

The Wharf (Holdings) Limited
Annual Report 2005





Celebrating 120 years of excellence
Building for Tomorrow



Contents

3	Corporate Information
4	Chairman's Statement
6	Financial Highlights
7	Managing Director's Report

Business Review

Property

China

CME

	Financial Review
47	Corporate Governance Report
56	Report of the Directors
77	Report of the Auditors
78	Consolidated Profit and Loss Account
79	Consolidated Balance Sheet
80	Company Balance Sheet
81	Consolidated Statement of Changes in Equity
83	Consolidated Cash Flow Statement
85	Notes to the Financial Statements
129	Principal Accounting Policies
146	Principal Subsidiaries, Associates and Jointly Controlled Entities
150	Schedule of Principal Properties
154	Ten-year Financial Summary

Corporate Information

Board of Directors

Mr Peter K C Woo, GBS, JP, *Chairman*

Mr Gonzaga W J Li, *Senior Deputy Chairman*

Mr Stephen T H Ng, *Deputy Chairman & Managing Director*

Mr Erik B Christensen

Ms Doreen Y F Lee

Mr T Y Ng

Independent Non-executive Directors

Mr Paul M P Chan*

Professor Edward K Y Chen, GBS, CBE, JP

Dr Raymond K F Ch'ien, GBS, CBE, JP

Hon Vincent K Fang, JP*

Mr Hans Michael Jebsen, BBS*

Mr James E Thompson, GBS*

* Members of the Audit Committee

Secretary

Mr Wilson W S Chan, FCIS

Auditors

KPMG

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Registrars

Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East, Wanchai, Hong Kong

Registered Office

16th Floor, Ocean Centre, Harbour City,

Canton Road, Kowloon, Hong Kong

Telephone: (852) 2118 8118

Fax: (852) 2118 8018

Website: www.wharfholdings.com

Chairman's Statement

The Hong Kong economy defied record high oil prices and rising interest rates to exceed expectations in 2005. Driven by flourishing external trade, investments and re-vitalised domestic consumption, real GDP growth reached 7.3%. Consumer confidence continued to rise, aided by a steady improvement in employment, a controlled rise in wages, robust economic expansion and a healthy stock market. The composite consumer price index rose by a modest 1.1%. Thanks to the progressive expansion of the Individual Traveller Scheme to 38 cities, Mainland arrivals reached 12.5 million in 2005 to mark a new high.

Favourable economic fundamentals fuelled growth across all business sectors of the Group. All core businesses of the Group performed well in 2005, with better than expected results overall.

Group turnover rose by 5% to HK\$12,543 million (2004: HK\$11,953 million). Group profit rose by 10% to HK\$13,888 million (2004: HK\$12,677 million). Earnings per share rose to HK\$5.67. Excluding the unrealised surplus from the revaluation of investment properties to comply with prevailing accounting standards, Group profit rose by 20% to HK\$4,499 million (2004: HK\$3,740 million).

Rentals firmed across all property sectors. Tightening supply and growing demand for Grade A offices led to accretive rental reversions in 2005. Retail sentiments remained strong. Valuation of the Group's investment properties correspondingly rose by 17% to HK\$78,224 million.

The Group has reduced its debt over the past few years and is reasonably sheltered from the rising interest rate environment. Gearing ratio improved to 24.6% at the end of 2005.

A final dividend of 44 cents per share has been recommended to bring the total dividend for the year to 80 cents per share (2004: 68.75 cents).

Business Performance

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

Consistent focus on shopping mall management has successfully attracted shopper's traffic and enabled our retail tenants to achieve favourable sales performance. In December 2005, a record was set when an average turnover of over HK\$1,200 per square foot was achieved by the Harbour City retail tenants. For both tourists and local shoppers, Harbour City and Times Square are well established as the premier, must-visit shopping malls in Hong Kong.

Other business units also recorded steady progress:

- The Group continued to pursue landbank replenishment opportunities in Hong Kong and expanded its property investments and developments in China.
- The CME sector responded swiftly to competitive attack to achieve steady market position, profitability and cash flow.
- Modern Terminals handled a record 5.04 million TEUs at Kwai Chung, 16% higher than in 2004. It also undertook strategic expansion in China through the Dachan Bay and Taicang projects.

A full report on each business unit's performance is included in the Managing Director's Report.

As a special note, I wish to express my heartfelt gratitude to Mr Quinn Law, who left the Board effective November 1, 2005, and Mr Erik Christensen, who will retire from the Board at the upcoming Annual General Meeting, for their invaluable contributions to the Group.

Outlook

Hong Kong's economic momentum remains intact and the outlook for 2006 positive. China, with strong GDP growth continuing, will remain as Hong Kong's biggest and most important trading partner. As China booms, Hong Kong flourishes. The Closer Economic Partnership Arrangement, coupled with China's WTO accession, will continue to benefit Hong Kong companies in exploring business opportunities on the Mainland, and facilitate SMEs from China to make use of the Hong Kong trading platform. The economic interlock between the Mainland and Hong Kong will be further strengthened.

Hong Kong tourism will continue to expand. The Hong Kong Tourism Board forecasted another 16% growth in tourist arrivals to reach 27 million in 2006. Consumer spending remains strong, underpinned by the wealth effect of the asset markets and improving employment situations.

