managing Director Raymond Kwok (left) accepts the Best Developer in Asia and Hong Kong awards from Chairman and Editor-in-Chief of *Euromoney* Padraic Fallon.



Executive Director Michael Wong (left) receiving the Platinum in Reader's Digest Trusted Brands Award.

While disclosure has always been the touchstone of securities laws, the Group believes it to be a key ingredient in corporate governance and enhancing corporate performance. Effective investor relations can contribute towards lowering cost of capital, improving market liquidity for our stock, building a more stable shareholder base and gathering larger and better following by the investment community. Therefore, the Group is committed to maintaining high degree of transparency to ensure investors from around the globe are being provided accurate, clear, comprehensive, candid and timely information, accessible to both the novice and sophisticate alike.

In line with this endeavor, all published information is promptly uploaded onto the Group's web site at www.shkp.com. The Group dispatches press releases, holds press conferences, analyst briefings and investors meetings in response to significant events such as result announcements, important business development or financial activities. Directors and senior management will present themselves to answer investors' questions and concern. The post-results analyst briefings are also webcasted for more timely dissemination of information and broader reach of investors.

Senior management meets analysts regularly to keep the financial community informed and up-to-date with the Group's business strategy and development. The Group took part in several investor conferences during the year, including the CLSA Investors' Forum and Credit Suisse Asia Investment Conference, both in Hong Kong and Morgan Stanley's Asia Pacific Summit in Singapore. Senior management teams also went on overseas road shows to meet investors from different countries.

The Group has received several awards from leading financial magazines in recognition of its high quality management and corporate governance over the years, reflecting its seasoned management team, effective investor relations and high standard of corporate governance.

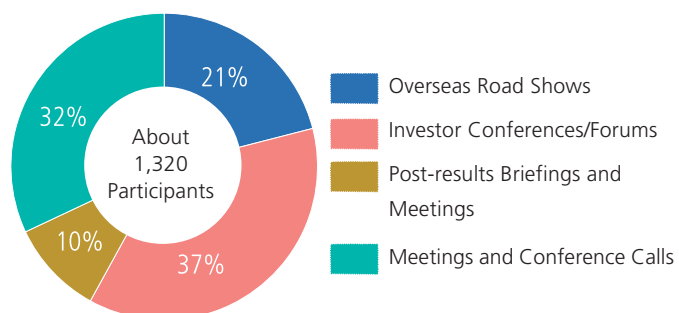
Awards

-
- 2006
 - Named number one among Best Property Developers in both Asia and Hong Kong by *Euromoney* magazine for the second year
 - Named Asia's Best Property Company by *FinanceAsia* magazine for the fourth consecutive year
 - Platinum winner in the 2006 *Reader's Digest* Trusted Brand Awards
 - 2005
 - Named number one among Best Companies in Hong Kong by *Euromoney* magazine
 - Named number one in Asia's property sector for investor relations in a poll conducted by *Institutional Investor Inc.*, a leading research and publishing organization
-

Major Investor Relations Events in Financial Year 2005/06

Date	Event
2005	
September	<ul style="list-style-type: none"> 2004/05 Final Results Announcement <ul style="list-style-type: none"> – Press conference – Analysts briefing – Post-results meetings with fund managers Investors' forum in Hong Kong
October	<ul style="list-style-type: none"> Europe & US Roadshow
November	<ul style="list-style-type: none"> Investment Conference in Singapore
December	<ul style="list-style-type: none"> CEO Forum in Japan
2006	
March	<ul style="list-style-type: none"> 2005/06 Interim Results Announcement <ul style="list-style-type: none"> – Press conference – Analysts briefing – Post-results meetings with fund managers Investment Conference in Hong Kong
June	<ul style="list-style-type: none"> Europe, Singapore, US & Hong Kong Roadshow Visit to The Arch for analysts

Communications with the Investment Community in Financial Year 2005/06



Attending seminars to explain the Group's business development is one of the effective ways to enhance corporate transparency.



Senior management attends the analyst briefings after result announcement to further explain the Group's business strategy.



The Group stages the Nobel laureates lectures in collaboration with The Chinese University of Hong Kong, arousing great interest from the public.

While providing continuous support for various community and charitable causes, the Group has also taken initiatives to promote reading and raise public awareness of mental health, considering the state of social conditions prevalent in the society. These initiatives are part of the Group's commitment to corporate citizenship. During the period under review, the Group donated HK\$65.5 million to support different charitable activities.

The Group shares a concern about the mental health issues, taking into account stress levels in Hong Kong. It launched the Mental Health Alliance in association with The Chinese University of Hong Kong, during the year under review. The Alliance will focus on four areas including public education, prevention and treatment, research and experimental study and professional training, in order to enhance public awareness and understanding of mental health and improve the prevention of mental disorders.

During the year, the Group joined The Chinese University of Hong Kong again to invite Nobel Laureates to stage lectures to enable Hong Kong people to broaden their horizons. Twelve Laureates from different fields have been invited since 2004 to share their insights with the Hong Kong people. Some of the lectures were broadcasted live at Peking University which helped promote academic interaction between Hong Kong and the mainland. Meanwhile, various activities launched by the SHKP Book Club since its inception in 2005 evoked overwhelming response from the public. Its activities to promote reading also elicited good response from the general public and students. The Group also staged a Young Writers' Debut Competition to help the budding young writers with a passion for writing to realize their writer's dreams, and give a boost to its efforts in promoting reading habits.

The Group further consolidated its efforts to promote education in both Hong Kong and the mainland. Continuous initiatives included scholarship awards to the MBA students of The Chinese University of Hong Kong and the distinguished professors of Tsinghua University. Over a hundred talented scholars have been awarded under Sun Hung Kai Properties Award Scheme in Tsinghua University during the last nine years. SHKP-Kwoks' Foundation also offers scholarships to a large number of needy mainland students for pursuing studies on the mainland and The Chinese University of Hong Kong. The Foundation organized a series of cultural seminars, and some of the seminars were compiled in a book form to promote Chinese culture.

Besides providing dedicated support to educational initiatives, the Group also encouraged its staff to participate in social work and help the under-privileged. Community services undertaken by the SHKP Volunteer Team of over 1,000 members' during the year included relocation of the Shek Kip Mei Estate's elderly members and participation in fund raising campaign of ORBIS and the Hong Kong Society for the Blind. Thanks to the Group's assistance, the Sensory Garden at Haven of Hope Sunnyside School in Tseung Kwan O was also completed. The Garden is designed to stimulate the senses of mentally-challenged students by combining outdoor sensory learning and playing facilities.

The SHKP Fund for the Elderly continued to provide direct financial support to needy senior citizens, such as one-time grant to the elderly for improving their living quality. Several charitable organizations benefited substantially from the Group's generous offer of its premises at an annual rent of \$1. The Group actively promotes a harmonious society and it exclusively sponsored a variety show, the "Bravo China – the 9th Anniversary of Hong Kong Reunification", to celebrate this significant event among the Hong Kong people.

During the year, the Group won the Highest Fund Raising Company Award at the Chest's Corporate Marathon 2006, and a number of its subsidiaries earned the distinction of "Caring Company" as recognition of their commitment to the society.



Vice Chairman & Managing Director Thomas Kwok (middle), Executive Director Mike Wong (third left) and staff are enthusiastic to join the Community Chest Corporate Challenge Marathon.



The Group built Hong Kong's first Sensory Garden to provide therapeutic care to the mentally-challenged students of Hope of Sunnyside School in Tseung Kwan O.



Chairman & Chief Executive Walter Kwok (right) and Tongji University President Wan Gang at the launch of SHKP Kwoks' Foundation scholarships for the mainland's Tongji University.



SHKP Volunteer Team committed to assisting the Shek Kip Mei Estate's elderly in their relocation.

Corporate Citizenship



Hong Yip's Executive Director Edmund Kwok (right) receives the Gold Award for Green Property Management (Private Housing) from the Environmental Campaign Committee Chairman Joseph Lee.



Kai Shing's Deputy Managing Director KF Chan (right) accepts the Grand Award for Green Property Management (Private Housing), from the Secretary for the Environment, Transport and Works Sarah Liao.

The Group supports conservation in project planning and construction, using every resource at its disposal, as enthusiasm in promoting environmental protection remains an indispensable part of its community care. It carries out green management along with its member property management companies Hong Yip and Kai Shing, to create lush green residential areas by making environmental protection a part of daily life.

The Group employs a series of effective measures to reduce the effect of environmental pollution during building construction, and its waste management strategy and site environmental protection management continue to win recognition from the public. Many of Group's sites won the Considerate Contractors Site Awards and the Outstanding Waste Management Performance Grand Awards, while Kowloon Station Development Package 6 won a certificate of merit as the Green Construction Contractor Award, in the 2005 Hong Kong Eco-Business Awards.

With a remarkable green management, Hong Yip and Kai Shing attained great honour in the 2005 Hong Kong Eco-Business Awards, during which Kai Shing also got the Grand Award for Green Property Management (Private Housing). In the

Housing Authority's 2004/05 Green Property Management competition, Kai Shing came first for its superb property management.

The management companies carry out energy-saving measures efficiently in the estates, which include using energy-saving fluorescent tubes and installing automatic time switches in the air-conditioning system to reduce power consumption. Emphasis is also given to promote environmental protection awareness through education while instilling a sense of responsibility towards energy-saving measures among the staff and the residents. Consequently, 14 properties managed by the Group have won awards in the Hong Kong Energy Efficiency Awards competition, organized by the Electrical and Mechanical Services Department.

Besides employing effective environmental protection measures, the management companies also conduct various activities to encourage residents' participation in promoting environment protection. Some of the properties managed by the Group have nurseries and planting areas, which encourage residents to take an active interest in improving their surroundings by planting green ambience. Estate management companies also conduct regular activities like waste

classification, and recycling scrap paper, aluminum pots and old clothing, to instill a sense of environmental protection in everyday life. Such joint efforts of the management companies and the residents result in winning numerous awards in the regional waste recycling competitions.

Landscaping too remains an important feature in promoting environmental protection. Using professional landscape designs and gardening maintenance, the Group is devoted to establish the best landscapes in its property developments, and create leisurely and comfortable living spaces for the residents. The Group's several properties while being praised for their green ambience and effective environmental protection facilities also won numerous awards in the competitions organized by the Leisure and Cultural Services Department and Professional Green Building Council.

The Group constantly encourages its staff to have an exemplary involvement in conservation and also provides funds to support its staff members in joining various environmental protection activities. For the financial year, it supported many such projects including "Walk for the Environment 2005", "Green Power Hike" and "Eco Race 2006".



Residents in most of the Group's estates show keen support for recycling.



Some of the Group's estates have plant nurseries to encourage residents in promoting environmental protection.



Most of the Group's residential estates are replete with the best landscape designs to offer the residents a comfortable living environment.



Corporate Citizenship



Staff participating in charitable events exhibits team spirit.



Well-trained and highly-motivated staff is one of the Group's most important assets, so it is committed to providing a wide range of structured training and development programmes to enable employees at all levels to grow. The Group organized courses for over 10,000 participants during the year, in areas such as leadership skills, business strategies, China-related matters, customer service, languages, personal development and technical skills. The Group employs close to 25,000 people, not counting associated companies.

Managerial staff benefit from seminars delivered by leading experts and academics from overseas on best people-management practices, leadership skills and business strategies. New managerial staff receive training in supervisory skills to effectively lead their teams, while senior managers can attend international programmes to develop a wider perspective.

The Group makes great efforts to familiarize staff with management and operational skills specifically suited to the mainland, to accommodate its increasing involvement there. A series of seminars on mainland socio-economic development was staged to help staff better understand China's working environment and business culture. Staff based in China is rotated to Hong Kong for short periods and Hong Kong staff at the managerial level are seconded to mainland offices, to facilitate mutual cooperation and understanding.

Staff receive ongoing training in professional service and product knowledge to ensure that customers get the best care. Regular seminars and workshops also help cultivate a strong service mindset among the staff. The Service Excellence Program for property management staff continues to enhance the responsiveness of frontline personnel, while the Service Enhancement Program in office buildings continues to enable staff to build close relationships with tenants. The Group's shopping malls are made more competitive by on-the-job training provided to Customer Care Ambassadors. Leasing and property management teams receive support to develop all-round knowledge and skills in handling both leasing and building management issues. Customized training was given to the Group's SignatureHomes residential leasing team, to enhance the one-stop personalized service for tenants.

The Group sees itself as an integral part of Hong Kong and strives to contribute to the community. Regular seminars on public affairs are organized to update staff on various issues in society to encourage participation in community service. Staff also have the benefit of seminars and workshops on stress management, health, and classes in tai chi and qi gong, to help relieve work stress.

Staff with recognized potential have various opportunities to develop and assume greater responsibilities, to meet the Group's business development needs. Significant resources are committed to identifying talented people and fostering their learning and growth. The Group's Management Trainee and Engineering/Surveying Trainee programmes continue to recruit high-calibre graduates from leading universities in Hong Kong and on the mainland.

The Group believes in life-long learning. Staff at all levels can get company sponsorships for job-related external courses ranging from short seminars to degree programmes. A wide range of self-learning programmes are readily available to all staff, including materials in the Group's Training Library, e-learning programmes on the Internet and reference materials on the Group's intranet.



Regular workshops are held for the staff to enhance their knowledge and skills.



The Group sets up a training library for the staff to encourage life-long learning.



Wide-ranging interest classes are organized after work for the staff to balance work and leisure in life.



Review of Results

Profit attributable to Company's shareholders for the year ended 30 June 2006 was HK\$19,850 million, an increase of HK\$1,950 million or 11% compared with HK\$17,900 million for the previous year. The results reflected the adoption of new Hong Kong Financial Reporting Standards with effect from 1 July 2005 and in particular, included an increase in fair value of the Group's investment properties net of related deferred taxation of HK\$7,116 million (2005: HK\$6,755 million) and shared an increase in fair value of investment properties net of related deferred taxation of HK\$2,305 million (2005: HK\$1,493 million) of jointly controlled entities and associates, in accordance with HKAS 40 "Investment Properties". Underlying profit attributable to Company's shareholders which excluded the effect of fair value changes on investment properties amounted to HK\$10,468 million, an increase of HK\$206 million or 2% compared with the previous year of HK\$10,262 million prepared on a comparable basis. Underlying earnings per share increased by 1.6% to HK\$4.34 compared with the corresponding figure of HK\$4.27 for the previous year. The increase in profit was primarily driven by higher profit contributions from property sales, which grew by HK\$2,587 million or 58% to HK\$7,049 million and continuous growth in net rental income, which increased by HK\$548 million or 13.5% to HK\$4,615 million, more than offsetting the increased finance expenses and the non-recurrence of significant exceptional profit from disposal of long-term investments compared with the previous year. Last year, the Group recorded a one-off capital gain of HK\$1,417 million on sale of its interest in Asia Container Terminals Holdings Limited.

Financial Resources and Liquidity

(a) Net debt and gearing

The Group's shareholders' funds as at 30 June 2006 increased to HK\$167,529 million or HK\$67.3 per share from HK\$143,923 million or HK\$59.9 per share at the previous year end. The increase of HK\$23,606 million or 16% was largely attributable to the net underlying profit retained during the year, the increase in fair value net of deferred taxation of HK\$9,400 million of the Group's investment property portfolio, and the increase in the Company's equity of HK\$7,837 million following the issue of 89 million new shares under a share placement made in May 2006.

The Group's financial position remains strong with a low debt leverage and high interest cover. Gearing ratio as at 30 June 2006, calculated on the basis of net debt to shareholders' funds, increased moderately to 13.4% from 11.5% at 30 June 2005. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 9.9 times compared with 20.1 times for the previous year, reflecting higher interest rate environment and higher average borrowing due to higher expenditures incurred on land acquisitions during the year.

As at 30 June 2006, the Group's gross borrowings totalled HK\$30,237 million. Of these, HK\$1,903 million related to the bank borrowings of the Group's subsidiary, Route 3 (CPS) Company Limited, which were secured by way of charges over its assets. All other borrowings of the Group are unsecured. Net debt, after deducting cash and bank deposits of HK\$7,806 million, amounted to HK\$22,431 million. The maturity profile of the Group's gross borrowings is set out below:

	30 June 2006 HK\$ Million	30 June 2005 HK\$ Million
Repayable :		
Within one year	2,950	1,605
After one year but within two years	1,815	4,045
After two years but within five years	22,902	17,266
After five years	2,570	150
Total borrowings	30,237	23,066
Cash and bank deposits	7,806	6,519
Net debt	22,431	16,547

Financial Resources and Liquidity (cont'd)

(a) Net debt and gearing (cont'd)

The Group has also secured substantial committed and undrawn banking facilities, most of which are arranged on a medium to long term basis, which helps minimize refinancing risk and provides the Group with strong financing flexibility.

With ample committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group has adequate financial resources for its funding requirements.

(b) Treasury policies

The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 30 June 2006, about 89% of the Group's borrowings were raised through its wholly-owned finance subsidiaries and the remaining 11% through operating subsidiaries.

The Group's foreign exchange exposure was minimal given its large asset base and operational cash flow primarily denominated in Hong Kong dollars. As at 30 June 2006, about 91% of the Group's borrowings were denominated in Hong Kong dollars, 5% in Singapore dollars, 3% in US dollars and 1% in other currencies. The foreign currency borrowings were mainly for financing property projects outside Hong Kong.

The Group's borrowings are principally arranged on a floating rate basis. For the fixed rate notes issued by the Group, interest rate swaps have been used to convert the rates to floating rate basis. The use of financial derivative instruments is strictly controlled and solely for management of the Group's underlying exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

As at 30 June 2006, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate amount of HK\$3,450 million and a currency swap (to hedge principal repayment of USD debt) in the amount of HK\$234 million.

Charges of assets

As at 30 June 2006, certain bank deposits of the Group's subsidiary, SmarTone, in the aggregate amount of HK\$320 million, were pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks. Additionally, the assets of the Group's subsidiary, Route 3 (CPS) Company Limited, with an aggregate net book value of HK\$4,962 million, have been charged as collateral securities for its bank borrowings. Except for the above two charges, all the Group's assets are free from any encumbrances.

Contingent liabilities

As at 30 June 2006, the Group had contingent liabilities in respect of guarantees for bank borrowings of joint venture companies and other guarantees in the aggregate amount of HK\$5,302 million (2005: HK\$4,194 million).

Group Financial Summary



(Restated)

Key Financial Information and Ratios

Financial year	2002 HK\$	2003 HK\$	2004 HK\$	2005 HK\$	2006 HK\$
Reported earnings/(loss) per share	1.72	(0.57)	6.81	7.45	8.23
Underlying earnings per share	3.47	2.57	2.86	4.27	4.34
Dividends per share	1.55	1.60	1.65	2.20	2.20
Special cash dividends per share	0.60	—	—	—	—
Total dividends per share	2.15	1.60	1.65	2.20	2.20
Shareholders' funds at book value per share	49.63	46.61	51.85	59.94	67.25
Net debt to shareholders' funds (%)					
Net debt	16.8	11.8	10.2	11.5	13.4
Shareholders' funds					
Interest cover (times)					
Operating profit before change in fair value of investment properties	9.6	13.0	29.1	20.1	9.9
Net interest expenses before capitalization					

Key Profit and Loss Account Items

For the year ended 30 June	2002 HK\$M	2003 HK\$M	2004 HK\$M	2005 HK\$M	2006 HK\$M
Revenue	25,373	22,945	21,764	22,945	25,598
Operating profit before change in fair value of investment properties	8,467	5,937	7,518	8,209	12,314
Operating profit/(loss) after change in fair value of investment properties	4,310	(1,922)	18,074	16,348	21,424
Profit attributable to Company's shareholders	4,137	(1,377)	16,351	17,900	19,850
Underlying profit attributable to Company's shareholders	8,324	6,164	6,859	10,262	10,468

Key Balance Sheet Items

As at 30 June	2002 HK\$M	2003 HK\$M	2004 HK\$M	2005 HK\$M	2006 HK\$M
Investment properties and fixed assets	88,674	83,882	95,962	116,222	133,906
Associates and jointly controlled entities	24,691	22,382	20,774	20,939	24,046
Long-term investments and loans	4,661	6,716	8,162	7,549	4,776
Intangible asset	—	589	650	643	632
Net current assets	34,073	31,121	30,395	34,237	48,854
Non-current liabilities	(31,356)	(28,765)	(28,534)	(33,500)	(41,667)
Net assets	120,743	115,925	127,409	146,090	170,547
Share capital	1,201	1,201	1,201	1,201	1,246
Share premium and reserves	117,963	110,715	123,292	142,722	166,283
Shareholders' funds	119,164	111,916	124,493	143,923	167,529
Minority interests	1,579	4,009	2,916	2,167	3,018
Total Equity	120,743	115,925	127,409	146,090	170,547

Note: With effect from 1 July 2005, the Group has adopted the new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2005. Figures for the years 2002 to 2005 have been restated for comparison purposes. Underlying profit attributable to Company's shareholders excluded the effect of fair value change on investment properties.

Directors' Report



The directors present their report for the year ended 30 June 2006:

Principal Activities

The principal activity of the Company continues to be holding investments in various subsidiaries.

The principal activities of the Group continue to be the development of and investment in properties for sale and rent. Ancillary and supporting businesses, which are described under subsidiaries on pages 167 to 170, are integrated with the main business of the Group. Revenue and contributions to operating profit from overseas activities are immaterial. A segmented analysis of revenue and contributions to operating profit after change on fair value of investment properties for the Group (excluding jointly controlled entities and associates) is set out below:

	Revenue		Operating Profit	
	2006	2005	2006	2005 (Restated)
Property				
Property sales	10,890	10,274	6,885	3,072
Rental income	5,659	5,056	4,101	3,740
	16,549	15,330	10,986	6,812
Hotel operation	734	679	223	214
Telecommunications	3,779	3,619	118	322
Other businesses	4,536	3,317	1,077	769
	25,598	22,945	12,404	8,117
Other income			535	618
Unallocated administrative expenses			(625)	(526)
Operating profit before change in fair value of investment properties			12,314	8,209
Increase in fair value of investment properties			9,110	8,139
Operating profit after change in fair value of investment properties			21,424	16,348

Group Profits

Profit after taxation, including shares of profit from jointly controlled entities and associates, amounted to HK\$20,038 million (2005: HK\$18,180 million). After taking minority interests into account, profit attributable to Company's shareholders was HK\$19,850 million (2005: HK\$17,900 million).

Dividends

An interim dividend of HK\$0.70 per share (2005: HK\$0.70) was paid on 27 March 2006. The directors recommend a final dividend of HK\$1.50 per share (2005: HK\$1.50), making a total dividend of HK\$2.20 per share for the full year ended 30 June 2006 (2005: HK\$2.20).

Purchase, Sale or Redemption of Shares

Except for the share placement by the Company in May 2006, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's ordinary shares during the year.

Share Premium and Reserves

Movements in the share premium and reserves of the Company and the Group during the year are shown in note 34 to the financial statements.

Directors' Report

Fixed Assets

Movements of fixed assets during the year are shown in notes 15 and 16 to the financial statements.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years are summarized on page 84.

Properties

Particulars of major investment properties held by the Group are set out on pages 42 to 43.