Despite the tightening monetary conditions in the US over the past two years, the world economic fundamentals remain healthy. Asia, in particular China, has been the whole world's focal point and Hong Kong is at the heart of the action. Hong Kong is the platform facilitating the "going out" policy of Mainland private enterprises, and the "going in" strategy of international enterprises.

Hong Kong is not without its challenges but is on balance in very good shape. I look keenly forward to a brighter and better future.

Peter K C Woo

Chairman

Hong Kong, March 15, 2006

Financial Highlights

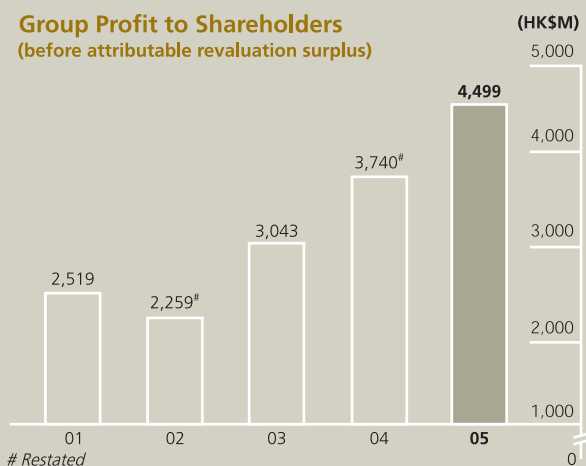
Results

	2005 HK\$M	2004 HK\$M (Restated)
Turnover	12,543	11,953
Operating profit before depreciation, amortisation, interest and tax	7,209	6,653
Profit before attributable revaluation surplus	4,499	3,740
Profit attributable to shareholders	13,888	12,677
Earnings per share	HK\$5.67	HK\$5.18
Dividend per share	80 cents	68.75 cents

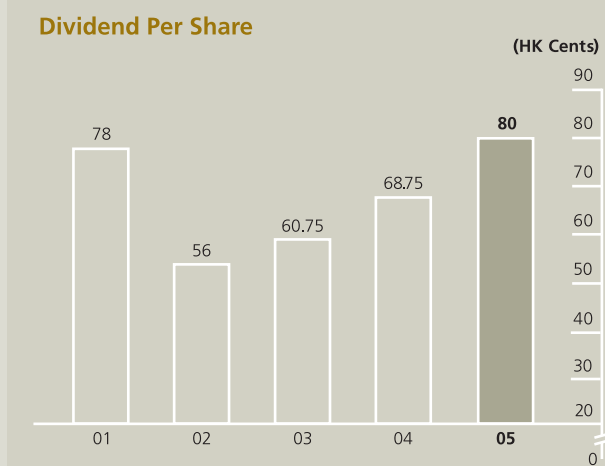
Financial Position

Total assets	104,395	90,138
Net debt	16,050	14,077
Shareholders' equity	65,313	54,949
Net asset value per share	HK\$26.68	HK\$22.46
Net debt to total assets (excluding cash)	15.8%	16.0%
Net debt to shareholders' equity	24.6%	25.6%

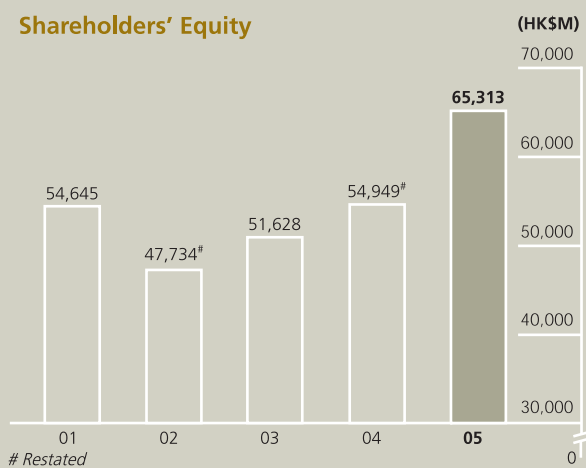
Group Profit to Shareholders
(before attributable revaluation surplus)



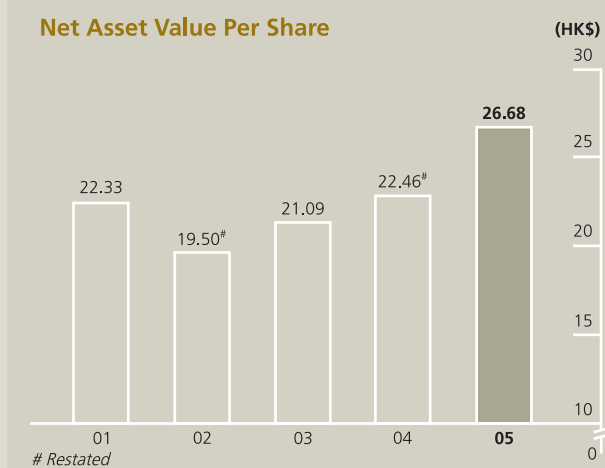
Dividend Per Share



Shareholders' Equity



Net Asset Value Per Share



Managing Director's Report

Business Review



Property

- Harbour City
- Times Square
- Plaza Hollywood
- Property Development



China

- Property
- Marco Polo Hotels
- Modern Terminals



CME

- i-CABLE
- Wharf T&T

Harbour City

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Properties	45,118
Hotel and club (cost less depreciation)	257*
Net current liabilities	(1,358)
Other non-current liabilities	(586)
**Net business assets (before debt)	43,431

* Including leasehold land

** Excluding deferred tax on revaluation of investment properties

Gross Revenue

	2005 HK\$M	2004 HK\$M
Retail	1,287	1,193
Office	1,002	945
Serviced Apartments	220	193
Hotel and Club	823	730
	3,332	3,061

Operating Profit

	2005 HK\$M	2004 HK\$M (Restated)
Retail	997	881
Office	843	775
Serviced Apartments	155	120
Hotel and Club	256	218
	2,251	1,994





Harbour City

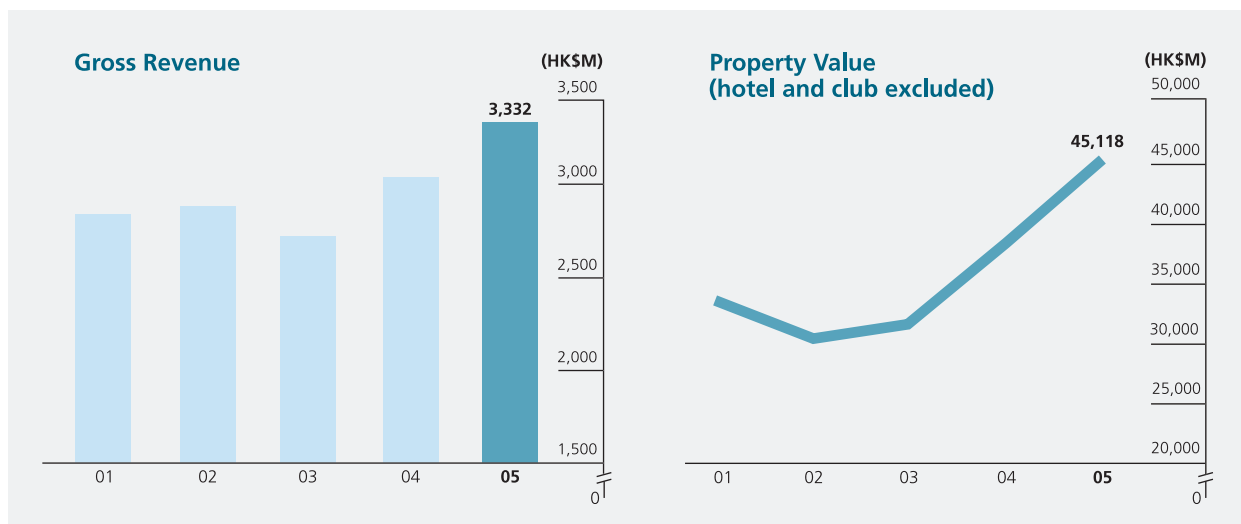
Harbour City, the Group's core investment property asset, turned over HK\$3,332 million during 2005, an increase of 9% over 2004.

Retail

Underpinned by continual improvement in local sentiment and rising tourist arrivals, Harbour City's retail sector reported a turnover of HK\$1,287 million for an increase of 8% over 2004.

The retail market remained buoyant during the year due to a myriad of favourable economic factors. Roll-out of the Individual Traveller Scheme to other Mainland cities continued. The scheme is now offered to residents of 38 Chinese cities. China remained the number one source of visitors to Hong Kong with arrivals reaching 12.5 million in 2005. The expanding number of tourists from the Mainland and other markets will continue to benefit Hong Kong's retail sector.

Harbour City's retail portfolio maintained an average occupancy of 99% throughout 2005 with favourable rental growth for all new leases and renewals. It continued to be the top shopping destination for tourists and locals, which enabled the tenants to report a 17% increase in average sales per square foot during the year and a record high in December to exceed HK\$1,200.



Leasing activities at Harbour City remained active. During 2005, a number of top-notch international brand names including Armani Junior, Celine, Michael Kors and Zara signed up. Various new food and beverage outlets were opened during the year, bringing the total number to 53 and offering shoppers a wide array of international and specialty cuisines.

Conversion of the carpark space on Level I of Ocean Centre into 30,000 square feet of lettable retail use to optimise the asset value of the complex is well underway. Phase I is expected to be completed by the second quarter of 2006. Some 94% of the retail space has already been pre-leased to a cluster of upmarket fashion brands such as Anna Sui, Jean Paul Gaultier and Marc Jacobs.

Professional retail management, which emphasises critical-mass building, on-going trade-mix enhancement, well-designed tenant clustering and segmentation, and powerful marketing and promotions, underpins the success of the Group's shopping malls. Amid the competitive retail landscape, Harbour City will continue to channel its efforts in these areas to stay ahead of the competition and ensure loyalty of shoppers and tenants.

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

as at December 31, 2005

	% by Rental	% by Area
Fashion	35.4	24.7
Leather Goods — Shoes, Bags & Related Trades	16.9	7.7
Jewellery, Beauty and Accessories	11.2	6.2
Department Stores, Confectionery Products	9.3	16.4
Restaurant, Fast Food, F&B	8.3	20.2
Sports Wear	5.2	4.3
Children's Wear & Related Trades, Toys	5.1	8.3
Electrical & Audio-visual Equipment	3.2	3.1
Others	5.4	9.1
	100.0	100.0

Office

The continued positive global environment, new tourism attractions and healthy tourism, with the Hong Kong Tourism Board expecting tourist arrivals to further grow by 16% to 27 million in 2006, will continue to fuel retail demand at Harbour City.