Directors

The list of directors is set out on page 4 of the report and their particulars are set out on pages 102 to 107. All directors held office for the whole year. In accordance with Article 104(A) of the Company's Articles of Association, Sir Sze-yuen Chung, Sir Po-shing Woo, Mr. William Kwan Cheuk-yin, Mr. Clement Lo Chiu-chun, Mr. Law King-wan and Mr. Thomas Kwok Ping-kwong will retire by rotation at the Annual General Meeting. Mr. Law King-wan will not offer himself for re-election whereas the other five retiring directors, being eligible, will offer themselves for re-election at the Annual General Meeting. None of the directors proposed for re-election has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Rules Governing the listing of securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and that the Company still considers the independent non-executive directors to be independent.

Directors' and Chief Executive's Interests

As at 30 June 2006, the interests and short positions of directors and chief executive in shares and, in respect of equity derivatives, underlying shares and debentures of the Company and its Associated Corporations as required to be disclosed under and within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") were as follows:

1. Long positions in shares and underlying shares of the Company:

Name of Director	Personal	Child under 18 or spouse	Corporate	Others	Equity derivatives (share options)	Total	% of shares in issue
Kwok Ping-sheung, Walter	–	–	–	1,080,972,522 ¹	75,000	1,081,047,522	43.39
Lee Shau-kee	486,340	–	343,000 ²	–	–	829,340	0.03
Kwok Ping-kwong, Thomas	1,901,281	304,065	–	1,079,022,214 ¹	75,000	1,081,302,560	43.40
Kwok Ping-luen, Raymond	–	–	–	1,082,165,895 ¹	75,000	1,082,240,895	43.44
Wong Yue-chim, Richard	–	1,000	–	–	–	1,000	0
Li Ka-cheung, Eric	–	–	18,000	–	–	18,000	0
Lo Chiu-chun, Clement	90,000	–	–	–	–	90,000	0
Law King-wan	20,000	70,267	–	–	–	90,267	0
Chan Kai-ming	41,186	–	–	–	75,000	116,186	0
Chan Kui-yuen, Thomas	–	66,000	126,500	–	75,000	267,500	0.01
Kwong Chun	702,722	339,358	–	–	75,000	1,117,080	0.04
Wong Yick-kam, Michael	70,904	–	–	–	75,000	145,904	0
Wong Chik-wing, Mike	120,999	–	–	–	75,000	195,999	0
Woo Ka-biu, Jackson (Alternate Director to Woo Po-shing)	–	1,000	–	–	–	1,000	0

Notes:

1. Of these shares in the Company, Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,058,988,347 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO.
2. Dr. Lee Shau-kee was deemed to be interested in the 343,000 shares held through Superfun Enterprises Limited ("Superfun"). This corporation was wholly-owned by The Hong Kong and China Gas Company Limited which was 38.46% held by Henderson Investment Limited of which 67.94% was held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited. Henderson Land Development Company Limited was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. He was taken to be interested in these 343,000 shares held by Superfun by virtue of the SFO.

2. Long positions in shares and underlying shares of Associated Corporations:

(a) SUNeVision Holdings Ltd.:

Name of Director	Personal	Others	Equity derivatives (share options)	Total	% of shares in issue
Kwok Ping-sheung, Walter	–	1,070,000*	60,000	1,130,000	0.05
Kwok Ping-kwong, Thomas	–	1,070,000*	60,000	1,130,000	0.05
Kwok Ping-luen, Raymond	–	1,742,500*	116,666	1,859,166	0.09
Chan Kai-ming	115,000	–	–	115,000	0
Chan Kui-yuen, Thomas	–	–	60,000	60,000	0
Kwong Chun	300,000	–	–	300,000	0.01
Wong Yick-kam, Michael	100,000	–	60,000	160,000	0
Wong Chik-wing, Mike	109,000	–	–	109,000	0

Note:

- * Of these shares in the Company, Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,070,000 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO.

(b) SmarTone Telecommunications Holdings Limited:

Name of Director	Others	% of shares in issue
Kwok Ping-luen, Raymond	2,237,767	0.38

(c) Transport International Holdings Limited:

Name of Director	Personal	% of shares in issue
Kwok Ping-sheung, Walter	61,522	0.01
Kwok Ping-luen, Raymond	393,350	0.09
Chung Sze-yuen	18,821	0

Directors' Report

- (d) Each of Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen had the following interests in shares of the following Associated Corporations:

Name of Associated Corporation	Attributable holding through corporation	Attributable % of shares in issue through corporation	Actual holding through corporation	Actual % interests in issued shares
Splendid Kai Limited	2,500 *	25	1,500	15
Hung Carom Company Limited	25 *	25	15	15
Tinyau Company Limited	1 *	50	1	50
Open Step Limited	8 *	80	4	40

Note:

- * Messrs. Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in these shares, which represented the same interests and were therefore duplicated amongst these three directors for the purpose of the SFO. These shares were held by corporations in which they were entitled to control the exercise of one-third or more of the voting rights in the general meetings of these corporations.

- (e) Dr. Lee Shau-kee had corporate interests in shares of the following Associated Corporations:

Name of Associated Corporation	Total	% of shares in issue
Anbok Limited	2 ²	50
Billion Ventures Limited	1 ³	50
Central Waterfront Construction Company Limited	1 ⁴	50
Central Waterfront Property Holdings Limited	100 ⁵	100
Central Waterfront Property Investment Holdings Limited	50 ⁶	50
CWP Limited	1 ⁷	50
Daily Win Development Limited	100 ⁸	25
E Man - Sanfield JV Construction Company Limited	1 ⁹	50
Everise (H.K.) Limited	1 ¹⁰	50
Fullwise Finance Limited	2 ¹¹	50
Gold Sky Limited	1 ¹²	50
Jade Land Resources Limited	1 ¹³	25
Joy Wave Development Limited	1 ¹⁴	50
Karnold Way Limited	2,459 ¹⁵	24.59
Maxfine Development Limited	3,050 ¹⁶	33.33
New Treasure Development Limited	1 ¹⁷	25
Royal Peninsula Management Service Company Limited	1 ¹⁸	50
Special Concept Development Limited	1 ¹⁹	25
Star Play Development Limited	1 ²⁰	33.33
Teamfield Property Limited	4,918 ²¹	49.18
Topcycle Construction Company Limited	1 ²²	50
Topcycle Development Limited	1 ²³	50
Topcycle Project Management Limited	1 ²⁴	50
World Space Investment Limited	4,918 ²⁵	49.18

Notes:

1. Dr. Lee Shau-kee was deemed to be interested in the 343,000 shares held through Superfun Enterprises Limited ("Superfun"). This corporation was wholly-owned by The Hong Kong and China Gas Company Limited which was 38.46% held by Henderson Investment Limited of which 67.94% was held by Kingslee S.A., a wholly owned subsidiary of Henderson Land Development Company Limited. Henderson Land Development Company Limited was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick") as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau-kee. He was taken to be interested in these 343,000 shares held by Superfun by virtue of the SFO.
2. Dr. Lee Shau-kee was deemed to be interested in the 2 shares held through Everise (H.K.) Limited. This corporation was wholly-owned by Masterland Limited, a wholly owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
3. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
4. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
5. Dr. Lee Shau-kee was deemed to be interested in the 100 shares held through Central Waterfront Property Investment Holdings Limited. This corporation was 50% held by Primeland Investment Limited of which 68.42% was held by Starland International Limited, a wholly owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
6. Dr. Lee Shau-kee was deemed to be interested in the 50 shares held through Primeland Investment Limited. This corporation was 68.42% was held by Starland International Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
7. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Starland International Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
8. Dr. Lee Shau-kee was deemed to be interested in the 100 shares held through Citiright Development Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
9. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
10. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Masterland Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
11. Dr. Lee Shau-kee was deemed to be interested in the 2 shares held through Everise (H.K.) Limited. This corporation was 50% held by Masterland Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
12. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Atex Resources Limited. This corporation was wholly-owned by Mightymark Investment Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.

Directors' Report

13. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
14. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
15. Dr. Lee Shau-kee was deemed to be interested in the 2,459 shares held through Chico Investment Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
16. Dr. Lee Shau-kee was deemed to be interested in the 3,050 shares held through Quickcentre Properties Limited. This corporation was 50% held by Henderson (China) Investment Company Limited of which 100% was held by Andcoe Limited, a wholly-owned subsidiary of Henderson China Holdings Limited. This corporation was 100% held by Brightland Enterprises Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
17. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
18. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Well Born Real Estate Management Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
19. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Citiplus Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
20. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Henderson Investment Limited. This corporation was 67.94% held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
21. Dr. Lee Shau-kee was deemed to be interested in the 4,918 shares held through Billion Ventures Limited. This corporation was 50% held by Chico Investment Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
22. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through E Man Construction Company Limited. This corporation was wholly-owned by Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
23. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Dandy Investments Limited. This corporation was a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
24. Dr. Lee Shau-kee was deemed to be interested in the 1 share held through Dandy Investments Limited. This corporation was a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.
25. Dr. Lee Shau-kee was deemed to be interested in the 4,918 shares held through Billion Ventures Limited. This corporation was 50% held by Chico Investment Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Dr. Lee Shau-kee was taken to be interested in Henderson Land Development Company Limited as set out in Note 1.

The interests of the directors and the chief executive in the share options (being regarded for the time being as unlisted physically settled equity derivatives) of the Company and its Associated Corporations are stated in detail in the Share Option Schemes section stating below.

Save as disclosed above, as at 30 June 2006, none of the directors and the chief executive of the Company were, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in shares, underlying shares or debentures of the Company and its Associated Corporations, that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Share Option Schemes

1. Share Option Schemes of the Company

The Company once adopted a share option scheme on 20 November 1997 ("the Old Scheme"). Since its adoption, the Company had granted two lots of share options on 15 February 2000 and 16 July 2001. The first lot expired on 14 February 2005; while options granted and accepted under the second lot can still be exercised in whole before 15 July 2006, thereafter the options will expire.

The Company by ordinary resolutions passed at its extraordinary general meeting held on 5 December 2002 has adopted a new share option scheme ("the New Scheme") and terminated the Old Scheme in order to comply with the new requirements under the then revised Chapter 17 of the Listing Rules. No further options may be offered under the Old Scheme. However, the outstanding options granted under the Old Scheme mentioning in the following paragraphs shall continue to be subject to the provisions of the Old Scheme and the revised provisions of Chapter 17 of the Listing Rules. No option shares have been granted under the New Scheme to any person since its adoption.

The following shows the outstanding positions of the directors and the chief executive as at 30 June 2006 with respect to their share options granted under the Old Scheme:

Name of director	Date of grant	Exercise price (HK\$)	Number of share options				Balance as at 30.6.2006
			Balance as at 1.7.2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	
Kwok Ping-sheung, Walter	16.7.2001	70.00	75,000	—	—	—	75,000
Kwok Ping-kwong, Thomas	16.7.2001	70.00	75,000	—	—	—	75,000
Kwok Ping-luen, Raymond	16.7.2001	70.00	75,000	—	—	—	75,000
Chan Kai-ming	16.7.2001	70.00	75,000	—	—	—	75,000
Chan Kui-yuen, Thomas	16.7.2001	70.00	75,000	—	—	—	75,000
Kwong Chun	16.7.2001	70.00	75,000	—	—	—	75,000
Wong Yick-kam, Michael	16.7.2001	70.00	75,000	—	—	—	75,000
Wong Chik-wing, Mike	16.7.2001	70.00	75,000	—	—	—	75,000

A summary of the movements during the year 30 June 2006 of the share options granted under the Old Scheme to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the directors and the chief executive as disclosed above, is as follows:

Date of grant	Exercise price (HK\$)	Number of share options				Balance as at 30.6.2006
		Balance as at 1.7.2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	
16.7.2001	70.00	1,242,000	—	1,032,000*	—	210,000

Note:

* The weighted average closing price of the shares immediately before the dates on which share options were exercised under the Old Scheme were HK\$81.88.

Other than the participants as stated above, the Company had not granted since the adoption of the Old Scheme any share options to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Directors' Report

Major terms of share option schemes of the Company

The major terms of the Old Scheme and the New Scheme (together as "the Schemes"), in conjunction with the requirements of Chapter 17 of the Listing Rules, are as follows:

1. The purposes of the Schemes are to provide incentives to the participants.
2. The participants of the Schemes are employees including the executive directors of the Company and its subsidiaries.
3. The total number of shares which may be issued upon exercise of all options to be granted under the Schemes must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of share which may be issued upon exercise of all outstanding options granted and yet to be granted must not exceed 30% of the issued share capital of the Company from time to time. As at 14 September 2006, the number of shares available for issue in respect thereof is 249,183,336 shares.
4. No participant shall be granted an option which, if exercised in full, would result in such participant's maximum entitlement to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.

Pursuant to the New Scheme, the total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

5. The exercise period of any option granted under the Old Scheme must not be more than 5 years commencing on the date of grant. The exercise period of any option granted under the New Scheme shall be determined by the Board but such period must not exceed 10 years from the date of grant of the relevant option.
6. No option can be exercised during the first year of the exercise period under the Old Scheme. Pursuant to the New Scheme, the Board has the authority to determine the minimum period for which an option must be held before it can vest, the New Scheme itself does not specify any minimum holding period.
7. Pursuant to the Schemes, the acceptance of an offer of the grant of the respective options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from each grantee.
8. The exercise price of an option to subscribe for shares granted pursuant to the Schemes shall be the highest of:
 - the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date on which an offer is made to a participant, which must be a business day;
 - the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an offer is made; and
 - the nominal value of the shares of the Company.
9. The New Scheme shall be valid and effective till 4 December 2012.

2. Share Option Schemes of Subsidiaries

(a) Pre-IPO Share Option Scheme of SUNeVision Holdings Ltd.

SUNeVision Holdings Ltd. ("SUNeVision") had adopted a share option scheme ("SeV Pre-IPO Share Option Scheme"), the principal terms of which were summarized in the section headed "Statutory and General Information Share Option Schemes" in Appendix 5 to SUNeVision's prospectus dated 6 March 2000. Since its adoption, SUNeVision had granted four lots of share options ("SeV Pre-IPO Share Options") pursuant to the SeV Pre-IPO Share Option Scheme.

The options at the exercise price of HK\$10.38 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one-third of the options within three years commencing on 31 December 2000;
- (ii) a further one-third of the options within three years commencing on 31 December 2001;
- (iii) the remaining one-third of the options within three years commencing on 31 December 2002; and
- (iv) the options had expired at the close of business on 30 December 2005.

The options at the exercise price of HK\$3.885 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one-third of the options within three years commencing on 15 November 2001;
- (ii) a further one-third of the options within three years commencing on 15 November 2002;
- (iii) the remaining one-third of the options within three years commencing on 15 November 2003; and
- (iv) the options will expire at the close of business on 14 November 2006.

The options at the exercise price of HK\$2.34 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one-third of the options within three years commencing on 20 March 2002;
- (ii) a further one-third of the options within three years commencing on 20 March 2003;
- (iii) the remaining one-third of the options within three years commencing on 20 March 2004; and
- (iv) the options will expire at the close of business on 19 March 2007.

The options at the exercise price of HK\$1.43 per share may be exercised in accordance with the terms of the relevant scheme as to:

- (i) one-third of the options within three years commencing on 8 July 2003;
- (ii) a further one-third of the options within three years commencing on 8 July 2004;
- (iii) the remaining one-third of the options within three years commencing on 8 July 2005; and
- (iv) the options will expire at the close of business on 7 July 2008.

Directors' Report

(b) New Share Option Scheme of SUNeVision Holdings Ltd.

SUNeVision by shareholders' resolutions passed at its annual general meeting held on 3 December 2002, has adopted a new share option scheme ("SeV New Share Option Scheme") and terminated the SeV Pre-IPO Share Option Scheme. These have become effective on 5 December 2002 as a result of the passing of ordinary resolutions approving the same by the shareholders of the Company at its extraordinary general meeting held on the same day. No further options may be offered under the SeV Pre-IPO Share Option Scheme. However, the outstanding options granted under the SeV Pre-IPO Share Option Scheme shall continue to be subject to the provisions of the Pre-IPO Share Option Scheme and the provisions of Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange (the "GEM Listing Rules"). Since its adoption, SUNeVision had granted two lots of share options ("SeV Share Options").

The options at the exercise price of HK\$1.59 per share may be exercised in accordance with the terms of the SeV New Share Option Scheme as to:

- (i) an amount up to one-third of the grant within three years commencing on 29 November 2004;
- (ii) the remaining amount but up to two-thirds of the grant within three years commencing on 29 November 2005;
- (iii) the remaining amount within three years commencing on 29 November 2006; and
- (iv) the options will expire at the close of business on 28 November 2009.

The options at the exercise price of HK\$1.41 per share may be exercised in accordance with the terms of the relevant scheme in full at any time within three years from 10 November 2005 and the options will expire at the close of business on 9 November 2008.

The following shows the outstanding positions of the directors and chief executive of the Company as at 30 June 2006 with respect to their SeV Pre-IPO Share Options and SeV Share Options:

Number of share options							
Name of director	Date of grant	Exercise price (HK\$)	Balance as at 1.7.2005	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Balance as at 30.06.2006
Kwok Ping-sheung, Walter	28.3.2000	10.38	138,334	–	–	138,334	0
	7.4.2001	2.34	120,000	–	–	60,000	60,000
Kwok Ping-kwong, Thomas	28.3.2000	10.38	138,334	–	–	138,334	0
	7.4.2001	2.34	120,000	–	–	60,000	60,000
Kwok Ping-luen, Raymond	28.3.2000	10.38	251,666	–	–	251,666	0
	7.4.2001	2.34	233,333	–	–	116,667	116,666
Chan Kui-yuen, Thomas	28.3.2000	10.38	170,000	–	–	170,000	0
	7.4.2001	2.34	120,000	–	–	60,000	60,000
Wong Yick-kam, Michael	28.3.2000	10.38	120,000	–	–	120,000	0
	7.4.2001	2.34	120,000	–	–	60,000	60,000

A summary of the movements during the year ended 30 June 2006 of the SeV Pre-IPO Share Options and the SeV Share Options granted to the employees of the Company working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance, other than the directors and chief executive as disclosed above, is as follows:

Date of grant	Exercise price (HK\$)	Balance as at 1.7.2005	Granted during the year	Number of share options			Balance as at 30.6.2006
				Exercised during the year	Cancelled/Lapsed during the year		
28.3.2000	10.380	773,333	—	—	773,333	0	
30.11.2000	3.885	591,667	—	—	295,834	295,833	
7.4.2001	2.340	800,000	—	—	470,000	330,000	
8.7.2002	1.430	750,000	—	—	200,000	550,000	
29.11.2003	1.590	1,850,000	—	—	150,000	1,700,000	
10.11.2005	1.410	—	1,900,000	—	330,000	1,570,000	4,445,833

Other than the participants as stated above, SUNeVision had not granted since the adoption of the SeV Pre-IPO Share Option Scheme and the SeV New Share Option Scheme any options to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

(c) **Valuation of SeV Share Options**

Pursuant to Rule 17.08 of the Listing Rules, the valuation of the SeV Share Options granted for the year ended 30 June 2006 is as follows:

Name of Participants	Number of Options granted on 10.11.2005	Option Value as at 10.11.2005	Option Value as at 30.06.2006
Aggregate total of Employees of the Company	1,900,000	HK\$ 468,842	HK\$268,293

The closing price of the share of SUNeVision immediately before the date on which such SeV Share Options were granted was HK\$1.41 (as of 9 November 2005).

According to the Black-Scholes model*, the total value of the SeV Share Options granted on 10 November 2005 was estimated at HK\$ 468,842 with the following variables and assumptions:

- Risk Free Rate : 4.416 %, being the approximate yield of 3-year Exchange Fund Note traded on 10 November 2005.
- Expected Volatility : 25.84%, being the annualized volatility of the closing price of the shares of SUNeVision from 10 November 2004 to 9 November 2005.
- Expected Dividend :
 - Yield : 3.19%, being 2005 prospective dividend yield of the shares of SUNeVision.
 - Growth Rate : 16.6%, per annum, being 3-year historical dividend growth rate of SUNeVision.
- Expected Life of such SeV Share Options is 3 years with the following assumptions:
 - There is no material difference between the expected volatility over the whole life of such SeV Share Options and the historical volatility of the shares of SUNeVision over the period from 10 November 2004 to 9 November 2005.
 - There is no material difference between the dividend growth rate over the whole life of such SeV Share Options and the historical dividend growth rate of SUNeVision over the previous 3 years.

Directors' Report

According to the Black-Scholes model*, the total value of the SeV Share Options granted on 10 November 2005 was estimated at HK\$268,293 as at 30 June 2006 with the following variables and assumptions:

1. Risk Free Rate : 4.527%, being the approximate yield of 3-year Exchange Fund Note traded on 30 June 2006.
2. Expected Volatility : 23.08%, being the annualized volatility of the closing price of the shares of SUNeVision from 1 July 2005 to 30 June 2006.
3. Expected Dividend :
 - (i) Yield : 3.46%, being 2005 prospective dividend yield of the share of SUNeVision.
 - (ii) Growth Rate : 16.67%, per annum, being 3-year historical dividend growth rate of SUNeVision.
4. Expected Life of such SeV Share Options is 2.4 years with the following assumptions:
 - (i) There is no material difference between the expected volatility over the whole life of such SeV Share Options and the historical volatility of the shares of SUNeVision over the period from 1 July 2005 to 30 June 2006.
 - (ii) There is no material difference between the dividend growth rate over the whole life of such SeV Share Options and the historical dividend growth rate of SUNeVision over the previous 3 years.

All the options forfeited before expiry of the SeV New Share Option Scheme will be treated as lapsed options which will not be added back to the number of shares available to be issued under the SeV New Share Option Scheme.

*Note: The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

(d) Share Option Scheme of iAdvantage Limited

The Company operates another share option scheme which was approved for iAdvantage Limited ("iAdvantage Share Option Scheme"), a subsidiary of the Company. No option shares for iAdvantage Limited ("iAdvantage") have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

(e) Major terms of share option schemes of the subsidiaries

The major terms of SeV Pre-IPO Share Option Scheme, SeV New Share Option Scheme and iAdvantage Share Option Scheme (together as "the SeV Schemes"), in conjunction with the requirements of Chapter 23 of the GEM Listing Rules, are as follows:

1. The purposes of the SeV Schemes are to provide incentives to their respective participants.
2. The participants of the SeV New Share Option Scheme include (i) executive or non-executive directors (or any persons proposed to be appointed as such) or any employees (whether full-time or part-time) of each member of the SUNeVision Group; (ii) any consultants, professional and other advisers to each member of the SUNeVision Group (or persons, firms or companies proposed to be appointed for providing such services); (iii) any chief executives or substantial shareholders of SUNeVision; (iv) any associates of a director, chief executive or substantial shareholder of SUNeVision; and (v) any employees of substantial shareholder of SUNeVision, as absolutely determined by the Board.

The participants of the SeV Pre-IPO Share Option Scheme include full-time employee of SUNeVision or its subsidiaries including executive directors of SUNeVision or its subsidiaries.

The participants of the iAdvantage Share Option Scheme include full-time employee of iAdvantage or its subsidiaries including executive directors of iAdvantage or its subsidiaries.

3. The total number of shares which may be issued upon exercise of all options to be granted under the SeV Pre-IPO Share Option Scheme and SeV New Share Option Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of the approval of the SeV New Share Option Scheme. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SeV Pre-IPO Share Option Scheme and SeV New Share Option Scheme must not exceed 30% of the issued share capital of SUNeVision from time to time (or such higher percentage as may be allowed under the GEM Listing Rules). As at 14 September 2006, the number of shares available for issue in respect thereof was 202,875,083.

The maximum number of shares in respect of which options may be granted under the iAdvantage Share Option Scheme must not exceed 10% of the total number shares of iAdvantage in issue from time to time. The issued share capital of iAdvantage as at 14 September 2006 is HK\$4. No option shares for the iAdvantage Share Option Scheme have been granted to any person since its adoption.

4. Pursuant to SeV New Share Option Scheme, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the total number of shares in issue. As at 14 September 2006, the total number of Shares in issue was 2,028,750,833.

Pursuant to SeV Pre-IPO Share Option Scheme and the iAdvantage Share Option Scheme, no participant shall be granted an option which, if exercised in full, would result in such participants' maximum entitlement to exceed 25% of the aggregate number of the shares for the time being issued and issuable under the respective scheme.

5. An option granted under the SeV New Share Option Scheme may be exercised at any time during the option period after the option has been granted by the Board. An option period is a period to be determined by the Board at its absolute dispositive discretion and notified by the Board to each grantee as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the option.

The exercise period of any option granted under the SeV Pre-IPO Share Option Scheme must not be less than three years to be notified by the Board of SUNeVision to each grantee which period of time shall commence on the date of grant of the option and expire on such date as determined by the Board or 28 February 2010, whichever is the earlier, and subject to the provisions for early termination contained therein.

The exercise period of any option granted under the iAdvantage Share Option Scheme must not be less than three years to be notified by the Board of iAdvantage to each grantee which period of time shall commence on the date of grant of the option and expire on such date as determined by the Board of iAdvantage or 28 February 2010, whichever is the earlier, and subject to the provisions for early termination contained therein.

6. Pursuant to the SeV New Share Option Scheme, there is neither any performance targets that need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised.

Pursuant to each of the SeV Pre-IPO Share Option Scheme and the iAdvantage Share Option Scheme, an option may be exercised in accordance with the terms of the respective Scheme at any time during a period to be notified by the respective Board to each grantee.

7. Pursuant to the SeV Schemes, the acceptance of an offer of the grant of the respective options must be made within 28 days from the date of grant with a non-refundable payment of HK\$1.00 from the grantee.

Directors' Report

8. The exercise price of an option to subscribe for shares granted pursuant to each of the SeV New Share Option Scheme and the SeV Pre-IPO Share Option Scheme shall be the highest of:

- the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made to a participant, which must be a business day;
- the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an offer is made; and
- the nominal value of the shares of the respective company.

The exercise price of an option to subscribe for shares granted pursuant to the iAdvantage Share Option Scheme shall be determined by the Board and notified to the grantee and shall not be less than the nominal value of the shares of iAdvantage provided that in the case of a grantee which is a director of any holding company of iAdvantage which is also listed on the GEM or the Main Board or his or her associate, the subscription price shall be determined on a fair and reasonable basis and not to be less than the latest audited net tangible assets per share of iAdvantage.

9. The SeV New Share Option Scheme shall be valid and effective till 3 December 2012. The iAdvantage Share Option Scheme shall be valid and effective till 28 February 2010.

Arrangement to Purchase Shares or Debentures

Other than the share option schemes as mentioned above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company to acquire benefits by means of the acquisition of shares in or debenture of the Company or of any other body corporate.

Interests of Substantial Shareholders

As at 30 June 2006, the long positions of every person, other than a director or the chief executive of the Company, who had an interest in shares of the Company which fall to be disclosed to the Company under Part XV of the SFO were as follows:

Name	As trustee	Corporate interest	Beneficial owner	Others	Total number of shares	% of shares in issue
HSBC International Trustee Limited	1,085,060,220	589,971	–	–	1,085,650,191 *	43.58
Cerberus Group Limited	–	1,056,638,347	–	–	1,056,638,347 *	42.42
Vantage Captain Limited	–	75,830,929	980,807,418	–	1,056,638,347 *	42.42
Capital Research and Management Company	–	–	–	154,925,000	154,925,000	6.45

Note:

- * The shares in which Vantage Captain Limited ("VCL") was interested were the same shares in which Cerberus Group Limited ("CGL") was interested; the shares in which CGL was interested formed part of the shares in which HSBC International Trustee Limited ("HITL") was interested. As at 30 June 2006, the actual duplicate interests held by VCL, CGL and HITL in the Company was 1,058,988,347 shares which were also the same shares referred to in the Note 1 to the section on "Directors and Chief Executive's interests".

Interests of Other Persons

During the year, other than the interests in shares and underlying shares of the Company and its Associated Corporations held by the directors, the chief executive and substantial shareholders stated above, there were no other persons with interests recorded in the register required to be kept under section 336 of the SFO.

Bank and Other Borrowings

Details of bank borrowings are set out in notes 27 and 29 to the financial statements on pages 155 and 156.

Interest Capitalized

Interest capitalized during the year amounted to HK\$389 million (2005: HK\$123 million).

Charitable Donations

HK\$65.5 million was donated during the year (2005: HK\$30 million).

Directors' Interests in Competing Businesses

The interests of directors of the Company in competing businesses that are required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Messrs. Kwok Ping-sheung, Walter, Kwok Ping-kwong, Thomas and Kwok Ping-luen, Raymond are brothers (collectively "the Kwok Brothers") within a family whose businesses consist of property development and investment in Hong Kong through companies in which they have maintained certain personal and deemed interests. As such, they are regarded as being interested in such competing businesses ("Excluded Businesses") with the Company and its subsidiaries ("the Group"). However, when compared with the dominance and size of operations of the Group, such Excluded Businesses are immaterial. Since the Group does not have property developments and investments in locations other than in Hong Kong and Mainland China and the Kwok family does not have such business on the Mainland, the Kwok Brothers are therefore not regarded to be interested in such Excluded Businesses of the Group on the Mainland.

Messrs. Kwok Ping-sheung, Walter and Kwok Ping-luen, Raymond are directors of Transport International Holdings Limited in which the Group has a substantial interest, which businesses consist of property development and investment. In this regard, each of them is regarded to be interested in such Excluded Businesses with the Group.

Dr. Lee Shau-kee is the Chairman and Managing Director of Henderson Land Development Co. Limited and Henderson Investment Limited. He is also Chairman of The Miramar Hotel and Investment Co. Limited and The Hong Kong and China Gas Company Limited, director of certain subsidiaries of the aforementioned listed companies. In addition to his being a director, Dr. Lee has maintained certain personal and deemed interests in some of these companies, which businesses consist of property development and investment, property management, infrastructure, internet and telecommunication services, which constitute Excluded Businesses of the Group. Dr. Lee is a non-executive director of the Company, who is not involved in the daily management of the Group.

Messrs. Kwok Ping-luen, Raymond and Wong Yick-kam, Michael are non-executive directors of USI Holdings Limited and Mr. Wong Yick-kam, Michael also acts as alternate director to Mr. Kwok Ping-luen, Raymond. The Group has a substantial interest in the company, which businesses consist of property development and investment, and therefore each of them is regarded to be interested in such Excluded Businesses with the Group.

Other than the family businesses of the Kwok Brothers, the above-mentioned Excluded Businesses are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with diligence of its independent non-executive directors and the Audit Committee, the Group is capable of carrying on its businesses independent of, and at arms length from, the Excluded Businesses mentioned above.

Directors' Report

Connected Transactions

1. On 30 September 2005, Complete Power Holdings Limited ("Complete Power"), a wholly-owned subsidiary of China Resources (Holdings) Company Limited ("China Resources"), and Fastreach Limited ("Fastreach"), a wholly-owned subsidiary of the Company entered into a shareholders agreement ("the Agreement") governing the relationship between Complete Power and Fastreach as shareholders in Brilliant Palace Limited ("the JV Company").

Pursuant to the Agreement, the JV Company would establish a wholly foreign owned enterprise in the PRC ("WFOE") for the development of the piece of land with a site area of 99,451 sq. m. situated at Lots E-06, E-07 and E-08, Qian Jiang Xin Cheng, Jiang Gan District, Hangzhou City, Zhejiang Province, the PRC. Complete Power and Fastreach would hold 60% and 40% of the entire issued share capital in the JV Company respectively. According to current plans, the total investment amount of the WFOE would not exceed HK\$700,000,000. There was no fixed timetable for payment of the total investment amount.

China Resources was a substantial shareholder of a subsidiary of the Company. Complete Power, being a wholly-owned subsidiary of China Resources, was regarded as a connected person of the Company under the Listing Rules. Hence, the entering into of the Agreement constituted a connected transaction of the Company, in respect of which an announcement was published on 30 September 2005.

2. On 28 March 2006, Vikwood Investment Limited ("Vikwood Investment"), a wholly-owned subsidiary of China Resources (Holdings) Company Limited ("China Resources"), and Grand Sky Limited ("Grand Sky"), a wholly-owned subsidiary of the Company entered into a shareholders agreement ("the Agreement") governing the relationship between Vikwood Investment and Grand Sky as shareholders in Wellview Investment Limited ("the JV Company").

Pursuant to the Agreement, the JV Company would establish a wholly foreign owned enterprise in the PRC ("WFOE") for the development of the piece of land with a site area of 1,115,600 sq.m., situated at Lot No. 1, Tai Hu Xin Cheng, Wuxi City, Jiangsu Province, the PRC. Vikwood Investment and Grand Sky would hold 60% and 40% of the entire issued share capital in the JV Company respectively. According to current plans, the total investment amount of the WFOE would not exceed US\$130,000,000 (equivalent to approximately HK\$1,014,000,000). There was no fixed timetable for payment of the total investment amount.

China Resources was a substantial shareholder of a subsidiary of the Company. Vikwood Investment, being a wholly-owned subsidiary of China Resources, was regarded as a connected person of the Company under the Listing Rules. Hence, the entering into of the Agreement constituted a connected transaction of the Company, in respect of which an announcement was published on 28 March 2006.

Financial Assistance and Guarantees to Affiliated Companies

The Group has provided financial assistance to and guarantees for facilities granted to certain associated companies and jointly controlled entities (collectively the "Affiliated Companies" within the definition under Chapter 13 of the Listing Rules) which together in aggregate exceeds the relevant percentage ratios of 8% under the Listing Rules. In accordance with the continuing disclosure requirements under Rule 13.22, a proforma combined balance sheet of the Affiliated Companies and the Group's attributable interest in the Affiliated Companies as at 30 June 2006 are presented below:

	Proforma combined balance sheet (HK\$M)	The Group's attributable interest (HK\$M)
Non-current assets	72,664	33,237
Current assets	8,091	3,555
Current liabilities	(9,662)	(4,614)
Non-current liabilities	(61,419)	(27,319)
	9,674	4,859

Interest in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest subsisted at any time during the year.

Major Customers and Suppliers

During the year, less than 30 per cent of the Group's sales and less than 30 per cent of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

Auditors

The retiring auditors, Messrs. Deloitte Touche Tohmatsu, have signified their willingness to continue in office. A resolution will be proposed at the Annual General Meeting to re-appoint them and to authorize the directors to fix their remuneration.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's audited results for the year ended 30 June 2006.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 70 to 73.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board.

Kwok Ping-sheung, Walter

Chairman & Chief Executive

Hong Kong, 14 September 2006

Directors and Organization



Kwok Ping-sheung, Walter

Msc (Lond), DIC, MICE, JP

Chairman & Chief Executive (Age: 55)

Mr. Kwok has been with the Group for 32 years. He holds a Master of Science degree in Civil Engineering from Imperial College of Science and Technology, University of London, and is a Member of the Institution of Civil Engineers, U.K. and a Member of the Hong Kong Institution of Engineers. He is an Executive Director of SUNeVision Holdings Ltd. and a Director of Transport International Holdings Limited, Wilson Parking (Holdings) Limited and Hung Cheong Import & Export Co., Ltd.

He is also a Director of The Real Estate Developers Association of Hong Kong and Tsimshatsui East Property Developers' Association Ltd. and Honorary Treasurer of the Federation of Hong Kong Hotel Owners. On the community front, he is the Member of the Former Directors Committee of the Hong Kong Community Chest. He is also a Member of MBA Programmes Committee of The Chinese University of Hong Kong and an Honorary Member of The Court of The Hong Kong University of Science & Technology.

Mr. Kwok is an Honorary Citizen of Beijing & Guangzhou and a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Kwok is the elder brother of Mr. Kwok Ping-kwong, Thomas and Mr. Kwok Ping-luen, Raymond.

Dr. Lee Shau-kee

DBA(Hon), DSSc(Hon), LLD(Hon)

Non-Executive Director

Vice Chairman (Age: 77)

Dr. Lee has been a Non-Executive Director of the Company for the last 34 years. He is the Founder and Chairman and Managing Director of Henderson Land Development Company Ltd. and Henderson Investment Ltd. He has been engaged in property development in Hong Kong for more than 50 years. He is also Chairman of The Hong Kong and China Gas Company Ltd. and Miramar Hotel and Investment Company, Ltd. as well as a Director of Hong Kong Ferry (Holdings) Company Ltd. and The Bank of East Asia, Limited.

Kwok Ping-kwong, Thomas

MSc (Bus Adm), BSc (Eng), FCPA, JP

Vice Chairman & Managing Director (Age: 54)

Mr. Kwok is Vice Chairman & Managing Director of Sun Hung Kai Properties Limited, and has been with the Group for 29 years. He is also Chairman of Route 3 (CPS) Company Limited, Joint Chairman of IFC Development Limited, an Executive Director of SUNeVision Holdings Ltd. and an Independent Non-Executive Director of The Bank of East Asia, Limited. Mr. Kwok holds a Master's degree in Business Administration from The London Business School, University of London and a Bachelor's degree in Civil Engineering from Imperial College, University of London.

He is Chairman of the Board of Directors of the Faculty of Business and Economics of the University of Hong Kong and Executive Vice President of The Real Estate Developers Association of Hong Kong. He also serves as a government appointed Member of the Exchange Fund Advisory Committee, the Provisional Construction Industry Co-ordination Board, the Council for Sustainable Development and Business Facilitation Advisory Committee.

In the past he served as a Member of the Economic and Employment Council, the Business Advisory Group, the Land & Building Advisory Committee, the Registered Contractors' Disciplinary Board and the General Chamber of Commerce Industrial Affairs Committee. He was also Chairman of the Property Management Committee of the Building Contractors' Association and a Council Member of the Hong Kong Construction Association.

He previously served as a Board member of the Community Chest of Hong Kong, as a member of the Social Welfare Policies & Services Committee, and on the Council of The Open University of Hong Kong.

Mr. Kwok is an Honorary Citizen of Guangzhou and a Standing Committee Member of the Ninth Chinese People's Political Consultative Conference Shanghai Committee.

Mr. Kwok is the younger brother of Mr. Kwok Ping-sheung, Walter and the elder brother of Mr. Kwok Ping-luen, Raymond.

Kwok Ping-luen, Raymond

MA (Cantab), MBA, Hon DBA, Hon LLD, JP
Vice Chairman & Managing Director (Age: 53)

Mr. Kwok has been with the Group for 28 years. He holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited, a Director of Transport International Holdings Limited and an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr. Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council, and Vice-Chairman of the Council of The Chinese University of Hong Kong. Mr. Kwok is the younger brother of Mr. Kwok Ping-sheung, Walter and Mr. Kwok Ping-kwong, Thomas.

The Hon Sir Sze-yuen Chung

GBM, GBE, PhD, FREng, JP
Independent Non-Executive Director (Age: 88)

Sir Sze-yuen Chung is Chairman and Non-Executive Director of Transport International Holdings Limited. He is also Director of CLP Holdings Limited and Pro-Chancellor of Hong Kong University of Science & Technology. He has contributed significantly in Hong Kong's political, industrial and tertiary education fields for over four decades. He was Senior Member of Hong Kong Legislative Council (1974-78), Executive Council (1980-88), and Convenor of HKSAR Executive Council (1997-99). He was Chairman of Federation of Hong Kong Industries (1966-70), and Hong Kong Productivity Council (1974-78); and President of Engineering Society of Hong Kong (1960-61) and Hong Kong Academy of Engineering Sciences (1994-97). He established Hong Kong Polytechnic in 1972, City Polytechnic in 1984, Hong Kong University of Science & Technology in 1991 and Hospital Authority in 1990. He was deeply involved in the Sino-British Negotiation on Hong Kong's future (1982-85) and the establishment of the Hong Kong Special Administrative Region (1994-97).

Directors and Organization

Dr. Fung Kwok-king, Victor

BSc, MSc, PhD

Independent Non-Executive Director (Age: 60)

Dr. Victor Fung was appointed as an Independent Non-Executive Director in May 1999. Dr. Fung holds Bachelor and Master degrees in Electrical Engineering from the Massachusetts Institute of Technology and a Doctorate in Business Economics from Harvard University. He is Chairman of the Li & Fung Group of companies including the publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited and Convenience Retail Asia Limited. He is also an Independent Non-executive Director of Bank of China (Hong Kong) Limited, PCCW Limited, Orient Overseas (International) Limited, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. In public service, Dr. Fung is Chairman of the Hong Kong Airport Authority, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong - Japan Business Co-operation Committee. He is also a member of Chinese People's Political Consultative Conference and a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Government. From 1991 to 2000, he was Chairman of the Hong Kong Trade Development Council and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. In 2003, the Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Dicky Peter Yip

BBS, MBA, MBE, JP

Independent Non-Executive Director (Age: 59)

Mr. Yip was appointed as an Independent Non-Executive Director of the Company in September 2004. He joined The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in Hong Kong in 1965 with working experiences in London, China and San Francisco. Mr. Yip worked in a number of departments of HSBC, which include trade services, corporate banking, group consultancy service and regional training. His previous assignment prior to becoming CEO China had been in personal financial services, covering jobs in marketing, card products, customer service and sales, with responsibilities over consumer business in Hong Kong. From January 2003 to April 2005, he has been appointed Chief Executive China Business, based in Shanghai; meanwhile, he was also a director of Bank of Shanghai, Ping An Insurance and Ping An Bank in China. Since April 2005, he has become a General Manager of HSBC. He has also been appointed Executive Vice President of Bank of Communications since 1 May 2005.

Mr. Yip is an elected associated member of the Chartered Institute of Bankers, London and was educated in Hong Kong with an MBA from University of Hong Kong. He received the Ten Outstanding Young Persons Award in 1984 for his contribution to the banking industry and the community in Hong Kong. Mr. Yip was awarded the MBE by the British Government in 1984. In 1999, he was appointed Unofficial Justice of Peace in Hong Kong. In 2000, he was awarded the Bronze Bauhinia Star by the Hong Kong Special Administrative Region Government. In addition, he is now an examiner of China Banking Regulatory Commission's Recruitment Committee, an advisor for the Beijing Financial Development Advisory Group and the Honorary Chairman of Hong Kong Chamber of Commerce in China. He is also a director of the European Union Chamber of Commerce in China.

Mr. Yip is active in community and youth activities in Hong Kong and is a member of a number of service organisations such as Hong Kong Committee for United Nations Children Fund and the 8th National Council of Red Cross Society of China.

Professor Wong Yue-chim, Richard

SBS, JP

Independent Non-Executive Director (Age: 54)

Professor Richard Wong was appointed as an Independent Non-Executive Director in May 2005. Professor Wong currently serves as Deputy Vice-Chancellor of The University of Hong Kong. Professor Wong has been active in advancing economic research on policy issues in Hong Kong and Mainland China through his work as founding Director of both the Hong Kong Centre for Economic Research and Hong Kong Institute of Economics and Business Strategy. He was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong Special Administrative Region for his contributions in education, housing industry and technology development. In addition, he was appointed Justice of the Peace in July 2000. Professor Wong studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Sir Po-shing Woo

Hon.LLD., FCIArb, F.I.Mgt., FlntD

Non-Executive Director (Age: 77)

Sir Po-shing Woo has been a Non-Executive Director of the Company since 1972. He is a Director of Henderson Development Ltd., Henderson Land Development Co., Ltd., Henderson Investment Ltd. and a Consultant of Jackson Woo & Associates. He was admitted to practise as solicitor in England and Hong Kong and is also a Fellow of The Hong Kong Management Association, The Chartered Institute of Arbitrators, The Institute of Management and The Institute of Directors of England. He was awarded an Hon.LLD. by The City University of Hong Kong and is a Fellow of King's College of London as well as Honorary Professor of Nankai University of Tianjin. He is also the Founder of the Woo Po Shing Medal in Law and the Woo Po Shing Overseas Summer School Travelling Scholarship, both at The University of Hong Kong, and the Woo Po Shing Professor (Chair) of Chinese and Comparative Law at City University.

Dr. Li Ka-cheung, Eric

GBS, OBE, JP, LLD, DSocSc., B.A.

Non-Executive Director (Age: 53)

Dr. Eric Li was appointed as a Non-Executive Director in May 2005. Dr. Li is the Senior Partner of Li, Tang, Chen & Co., a well-established certified public accountants firm in Hong Kong. He was a member of Hong Kong's Legislative Council from 1991 to 2004 and Chairman of its Public Accounts Committee since 1995.

He qualified as a chartered accountant in 1978 and became President of the Hong Kong Institute of Certified Public Accountants (HKICPA, formerly the Hong Kong Society of Accountants) in 1993. He was named the first 'Accountant of the Year' by the HKICPA in 1993 and received the first 'International Accountant Award' from the Association of International Accountants in 2002. Dr. Li is currently a Board Member of the International Federation of Accountants.

Dr. Li also serves as Court Member, Trustee, Advisor and Adjunct Professor of several universities both locally and overseas. He is also active in working with young people and serves as an honorary advisor to many student societies in the accounting and business fields. He holds an honorary Doctorate degree of Law, an honorary Doctorate degree in Social Sciences, a 'Beta Gamma Sigma Chapter Honoree' as well as other university honorary fellowships.

Dr. Li is appointed to numerous Government Advisory Boards and Committees, and is currently Chairman of the Hong Kong Sports Institute and the Process Review Committee for the oversight of Hong Kong Monetary Authority designated system under the Clearing and Settlement Systems Ordinance. He is Member of the Clearing and Settlement Systems Appeals Tribunal; Basel II Consultation Group and Inland Revenue Department's Users' Committee.

Directors and Organization

Dr. Li is a member of The 10th National Committee of the Chinese People's Political Consultative Conference. In recognition of his many public services, Dr. Li was awarded the Queen's Badge of Honor in 1988; appointed a Justice of the Peace in 1991; named a 'Global Leaders for Tomorrow' by the World Economic Forum in 1993; awarded the honor of an Officer of the Most Excellent Order of the British Empire (OBE) in 1996 and the Gold Bauhinia Star in 2003.

Dr. Li is an Independent Non-Executive Director of Transport International Holdings Limited, Wong's International (Holdings) Ltd, Catic International Holdings Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited, Roadshow Holdings Limited, Sinochem Hong Kong Holdings Limited, SmarTone Telecommunications Holdings Limited and Strategic Global Investments plc..