Turnover from the office sector rose by 6% to HK\$1,002 million on the back of strong rental reversion.

Buoyed by a shortage of new supply, office rents across all sub-markets firmed considerably during the year. Demand for office space continued to be fuelled by expansion and upgrading requirements and a growing trend of decentralisation. This has resulted in a substantial increase in office rental level as well as strong appreciation in capital values.

Average office occupancy at Harbour City climbed steadily from 91% in 2004 to 97% in 2005. Retention rate for tenancies that expired in 2005 reached 84%.

Harbour City's office rentals improved considerably on the back of an upbeat business environment and a shortage of new supply in Grade A office. During 2005, average reversion rental at Harbour City registered an increase of about 30%. Tsim Sha Tsui has become a natural choice as an office location for multinational, Mainland and local enterprises because of its ideal transportation network and Hong Kong's growing reliance on the Mainland market. Located in the heart of Tsim Sha Tsui, Harbour City is poised to benefit from the trend.

Office Occupancy & Rental at Harbour City in 2005

	Gateway II	Gateway I	Others
Total GFA (sq ft)	1,570,000	1,128,000	1,737,000
Occupancy at year end	98.7%	94.9%	94.0%
Rental – average spot rate at the beginning of (HK\$) – 2006	33	30	23
– 2005	21	19	16
– 2004	19	16	13

Serviced Apartments

Turnover for the serviced apartments sector registered an increase of 14% to HK\$220 million with higher occupancy and considerable rental growth.

Supported by growing demand from expatriate and local residents for accommodation with flexible leasing terms, leasing activities for serviced apartments remained active in 2005. However, competition also grew with new supplies of both premium-type and boutique-type serviced apartments, including conversions from residential and commercial buildings.

Despite keener competition, average occupancy at Gateway Apartments was maintained at 84% throughout 2005, compared with 78% a year ago. A rental growth of 14% was recorded in spite of the soaring supply of new serviced apartments – thanks to its superb location with panoramic views overlooking the Victoria Harbour, reputable brand name and excellent service. Gateway Apartments continued to be a popular choice among senior executives from multinational corporations.

Hotel

Discussion of the performance of the three Marco Polo hotels at Harbour City is covered under the 'Marco Polo Hotels' section on pages 26 and 27.

Harbour City: Portfolio Information

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
Retail	1,913,000	1,287	99	15,931	Agnès b., Broadway, Burberry, City'Super, Cova, G.O.D., Giga Sports, Gucci, Habitu The Pier, Hugo Boss, Joyce, Lane Crawford, Louis Vuitton, Marks & Spencer, Prada, Salvatore Ferragamo, Toys"R"Us, Ye Shanghai, Yves Saint Laurent, Zara
Office	4,435,000	1,002	97	23,187	AIA, APL, CMG Asia, DuPont, GlaxoSmithKline, Hallmark, Hasbro, Hitachi, JAL, Karstadt Quelle, Marks & Spencer, Mattel, MGA Entertainment, MGB Metro-Group, MLC, Nike, NYK Logistics, Olympus, Prominent Apparel, Prudential, Sears, Simba-Toys, Sony, Zurich Life Insurance
Serviced Apartments	670,000	220	84	6,000	
Hotel and Club (stated at amortised cost in financial statements)	1,360,000	823	89	4,264	

Times Square

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Properties	17,350
Net current liabilities	(279)
Other non-current liabilities	(264)

*Net business assets (before debt) 16,807

* Excluding deferred tax on revaluation of investment properties

Gross Revenue

	2005 HK\$M	2004 HK\$M
Retail	630	600
Office	256	237
	886	837

Operating Profit

	2005 HK\$M	2004 HK\$M
Retail	531	508
Office	213	187
	744	695





Times Square

Times Square, another core asset of the Group, turned over HK\$886 million in 2005 for an increase of 6% over 2004.

Retail

Times Square's retail sector recorded a revenue growth of 5% to reach HK\$630 million.

Aided by robust retail spending and encouraging visitor arrivals, average retail occupancy was maintained at 99% and most retailers recorded double-digit sales growth. All new lettings and renewals registered substantial rental growth.

A series of trade-mix revamp, mostly on fashion tenants, took place in 2005. Zara, a reputable Spanish upmarket fashion retailer, joined Times Square in November and has since been well-received. Marks & Spencer was relocated to the sixth floor with a brand new image while a number of popular brands upgraded their shop image to create additional value.



Further, re-positioning of the ninth floor, with the presence of Page One Bookshop, as a lifestyle and cultural hub, has proved to be successful with noticeable increase of vertical traffic to the upper floors.

The cosmetics cluster on Basement 2 was strengthened to capture the foot traffic from the MTR subway.

During the year, a host of renowned international brands including Agnès b., Coach, Longchamp and Montblanc opened new outlets in Times Square. Cuisine variety at the Food Forum was enhanced. New food and beverage tenants included Little Basil, Tony Roma's and Xiao Nan Guo.

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

as at December 31, 2005

	% by Rental	% by Area
Fashion	31.3	18.7
Jewellery, Beauty and Accessories	18.5	9.3
Restaurant, Fast Food, F&B	13.9	26.5
Department Stores, Confectionery Products	13.3	20.6
Electrical & Audio-visual Equipment & Entertainment	11.2	13.8
Sports Wear	7.4	5.2
Others	4.4	5.9
	100.0	100.0

Office

The office sector registered turnover growth of 8% to HK\$256 million, resulting from significant improvement in reversionary rentals and higher occupancy.

Limited supply of Grade A offices on the Island, coupled with demand for quality buildings, helped push up occupancy and rental rates.

Times Square remained the preferred location for multinationals engaged in the services or consumer goods sector. Occupancy grew to 96% at the end of 2005. Amid shrinking vacancy and upward momentum in the office sector, Times Square registered an average 30% growth in transacted rentals in the second half of 2005 compared with the first half.

On the back of continuous economic growth, office expansion of major corporate tenants such as Coca-Cola, Giorgio Armani and L'Oreal took place during the year. Retention rate for office tenancies expiring in 2005 was 78%. Renewed multinational tenants included ABN Amro, Apple Computer and Coca-Cola.

Times Square: Portfolio Information

	Area (sq ft)	Gross Revenue (HK\$M)	Average Occupancy (%)	Year-end Valuation (HK\$M)	Anchor Tenants
Retail	936,000	630	99	10,910	Bally, Broadway, City'Super, D-mop, FCUK, Fortress, Gucci, i.t, Lane Crawford, Mango, Marks & Spencer, Max Mara, PageOne Bookshop, Salvatore Ferragamo, UA Cinema, Zara
Office	1,033,000	256	94	6,440	AIA, AT&T, Boston Consulting, Coca-Cola, Disney, L'Oreal, Lucent, MLC, NCR, Royal Bank of Scotland PLC, Shell, Assicurazioni Generali S.p.A.

Plaza Hollywood

Plaza Hollywood reported turnover growth of 5% to HK\$262 million, reflecting the rental growth in both new lettings and renewals underpinned by the robust retail market.

Local consumer sentiments continued to improve and average occupancy was maintained at 99%. On-going trade mix refinement continued to attract shoppers and quality retailers to Plaza Hollywood. During the year, a new cluster of audio-visual product retailers was recruited and was very well received.

Property Development

Property sales revenue was insignificant during the year due to lighter selling activities. Profit arising from the disposal of Sorrento and Bellagio residential units was booked through the Group's share of associates' profits.

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Properties	7,611
Interest in Sorrento and Bellagio	1,138*
Property inventory and development	1,911
Second mortgage debtors	28
Net current liabilities	(104)
Other non-current liabilities	(92)
**Net business value (before debt)	10,492

* Including 1/3 interest in Bellagio and 40% interests in Sorrento (of which 20% held through Harbour Centre Development Limited, a 67%-owned subsidiary)

** Excluding deferred tax on revaluation of investment properties

After two years of strong growth from mid-2003, the Hong Kong property market slowed down and transacted prices across all major sectors have softened since mid-2005. The gradual step-up of interest rates in Hong Kong has dampened buying sentiment, in particular during the last quarter of 2005.

Bellagio

Bellagio, in Sham Tseng on the western shore of the New Territories overlooking the Tsing Ma Bridge, is a joint-venture development equally owned by Wharf, Wheelock and Wheelock Properties. Virtually all of the 1,704 units in Towers 6,7,8 and 9 have been sold, realising proceeds of about HK\$4.1 billion.

Property List

	Project Nature	GFA (sq ft)	% Owned	Status
World Trade Square	Office/Retail	395,000	100%	For Lease
1 Plantation Road	Residential	97,000	100%	For Lease
Mountain Court	Residential	49,900	100%	For Lease
Chelsea Court	Residential	43,000	100%	For Lease
Various units of Strawberry Hill	Residential	34,200	100%	For Lease
77 Peak Road	Residential	32,000	100%	For Lease
Sorrento Phases I & II	Residential	2,531,000 [#]	33% [*]	For Sale
Bellagio Towers 1,2,3 & 5	Residential	1,591,800 ^{##}	33%	For Sale
Bellagio Towers 6,7,8 & 9	Residential	1,525,300 [#]	33%	For Sale
60 Victoria Road	Residential	54,000 ^{###}	67% [*]	For Pre-sale
Gough Hill Residences	Residential	32,900	100%	Under Construction
Cable TV Tower South	Industrial-office	584,600	100%	Under Design Planning
Kowloon Godown	Residential	995,000	100%	Under Planning Submission
Yau Tong Godown	Retail/Residential	244,000	100%	Under Planning Submission
Yau Tong JV Project	Retail/Residential	9,041,000	15.6%	Under Planning Submission

[#] Substantially sold

^{##} Partly sold

^{###} Partly pre-sold

^{*} Effective ownership

Towers 1,2,3 and 5 with a total of 1,641 residential units were completed in early 2006. 94% of Tower 2 and Tower 5 (Total: 844 units) have been sold by the end of 2005 to realise HK\$2.9 billion of proceeds. 37% of Tower 1 and Tower 3 (Total: 797 units) have been sold to realise HK\$1.3 billion of proceeds.

Sorrento

Sorrento is a joint-venture project with MTRC above the Kowloon Station, owned by a consortium comprising Wharf (20%), Harbour Centre Development (20%), Wheelock (20%) and Wheelock Properties (40%). Virtually all of the 854 units in Phase II have been sold by the end of December 2005 to realise HK\$5.9 billion of proceeds.

60 Victoria Road

60 Victoria Road, Kennedy Town, is 100%-owned by listed subsidiary Harbour Centre Development. Construction is in progress, with target completion in August 2006. Presale, launched in late October 2005, has met with favourable market responses. 21% of the 73 units have been presold by the end of 2005.