Kwan Cheuk-yin, William

LLB

Non-Executive Director (Age: 72)

Mr. William Kwan was appointed as a Non-Executive Director in July 1999. As a Managing Partner with the Solicitors firm of Woo, Kwan, Lee & Lo, Mr. Kwan has 44 years of experience in legal practice. He is a former Director and Advisor and currently a voting member of the Tung Wah Group of Hospitals, a past member of the Stamp Advisory Committee, Vice Chairman of the Hong Kong Scout Foundation, President of the Hong Kong Branch of the King's College London Association, President of the Hong Kong Philatelic Society, Vice Chairman of the Federation of Inter-Asia Philately, a permanent advisor of Wah Yan (Hong Kong) Past Students Association, a Legal Advisor of the South China Athletic Association and an Honorary Legal Advisor of the Hong Kong Society for Reproductive Society.

Mr. Kwan was Commissioner General and Vice Chairman of the Organizing Committees of the Hong Kong '94, '97, 2001 and 2004 Stamp Exhibitions. He served on the Hong Kong Golf Club General Committee on several occasions in various capacities. He graduated from King's College, London University and is a Fellow of King's College London, the Institute of Arbitrators and the Royal Philatelic Society, London.

Lo Chiu-chun, Clement

Non-Executive Director (Age: 76)

Mr. Lo was an Executive Director of the Company and the Company Secretary of the Group for 28 years before he resigned from both positions in early 1998. Mr. Lo has been in the property development industry since 1960s.

Law King-wan

Non-Executive Director (Age: 70)

Mr. Law was an Executive Director of the Company. He headed the Sales Department of the Group for 32 years before he retired at end of September 2001. He is a Standing Committee Member of the Chinese General Chamber of Commerce, Founding President of the Hong Kong Institute of Real Estate Administration and President of the Shun Tak Fraternal Association.

Chan Kai-ming

CEng, FIStructE, MICE

Executive Director (Age: 74)

Mr. Chan has been an Executive Director since 1981. Mr. Chan also served as an appointed Member of the District Board of Shatin for three years from 1985.

Chan Kui-yuen, Thomas

B Comm

Executive Director (Age: 60)

Mr. Chan graduated from the United College, The Chinese University of Hong Kong. He joined the Group in 1973 and is now responsible for land acquisitions and project planning matters. Mr. Chan is also an Executive Director of SUNeVision Holdings Ltd.

Kwong Chun

Executive Director (Age: 77)

Mr. Kwong graduated from the Zhong Nan Finance & Economics College of Wuhan in China. He worked for the Guangzhou office of the People's Bank of China before coming to Hong Kong in 1962 to work for Eternal Enterprises Ltd. He was transferred to Sun Hung Kai Enterprises Ltd. in 1963. In 1972, Sun Hung Kai Properties Ltd. became a listed company and he has worked for it ever since. He was appointed an Executive Director in 1992.

Wong Yick-kam, Michael

BBA, MBA

Executive Director (Age: 54)

Mr. Wong has been with the Group for 25 years. He obtained his Bachelor's and Master's degrees in Business Administration from The Chinese University of Hong Kong. He was appointed an Executive Director in 1996 and is currently responsible for the Group's strategic planning, corporate development, infrastructure projects, financial investments and relations with the investment community.

Mr. Wong is Deputy Chairman of RoadShow Holdings Limited, an Executive Director of SUNeVision Holdings Ltd. and a Non-Executive Director of SmarTone Telecommunications Holdings Limited and USI Holdings Limited.

In community service, he is Chairman of the Hong Kong Youth Hostels Association.

Wong Chik-wing, Mike

MSc(IRE), FHKIS, Registered Professional Surveyor (BS)

Executive Director (Age: 50)

Mr. Wong graduated from the Hong Kong Polytechnic University with distinction and holds a Master degree in International Real Estate. He is a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor. He joined the Group in 1981 and was appointed an Executive Director in 1996. He is currently responsible for project management matters of the Group's development projects.

Woo Ka-biu, Jackson

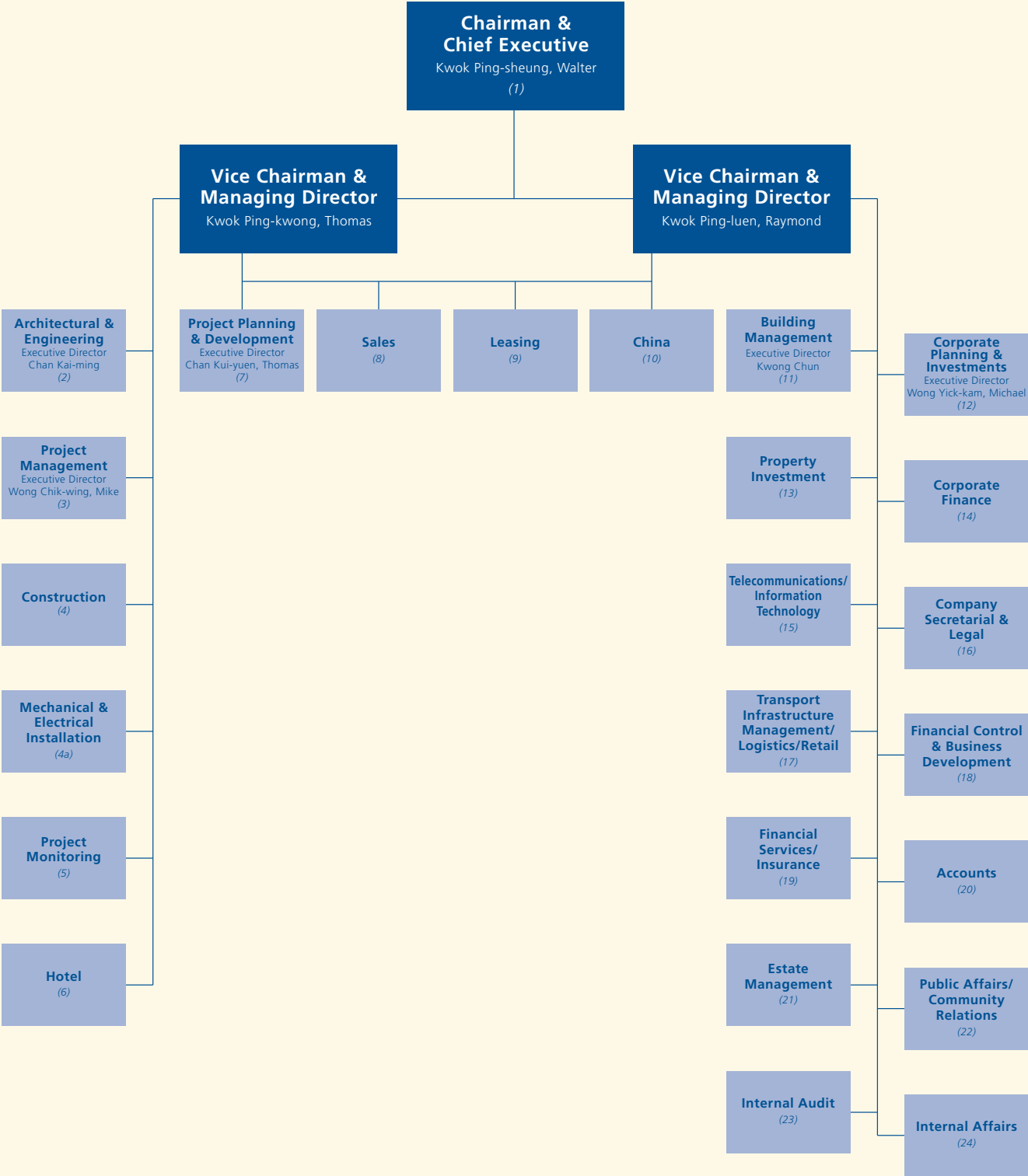
MA (Oxon)

Alternate Director to Sir Po-shing Woo (Age: 44)

Mr. Woo was appointed as an Alternate Director to Sir Po-shing Woo in October 2002. Mr. Woo is also a Director of Kailey Group of Companies. He holds a Master's degree in Jurisprudence from Oxford University and is qualified as a solicitor in Hong Kong, Australia, England and Wales. Mr. Woo is currently a partner of Jackson Woo & Associates and was a director of N. M. Rothschild & Sons (Hong Kong) Limited. Prior to that he was a partner in the corporate finance department of Woo, Kwan, Lee & Lo. Mr. Woo is also an Alternate Director to Sir Po-shing Woo, an Independent Non-Executive Director of Henderson Land Development Company Ltd. and Henderson Investment Ltd. Mr. Woo is the son of Sir Po-shing Woo.

Directors and Organization

Organization Chart and Senior Executives



(1) Executive Committee

Kwok Ping-sheung, Walter

MSc(Lond), DIC, MICE, JP
Chairman and Chief Executive

Kwok Ping-kwong, Thomas

MSc(Bus Adm), BSc(Eng), FCPA, JP
Vice Chairman and
Managing Director

Kwok Ping-luen, Raymond

MA(Cantab), MBA, Hon DBA,
Hon LLD, JP
Vice Chairman and
Managing Director

Chan Kai-ming

CEng, FStructE, MICE
Executive Director
(Architectural & Engineering)

Chan Kui-yuen, Thomas

B Comm
Executive Director
(Project Planning & Development)

Kwong Chun

Executive Director
(Building Management)

Wong Yick-kam, Michael

BBA, MBA
Executive Director
(Corporate Planning & Investments)

Wong Chik-wing, Mike

MSc(IRE), FHKIS, RPS(BS)
Authorized Person
Executive Director
(Project Management)

(1a) Chairman's Office

Yung Wing-chung

Corporate Advisor

Chien Yuan-hwei, George

BSc(Eng), MSc, DIC, CEng, PEng,
FICE, MITE
Transportation Advisor

So Sing-tak, Andrew

BA, MBA
Special Assistant to Vice Chairman
& Managing Director

Chin Ping-fai, Johnny

MA
Manager

Nakagawa, Masahiro

BEcon, CMA, AFP
Manager

Lui Wai-tat, Andy

BA(Hons), MBA, FRICS
Manager

Overton, Thomas Mc Donald

Manager

Yau Man-fat, Kelvin

BSc(Hons), MBA, MHousMan,
DipHousMan, MHKIH, MCIH,
MIFMA, MIMgt, RPHM
Deputy Manager
(Property Investments)

Lee Chak-cheong, Roger

BSc, MSc, CEng, MICE, MIHT, MILT
Deputy Manager (Transport)

Ng Shing-yin, Eric

BSc, LLB, MBA, MRICS, AMHKIE,
MCIOB, MHKICM
Special Assistant to Chairman &
Chief Executive

(2) Architectural and Engineering

Chan Kai-ming

CEng, FStructE, MICE
Executive Director

Sitt Nam-hoi

BA(Hons), BArch(Distinction), HKIA
Registered Architect
Authorized Person
Chief Architect

Yu Chung-yeung

CEng, FStructE, FHKIE, MICE,
RSE, RPE
Principal Engineer

Li Kwong-hing

BSc(Eng), MSc, DIC, CEng,
MIMechE, FCIBSE, MHKIE, RPE
Chief Building Services Engineer

Lau Chi-kin

MSc, CEng, FStructE, FHKIE, MICE,
RSE, RPE, 1RSE-PRC
Chief Structural Engineer

Ng Tze-kwan, Jeff

BArch, MAIBC, MRAIC, HKIA
Registered Architect
Authorized Person
Deputy Chief Architect

Choi Siu-chuen

MHKIE
Deputy Chief Building
Services Engineer

Leung Yuen-dick, Dick

BArch, MA Arb, HKIA
Registered Architect
Authorized Person
Senior Architect

Lau Kay-shui

MSc, CEng, MStructE, MHKIE,
RPE, RSE
Senior Structural Engineer

Li Ka-wing

Deputy Manager

Lam Chak-hin, Ivan

SSCE, Foreign Asso. ASLA,
Member of Ifpra
Chief Landscape Architect

Chan Wai-hing, Clara

Deputy Manager

Directors and Organization

Chiu Wai-kuen, Stephen

BSc(Eng)
Senior Structural Engineer

Tang Wai-man, Tony

BA(AS), BArch, HKIA
Registered Architect
Authorized Person
PRC Class I Registered Architect
Qualification
Senior Architect

Yen Koon-wai, Michael

BA(AS)Hons, MArch, HKIA
Registered Architect
Authorized Person
Senior Architect

Ng Hin, Felix

BA(AS), MArch, RIBA, HKIA
Registered Architect
Authorized Person
Senior Architect

(3) Project Management

Wong Chik-wing, Mike

MSc(IRE), FHKIS, RPS(BS)
Authorized Person
Executive Director

Tung Chi-ho, Eric

BA(AS)Hons, BArch, HKIA
Registered Architect
Authorized Person
Executive Director
Sun Hung Kai Real Estate
Agency Ltd

Tam Tin-fong, Martin

BArch, RIBA, FHKIA
Registered Architect
Authorized Person
PRC Class I Registered Architect
Qualification
Manager

Sitt Nam-hoi

BA(Hons), BArch(Distinction), HKIA
Registered Architect
Authorized Person
Manager

Au Yeung Shiu-keung

BSc(Eng), CEng, FHKIE, FCIBSE,
FIEE, FIEAust
Manager

Lee Tit-sun, Augustine

BArch, FHKIA
Registered Architect
Authorized Person
Manager

Chu Kwok-kit, Ringo

BA(AS), BArch, RIBA, HKIA, ARAIA
Registered Architect
Authorized Person
Manager

Lu Chee-yuen, Spencer

BEng, MEng, CEng, MStructE,
MHKIE, RPE
Authorized Person
Manager

Au Ho-cheung, David

BSc(Arch), MArch, HKIA
Registered Architect
Authorized Person
PRC Class I Registered Architect
Qualification
Manager

Ng Chak-kin, Clarence

BA(AS), BArch, RIBA, HKIA, ARAIA
Registered Architect
Authorized Person
Deputy Manager

Cheung Kai-wah, Gabriel

MConstMgt, FHKIS, FRICS, FCIQB,
MCI Arb, MACostE, FHKICM,
RPS(QS)
Deputy Manager

Woo Yan-fan, Stella

BA(AS), MArch, MBA, HKIA
Registered Architect
Authorized Person
Deputy Manager

Lau Man-kwan, Julia

BArch, HKIA, Assoc AIA
Registered Architect
Authorized Person
Deputy Manager

Tung Jing-kong, Jeff

BA(AS)Hons, BArch, RIBA, FHKIA
Registered Architect
Authorized Person
Deputy Manager

Fok Man-kin, Simon

BA(AS)Hons, BArch, RIBA, HKIA
Registered Architect
Authorized Person
Deputy Manager

Chan Hong-ki, Robert

BSc, MRICS, MHKIS, RPS(BS)
Authorized Person
Deputy Manager

Chan Lai-man, Raymond

BSc(Eng), MBA, MRICS, MHKIS,
MCIQB, MHKICM
Deputy Manager

Chung Wing-tim, Alain

BA(AS)Hons, BArch
Registered Architect
Authorized Person
Deputy Manager

Cheung Wai-tak, Vitus

Deputy Manager

So Wai-lik, Johnson

BSc, MBA, FRICS, FHKIS, ACI Arb,
MHKI Arb, RPS(QS)
Deputy Manager

Chiu Hon-hang, Elvin

BES, BEDS, BArch, HKIA, PFM
Registered Architect
Authorized Person
Assistant Manager

Cheung Chin-hung, Sunny

BEng(Hons), CEng, MHKIE, MICE,
MGSHK, EUR.ING, RPE
Assistant Manager

Frank Leung

BArch(Hons), HKIA
Registered Architect
Authorized Person
Assistant Manager

Mak Chi-wing, Felix

MCIQB
Assistant Manager

Chiu Tai-shing, Joseph

BASc, PEng, MHKIE
Assistant Manager

Ng Chau-ming, Nelson

BEng, CEng, MStructE, MHKIE, RPE
Assistant Manager

Tsang Chun-wing, Donald

MSc(Eng), CEng, MStructE, MHKIE, RPE
Assistant Manager

Cheung Chi-ping, Ricardo

BSc, MRICS, MHKIS, MACostE, AAIQS, RPS(QS)
Assistant Manager

Yuen Yiu-ming, Kelvin

BSc(Hons), MRE, MAIBS, MRICS, MHKIS
Assistant Manager

Pau Wai-keung

MEEM, MEM, CEng, CFM, MHKIE, MCIBSE, MIEE, MASHRAE, MHKCS, RPE
Assistant Manager

Ng Muk-kwai, Rayson

MBA, CEng, MIMechE, MCIBSE, MHKIE, RPE
Assistant Manager

Tse Pak-wing

Assistant Manager

Mak Mang-tim, Timothy

BArch, BA
Assistant Manager

Kung Chi-ming, Keith

BA(AS), MArch, MSc, MHKIA
Registered Architect
Assistant Manager

(4) Construction

Wong Chik-wing, Mike

MSc(IRE), FHKIS, RPS(BS)
Authorized Person
Executive Director

Kwok Leung Kit-kan, Ingrid

MSc(Bus Adm), BSc(Hons), CEng, MBCS, MHKIE, CITP
Manager

Tsoi Siu-ho, Robert

BSc, MSc, DipCon, FCPA, ACMA, ARCS, DIC
Manager (Central Functions)

Lee Bing-shu

Consultant
(Construction Management)

Mo Kon-fei, Kenneth

LLB, MSc(Eng), MBA, MHKIE, MICE, RSE, 1RSE-PRC
Authorized Person
Manager
(Construction Management)

Lu Chee-yuen, Spencer

BEng, MEng, CEng, MStructE, MHKIE, RPE
Authorized Person
Manager
(Construction Management)

Chan Hon-ye

ACMA, CPA
Deputy Manager
(Construction Management)

Tsoi Yuk-man, Desmond

MA, FCIArb, MRICS, MHKIS, MCIQB
Deputy Manager
(Construction Management)

Hui Lin-sing, Roger

BSc(Eng), CEng, MICE, MStructE, MHKIE, RSE, RPE
Deputy Manager
(Construction Management)

Wong Leung Kit-wah, Linda

Deputy Manager (Purchasing)

Fung Chi-on, Ricky

Deputy Manager (Purchasing)

Lau Wai-keung, Dennis

MRICS, MHKIS
Deputy Manager
(Contract Subletting)

Chan Kin-wah, Jonathan

MEM, TechRICS, TAHKIS
Deputy Manager
(Contract Subletting)

Lam Fuk-wing

BSc (Civil Eng)
Deputy Manager
(Construction Management)

Lee Kwok-wa, Chris

Deputy Manager
(Construction Management)

Cheung Kam-fan

Deputy Manager
(Construction Management)

Tse Kam-hon, Sidney

Consultant
(Construction Management)

Ng Kwok-cheung, Barry

BCSc(Hons)
Assistant Manager
(Information Technology)

Lai Wai-ching, Phoebe

MSc, FCCA, CPA
Assistant Manager (Accounting)

Chan Ying-kuen, David

Assistant Manager (Accounting)

Lai Siu-ki, Pele

MBA, MIHRM(HK), MHKMA, Certified HR Professional - PRC
Assistant Manager (Human Resources & Administration)

Directors and Organization

Mak Kwok-leung

BSc, MBA, CEng, MIMechE,
MHKIE, RPE
Assistant Manager
(Plant & Machinery)

Kong Chi-keung, Danie

Assistant Manager (Purchasing)

Yu Shui-kee, Quincy

MRICS, MHKIS
Assistant Manager
(Quantity Surveying)

Hui Chi-kin, Ronnie

BEng, CEng, MIMechE, MHKIE,
MCIBSE, MIEAust, MASME,
MASHRAE, RPE
Assistant Manager
(Mechanical & Electrical)

Fan Chun-fai, Francis

BSc, MRICS, MHKIS, MACostE,
MInstCES
Assistant Manager
(Quantity Surveying)

(4a) Mechanical and Electrical Installation

Yu Yiu-wing

Manager

Lam Chung-mo, Moses

BEng(Hons), CEng, MIEE, MHKIE, RPE
Deputy Manager (Electrical Services)

Sin Hung-fai

Assistant Manager (Fire Services)

Ng Chung-ming

Assistant Manager (Fire Services)

Chan Chor-tat, Gilbert

Assistant Manager (Fire Services)

Tam Ping-ip

DMS, MIEEE
Assistant Manager
(Electrical Services)

Pang Ki-kai

AIIM
Assistant Manager
(Electrical Services)

(5) Project Monitoring

Luk Wang-kwong, John

BSc(Eng), LLB, MSc(Eng), MBA,
PDCE, PhD, CEng, FICE, FStructE,
FHKIE, FCIArb
Project Advisor

Wong Wai-tung

MA Arb, DipArb, FHKIE, FCIQB,
MCI Arb, RPE
Deputy Manager

Tsang Wai-keung, Savio

MBA, MRICS, MHKIS, MCIQB,
MCI Arb, MASI
Assistant Manager

(6) Hotel

Rudolf Greiner

President, Hotel Division

Chow Yum-chong, Francis

FCCA, FCPA
Vice President (Finance),
Hotel Division

a. The Royal Garden

Chan Tin-yau, Keven

CHSP
General Manager

Cheung Kin-man, Ricky

B Comm, CPA, CPA(Aust)
Financial Controller

b. Royal Park Hotel

Cheung Cheuk-man, Carman

General Manager

Tam Kam-ming, Andrew

Financial Controller

c. Royal Plaza Hotel

Wong Ho-yin, Peter

MCMI, MHCIMA, MCTHCM,
MTMA, ACEA, CPM
General Manager

Lee Chi-keung, Marvey

Financial Controller

(7) Project Planning and Development

Chan Kui-yuen, Thomas

B Comm
Executive Director

Wong Chik-wing, Mike

MSc(IRE), FHKIS, RPS(BS)
Authorized Person
Executive Director

Roger Nissim

FRICS, FHKIS, FCIArb, RPS(GP)
Manager

Chu Kwok-kit, Ringo

BA(AS), BArch, RIBA, HKIA, ARAIA
Registered Architect
Authorized Person
Manager

Fung Chu-hee, Andrew

MSc(IRE), MRICS, MHKIS, RPS(GP)
Chartered Valuation Surveyor
Manager

Fung Man-lok, Ronnie

MHKIS, RPS(GP)
Manager

Chan Po-ling, Margaret

BES(Hons), MSc, MHKIP, MCIP, RPP
Deputy Manager

(8) Sales

- a. Lui Ting, Victor**
BBA
Executive Director
Sun Hung Kai Real Estate Agency Ltd
- b. Chow Kwok-yin, Eric**
Executive Director
Sun Hung Kai Real Estate Agency Ltd
- Yim Dao-kit**
Deputy Manager
- Yang Joe-tsi, Edgar**
MA
Deputy Manager
- Ip Hoi-leung, Dolphin**
MEM
Assistant Manager
- c. Chan Sau-yin, Anita Teresa**
MSc, MRICS, MHKIS, RPS
Deputy Manager

(9) Leasing

Retail

- a. Chan Kai-ming**
CEng, FStructE, MICE
Executive Director
- Lam Ka-keung, Henry**
BSc(Hons), MSc(Const & Real Est)
Manager
- Yau Hin-chung, William**
BA(AS)
Deputy Manager
- Chow Shuk-man, Judy**
BA, BSc
Assistant Manager
- b. Fung Sau-yim, Maureen**
BSc(Hons)Est. Mgt.,
MHousMan(Distinction), MBA,
FISCM, FIIM, MHIREA
Manager