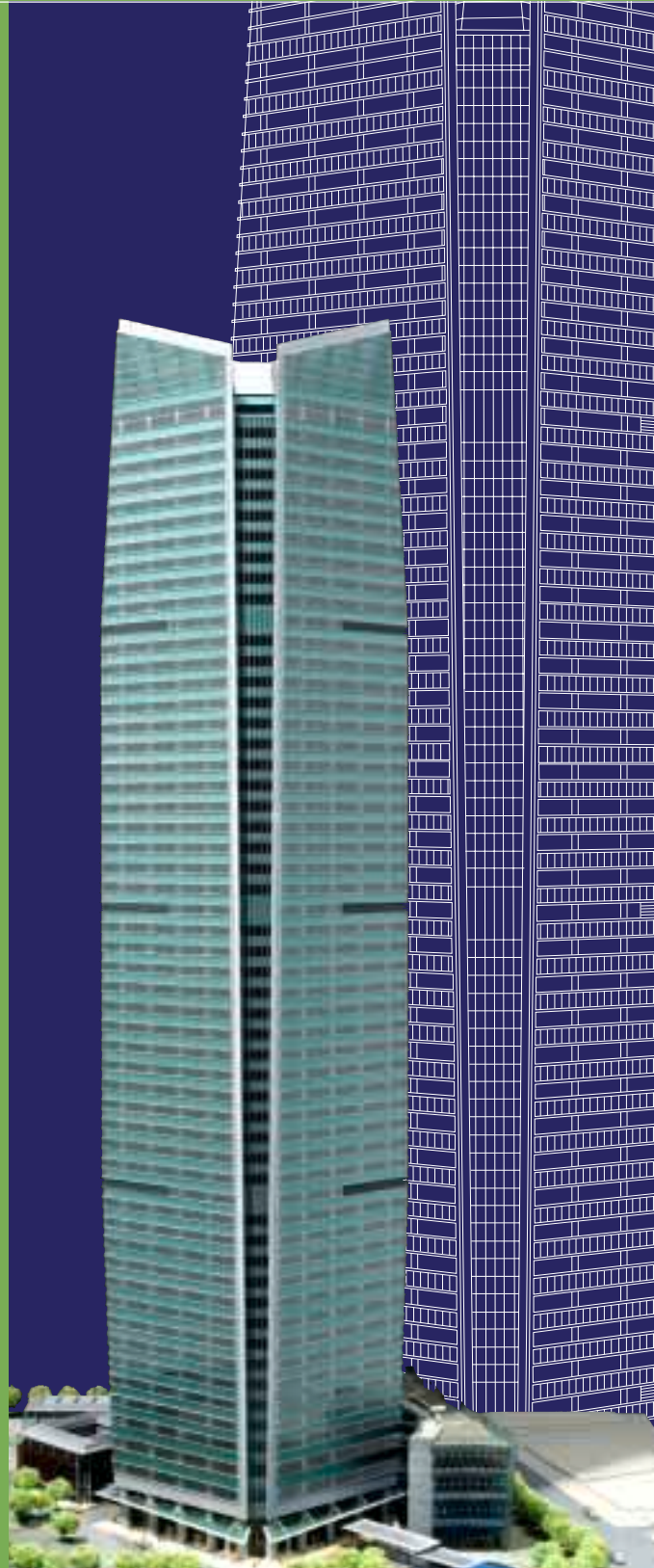
Peak Portfolio

Leasing activities for high-end properties continued to show positive growth due to the consistent flow of expatriates' leasing demand. Occupancy at Peak Portfolio was maintained at satisfactory level.

Gough Hill Residences, which comprises five deluxe houses, is in progress, with target completion in mid-2006.

China

*(left) Lot 1717, Nan Jing Xi Road, Puxi, Shanghai
(1,580,000 square feet of prime Grade A
office space due for completion by mid-2009)
(middle) Modern Terminals' 7.5 berths in Kwai Chung
(right) Shanghai Times Square
(bottom) The Marco Polo hotel in Saigon*





Property

Satisfactory growth of 31% and 47% in rental revenue and operating profit respectively over 2004 was reported. All three investment properties, namely Beijing Capital Times Square, Shanghai Times Square and the retail podium of Chongqing Times Square, performed satisfactorily. Plans are in hand to bring the now established "Times Square" brand to other cities in the Mainland.

Beijing Capital Times Square is strategically located along West Changan Avenue in the Xidan area. Average office occupancy was maintained at 91% throughout 2005 despite keen competition. The retail podium is undergoing interior reconfiguration and trade-mix enhancement.

Ideally located on Huai Hai Zong Road in Puxi, Shanghai Times Square boasts excellent connectivity to all transport systems. Average occupancy of its office, retail and apartment sectors rose to 94%, 87% and 91% respectively in 2005.

Chongqing Times Square is located at the Liberation Statue Square. Residential Towers A, B and C were completed and sold in April 2003. Tower D was completed in November 2004 and was 88% sold at the end of 2005. The retail podium, which consists of a 570,000-square-foot department store, opened in December 2004.

Wuhan Times Square, located on Yan Jiang Da Dao fronting the Yangtze River in Hankou, is planned to be developed into a retail, apartment, hotel and residential

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Investment properties	4,919
Other properties and fixed assets	951
	5,870
Property inventory and development	2,459
Net current liabilities	(629)
Other non-current liabilities	(724)
Net business assets (before debt)	6,976

complex. Superstructure works are in progress and the project is expected to be completed in the third quarter of 2007.

Dalian Times Square is located along Ren Min Road in Zhongshan District of Dalian. It will be developed into a retail and residential complex. Foundation works are in progress and the whole project is expected to be completed by mid-2008.

Lot 1717, Nan Jing Xi Road in Shanghai comprises a Grade A office tower with cutting-edge specifications and facilities plus a retail annex linking to a major subway station. Foundation works are in progress and the development is scheduled to be completed by mid-2009.

During the year, the Group acquired through public auction a 760,000-square-foot site in Chengdu for RMB778 million. This commercial and residential site is located south of Dong Da Jie and north of Shui Jing Jie in Jinjiang District, the centre of the city. A mixed-use development comprising office, retail, apartments, hotel and residential is being planned.

On the Group's other properties, pre-sale of Wellington Garden's 286 units in Shanghai is scheduled for the second quarter of 2006 and the development will be completed by the end of 2006. No. 1 Xin Hua Road (formerly known as Shanghai Parc Royal) and Jingan Garden in Shanghai are progressing according to plan.

China Property List

	Project Nature	GFA (sq ft)*	Status	Completion
Beijing Capital Times Square	Office/Retail	1,295,000	For Lease	1999
Shanghai Times Square	Office/Retail/Apartment	1,211,000	For Lease	1999
Chongqing Times Square	Office/Retail/Residential#	1,570,000**	For Lease / Sale	2004
Wellington Garden (Shanghai)	Residential#	562,000	Under Construction	2006
Wuhan Times Square	Retail/Hotel/Residential#	2,390,000	Under Construction	2007
Dalian Times Square	Retail/Residential	1,867,000	Under Construction	2008
Lot 1717 Nan Jing Xi Road (Shanghai)	Office/Retail	1,580,000	Under Construction	2009
No.1 Xin Hua Road† (Shanghai)	Residential##	257,000	Under Planning	2008
Jingan Garden (Shanghai)	Residential#	962,700	Under Planning	2009
No.11 Dong Da Jie (Chengdu)	Office/Retail/Hotel/Residential#	5,865,000	Under Planning	2010

† formerly known as Shanghai Parc Royal # Residential includes office-apartments
 ## Based on a design scheme in compliance with prevailing planning parameters * Including basement carpark area ** Partly sold

Marco Polo Hotels

Marco Polo Hotels currently boasts a portfolio of 10 hotels in the Asia Pacific Region, including three under construction. In addition, two other new hotels are being planned for Chengdu and Wuhan.

Hong Kong

The three hotels in Harbour City, The Marco Polo Hongkong Hotel, The Marco Polo Gateway and The Marco Polo Prince, performed well during the year. Total hotel and club revenue grew by 13% to HK\$823 million, arising from solid growth in average room rates on the back of encouraging tourist arrivals. Hong Kong's visitor arrivals grew by 7% to reach 23.4 million in 2005, while visitors from international markets increased by 13% to reach 10.8 million.

Consolidated occupancy reached 89%, slightly below 91% in 2004, though average room rate grew by a healthy 20% in 2005.

Marco Polo Hotels		
Country	City	Hotel
China	Hong Kong	The Marco Polo Hongkong Hotel The Marco Polo Gateway The Marco Polo Prince
	Beijing	The Marco Polo The Marco Polo Parkside (opening 2006)
	Shenzhen	The Marco Polo Shenzhen (opening 2006)
	Xiamen	The Marco Polo
The Philippines	Cebu	The Marco Polo Plaza (opening 2006)
	Davao	The Marco Polo
Vietnam	Ho Chi Minh City	The Marco Polo Omni Saigon

Mainland and Asia

Other Marco Polo hotels in the Mainland and Asia achieved encouraging performance. All of them ranked top among their business sectors in the vicinities. Of the Marco Polo hotels in the Mainland, two are located in Beijing and the other two in Xiamen and Shenzhen respectively; two more are being planned for Chengdu and Wuhan.

The company's second deluxe hotel in Beijing, The Marco Polo Parkside, is scheduled to open in 2006. It is superbly located only 600 metres from the 2008 Beijing Olympic Village, with easy access to Beijing Metro Route 5 and Route 10 (at Olympic Park) and all major public transportation modes.

A new hotel in Shenzhen, The Marco Polo Shenzhen, is scheduled to open in June 2006. This five-star deluxe hotel, located in the heart of the new Futian Central Business District, with close proximity to the city government office complex, the new Shenzhen International Convention and Exhibition Centre and the Shenzhen Rapid Transit System, will capture the rising demand for first-class accommodation from local and foreign businessmen.

The Marco Polo Plaza, Cebu in the Philippines, is the third Marco Polo hotel to open in 2006. The hotel is surrounded by 7.5 hectares of lush greenery at the prestigious Nivel Hills district in Cebu, dominating the city skyline. It is only 25 minutes from Mactan International Airport and 10 minutes from the business and commercial district.

The other Marco Polo hotels in Asia include The Marco Polo Omni Saigon in Vietnam and The Marco Polo Davao in the Philippines. Both hotels are well-established with clear market leader positions in their respective cities.