Lee Pik-kee, Michelle

BA(Hons), MBA, MISCM
Assistant Manager

- c. Chung Sau-lin, Fiona**
BBA, MBA, MRICS, MHKIS
Deputy Manager

- d. El-Azar, Karim Naji**
Assistant Manager

- e. Ho Lick-tin**
Manager

Fung Yick-lam, Cris
Assistant Manager

Office

Wong Chin-wah, Jimmy

BSc(Est Mgt), Cert Ed, MSISV, MHKIS,
MAPFM, FHIREA, RPS, RPHM
Executive Director
Sun Hung Kai Real Estate Agency Ltd

Lo King-wai

MBA, MRICS, MCIOB, MHKIS, RPS
Deputy Manager

Lau Lai-ching, Elijah

Dip.BS(Mktg), MHIREA, MCIH,
MHKIH, FISCM
Deputy Manager

Man Chi-fung, Rick

BA, PDip(Real Estate)
Assistant Manager

Leung Ka-po, Filipe

MEng(Hons), MPhil, ACGI, PDQM,
PDEC
Assistant Manager

Lau Yee-tong, Yvonne

PDip(Real Estate)
Assistant Manager

Residential

(Signature Homes)

Kang Min, Mavis

BSoc.Sc(Hons), DipSurv
Assistant Manager

(10) China

Kwong Chun

Executive Director

Chan Kui-yuen, Thomas

B Comm
Executive Director

So Chung-keung, Alfred

Executive Director
Sun Hung Kai Real Estate Agency Ltd

Zhou Yimin, Andrew

MBA, PhD, CMgr
Manager

Chau Sai-yim, Stephen

Deputy Manager

Cheng Cheung-fuk

BA, B Comm
Deputy Manager

Tang Wai-chung, Ted

Deputy Manager

Huang Shaomei, Echo

Deputy Manager

Ching Wai-chuen, Antonio

BA(AS), BArch, RIBA, HKIA, RAIA
Registered Architect
Authorized Person
Deputy Manager

Tse Kit-ming, Elsie

MSc, FCCA, CPA
Deputy Manager

Tseung Sik-yin, Stephen

HKIA
Registered Architect
Authorized Person
Deputy Manager

Directors and Organization

Fok Yau-kit

FCEA, DMS, MBIM
Assistant Manager

Lam Kam-wing, Stafen

MSc, MCIM
Assistant Manager

He Dong, Tony

B Comm, CPA(Aust)
Assistant Manager

(11) Building Management

Kwong Chun

Executive Director

Kwong Ching-wai, Alkin

BSc(Eng), PgDIT, CEng, MStructE,
MHKIE, RPE, RSE
Authorized Person
Manager

Mok Chi-hung

FCIH, FHKIH, MHIREA, RPHM
Manager

Kwok Chan-fai

MCIH, MHKIH, RPHM
Deputy Manager (Hong Yip)

Wong Kei-on

BA, MHKIH, MCIH, RPHM
Deputy Manager (Hong Yip)

Lee Tze-leung, Adrian

BBA, MBA, FCCA, CPA, HKRFP
Assistant Manager (Accounting)

Leung Nai-yin, Arthur

BBus, FCCA, FCPA, ACIB, AHKIB,
CGA, CPA(Aust)
Assistant Manager (Internal Audit)

Kwan Yu-kuen, Ricky

Assistant Manager
(SHK Real Estate Management)

Cheung Tam Ka-wood, Rebecca

FHKIH, MCIH, RPHM
Assistant Manager
(Community Relation)

Choi Ming-chi

Assistant Manager
(SHK Real Estate Management)

(12) Corporate Planning and Investments

Wong Yick-kam, Michael

BBA, MBA
Executive Director

Lau Mei-mui, May

Manager
(Corporate Communications)

Hong Pak-cheung, William

BSc
Manager (Investments)

Mak Nak-keung

BSoc.Sc, MPhil
Manager (Economic Research)

Lau Chung-hing, Sam

BSc, MBA, CFA
Manager (Corporate Planning)

Tse Man-kuen, Winnie

Deputy Manager

Mui Kit-wah, Christine

BA
Deputy Manager
(Corporate Communications)

Cheong Suk-ying, Linda

BSoc.Sc, MBA, CFA
Assistant Manager

Poon Chun-wing, Johnny

BSoc.Sc, MBA, CFA, FCCA
Assistant Manager

Own Yu-tsan, Dorothy

MSc (Finance), CFA, FRM
Assistant Manager

Wong On-ning, Orlena

BBA, M Comm, CA
Assistant Manager

(13) Property Investment

Lui Ting, Victor

BBA
Executive Director
Sun Hung Kai Real Estate
Agency Ltd

Chan Kwok-kin, Slayman

MSc, MRICS, MHKIS, RPS, RPHM
Assistant Manager

(14) Corporate Finance

Au Man-to

LLB, FCIS, ACIB
Manager

Kwok Yue-yee, Amy

B Comm
Manager

Ho Ka-wai, Josephine

MBA
Assistant Manager

(15) Telecommunications/ Information Technology

SmarTone Telecommunications Holdings Limited

Li, Douglas
Chief Executive Officer

SUNeVision Holdings Limited

So Sing-tak, Andrew
BA, MBA
Chief Executive Officer

(16) Company Secretarial and Legal

Lai Ho-kai, Ernest

FCIS
Company Secretary

Yung Sheung-tat, Sandy

BA(Law)Hons
Manager

Kwok, Helen

LLB(London)Hons
Legal Advisor

Tse Kar-lun, Frankie

LLB(Hons)
Assistant Manager

Yeung Ming-yip, Jason

LLB(Hons)
Assistant Manager

Wong Chiu-lun, Christopher

B Comm, LLB
Assistant Manager

Lai Man-shek

BA(Law)Hons
Assistant Manager

Chong Tin-cho

BSoc.Sc, LLB(Hons), LLM, LLD
Assistant Manager

Chan Miu-yin, Alice

LLB(Hons)
Assistant Manager

(17) Transport Infrastructure Management/Logistics/Retail

Wilson Group

Koch, Gary Alfred

Vice Chairman and Executive Director

Siu Hon-wah, Thomas

Managing Director

Cheng Siu-hung, Paul

Chief Executive Officer
Autotoll Limited

Fong Ping, Vincent

Director of Tollways

Lui Sung-ye, Alan

Director of Corporate Affairs

Ip Kam-shing, Jacky

Director of Parking

Wong Yuk-lan, Nancy

Director of Finance & Administration

Wu Tung-chai, Peter

Director of Equipment & Services

Logistics Services

Wong Hok-leung, Paul

BSc, FCCA
Chairman
Sun Hung Kai Logistics
Holdings Limited

Leung Lai-chi, Michelle

MMgt
Chief Operating Officer
Sun Hung Kai Logistics
Holdings Limited

Pang Tai-hing, Peter

Operations Director
Airport Freight Forwarding
Centre Company Limited

Yu Wai-ye, Fione

BA(Hons), FCCA
Financial Controller
Airport Freight Forwarding
Centre Company Limited

Seiyu (Shatin) Department Store

Chu Bun, Wilson

BA, MBA
Chartered Accountant
Chief Executive Officer

Hui Hing-sang, Sam

Senior General Manager
(Merchandising & Store Operations)

Yeung Tsz-wa, Senses

Senior General Manager
(Corporate Planning Office)

Au Sin-lun, Catherine

General Manager
(Concession Administration)

Cheung Kai-leung, Raymond

General Manager
(Finance & Administration)

(18) Financial Control and Business Development

Wong Hok-leung, Paul

BSc, FCCA
Manager

Leung Yu-kai, David

ACA, FCCA, FCPA
Manager
(Finance and Administration)

Fok Yat-cheong, Edward

MSc(Eng), AHKIB
Deputy Manager (EDP)

Cheung Yuen-ye, Rachel

BSoc.Sc, EMBA
Chartered Marketer
Deputy Manager
(Business Development)

Chan Kei-yan, Paul

BA, MBA
Deputy Manager
(Business Development)

So Wai-kei, Godwin

BA, ACIB, ACIS
Deputy Manager (Financial Control)

Man Wai-kong, Eric

BSoc.Sc, MSc, FCCA, CPA
Deputy Manager (Financial Control)

Leung Cheuk-ming, Eric

MSc, CISSP, MHKCS
Assistant Manager (EDP)

Tam Wai-ling, Kennese

BBA
Assistant Manager
(Business Development)

(19) Financial Services/ Insurance

Financial Services

Yung Wing-chung

Consultant

Au Mo-cheung, Alex

EMBA(Distinction), PDipCD, MHKSI, FHKIoD
Manager

Directors and Organization

Chan Pang-chi

Assistant Manager

Ng Yu-po, Frederick

B Comm, MBA
Assistant Manager

Insurance

Chow Ka-yin

Manager

Wong Kwai-chuen, Andrew

BBA, MBA, ACII
Chartered Insurer
Deputy Manager

Yim Ka-yan, Amy

MBA, ANZIIF (Snr Assoc)
Deputy Manager

Pun Wing-sze, Doris

BSc, MPA, CPA, CPA(Aust)
Assistant Manager

(20) Accounts

Pun Wing-mou, Bernard

MSc, FCA, FCPA
Chief Accountant

Wu Tze-cheung, Philip

BA(Hons), FCCA, FCPA, MIHRM(HK)
Manager

Li Ching-kam, Frederick

FCCA, CPA
Deputy Chief Accountant

Lee Hung-chak, Maurice

BBA(Hons), FCCA, CPA
Deputy Manager

Chow Cheuk-wing, Eric

FCCA, FCPA
Senior Accountant

Ko Ping-yin, Albert

Chief Cashier

Wong Mei-ki, Maggie

MA, FCCA, CPA, ACIS
Assistant Manager

(21) Estate Management

Wong Chin-wah, Jimmy

BSc(Est Mgt), Cert Ed, MSISV, MHKIS,
MAPFM, FHIREA, RPS, RPHM
Executive Director
Sun Hung Kai Real Estate
Agency Ltd

Chan Kam-fai

MCIH
Manager

Lam Man-pak, Patrick

BA(Hons), MCIH, RPHM
Deputy Manager

Lee Cheung-yiu, Gordon

BSc(Hons), MSc, MRICS, MCIQB,
MHKIS, MCI Arb, RPS(BS)
Deputy Manager

Sham Sik-shing, Simon

BTech(Hons), MCIH
Assistant Manager

Chan Shing-wai

Dip.BA, MCIH
Assistant Manager

Hon Shuk-ching, Irene

Assistant Manager

Shiu Wai-ching, Teresa

BA(Hons), MHKIH, RPHM, FISC
Assistant Manager

(22) Public Affairs/ Community Relations

Public Affairs

Lee Luen-fai

BA, Cert Ed
Manager

Community Relations

Lee Kam-chung

Manager

Law Wan-fat, Joe

Assistant Manager

(23) Internal Audit

Chiu Yue-ming, Daniel

MAcc, FCCA, FCPA, FCIS, ACMA,
FCPA(Aust)
Manager

Wong Chung-wai, Barry

BA(Hons), MBA, FCCA, CPA
Deputy Manager

Hui Sui-tak, Andrew

MBA, FCCA, CPA
Assistant Manager

Cheng Wai-ming, Vincent

BA(Hons), MSc, MPA, FCCA, FCPA,
CIA
Assistant Manager

(24) Internal Affairs

Tang Chak-hin

BBA, MBA
Manager

Chan Choi-yin, Clara

MIHRM(HK)
Deputy Manager
(Human Resources Management)

Ho Kui-yuen, Kenneth

BSoc.Sc, MBA, DTM
Deputy Manager
(Training & Development)

Chow Chiu-mei, Grace

BBA, MA, MIHRM(HK)
Deputy Manager (Human Resources)

Wong Ho-keung, Jimmy

Assistant Manager
(Office Management)

Cheung Pui-ha, Ivy

BA, MBA, MSc, DTM
Assistant Manager
(Human Resources Services)



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Auditors' Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF SUN HUNG KAI PROPERTIES LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 119 to 172 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 14 September 2006

Consolidated Profit and Loss Account



For the year ended 30 June 2006

(Expressed in millions of Hong Kong dollars)

	Notes	2006	(Restated) 2005
Revenue	6(i)(a)	25,598	22,945
Cost of sales and operating expenses		(11,512)	(13,351)
Gross profit		14,086	9,594
Other income		535	618
Selling and marketing expenses		(1,176)	(989)
Administrative expenses		(1,131)	(1,014)
Operating profit before change in fair value of investment properties	6(i)(a)	12,314	8,209
Increase in fair value of investment properties		9,110	8,139
Operating profit after change in fair value of investment properties		21,424	16,348
Finance costs		(1,066)	(367)
Finance income		207	83
Net finance costs	7	(859)	(284)
Profit on disposal of long-term investments less impairment	8	176	1,858
Share of results of associates		177	314
Share of results of jointly controlled entities		470	1,350
Share of increase in fair value of investment properties net of tax held by associates and jointly controlled entities		2,305	1,493
	6(i)(b)	2,952	3,157
Profit before taxation	6(i)(c) & 9	23,693	21,079
Taxation	12	(3,655)	(2,899)
Profit for the year		20,038	18,180
Attributable to:			
Company's shareholders		19,850	17,900
Minority interests		188	280
		20,038	18,180
Dividends	13		
Interim dividend paid		1,681	1,680
Final dividend proposed		3,737	3,602
		5,418	5,282
(Expressed in Hong Kong Dollars)			
Earnings per share for profit attributable to Company's shareholders	14		
Basic		\$8.23	\$7.45
Diluted		\$8.23	\$7.45

Consolidated Balance Sheet

As at 30 June 2006

(Expressed in millions of Hong Kong dollars)

	Notes	2006	(Restated) 2005
Non-current assets			
Investment properties	15	116,733	100,775
Fixed assets	16	17,173	15,447
Associates	18	2,102	2,386
Jointly controlled entities	19	21,944	18,553
Long-term investments	20	3,379	5,971
Loan receivables	21	1,397	1,578
Intangible asset	22	632	643
		163,360	145,353
Current assets			
Properties for sale	23	44,815	37,006
Debtors, prepayment and others	24	13,464	4,827
Short-term investments	25	1,353	2,428
Bank balances and deposits	26	7,806	6,519
		67,438	50,780
Current liabilities			
Bank and other borrowings	27	(2,950)	(1,605)
Trade and other payables	28	(12,116)	(11,099)
Deposits received on sales of properties		(19)	(725)
Taxation		(3,499)	(3,114)
		(18,584)	(16,543)
Net current assets		48,854	34,237
Total assets less current liabilities		212,214	179,590
Non-current liabilities			
Bank and other borrowings	29	(27,287)	(21,461)
Deferred taxation	30	(13,769)	(11,494)
Other long-term liabilities	31	(611)	(545)
		(41,667)	(33,500)
NET ASSETS		170,547	146,090
CAPITAL AND RESERVES			
Share capital	32	1,246	1,201
Share premium and reserves	34	166,283	142,722
Shareholders' funds		167,529	143,923
Minority interests	35	3,018	2,167
TOTAL EQUITY		170,547	146,090

Directors:

Kwok Ping-sheung, Walter

Kwok Ping-luen, Raymond

Parent Company Balance Sheet



As at 30 June 2006

(Expressed in millions of Hong Kong dollars)

	Notes	2006	2005
Non-current assets			
Subsidiaries	17	30,074	30,074
Jointly controlled entities	19	–	1
		30,074	30,075
Current assets			
Debtors, prepayment and others	24	9	24
Amounts due from subsidiaries less impairment		66,347	57,570
Bank balances		3	–
		66,359	57,594
Current liabilities			
Trade and other payables	28	(20)	(213)
		(20)	(213)
Net current assets		66,339	57,381
NET ASSETS		96,413	87,456
CAPITAL AND RESERVES			
Share capital	32	1,246	1,201
Share premium and reserves	34	95,167	86,255
SHAREHOLDERS' FUNDS		96,413	87,456

Consolidated Cash Flow Statement

For the year ended 30 June 2006

(Expressed in millions of Hong Kong dollars)

	Notes	2006	(Restated) 2005
Operating activities			
Cash generated from operations	36a	8,149	11,513
Hong Kong profits tax paid		(1,176)	(1,156)
China income tax paid		(5)	(8)
Net cash from operating activities		6,968	10,349
Investing activities			
Purchase of subsidiaries	36b	(2,385)	(94)
Purchase of additional interest in subsidiaries		(136)	(152)
Purchase of jointly controlled entities		(207)	(445)
Purchase of long-term investments		(938)	(1,668)
Net (advances to)/repayments from associates, jointly controlled entities and investee companies		(2,392)	935
Acquisition of properties		(9,094)	(9,257)
Additions to fixed assets		(1,839)	(1,956)
Additions to investment properties		(3,612)	(445)
Payment of mobile licence fees		(50)	(50)
Proceeds from disposal of investment properties		14	1,718
Proceeds from disposal of associates and jointly controlled entities		193	2,212
Proceeds from disposal of long-term investments		5,663	1,525
Proceeds from disposal of other fixed assets		9	3
Interest received from investments		242	337
Dividends received from listed investments		93	67
Dividends received from unlisted investments		23	20
Dividends received from associates and jointly controlled entities		1,145	485
Loans and advances repaid		194	107
Net cash used in investing activities		(13,077)	(6,658)
Financing activities			
Bank and other borrowings raised		15,317	3,297
Repayment of bank and other borrowings		(9,372)	(2,869)
Decrease/(increase) in pledged bank deposits		8	(2)
Interest paid		(1,318)	(414)
Interest received		202	82
Proceeds from issue of shares by a subsidiary		–	1
Proceeds from issue of shares		7,909	7
Increase/(decrease) in fundings from minority shareholders		7	(117)
Dividends paid to shareholders		(5,283)	(4,201)
Dividends paid to minority shareholders		(94)	(166)
Net cash from/(used in) financing activities		7,376	(4,382)
Increase/(decrease) in cash and cash equivalents		1,267	(691)
Cash and cash equivalents at beginning of year		6,132	6,823
Effect of foreign exchange rates changes		7	–
Cash and cash equivalents at end of year	36c	7,406	6,132

Consolidated Statement of Changes in Equity



For the year ended 30 June 2006

(Expressed in millions of Hong Kong dollars)

	2006	(Restated) 2005
Total equity at beginning of year		
– as originally stated	150,152	135,239
– as previously separately reported as minority interest	2,202	2,313
– change in accounting policies (Note 1)	(5,339)	(5,032)
– as restated	147,015	132,520
Exchange difference on translation of financial statements of foreign entities	146	(4)
Fair value gains on available-for-sale investments	149	–
Fair value gains released on sale of available-for-sale investments	(94)	–
Goodwill adjustments	–	(19)
Net income/(expenses) recognized directly in equity	201	(23)
Profit attributable to shareholders for the year	20,038	18,180
Total recognized income for the year	20,239	18,157
Recognition of share-based payment	4	4
Proceeds from exercise of share options	72	7
Proceeds from private placement less expenses	7,837	–
Net changes in capital contributions from/(to) minority interests	761	(226)
Exchange difference in minority interests	(4)	(5)
Interim dividend paid	(1,681)	(1,680)
Final dividend paid	(3,602)	(2,521)
Dividend paid to minority shareholders	(94)	(166)
Total equity at end of year	170,547	146,090
Total recognized income for the year attributable to:		
Company's shareholders	20,056	17,882
Minority interests	183	275
	20,239	18,157

The detailed changes of each component of equity are set out in notes 32, 34 and 35.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2005, the Group has adopted the new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively, "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods beginning on or after 1 January 2005. The changes in accounting policies and its effect on the Group's financial statements are summarized as follows:

a. Investment properties

Following the adoption of HKAS 40 "Investment property", certain properties are reclassified as investment properties and changes in fair values arising on the revaluation of investment properties are recognized in the profit and loss account instead of property revaluation reserves. HK(SIC) Interpretation 21 "Income taxes - recovery of revalued non-depreciable assets" requires deferred taxation to be recognized on any revaluation of investment properties on the basis that recovery of the carrying amount of the investment properties would be through use and calculated at applicable profits tax rates. These new accounting policies have been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were increased by HK\$52,522 million and HK\$44,884 million, respectively, representing the transfers of accumulated attributable revaluation surplus previously recorded in property revaluation reserve and net of deferred tax thereon. In addition, recognition of deferred taxation on the Group's cumulative property revaluation surpluses and reclassification of certain properties as investment properties had resulted in a reduction in the Group's total net assets as at 1 July 2005 and 1 July 2004 of HK\$3,545 million and HK\$2,660 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been increased by HK\$9,382 million (2005: HK\$7,638 million) and HK\$21 million (2005: HK\$56 million), respectively.

b. Hotel properties

Upon the adoption of HKAS 40 "Investment property", owner-operated hotel properties are stated at cost less accumulated depreciation and impairment, rather than at valuation. This change of accounting policy has been applied retrospectively. The Group's net assets as at 1 July 2005 and 1 July 2004 were reduced by HK\$2,639 million and HK\$2,351 million, respectively, as a result of the reversal of hotel property revaluation surplus and the recognition of cumulative depreciation on the Group's hotel properties. Operating profit for the Group's hotel operation for the year ended 30 June 2006 has been decreased, as a result of depreciation charge provided on the properties, from HK\$277 million to HK\$223 million (2005: from HK\$264 million to HK\$214 million).

c. Financial instruments

The adoption of HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement" has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement.

Financial assets are now classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value with changes in fair value recognized in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortized cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" and "other financial liabilities" carried at amortized cost using the effective interest method. In accordance with the transitional provisions in HKAS 39, this change in accounting policy has been applied prospectively by adjusting the difference between the carrying amount of certain financial assets and their fair value at 30 June 2005 to investment revaluation reserve or retained profits at 1 July 2005. The opening investment revaluation reserve and retained profits at 1 July 2005 have been increased by HK\$904 million and HK\$21 million, respectively.

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

d. Derivative financial instruments

In previous years, derivative financial instruments were not separately recorded in the financial statements

Following the adoption of HKAS 32 and 39, derivatives are initially recognized at fair value on the date of entering the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Changes in fair value of derivatives that are designated and qualified as fair value hedges together with any changes in fair value of the corresponding hedged asset or liability are recorded in the profit and loss accounts. Changes in fair value of derivatives held as hedging instruments that are designated and qualified as cash flow hedges are recognized in equity to the extent that the hedge is effective. Changes in fair value relating to the non-qualifying and ineffective portion of qualifying derivatives are recognized immediately in the profit and loss account. In accordance with the transitional provisions in HKAS 39, this change in accounting policy has been applied prospectively. This change has no significant impact in the Group's net assets at 1 July 2005.

e. Share-based payment

The adoption of HKFRS 2 "Share-based payment" has resulted in a change in accounting policy of employee share options. Previously, share options granted to directors and employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the profit and loss account. In accordance with the transitional provisions in HKFRS 2, this treatment is applied to share options granted after 7 November 2002 and not yet vested at 1 July 2005. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were decreased by HK\$6 million and HK\$2 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK\$4 million (2005: HK\$4 million) and HK\$1 million (2005: HK\$3 million), respectively.

f. Leasehold land

In prior years, leasehold land and buildings were included in fixed assets and stated at cost or valuation less accumulated depreciation and impairment, if any. Following the adoption of HKAS 17 "Leases", leasehold land is regarded as operating lease and stated at cost and amortized over the lease period on a straight line basis. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were decreased by HK\$144 million and HK\$126 million, respectively, resulting from a change in accounting policy on amortization of leasehold land held by a jointly controlled entity. Profit attributable to Company's shareholders for the year ended 30 June 2006 and 30 June 2005 have been decreased by HK\$19 million and HK\$18 million, respectively.

g. Associates and joint ventures

Under HKAS 28 "Investments in associates" and HKAS 31 "Interests in joint ventures", the Group uses the most recent available financial statements of the associates or jointly controlled entities in applying the equity method, which are either coterminous with the financial statements of the Company or cover a year ended not more than three months before the Company's year-end. In prior years, financial statements of some associates and jointly controlled entities covered a year ended more than three months before the Company's year-end. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were increased by HK\$98 million and HK\$134 million, respectively. Profit attributable to Company's shareholders for the year ended 30 June 2006 and 30 June 2005 have been decreased by HK\$54 million and HK\$36 million, respectively.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

h. Site restoration cost

In accordance with HKAS 16 "Property, plant and equipment", site restoration costs incurred as a consequence of acquiring or using the site are included in the cost of an asset. Previously, such costs were accounted for to the extent it was recognized as a provision. This change in accounting policy has been applied retrospectively. The Group's total net assets as at 1 July 2005 and 1 July 2004 were decreased by HK\$14 million and HK\$11 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK\$2 million (2005: HK\$2 million) and HK\$2 million (2005: HK\$1 million), respectively.

i. Telecommunication licence

The adoption of HKAS 38 has resulted in a change in accounting policy relating to the recognition of the fees and royalties payable for the right to use telecommunication spectrum. This right represents a right to provide a service rather than a right to use an identifiable asset, and is therefore accounted as an intangible asset. In order to measure the intangible asset, HKAS 39 "Financial instruments: recognition and measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute a contractual obligation to deliver cash and hence should be considered a financial liability and be initially measured at its fair value. As a result, capitalized minimum annual payments together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortized on a straight line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the consolidated profit and loss account after the commercial launch. Variable annual payments on top of the annual minimum payments, if any, are recognized in the consolidated profit and loss account as incurred. The change in accounting policy has been applied retrospectively. The Group's total net assets as at 1 July 2005 and 1 July 2004 were decreased by HK\$20 million and HK\$18 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK\$27 million (2005: HK\$1 million) and HK\$22 million (2005: HK\$1 million), respectively.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

a. Effect on opening balance of total equity at 1 July 2005 and 1 July 2004:

	Company's shareholders' equity						
	Property revaluation reserve	Investment revaluation reserve	Employee share-based compensation reserve	Retained profits	Total	Minority interests	Total equity
At 1 July 2005							
Investment properties	(56,048)	–	–	52,522	(3,526)	(19)	(3,545)
Hotel properties	(1,703)	–	–	(936)	(2,639)	–	(2,639)
Financial instruments	–	904	–	21	925	–	925
Share-based payment	–	–	6	(6)	–	–	–
Leasehold land	–	–	–	(144)	(144)	–	(144)
Associates and jointly controlled entities	–	–	–	98	98	–	98
Site restoration cost	–	–	–	(8)	(8)	(6)	(14)
Telecommunication licence	–	–	–	(10)	(10)	(10)	(20)
Total increase / (decrease) in equity	(57,751)	904	6	51,537	(5,304)	(35)	(5,339)
At 1 July 2004							
Investment properties	(47,529)	–	–	44,884	(2,645)	(15)	(2,660)
Hotel properties	(1,463)	–	–	(888)	(2,351)	–	(2,351)
Share-based payment	–	–	2	(2)	–	–	–
Leasehold land	–	–	–	(126)	(126)	–	(126)
Associates and jointly controlled entities	–	–	–	134	134	–	134
Site restoration cost	–	–	–	(6)	(6)	(5)	(11)
Telecommunication licence	–	–	–	(9)	(9)	(9)	(18)
Total increase / (decrease) in equity	(48,992)	–	2	43,987	(5,003)	(29)	(5,032)

b. Effect on profit attributable to Company's shareholders and minority interests:

	2006			2005		
	Attributable to Company's shareholders	Minority interests	Total	Attributable to Company's shareholders	Minority interests	Total
Investment properties	9,382	21	9,403	7,638	56	7,694
Hotel properties	(53)	–	(53)	(48)	–	(48)
Share-based payment	(4)	(1)	(5)	(4)	(3)	(7)
Leasehold land	(19)	–	(19)	(18)	–	(18)
Associates and jointly controlled entities	(54)	–	(54)	(36)	–	(36)
Site restoration cost	(2)	(2)	(4)	(2)	(1)	(3)
Telecommunication licence	(27)	(22)	(49)	(1)	(1)	(2)
	9,223	(4)	9,219	7,529	51	7,580

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (cont'd)

c. Analysis of increase in profit attributable to Company's shareholders by line items presented according to their function:

	2006	2005
Increase in cost of sales and operating expenses	(65)	(600)
Increase in administrative expenses	(5)	(7)
Increase in fair value of investment properties	9,110	8,139
Increase in finance costs	(67)	(39)
Decrease in share of results of associates and jointly controlled entities	(73)	(54)
Increase in share of increase in fair value of investment properties net of tax held by associates and jointly controlled entities	2,305	1,493
Increase in deferred taxation	(1,986)	(1,352)
	9,219	7,580
Decrease/(increase) in profit attributable to minority interests	4	(51)
	9,223	7,529
	HK\$	HK\$
Increase in basic earnings per share	3.82	3.13

Profit attributable to Company's shareholders before and after the adoption of the new HKFRSs is reconciled as below:

	2006		2005	
	Earnings per share (Basic) HK\$		Earnings per share (Basic) HK\$	
Profit attributable to Company's shareholders before the adoption of the new HKFRSs	10,627	4.41	10,371	4.32
Effects of changes in accounting policies	9,223	3.82	7,529	3.13
Profit attributable to Company's shareholders after the adoption of the new HKFRSs	19,850	8.23	17,900	7.45

3. PRINCIPAL ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include the Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and Listing Rules. The financial statements are prepared under the historical cost convention except for investment properties and certain financial instruments, which are measured at fair value, as explained in the principal accounting policies set out below.

b. Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30 June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 3(f) and note 3(g) below, respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either coterminous with the financial statements of the Company or cover a year ended not more than three months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation. Unrealized 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.

c. Revenue

Revenue derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from properties letting under operating leases, revenue from hotel operation and revenue derived from other business activities including property management, car parking and transport infrastructure management, toll road fees, logistics business, construction, financial services, telecommunications, internet infrastructure, enabling services and department stores. It does not include the revenue of associates and jointly controlled entities.

d. Revenue recognition

Revenue of a transaction is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and these benefits can be measured reliably, on the following basis:

(i) Property sales

Profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sale proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sale proceeds receivable over the interest-free period.

(ii) Rental income

Rental income from properties letting under operating leases is recognized on a straight line basis over the lease terms.

(iii) Hotel operation

Revenue from hotel operation is recognized upon provision of services.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d. Revenue recognition (cont'd)

(iv) Interest income

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

(v) Construction

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

(vi) Dividend income

Dividend income from investments is recognized when the right to receive payment is established.

(vii) Use of internet services centre facilities

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

(viii) Telecommunications

Revenue from telecommunication is recognized when the service is rendered.

(ix) Toll income

Toll income is recognized upon the passage of vehicles through tunnel.

(x) Department store

Revenue from sale of own-bought goods and commission income from concession and consignment sales is recognized upon the transfer of risks and rewards of ownership of the goods.

(xi) Other income

Other income including property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

e. Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the balance sheet of the Company at cost less impairment.

f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are carried at cost as adjusted for post acquisition changes in the Group's share of their results and reserves less any identified impairment.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g. Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

(i) *Jointly controlled entities*

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are carried at cost as adjusted for post acquisition changes in the Group's share of their results and reserves less any identified impairment whereas in the balance sheet of the Company at cost less impairment.

(ii) *Jointly controlled assets*

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

h. Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries, associates and jointly controlled entities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment. Goodwill on acquisition of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively.

Any excess of the Group's interest in fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in the profit and loss account.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the investments were acquired and is reviewed by the management at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are marketable securities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, these investments are measured at fair value. Changes in fair value are recognized in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortized cost less impairment.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognized in the balance sheet at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any identified impairment. An impairment is recognized in profit or loss when there is objective evidence that the asset is impaired.

(iv) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment on available-for-sale investments are recognized in profit or loss. Impairment on available-for-sale equity investments will not reverse through profit and loss account in subsequent periods.

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment at each balance sheet date subsequent to initial recognition. An impairment is recognized in profit or loss when there is objective evidence that the asset is impaired.

j. Derivative financial instruments and hedging

The Group only enters into derivative financial instruments in order to hedge its underlying exposures. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognizing the resulting gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); a hedge of an exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or a hedge of net investments in foreign entities.

(i) Fair value hedges

For fair value hedges that qualify for hedge accounting, gains or losses arising on changes in fair values of hedging instruments are recognized immediately in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

j. Derivative financial instruments and hedging (cont'd)

(ii) Cash flow hedges

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognized in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognized immediately in profit or loss.

For the hedge of a forecast transaction that subsequently results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a liability, the gains or losses that were previously deferred in equity are transferred from equity and included in the initial measurement of the cost of asset or liability.

(iii) Hedges of net investment in foreign entities

Similar to cash flow hedges, the effective portion of the gain or loss arising on the changes in fair value of hedging instruments is initially deferred in equity and the ineffective portion is recognized in profit or loss. When the relevant foreign operation is disposed of, gains or losses accumulated in equity are included in the profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that point in time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is immediately transferred to the profit and loss account.

k. Properties

(i) Investment properties

Investment properties are land and/or buildings held under a leasehold interest to earn long-term rental income and/or for capital appreciation. These include completed properties and land under development for future use as investment properties.

Investment properties are stated in the balance sheet at fair value and are valued at least annually by independent valuer. Increase or decrease in fair value of investment properties is recognized in the profit and loss account. Upon disposal of an investment property, any gain or loss on disposal is recognized in the profit and loss account.

(ii) Hotel properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at cost less accumulated depreciation and impairment, if any.

(iii) Properties pending/under development for sale

Properties pending/under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

(iv) Stocks of completed properties

Completed properties remaining unsold at year end are stated at the lower of cost and net realizable value.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

k. Properties (cont'd)

(v) Other properties

Other properties are properties held for production or administrative purposes and are included in fixed assets at cost less accumulated depreciation and impairment, if any.

l. Depreciation

(i) Hotel properties

Depreciation is provided on hotel property or on its integral fixed plant and calculated on a straight line basis to write off their costs less accumulated impairment over their estimated useful lives at rates ranging from 0.68 per cent to 20 per cent per annum.

(ii) Properties under development

No depreciation is provided on properties under development.

(iii) Network equipment

Network equipment including assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks are stated at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment over their estimated useful lives at rates ranging from ten per cent to 50 per cent per annum. No depreciation is provided on network equipment under construction.

(iv) Toll road

Toll road including the cost of tunnel, approach road and buildings, electrical and mechanical systems are stated at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment over the term of franchise at rate 3.7 per cent per annum.

(v) Other properties

The cost of leasehold land and construction cost of buildings thereon are depreciated on a straight line basis over the term of the lease.

(vi) Other fixed assets

Other fixed assets including equipment, furniture, fixtures and vehicles are stated at cost less depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum.

m. Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred, and are subsequently measured either at amortized cost, using the effective interest rate method or at fair value when accounting for fair value hedges set out in j(i) applies.

Borrowing costs are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

n. Intangible asset – telecommunication licence

The mobile carrier licences to establish and maintain a telecommunication network and to provide mobile services in Hong Kong is recorded as an intangible asset. Upon the issue of the third generation licence ("3G Licence") and renewal of the Global System for Mobile communications licence ("GSM Licence"), the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period of 15 years and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Amortization is provided on the straight line basis over the remaining licence period from the date when the asset is ready for its intended use.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalized as part of the intangible asset. Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated profit and loss account as incurred.

o. Materials

Materials comprising mainly building materials, hotel stocks, handsets and consumable goods are valued at the lower of cost, calculated on a weighted average cost basis, and net realizable value.

p. Translation of foreign currencies

Foreign currency transactions during the year are converted into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at closing rates of exchange ruling at the date of the balance sheet. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of overseas subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the closing rates of exchange ruling at the date of balance sheet whereas the profit and loss accounts are translated at average exchange rates for the year. Exchange differences arising on translation are dealt with as a movement in reserves.

q. Deferred taxation

Deferred tax liabilities are provided in full, using the liability method, on all temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profits, while deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

r. Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be represented as the primary reporting format.

s. Retirement benefits

The retirement benefit costs charged to the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution schemes and Mandatory Provident Fund Schemes.

t. Share-based payment

The fair value of share options granted to directors and employees is amortized over the relevant vesting periods to the profit and loss account with a corresponding increase in employee share-based compensation reserve. In accordance with the transitional provisions in HKFRS2, this treatment is applied to share options granted after 7 November 2002 and not vested at 1 July 2005.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and carrying amounts of assets and liabilities including those related to valuation of investment properties, valuation of derivative financial instruments, impairment of assets and income taxes. The estimates and assumptions concerning the future are believed to be reasonable under the circumstance. Actual results may differ from these estimates.

5. FINANCIAL RISK MANAGEMENT

The Group's policy dealing with the risks associated with its financial assets and financial liabilities is described below.

a. Currency risk

The Group aims to minimize its currency risk using forward contracts where feasible and cost effective. Most of the Group's assets and operational cash flow and the majority of the Group's borrowings are denominated in Hong Kong dollars. For investments in foreign subsidiaries and joint ventures, where the currency concerned is anticipated to be volatile and where the exposure of the Group is material, assets are partially hedged for management of balance sheet translation risk.

b. Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly, at times of interest rate uncertainty, through the use of interest rate swaps.

The Group's borrowings are predominantly on a floating rate basis. When raising funds at fixed rates, the Group enters into fixed-to-floating interest rate swaps to convert the rates to a floating basis. When appropriate, interest rate swaps are used in the Group's management of its long-term interest rate exposure. Speculative derivative transactions are strictly prohibited.

c. Liquidity risk

The Group takes liquidity risk into consideration when deciding its sources of finances and their respective tenors. The Group aims to diversify its funding sources and minimize its refinancing risk by preventing substantial refinancing in any one period. The Group also maintains substantial committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

d. Price risk

The Group is exposed to equity securities price risk as part of the Group's long term investments are classified as available-for-sale investments which are measured at fair value at each balance sheet date. The Group manages its exposure by closely monitoring the price movements and the changes in market conditions that may affect the value of these investments.

e. Credit risk

The Group's trade debtors mainly arise from sale of properties developed by the Group and rent receivables from tenants. Occasionally, long term loans are provided to purchasers of the Group's properties and carry interest at rates with reference to banks' lending rates. Regular review is carried out and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment is made for irrecoverable amounts.

Counterparty exposure from derivatives is managed, together with that from deposits and bank account balances, with credit limit that reflect published credit ratings and monitored on a regular basis to ensure there is no significant risk to any individual counterparty. Investments in securities are generally limited to issuers of sound credit and rating.

The Group has no significant concentration of credit risk.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION

(i) Segment Results

(a) The Company and its subsidiaries

The Group's revenue and results by business segments are analysed as follows:

	Revenue		Profit after Taxation	
	2006	2005	2006	(Restated) 2005
Property				
Property sales	10,890	10,274	6,885	3,072
Rental income	5,659	5,056	4,101	3,740
	16,549	15,330	10,986	6,812
Hotel operation	734	679	223	214
Telecommunications	3,779	3,619	118	322
Other businesses	4,536	3,317	1,077	769
	25,598	22,945	12,404	8,117
Other income			535	618
Unallocated administrative expenses			(625)	(526)
Operating profit before change in fair value of investment properties			12,314	8,209
Increase in fair value of investment properties			9,110	8,139
Operating profit after change in fair value of investment properties			21,424	16,348
Net finance costs – Group			(859)	(284)
Profit on disposal of long-term investments less impairment			176	1,858
Profit before taxation			20,741	17,922
Taxation			(3,655)	(2,899)
Profit after taxation			17,086	15,023

Revenue from properties sales includes HK\$14 million (2005: HK\$1,718 million) from sale of investment properties.

Other businesses comprise revenue and profit derived from other activities including property management, car parking and transport infrastructure management, toll road fees, logistics business, construction, financial services, internet infrastructure, enabling services and department store.

Other income includes mainly investment income from bonds and other investments.

Less than ten per cent of the operations of the Group in terms of revenue and operating results were carried on outside Hong Kong.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(i) Segment Results (cont'd)

(b) Associates and jointly controlled entities

The Group's share of results of associates and jointly controlled entities by business segments is analysed as follows:

	Share of Results	
	2006	(Restated) 2005
Property		
Property sales	164	1,390
Rental income	514	327
	678	1,717
Hotel operation	18	–
Other businesses	293	403
Profit from operations	989	2,120
Finance costs	(214)	(152)
Profit before taxation and share of increase in fair value of investment properties	775	1,968
Share of increase in fair value of investment properties held by associates and jointly controlled entities	2,798	1,792
Profit before taxation	3,573	3,760
Taxation	(621)	(603)
Profit after taxation	2,952	3,157

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(i) Segment Results (cont'd)

(c) Combined results of the Group and its share of results of associates and jointly controlled entities by business segments

	Attributable Profit	
	2006	(Restated) 2005
Property		
Property sales	7,049	4,462
Rental income	4,615	4,067
	11,664	8,529
Hotel operation	241	214
Telecommunications	118	322
Other businesses	1,370	1,172
Other income	535	618
Unallocated administrative expenses	(625)	(526)
Operating profit	13,303	10,329
Increase in fair value of investment properties		
– Group	9,110	8,139
– Associates and jointly controlled entities	2,798	1,792
Net finance costs		
– Group	(859)	(284)
– Associates and jointly controlled entities	(214)	(152)
Profit on disposal of long-term investments less impairment	176	1,858
Profit before taxation	24,314	21,682
Taxation		
– Group	(3,655)	(2,899)
– Associates and jointly controlled entities	(621)	(603)
Profit for the year	20,038	18,180

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(ii) Assets and Liabilities

The Group's assets and liabilities by business segments are analysed as follows:

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Total Liabilities
At 30 June 2006				
Property				
Development	54,802	4,803	59,605	(5,172)
Investment	124,344	15,099	139,443	(1,645)
	179,146	19,902	199,048	(6,817)
Hotel operation	2,175	1,516	3,691	(73)
Telecommunications	3,029	–	3,029	(1,623)
Other businesses	9,480	2,628	12,108	(2,775)
	193,830	24,046	217,876	(11,288)
Long-term investments			3,379	–
Short-term investments			1,353	–
Bank balances and deposits			7,806	–
Bank and other borrowings			–	(30,237)
Unallocated corporate assets/(liabilities)			384	(1,458)
Taxation			–	(3,499)
Deferred taxation			–	(13,769)
Total assets/(liabilities)			230,798	(60,251)
At 30 June 2005 (Restated)				
Property				
Development	38,225	3,202	41,427	(4,459)
Investment	106,152	14,677	120,829	(1,678)
	144,377	17,879	162,256	(6,137)
Hotel operation	2,186	–	2,186	(66)
Telecommunications	3,069	–	3,069	(1,570)
Other businesses	10,100	3,060	13,160	(2,683)
	159,732	20,939	180,671	(10,456)
Long-term investments			5,971	–
Short-term investments			2,428	–
Bank balances and deposits			6,519	–
Bank and other borrowings			–	(23,066)
Unallocated corporate assets/(liabilities)			544	(1,913)
Taxation			–	(3,114)
Deferred taxation			–	(11,494)
Total assets/(liabilities)			196,133	(50,043)

Less than ten per cent of the Group's assets are situated outside Hong Kong.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(ii) Assets and liabilities (cont'd)

The Group's depreciation and amortization and capital expenditure by business segments are analysed as follows:

	Depreciation and Amortization		Capital Expenditure	
	2006	(Restated) 2005	2006	2005
Property				
Development	2	3	13,509	9,112
Investment	5	2	5,324	1,741
	7	5	18,833	10,853
Hotel operation	57	52	49	40
Telecommunications	542	483	360	695
Other businesses	425	302	74	50
Unallocated corporate assets	4	5	4	4
	1,035	847	19,320	11,642

In addition to the above capital expenditure, the Group also acquired interest in subsidiaries as explained in note 36 (b).

7. NET FINANCE COSTS

	2006	(Restated) 2005
Interest expenses on		
Bank loans and overdrafts	1,149	357
Other loans wholly repayable within five years	185	86
Other loans not wholly repayable within five years	54	8
	1,388	451
Notional non-cash interest accretion	67	39
Less : Portion capitalized	(389)	(123)
	1,066	367
Interest income on bank deposits	(207)	(83)
	859	284

Interest is capitalized at an average annual rate of approximately 4.28 per cent (2005: 1.6 per cent).

Notional non-cash interest accretion represents amortization of upfront facility fees and other notional adjustments to accrete the carrying amount of asset retirement obligation and telecommunications licence obligation recognized in the balance sheet to the present value of the estimated future cash flows expected to be required for their settlement in the future.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

8. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS LESS IMPAIRMENT

	2006	2005
Profit on disposal of interests in jointly controlled entities	132	1,649
Profit on disposal of long-term investments	–	300
Profit on disposal of available-for-sale investments	57	–
Impairment of long-term investments	–	(91)
Impairment of available-for-sale investments	(13)	–
	176	1,858

9. PROFIT BEFORE TAXATION

	2006	(Restated) 2005
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	3,291	6,603
Cost of other inventories sold	886	955
Depreciation and amortization of hotel properties	54	50
Depreciation of other properties, plant and equipment	923	764
Amortization of intangible asset (included in operating expenses)	58	33
Impairment of goodwill	40	1
Staff costs (including directors' emoluments and retirement schemes contributions)	2,461	2,206
Auditors' remuneration	11	8
Loss on disposal of other fixed assets	4	8
and crediting:		
Discount on acquisition	–	2
Dividend income from:		
listed investments	93	67
unlisted investments	23	20
Interest income from:		
listed debt securities	139	287
unlisted debt securities	18	27
Profit on disposal of marketable securities	49	18
Net holding gain on marketable securities	122	136

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

Name of director	Fees	Salaries, allowances and benefits	Discretionary bonuses	Retirement scheme contributions	2006 Total emoluments	2005 Total emoluments
Executive Directors						
Kwok Ping-sheung, Walter	0.14	1.62	0.09	0.15	2.00	1.86
Kwok Ping-kwong, Thomas	0.13	1.53	0.09	0.14	1.89	1.76
Kwok Ping-luen, Raymond	0.24	1.58	0.09	0.15	2.06	1.92
Chan Kai-ming	0.10	2.50	3.14	0.23	5.97	5.84
Chan Kui-yuen, Thomas	0.12	2.84	5.19	0.26	8.41	7.13
Kwong Chun	0.10	1.91	1.55	–	3.56	3.26
Wong Yick-kam, Michael	0.32	3.03	6.85	0.28	10.48	6.61
Wong Chik-wing, Mike	0.10	8.58	3.36	0.59	12.63	12.29
Non-Executive Directors						
Lee Shau-kee	0.11				0.11	0.05
Woo Po-shing	0.10				0.10	0.04
Li Ka-cheung, Eric	0.60				0.60	0.39
Kwan Cheuk-yin, William	0.15				0.15	0.04
Lo Chiu-chun, Clement	0.15				0.15	0.19
Law King-wan	0.10				0.10	0.04
Independent Non-Executive Directors						
Chun Sze-yuen	0.56				0.56	0.44
Fung Kwok-king, Victor	0.10				0.10	0.04
Dicky Peter Yip	0.45				0.45	0.34
Wong Yue-chim, Richard	0.21				0.21	0.04
Total 2006	3.78	23.59	20.36	1.80	49.53	42.28
Total 2005	2.38	21.33	16.95	1.62		

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

The above analysis included three (2005: three) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2005: two) individuals are:

	2006	2005
Salaries, allowances and benefits in kind	9.75	10.17
Discretionary bonus	9.97	9.15
Retirement scheme contributions	0.59	0.36
	20.31	19.68

Number of employees whose emoluments fell within:

Emoluments Band HK\$M HK\$M	Number of employees	Number of employees
7.0 – 7.5	–	1
9.5 – 10.0	1	–
10.5 – 11.0	1	–
12.0 – 12.5	–	1
	2	2

11. STAFF RETIREMENT SCHEMES

The Group operates a number of defined contribution schemes for all qualified employees. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions to these schemes are made by both the employers and employees at rates ranging from five per cent to ten per cent on the employees' salary.

With effect from 1 December 2000, the Group sets up an employer sponsored scheme ("MPF Scheme") for other employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at specific rates. Contributions of the Group to the MPF Scheme are charged to profit and loss account as incurred.

Total contributions to the retirement schemes made by the Group during the year amounted to HK\$123 million (2005: HK\$118 million). Forfeited contributions for the year of HK\$7 million (2005: HK\$9 million) were used to reduce the existing level of contributions.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

12. TAXATION

	2006	(Restated) 2005
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,552	1,296
Under/(over) provision in prior years	5	(2)
	1,557	1,294
China income tax	5	13
Under provision in prior years	2	–
	7	13
	1,564	1,307
Deferred taxation		
Change in fair value of investment properties	1,994	1,384
Other origination and reversal of temporary differences	97	208
	2,091	1,592
	3,655	2,899

- (a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2005: 17.5 per cent) based on the estimated assessable profits for the year. China income tax is calculated at the rates applicable in China.
- (b) Share of associates and jointly controlled entities 's taxation of HK\$39 million (2005: HK\$71 million) and HK\$582 million (2005: HK\$532 million) respectively are included in the share of results of associates and jointly controlled entities and share of increase in fair value of investment properties.
- (c) Reconciliation between tax expenses and accounting profit at applicable tax rate:

	2006	(Restated) 2005
Profit before share of results of associates, jointly controlled entities and taxation	20,741	17,922
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	3,630	3,136
Effect of change in tax rate and different tax rate of subsidiaries operating outside Hong Kong	442	58
Net effect of non-deductible expenses and non-taxable revenue	(193)	(154)
Utilization/recognition of tax losses not previously recognized	(68)	(172)
Tax losses and other temporary differences not recognized	(130)	17
Others	(26)	14
Tax expenses	3,655	2,899

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

13. DIVIDENDS

	2006	2005
Interim dividend of HK\$0.70 per share based on 2,401 million shares (2005: HK\$0.70 per share based on 2,401 million shares) paid	1,681	1,680
Proposed final dividend of HK\$1.50 per share based on 2,491 million shares (2005: HK\$1.50 per share based on 2,401 million shares)	3,737	3,602
	5,418	5,282

14. EARNINGS PER SHARE

(a) Reported earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to Company's shareholders of HK\$19,850 million (2005 (restated): HK\$17,900 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,411,924,600 (2005: 2,400,982,551). The diluted earnings per share is based on 2,412,075,082 (2005: 2,401,089,118) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 150,482 (2005: 106,567) shares deemed to be issued at no consideration if all outstanding options had been exercised.

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, earnings per share are additionally calculated based on the underlying profits attributable to Company's shareholders which excluded the effect of fair value changes on investment properties. A reconciliation of profits is as follows:

	2006		2005	
		Earnings per share (Basic) HK\$		Earnings per share (Basic) HK\$
Profit attributable to Company's shareholders as shown in the consolidated profit and loss account	19,850	8.23	17,900	7.45
Increase in fair value of investment properties	(9,110)	(3.78)	(8,139)	(3.39)
Deferred taxation on changes in fair value of investment properties	1,994	0.83	1,384	0.58
Adjustments for realized gains of disposed investment properties	18	0.01	554	0.23
Increase in fair value of investment properties net of related deferred taxation attributable to minority interests	21	0.01	56	0.02
Share of increase in fair value of investment properties net of related deferred taxation of associates and jointly controlled entities	(2,305)	(0.96)	(1,493)	(0.62)
Underlying profit attributable to Company's shareholders	10,468	4.34	10,262	4.27

(Expressed in millions of Hong Kong dollars)

15. INVESTMENT PROPERTIES

The Group

(a) Movement during year

Valuation	
At 1 July 2004	
– as originally stated	78,726
– reclassification	6,349
– change in accounting policy	6,371
– as restated	91,446
Additions	492
Transfer in	4,112
Disposals	(1,468)
Transfer out	(1,946)
Increase in fair value	8,139
At 30 June 2005 and 1 July 2005, as restated	100,775
Acquired on acquisition of subsidiaries	2,993
Additions	3,583
Transfer in	713
Disposals	(164)
Transfer out	(378)
Exchange difference	101
Increase in fair value	9,110
At 30 June 2006	116,733

(b) Valuation of properties shown above comprises:

	2006	(Restated) 2005
Properties in Hong Kong held under		
Long lease (not less than 50 years)	22,123	20,228
Medium-term lease (less than 50 years but not less than ten years)	86,680	78,332
Properties outside Hong Kong held under		
Long lease (not less than 50 years)	616	577
Medium-term lease (less than 50 years but not less than ten years)	7,314	1,638
	116,733	100,775

(c) Investment properties revaluation

The Group's investment properties and land value of properties under development have been revalued as at 30 June 2006 by Knight Frank Petty Limited on a market value basis by reference to market evidence of transaction prices for similar properties.

(d) Gross rental receivable from and loss on disposal of the Group's investment properties during the year amounted to HK\$5,359 million (2005: HK\$4,761 million) and HK\$2 million (2005 (restated): profit of HK\$250 million), respectively.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

16. FIXED ASSETS

The Group

	Hotel Properties	Properties under Development	Other Properties	Network Equipment	Toll Road	Other Fixed Assets	Total
(a) Movement during year							
Cost							
At 1 July 2004							
– as originally stated	4,810	10,819	2,434	2,193	5,268	1,900	27,424
– reclassification	–	(6,349)	–	–	–	–	(6,349)
– change in accounting policy	(1,773)	–	–	(135)	–	23	(1,885)
– as restated	3,037	4,470	2,434	2,058	5,268	1,923	19,190
Acquired on acquisition of subsidiaries	–	–	–	–	–	11	11
Additions	33	1,249	–	609	–	132	2,023
Transfer in	56	12	–	–	–	–	68
Disposals	–	–	–	(94)	–	(78)	(172)
Transfer out	–	(1,994)	–	–	–	–	(1,994)
At 30 June 2005 and 1 July 2005, as restated	3,126	3,737	2,434	2,573	5,268	1,988	19,126
Acquired on acquisition of subsidiaries	–	–	–	–	–	13	13
Additions	43	1,728	–	281	–	178	2,230
Transfer in	1	565	–	–	–	–	566
Disposals	(1)	–	(7)	(43)	–	(96)	(147)
Transfer out	–	(80)	(21)	–	–	–	(101)
Exchange difference	–	–	–	–	–	3	3
At 30 June 2006	3,169	5,950	2,406	2,811	5,268	2,086	21,690
Accumulated depreciation							
At 1 July 2004							
– as originally stated	–	–	645	359	–	1,039	2,043
– change in accounting policy	976	–	–	–	–	7	983
– as restated	976	–	645	359	–	1,046	3,026
Charge for the year	50	–	77	387	128	172	814
Disposals	–	–	–	(88)	–	(73)	(161)
Transfer out	–	–	–	–	–	–	–
At 30 June 2005 and 1 July 2005, as restated	1,026	–	722	658	128	1,145	3,679
Charge for the year	54	–	73	409	258	183	977
Disposals	(1)	–	(2)	(39)	–	(92)	(134)
Transfer out	–	–	(5)	–	–	–	(5)
At 30 June 2006	1,079	–	788	1,028	386	1,236	4,517
Net book value at 30 June 2006	2,090	5,950	1,618	1,783	4,882	850	17,173
Net book value at 30 June 2005 (Restated)	2,100	3,737	1,712	1,915	5,140	843	15,447

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

16. FIXED ASSETS (Cont'd)

(b) Net book value of properties shown above comprises:

	2006	(Restated) 2005
Properties in Hong Kong held under		
Long lease (not less than 50 years)		
Hotel properties	811	809
Properties under development	–	24
Other properties	391	417
	1,202	1,250
Medium-term lease (less than 50 years but not less than ten years)		
Hotel properties	1,279	1,291
Properties under development	5,403	3,127
Other properties	1,227	1,295
	7,909	5,713
Properties outside Hong Kong held under		
Long lease (not less than 50 years)		
Properties under development	–	586
Medium-term lease (less than 50 years but not less than ten years)		
Properties under development	547	–
	9,658	7,549

(c) The carrying amount of properties under development as at 30 June 2006 included interest capitalized in the amount of HK\$1,055 million (2005: HK\$666 million).

17. SUBSIDIARIES

The Company

	2006	2005
Unlisted shares, at cost	30,074	30,074

Particulars regarding principal subsidiaries are set out on pages 167 to 170.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

18. ASSOCIATES

The Group

	2006	(Restated) 2005
Unlisted shares, at cost less impairment	28	28
Hong Kong listed shares, at cost	585	585
Share of post acquisition reserve	1,140	1,206
	1,753	1,819
Amounts due from associates	349	567
	2,102	2,386
Market value of Hong Kong listed shares	5,302	5,864

The Group's effective interest in the revenues, results, assets and liabilities of its associates are summarised below:

	2006	2005
Non-current assets	3,286	3,423
Current assets	1,106	928
Current liabilities	(773)	(668)
Non-current liabilities	(1,866)	(1,864)
Net assets	1,753	1,819
Revenue	2,282	2,257
Fair value change of investment properties net of related deferred tax	14	23
Profit for the year	191	337

Particulars regarding principal associates are set out on page 172.

19. JOINTLY CONTROLLED ENTITIES

	2006		(Restated) 2005	
	The Group	The Company	The Group	The Company
Unlisted shares, at cost less impairment	898	–	1,121	–
Share of post acquisition reserve	5,495	–	2,965	–
	6,393	–	4,086	–
Amounts due from jointly controlled entities	15,551	–	14,467	1
	21,944	–	18,553	1

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

19. JOINTLY CONTROLLED ENTITIES (Cont'd)

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

	2006	2005
Non-current assets	34,297	30,811
Current assets	8,544	3,514
Current liabilities	(6,196)	(2,323)
Non-current liabilities	(30,252)	(27,916)
Net assets	6,393	4,086
Revenue	2,727	5,567
Fair value change of investment properties net of related deferred tax	2,291	1,470
Profit for the year	2,761	2,820

Particulars regarding principal jointly controlled entities are set out on page 171.

20. LONG-TERM INVESTMENTS

	2006		2005	
	The Group	The Company	The Group	The Company
Listed equity securities, overseas	–	–	102	–
Listed equity securities, Hong Kong	–	–	760	–
Unlisted equity securities	–	–	404	–
	–	–	1,266	–
Held-to-maturity debt securities				
Listed debt securities, overseas	32	–	3,876	–
Listed debt securities, Hong Kong	–	–	116	–
Unlisted debt securities	–	–	707	–
	32	–	4,699	–
Available-for-sale debt securities				
Listed debt securities, overseas	137	–	–	–
Available-for-sale equity securities				
Listed equity securities, overseas	527	–	–	–
Listed equity securities, Hong Kong	2,133	–	–	–
Unlisted equity securities	543	–	–	–
	3,203	–	–	–
	3,372	–	5,965	–
Amounts due from investee companies	7	–	6	–
	3,379	–	5,971	–
Market value				
Listed overseas	695	–	4,514	–
Listed in Hong Kong	2,133	–	1,238	–
	2,828	–	5,752	–

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

21. LOAN RECEIVABLES

The Group

	2006	2005
Mortgage loan receivables	1,444	1,629
Less: Amount due within one year included under current assets	(47)	(51)
	1,397	1,578

Mortgage loan receivables are secured on properties and repayable by monthly instalments with various tenors not more than 20 years at the balance sheet date and carry interest at rates with reference to bank's lending rates.

The carrying amount of loan receivables approximates their fair value.

22. INTANGIBLE ASSET

The Group

At 1 July 2004		
– as originally stated		–
– change in accounting policy		650
– as restated		650
Additions		26
Amortization		(33)
At 30 June 2005 and 1 July 2005, restated		643
Additions		47
Amortization		(58)
At 30 June 2006		632

Intangible asset represents the discounted value of the annual licence fees and royalties payable for the telecommunication licence over the licence period less accumulated amortization and impairment.

23. PROPERTIES FOR SALE

The Group

	2006	(Restated) 2005
Properties pending development for sale	17,910	17,025
Properties under development for sale	19,222	15,566
Stock of completed properties for sale	7,683	4,415
	44,815	37,006

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

24. DEBTORS, PREPAYMENT AND OTHERS

	Notes	2006		(Restated) 2005	
		The Group	The Company	The Group	The Company
Materials		165	–	271	–
Debtors, deposits and prepayments		8,748	9	4,202	24
Deposits for acquisition of properties		4,351	–	172	–
Amounts due from customers					
for contract works	24a	46	–	76	–
Short-term loans		117	–	106	–
Interest rate swaps	24b	37	–	–	–
		13,464	9	4,827	24

Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rents in respect of leased properties are payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in contracts.

Included in debtors, prepayment and others of the Group are trade debtors of HK\$7,417 million (2005: HK\$2,897 million), of which 96 per cent aged less than 60 days, two per cent between 61 to 90 days and two per cent more than 90 days (2005: 89 per cent, three per cent and eight per cent, respectively).

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

24a. Amounts due from/(to) customers for contract works

The Group

	Notes	2006	2005
Contract costs incurred plus recognized profits less recognized losses		2,714	2,099
Less: Progress billings		(2,679)	(2,042)
		35	57
Represented by:			
Due from customers included in current assets	24	46	76
Due to customers included in current liabilities	28	(11)	(19)
		35	57

24b. Derivative financial instruments

		2006	
		Assets	Liabilities
Fair value hedges	24 & 28		
– interest rate swaps		37	92
– currency swaps		–	–
		37	92

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

24. DEBTORS, PREPAYMENT AND OTHERS (cont'd)

24b. Derivative financial instruments (cont'd)

Comparative figures are not provided as HKAS39 "Financial Instrument: Recognition and Measurement" prescribes the recognition of derivative at fair value in the balance sheet to take effect prospectively from 1 July 2005.

At the balance sheet date, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps to hedge the fair value interest rate risk of the Group's fixed interest rate borrowings and currency swap (to hedge principal repayment of USD debt) analysed as follows :

	Notional principal amount	
	2006	2005
Fixed-to-floating interest rate swaps maturing		
Within one year	550	–
After one year, but within five years	950	1,500
After five years	1,950	150
	3,450	1,650
Currency swap maturing		
After one year, but within five years	234	234
	234	234

The fixed-to-floating interest rate swaps converted the fixed rates to floating rates at HIBOR plus a weighted average margin of 0.37% per annum. Decrease in fair value of the swaps during the year in the amount of HK\$55 million along with the corresponding increase in fair value of the hedged borrowings of the same amount has been recognized in profit and loss.

25. SHORT-TERM INVESTMENTS

The Group

	2006	2005
Marketable securities		
Equity securities, at market value		
Listed in Hong Kong	495	747
Listed overseas	174	25
	669	772
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed overseas (Market value 2005: HK\$1,586 million)	–	1,576
Unlisted	660	80
	660	1,656
Available-for-sale debt securities maturing within one year		
Listed in Hong Kong	16	–
Unlisted	8	–
	24	–
	1,353	2,428

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

26. BANK BALANCES AND DEPOSITS

The Group

	2006	2005
Bank deposits	7,423	5,915
Bank balances and cash	383	604
	7,806	6,519

27. BANK AND OTHER BORROWINGS

The Group

	Note	2006	2005
Unsecured bank overdrafts		80	59
Non-current bank and other borrowings due within one year	29	2,870	1,546
		2,950	1,605

28. TRADE AND OTHER PAYABLES

	Notes	2006		(Restated) 2005	
		The Group	The Company	The Group	The Company
Creditors and accrued expenses		10,673	20	9,669	213
Amounts due to customers					
for contract works	24a	11	–	19	–
Amount due to minority shareholders		1,340		1,411	
Interest rate swaps	24b	92	–	–	–
		12,116	20	11,099	213

Included in trade and other payables of the Group are trade creditors of HK\$767 million (2005: HK\$656 million), of which 68 per cent aged less than 60 days, four per cent between 61 to 90 days and 28 per cent more than 90 days (2005: 65 per cent, two per cent and 33 per cent, respectively).

The carrying amounts of trade and other payables approximate their fair value.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

29. BANK AND OTHER BORROWINGS

The Group

	Note	2006	2005
Secured bank loans repayable			
Within one year		200	279
After one year, but within two years		220	307
After two years, but within five years		810	1,723
After five years		673	–
		1,903	2,309
Unsecured bank loans repayable			
Within one year		2,016	565
After one year, but within two years		1,288	3,088
After two years, but within five years		21,184	14,359
After five years		37	–
		24,525	18,012
Other unsecured loans repayable			
Within one year		654	702
After one year, but within two years		307	650
After two years, but within five years		908	1,184
After five years		1,860	150
		3,729	2,686
		30,157	23,007
Less : Amount due within one year included under current liabilities	27	(2,870)	(1,546)
		27,287	21,461

The fair values of the long-term borrowings as estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date for similar borrowings are as follows:

	Carry amount		Fair value	
	2006	2005	2006	2005
Secured bank loans	1,703	2,030	1,703	2,030
Unsecured bank loans	22,509	17,447	22,509	17,447
Other unsecured loans	3,075	1,984	3,075	2,105
	27,287	21,461	27,287	21,582

The carrying amount of short-term borrowings approximates their fair value.

As at 30 June 2006, the Group had entered into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk of certain fixed interest rate borrowings (see note 24).

(a) Secured bank loans related to bank borrowings of the Group's subsidiary, Route 3 (CPS) Company Limited which are secured by way of legal charges over its assets and business undertakings.

(b) The above bank and other borrowings are repayable on various dates up to February 2016. The majority of the bank and other borrowings are denominated in Hong Kong dollars and carry interest, after hedging where appropriate, at effective rates based on HIBOR plus a weighted average margin less than 0.3% per annum.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

30. DEFERRED TAXATION

The Group

	2006	(Restated) 2005
Deferred tax assets	(349)	(353)
Deferred tax liabilities	14,118	11,847
	13,769	11,494

The components of deferred tax assets and liabilities recognized in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated tax depreciation	Revaluation of properties	Provisions	Tax losses	Others	Total
At 1 July 2004						
– as originally stated	1,101	517	19	(161)	(83)	1,393
– change in accounting policy	(73)	8,768	–	–	–	8,695
– as restated	1,028	9,285	19	(161)	(83)	10,088
On acquisition of subsidiaries	400	–	–	(586)	–	(186)
Charged/(credited) to profit and loss accounts	199	1,384	5	(23)	27	1,592
At 30 June 2005 and 1 July 2005, as restated	1,627	10,669	24	(770)	(56)	11,494
Change in accounting policy	–	–	3	–	–	3
On acquisition of subsidiaries	235	87	–	(150)	–	172
Credited to equity	–	(11)	–	–	–	(11)
Charged/(credited) to profit and loss accounts	56	1,994	–	91	(50)	2,091
Exchange difference	11	14	–	(5)	–	20
At 30 June 2006	1,929	12,753	27	(834)	(106)	13,769

At the balance sheet date, the Group has unrecognized tax losses and deductible temporary differences of HK\$4,548 million (2005: HK\$5,028 million), of which HK\$85 million (2005: HK\$94 million) will expire at various dates up to 2011. Recognition of these unrecognized tax losses depends on future taxable profits available and losses agreed with the relevant tax authorities.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

31. OTHER LONG-TERM LIABILITIES

The Group

	2006	(Restated) 2005
Asset retirement obligations	38	33
Contractual obligations for telecommunications licences	573	512
	611	545

32. SHARE CAPITAL

	2006		2005	
	Number of Shares in Million	Amount	Number of Shares in Million	Amount
Authorized:				
Ordinary shares of \$0.50 each				
At beginning and end of year	2,900	1,450	2,900	1,450
Issued and fully paid:				
Ordinary shares of \$0.50 each				
At beginning of year	2,401	1,201	2,401	1,201
Private placement in May 2006	89	44	–	–
1,032,000 (2005: 96,000) shares issued on exercise of share options	1	1	–	–
At end of year	2,491	1,246	2,401	1,201

A private placement of 89,000,000 shares of HK\$0.50 each in the share capital of the Company at a price of HK\$89.00 per share was made with independent investors in May 2006. The same number of shares were subscribed by the vendors of the aforesaid placement at HK\$88.068 per new share which was equivalent to the placing price after deduction of related expenses. The net proceeds amounting to approximately HK\$7,837 million would be used for the Group's core property development and investment activities particularly in Mainland China.

33. SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 5 December 2002 ("the New Scheme") to replace a former scheme previously adopted on 20 November 1997 ("the Old Scheme"), whereby the directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Details of the share option schemes are set out in the Directors' Report on pages 91 to 92.

The Old Scheme

Upon the termination of the Old Scheme, no further options could be offered but the outstanding options granted shall continue to be valid and exercisable in accordance with its provisions. At 30 June 2006, the number of shares in respect of which options had been granted and remained outstanding was 810,000 (2005: 1,842,000), representing 0.03 per cent (2005: 0.08 per cent) of the shares in the Company in issue at that date.

(Expressed in millions of Hong Kong dollars)

33. SHARE OPTION SCHEME (cont'd)

The New Scheme

The New Scheme was adopted by the Company in order to comply with the new requirements under Chapter 17 of the Listing Rules. No option shares have been granted to any person since its adoption.

- (i) Movements in share options to subscribe for ordinary shares in the Company under the Old Scheme during the year are as follows:

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options				At 30 June 2006
			At 1 July 2005	Granted During the Year	Exercised During the Year	Lapsed During the Year	
16 July 2001	HK\$70	16.7.2002 to 15.7.2006	1,842,000	–	(1,032,000)	–	810,000
			1,842,000	–	(1,032,000)	–	810,000

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options				At 30 June 2005
			At 1 July 2004	Granted During the Year	Exercised During the Year	Lapsed During the Year	
15 February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	–	–	(810,000)	–
16 July 2001	HK\$70	16.7.2002 to 15.7.2006	1,950,000	–	(96,000)	(12,000)	1,842,000
			2,760,000	–	(96,000)	(822,000)	1,842,000

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

33. SHARE OPTION SCHEME (cont'd)

(ii) Details of share options exercised during the year ended 30 June 2006 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Option	Proceeds Received
3 August 2005	HK\$70	HK\$81.65	36,000	3
12 September 2005	HK\$70	HK\$82.85	24,000	1
26 September 2005	HK\$70	HK\$81.60	60,000	4
19 December 2005	HK\$70	HK\$75.55	36,000	3
3 January 2006	HK\$70	HK\$75.50	12,000	1
9 January 2006	HK\$70	HK\$80.00	72,000	5
10 January 2006	HK\$70	HK\$80.30	30,000	2
11 January 2006	HK\$70	HK\$81.00	192,000	13
12 January 2006	HK\$70	HK\$81.45	36,000	3
18 January 2006	HK\$70	HK\$80.05	12,000	1
1 February 2006	HK\$70	HK\$79.55	18,000	1
23 February 2006	HK\$70	HK\$80.30	24,000	1
24 February 2006	HK\$70	HK\$80.90	36,000	3
28 February 2006	HK\$70	HK\$81.00	54,000	4
6 April 2006	HK\$70	HK\$80.75	36,000	3
7 April 2006	HK\$70	HK\$81.85	18,000	1
10 April 2006	HK\$70	HK\$81.70	96,000	7
12 April 2006	HK\$70	HK\$80.70	36,000	3
19 April 2006	HK\$70	HK\$85.30	150,000	10
20 April 2006	HK\$70	HK\$88.65	36,000	3
21 April 2006	HK\$70	HK\$90.75	18,000	1
			1,032,000	73

Details of share options exercised during the year ended 30 June 2005 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Option	Proceeds Received
29 November 2004	HK\$70	HK\$79.00	36,000	3
29 December 2004	HK\$70	HK\$77.25	24,000	1
5 January 2005	HK\$70	HK\$74.00	36,000	3
			96,000	7

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

34. SHARE PREMIUM AND RESERVES

	2006		(Restated) 2005	
	The Group	The Company	The Group	The Company
Share premium				
At beginning of year	17,009	17,009	17,002	17,002
Premium arising from exercise of share options	71	71	7	7
Premium on private placement less expenses	7,793	7,793	–	–
At end of year	24,873	24,873	17,009	17,009
Capital reserve				
At beginning of year	747	5,281	766	5,281
Goodwill adjustments	–	–	(19)	–
At end of year	747	5,281	747	5,281
Property revaluation reserve				
At beginning of year, as originally stated	57,751	–	48,992	–
– change in accounting policy	(57,751)	–	(48,992)	–
At beginning of year and end of year, as restated	–	–	–	–
Investment revaluation reserve				
At beginning of year	–	–	–	–
Change in accounting policy	904	–	–	–
Fair value gain released on disposal	(94)	–	–	–
Fair value change during the year	149	–	–	–
At end of year	959	–	–	–
Employee share-based compensation reserve				
At beginning of year, as originally stated	–	–	–	–
– change in accounting policy	6	–	2	–
– as restated	6	–	2	–
Recognition of share-based payment	4	–	4	–
At end of year	10	–	6	–
Exchange reserve				
At beginning of year	6	–	10	–
Exchange difference arising on translation of financial statements of				
– Subsidiaries	135	–	(3)	–
– Associates and jointly controlled entities	11	–	(1)	–
At end of year	152	–	6	–
Retained profits				
At beginning of year, as originally stated	73,438	63,965	67,268	61,763
– change in accounting policy	51,537	–	43,987	–
– as restated	124,975	63,965	111,255	61,763
Profit attributable to shareholders	19,850	6,331	17,900	6,403
Interim dividend paid	(1,681)	(1,681)	(1,680)	(1,680)
Final dividend paid	(3,602)	(3,602)	(2,521)	(2,521)
At end of year	139,542	65,013	124,954	63,965
Total share premium and reserves	166,283	95,167	142,722	86,255

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

34. SHARE PREMIUM AND RESERVES (cont'd)

At the balance sheet date, retained profits of the Group included HK\$1,114 million (2005 (restated): HK\$1,185 million) retained by associates and HK\$5,490 million (2005 (restated): HK\$2,972 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30 June 2006 including the proposed dividends amounted to HK\$65,013 million (2005: HK\$63,965 million).

35. MINORITY INTERESTS

The Group

	2006	(Restated) 2005
At 1 July		
– as originally stated	2,202	2,313
– change in accounting policy	(35)	(29)
– as restated	2,167	2,284
Capital contribution	2	36
Repayment of capital contribution	(58)	–
Acquisition of subsidiaries	817	(262)
Share of profits less losses	188	280
Dividend paid	(94)	(166)
Exchange differences	(4)	(5)
At 30 June	3,018	2,167

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2006	(Restated) 2005
Operating profit	12,314	8,209
Depreciation and amortization	1,035	847
Release of discount on acquisition	–	(2)
Impairment of goodwill	40	1
Loss/(profit) on disposal of investment properties	2	(250)
Loss on disposal of other fixed assets	4	8
Share-based payment expenses	5	7
Dividends received from investments	(116)	(87)
Interest income	(178)	(345)
Exchange difference	(2)	4
Operating profit before changes in working capital	13,104	8,392
Decrease in properties for sale	534	3,394
Increase in debtors, prepayment and others	(4,586)	(29)
Increase in marketable securities	(65)	(86)
Decrease in trade and other payables	(132)	(106)
Decrease in deposits received on sale of properties	(706)	(52)
Cash generated from operations	8,149	11,513

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Purchase of subsidiaries

In July 2005, the Group acquired an additional 50% interest in Beijing New Dong An Company Limited raising its total interest to 100%. In Jan 2006, the Group acquired controlling interest in Wealth Pro Enterprises Limited. In the period to 30 June 2006, the acquired subsidiaries contributed HK\$162 million to the Group's revenue and HK\$99 million to the profit attributable to Company's shareholders.

If the acquisitions had been completed on 1 July 2005, total group revenue and profit attributable to Company's shareholders would not be significantly different from that reported in consolidated profit and loss account.

The cash flow and net assets acquired are as follows:

	2006 Book value	2006 Fair value	2005 Fair value
Net assets acquired:			
Deferred tax assets	–	–	187
Investment properties	2,993	2,993	–
Fixed assets	13	13	5,279
Deposit for acquisition of properties	2,730	4,333	–
Stocks	–	–	22
Debtors, prepayment and others	54	9	18
Cash and bank balances	99	99	166
Trade and other payables	(77)	(77)	(178)
Taxation	(2)	(2)	–
Bank and other borrowings	(1,260)	(1,260)	(2,689)
Deferred tax liabilities	(172)	(172)	(1)
Minority interests	(575)	(914)	(847)
	3,803	5,022	1,957
Less:			
Interest in jointly controlled entities		(1,560)	(1,695)
Goodwill/discount on acquisition		4	(2)
		3,466	260
Satisfied by:			
Cash paid		2,484	260
Deferred consideration		982	–
		3,466	260
		2006	2005
Analysis of net cash inflow in respect of the purchase of subsidiaries:			
Cash consideration paid		2,484	260
Cash and bank balances acquired		(99)	(166)
		2,385	94

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Analysis of the balances of cash and cash equivalents at end of year

	2006	2005
Bank deposits	7,423	5,915
Bank balances and cash	383	604
Bank overdrafts	(80)	(59)
	7,726	6,460
Less: Pledged bank deposits	(320)	(328)
	7,406	6,132

37. JOINTLY CONTROLLED ASSETS

At the balance sheet date, the aggregate amounts of assets and liabilities recognized in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2006	2005
Investment properties	5,623	5,620
Properties pending development for sale	137	126
Properties under development for sale	117	10
Stocks of completed properties for sale	146	150
	6,023	5,906
Trade and other payables	174	203

38. RELATED PARTY TRANSACTIONS

During the year, the Group undertook various transactions with related parties. The following is a summary of significant transactions between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates		Jointly controlled entities	
	2006	2005	2006	2005
Interest income	1	1	96	44
Rental income	6	6	2	3
Rental expenses	—	—	18	14
Other revenue from services rendered	538	314	139	304
Purchase of goods and services	—	—	200	196
Acquisition of properties	106	—	—	—

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in Notes (18) and (19).

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

39. CONTINGENT LIABILITIES AND COMMITMENTS

The Group

At the balance sheet date, the Group had contingent liabilities and commitments, so far as not provided for in the consolidated financial statements, as follows:

	2006	2005
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	5,345	5,038
Authorized but not contracted for	563	450
(b) Capital commitments in respect of investments		
Contracted but not provided for	11	83
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	3	337
Authorized but not contracted for	7	44
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$5,300 million (2005: HK\$4,192 million) and other guarantees of HK\$2 million (2005 (restated): HK\$2 million).		

The Company

At the balance sheet date, the Company had contingent liabilities, not included in the Company's financial statements, in respect of guarantees for bank and other borrowings drawn by:

	2006	2005
Subsidiaries	30,144	20,674
Jointly controlled entities	5,300	4,192
	35,444	24,866

40. OPERATING LEASE

At the balance sheet date, the future aggregate minimum lease income receivable by the Group under non-cancellable operating leases for land and buildings is analysed as follows:

	2006	2005
Not later than one year	4,331	3,791
Later than one year but not later than five years	3,195	3,208
Later than five years	98	199
	7,624	7,198

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

40. OPERATING LEASE (cont'd)

At the balance sheet date, the future aggregate minimum lease charges payable by the Group under non-cancellable operating leases is analysed as follows:

	2006	2005
Not later than one year	294	275
Later than one year but not later than five years	242	182
Later than five years	35	10
	571	467

41. CHARGES OF ASSETS

At the balance sheet date, certain bank deposits of the Group's subsidiary, SmarTone Telecommunications Holdings Limited, in the aggregate amount of HK\$320 million (2005: HK\$328 million) have been pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

At the balance sheet date, the assets of the Group's subsidiary, Route 3 (CPS) Company Limited, with an aggregate net book amount of approximately HK\$4,962 million (including bank balance of HK\$9 million) have been charged to secure its bank borrowings (2005: 5,230 million (including bank balance of HK\$6 million)).

42. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 119 to 172 were approved by the board of directors on 14 September 2006.

Principal Subsidiaries



The directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the list following contains only the particulars of subsidiaries which principally affect the profit and loss account or assets of the Group. A complete list of all the subsidiaries will be annexed to the Company's 2006 annual return.

Unless otherwise stated, all principal subsidiaries are incorporated and operating in Hong Kong and unlisted.

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities	Issued Capital (HK\$)
SUNeVision Holdings Ltd. (Listed in Hong Kong)	2	84.83	IT infrastructure & internet services investment	202,673,083
SmarTone Telecommunications Holdings Limited (Listed in Hong Kong)	4	55.12	Mobile telephone system operation	582,791,428
Sun Hung Kai Real Estate Agency Limited		100	General management & agency	1,000,000
New Town (N.T.) Properties Limited		100	Investment holding	2,287,659,338
Hung Kai Finance Company Limited		100	Registered deposit-taking company	100,000,200
Fidelity Finance Company Limited		100	Finance	200
Honour Finance Company Limited		100	Finance	500,000
Sun Hung Kai Properties (Financial Services) Limited		100	Finance	100,000
Sun Hung Kai Properties Insurance Limited		100	General insurance	75,000,000
Honour Securities Company Limited		100	Share broking	6,000,000
Sun Hung Kai Architects and Engineers Limited		100	Architectural & engineering	350,000
Sanfield Building Contractors Limited		100	Building construction	10,200,000
Everlight Engineering Company Limited		100	Fire prevention & mechanical engineering	50,000
Aegis Engineering Company Limited		100	Plant and machine hire	100,000
Hong Yip Service Company Limited		100	Property & facility management	100,000
Kai Shing Management Services Limited		100	Property & facility management	10,000
Mantegna Investment Company Limited	1	100	Hotel ownership	10,000,000
New Town Serviced Apartment Management Company Limited		100	Furnished apartment management	200
Royaltelle International Limited		100	Hotel management	2
Able Smart Assets Limited	1	100	Property investment	US\$1
Additech Ltd.	1	100	Property investment	US\$1
Airport Freight Forwarding Centre Company Limited		100	Freight forwarding centre	100
Annadale Development Limited		100	Property development and investment	2
Antanpark Limited	1	100	Property investment	US\$1
Antinio Investments Limited	1	100	Property investment	US\$1
Artsland Properties Investment Ltd.	1	100	Property investment	US\$1
Asiaford Limited	1	100	Property development	US\$1
Banodale Limited		100	Property development	2

Principal Subsidiaries

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities	Issued Capital (HK\$)
Barnard Enterprises Limited	1	75	Property investment	US\$100
Beauty Marble Investment Limited		100	Property investment	2
Best Winners Limited	1	100	Property investment	US\$1
Beachshore Limited		100	Property development	10,400,000
Biliboss Limited	1	100	Property investment	US\$1
Branhall Investments Limited	1	100	Property investment	40,000,000
Buratto Limited	1	100	Property investment	US\$1
Century Loyal Limited		100	Property investment	1
Cheerlord Investment Ltd.	1	100	Property investment	US\$1
Cherry Land Company Limited		100	Property investment	1,500,000
City Lion Company Limited	1	100	Property investment	US\$1
City Success Limited		100	Property development and investment	2
Dictado Company Limited		100	Property investment	200
Dipende Limited	1	100	Property investment	US\$1
Donora Company Limited		100	Property development	2
Entero Company Limited		100	Property investment	200
Even Decade Limited	1	100	Property investment	US\$1
Ever Channel Limited		100	Property investment	2
Ever Fast Limited		100	Property development and investment	2
Excel Elite Assets Limited	1	100	Property investment	US\$1
Excellent Chance Limited	1	100	Property investment	US\$1
First Gain Assets Limited	1	100	Property investment	US\$1
Firstmax Limited		100	Property investment	2
Fit Sharp Limited	1	100	Property investment	US\$1
Forever Glory Investments Limited	1	100	Property investment	US\$1
Fortune Honor Limited		100	Property investment	2
Fortune Yield Investment Limited		100	Property investment	2
Full Market Limited		100	Property investment	2
Garudia Limited		100	Property investment	2
Glad Point Limited		100	Property development	2
Golden Square Properties Enterprises Limited	1	100	Property investment	1,000,000
Goodwick Limited		100	Property investment	1
Grumete Company Limited		100	Property development	200
Harbour Vantage Limited		100	Property development	2
Head Master Assets Limited	1	100	Property investment	US\$1
Hintline Investments Limited		100	Property development	5,000
Honenberg Limited		100	Property investment	2
Hong Kong Business Aviation Centre Limited	5	35	Business Aviation Centre	1,000,000
Hung Kai Finance Investment Holding Limited		100	Property investment	200
Jayan Company Limited		100	Property investment and investment holding	2

Principal Subsidiaries

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities	Issued Capital (HK\$)
Jugada Company Limited		100	Property investment	2
Kam Hoi Development Company Limited		66.7	Property development	120,000
Kamchatka Company Limited		100	Property investment	200
Kartasun Limited		100	Property investment	2
King Skill Limited		100	Property development	2
Kimrose Investments Ltd.	1	100	Property investment	US\$1
Koon Yee Company Limited		100	Property development	3
Laboster Company Limited		100	Property investment	2
Lee Bit Kai Investment Company Limited		100	Property investment	1,000
Long Tesak Company Limited		100	Property investment	100,000
Lonsale Company Limited		100	Property investment	2
Lorient Holdings Ltd.	1	100	Property investment	US\$1
Lunalite Company Limited		100	Property investment	2
Luxsky Ltd.	1	100	Property investment	US\$1
Manceton Limited		100	Property investment	2
Mighty Choice Assets Limited	1	100	Property investment	US\$1
Mindano Limited		100	Property investment	10,000
Morifunn Ltd.	1	100	Property investment	US\$1
Moscova Company Limited		100	Property investment	200
Nixon Cleaning Company Limited		100	Cleaning service	100,000
Obvio Yip Company Limited		100	Property development, property investment and loan financing	15,000,000,000
Open Step Limited		60	Property investment	10
Pacotilla Company Limited		100	Property investment	200
Partner Sino Assets Limited	1	100	Property investment	US\$1
Pawling Limited	1	100	Property investment	US\$1
Profit Richness Limited	1	100	Property investment	US\$1
Protasan Limited		100	Property investment	100
Rainforce Limited		100	Property development	2
Rena Holding Limited	1	100	Property investment	US\$1
Rinnovare Limited	1	100	Property investment	US\$1
Route 3 (CPS) Company Limited		70	Toll road operation	10,000
Seiyu (Shatin) Company Limited		100	Department store operation	30,000,000
SHKP E-home Limited		100	Property development	2
Shubbery Company Limited		100	Property investment	200
Shunyue Investments Limited	1	100	Property investment	US\$1
Smartland Enterprises Limited		100	Property investment	2
Solar Kingdom Limited		100	Property investment	2
Speed Wise Limited		100	Property investment	2
Speedway Assets Limited	1	100	Property investment	US\$1
Standard Top Limited		100	Property investment	2

Principal Subsidiaries

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities	Issued Capital (HK\$)
Startrack Company Limited		100	Property investment	200
Sun Carol Company Limited		100	Property investment	200
Sun Hung Kai Properties (Capital Market) Limited	2	100	Finance	US\$10
Sun Hung Kai Secretarial Services Limited		100	Secretarial services	200
Sun Yuen Long Centre Management Company Limited		87.5	Property investment and management	50,000
Sunfez Company Limited		100	Property investment	200
Suniland Limited		100	Property development and investment	2
Sunrit Enterprises Limited		100	Property investment	4,000,000
Tainam Holdings Limited	1	100	Property investment	US\$1
Tamworth Development Limited		100	Property development	2
Ten Choice Development Limited		100	Property investment	2
Tenuta Limited	1	100	Property investment	US\$1
Tipro Development Limited		100	Property investment	1,000,000
Tonthai Investment Enterprises Limited	1	100	Property investment	US\$1
Town Descant Company Limited		100	Property investment	200
Treasure On Development Limited		100	Property development and investment	2
Tsi Mai Company Limited		100	Property investment	200
Tsing Ma Management Limited		66.7	Road management	70,000,000
Tsuen Kwong Limited		100	Property development	2
Uniland Investment Enterprises Limited	1	100	Property investment	US\$1
Upper Hill Company Limited	1	100	Property investment	US\$1
Wai Hung Development Company Limited		100	Investment holding and property investment	70,000
Warrior Company Limited		100	Property investment	300
Well Logic Properties Investment Limited	1	100	Property investment	US\$1
Wellden Limited		100	Property investment	2
Wilson Parking (Holdings) Limited		100	Investment holding and carpark operation	1,000
Winner Land Enterprises Limited		100	Property investment	2
Wonder Charm Assets Limited	1	100	Property investment	US\$1
WTC (Club) Limited		100	Club management	200
Zarabanda Company Limited		100	Property investment	2
Zindemar Investments Corp.	3	100	Property development	US\$2

Notes: 1. Incorporated in the British Virgin Islands.
2. Incorporated in the Cayman Islands.
3. Incorporated in Panama.
4. Incorporated in Bermuda.
5. Indirectly held by the Company.

Principal Jointly Controlled Entities



The directors are of the opinion that a complete list of the particulars of all jointly controlled entities will be of excessive length and therefore the list following contains only the particulars of jointly controlled entities which principally affect the profit and loss account or assets of the Group. A complete list of all jointly controlled entities will be annexed to the Company's 2006 annual return.

Unless otherwise stated, all principal jointly controlled entities are incorporated and operating in Hong Kong and unlisted.

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities
Altomatic Limited		50	Property investment
# Anbok Limited		25	Property development
Arrowtown Assets Limited	1	49	Property development
Brilliant Palace Limited	1	40	Investment holding
#+ Cheerjoy Development Limited		35	Property development
# Dragon Beauty International Limited		50	Property development
#+ Faith & Safe Transportation Limited		50	Mid stream operator
# First Star Development Limited		50	Property development
+ Glorious Concrete (H.K.) Limited		50	Manufacturers of ready mixed concrete
#+ Green Valley Landfill Limited		20	Landfill waste disposal facility
#+ Hoi Kong Container Services Company Limited		50	Mid stream operator
IFC Development Limited	1	50	Property investment
Jade Land Resources Limited		25	Property development and investment
Karnold Way Limited		57.52	Finance
# Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited		50	Godown operation
Krimark Investments Limited	1	30	Property development
+ Newfoundworld Holdings Limited		20	Property development and investment
#+ Orchard Turn Holdings Pte Limited	3	50	Investment holding
Ranny Limited		50	Property investment
#+ River Trade Terminal Co. Ltd.	1	50	River trade terminal
# Senica International Limited		22.5	Investment holding
#+ South China Transfer Limited		20	Solid waste management and environmental services
Special Concept Development Limited		25	Property development
+ Splendid Shing Limited		50	Property investment
+ Star Play Development Limited		33.3	Property investment
#+ Sun Logistics Company Limited		50	Logistics services
Teamfield Property Limited		57.52	Property investment
+ Tinyau Company Limited		50	Property investment
+ Topcycle Development Limited		50	Property development
Wellview Investment Limited	1	40	Investment holding
# Wisdom Choice Investment Limited		40	Property development
# Wolver Hollow Company Limited		50	Property investment
Xipho Development Company Limited		33.3	Property development

* The financial statements of these companies have been audited by firms other than Deloitte Touche Tohmatsu. The aggregate net liabilities and profits after taxation of these jointly controlled entities attributable to the Group amounted to HK\$417 million (2005: assets HK\$82 million) and HK\$123 million (2005: HK\$313 million) respectively.

Companies with year ends not co-terminous with that of Sun Hung Kai Properties Limited.

Notes: 1. Incorporated in the British Virgin Islands.
2. Incorporated in The People's Republic of China.
3. Incorporated in the Republic of Singapore.

Principal Associates

The directors are of the opinion that a complete list of the particulars of all associates will be of excessive length and therefore the list following contains only the particulars of associates which principally affect the profit and loss account or assets of the Group. A complete list of all associates will be annexed to the Company's 2006 annual return.

Unless otherwise stated, all principal associates are incorporated and operating in Hong Kong and unlisted.

Name	Note	Attributable Equity Interest Held by the Company (%)	Activities
#+ Transport International Holdings Limited (Former: The Kowloon Motor Bus Holdings Limited) (listed in Hong Kong)	1	33.28	Public transportation
#+ Ranex Investments Limited		29	Property development and investment
#+ The Hong Kong School of Motoring Limited		30	Driving School
#+ Onluck Finance Limited		35.44	Finance
#+ Treasure Peninsula Limited		29	Finance

+ The financial statements of these companies have been audited by firms other than Deloitte Touche Tohmatsu. The aggregate net assets and profits after taxation of these associates attributable to the Group amounted to HK\$1,751 million (2005: HK\$1,817 million) and HK\$190 million (2005: HK\$338 million) respectively.

Companies with year ends not co-terminous with that of Sun Hung Kai Properties Limited.

Note: 1. Incorporated in the Bermuda.

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