Modern Terminals

Modern Terminals' total revenue and operating profit increased by 6% and 5% respectively in 2005 on the back of significant throughput growth.

The South China region recorded a 12% increase in total container volume in 2005, reflecting the continuing export growth. Throughput at the Shenzhen terminals recorded a 18% growth, compared to 7% at Kwai Chung. Market share between Shenzhen terminals and Kwai Chung stood at 49% and 51% at the end of 2005.

Hong Kong Operation

Throughput at Modern Terminals grew by 16% to 5.04 million TEUs in 2005, driven mainly by feeder, trans-shipment and intra-Asia volume. The increase in volume of activities and rising fuel price exerted pressure on operating cost, which was substantially mitigated through the continuous improvement in productivity.

Having taken delivery of four CT9 berths in 2004, Modern Terminals currently operates 7.5 berths with a total handling capacity of 5.88 million TEUs. Operational synergy was achieved via berth consolidation. Investment in hardware, software and human resources further improved Modern Terminals' productivity. Upgrading of facilities at CT1, 2 and 5 during the year continued to enhance operational efficiency and handling capacity. At the end of 2005,

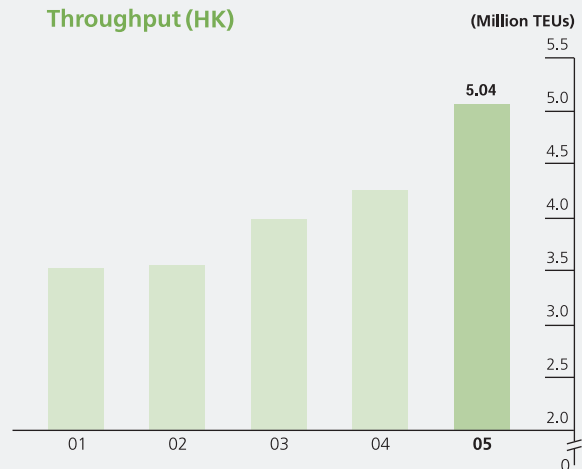
Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Fixed assets	5,185
Interest in associates / jointly controlled entities	1,340
Net current liabilities	(759)
Other non-current liabilities	(342)
Net business assets (before debt)	5,424

Note: The Group's investment cost in 67.6% of Modern Terminals is HK\$4,754 million.

Throughput (HK)



China Investments

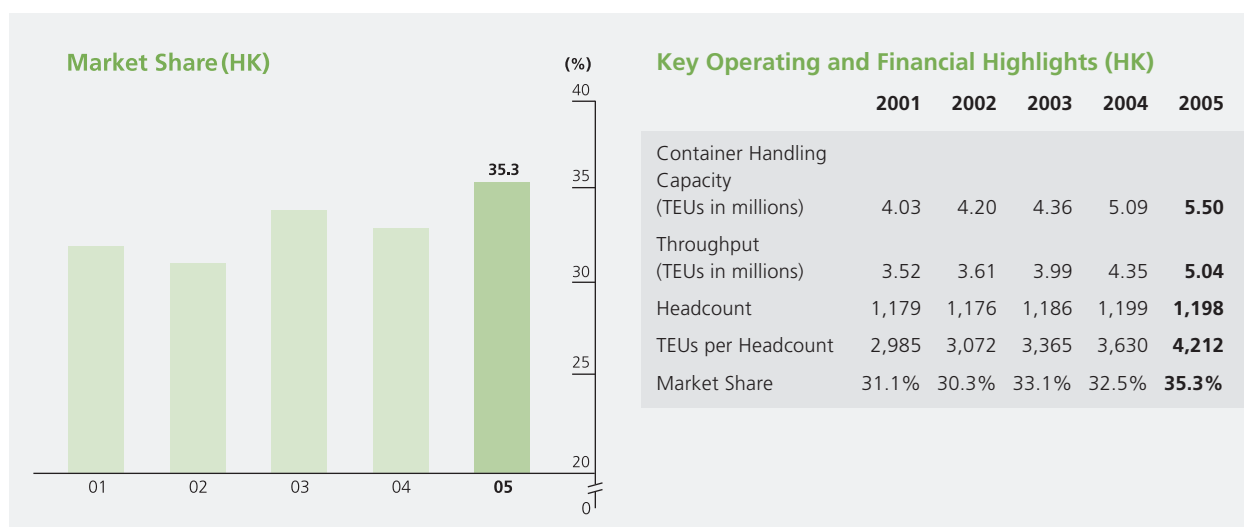
Modern Terminals' market share in Kwai Chung improved to 35.3% from 32.5% in 2004.

In China, Chiwan Container Terminals, in which Modern Terminals effectively holds an 8% stake, recorded a throughput growth of 18% to 2.8 million TEUs.

Shekou Container Terminals Phases I and II, in which Modern Terminals' effective equity stakes are 10% and 9.8% respectively, handled 2.2 million TEUs.

All new projects in China are progressing on plan. Taicang, a joint-venture development with the Suzhou Government, is a pioneer project marking Modern Terminals' expansion into the Yangtze River Delta. Phase I of Taicang, in which Modern Terminals has a 51% interest, opened for business in 2004 and handled 251,000 TEUs in 2005. The Chinese Government has also approved Phase II of Taicang, with Modern Terminals taking a 70% interest, and is scheduled to commence operation by mid-2006.

Phase I of the Dachan Bay project in Shenzhen West, in which Modern Terminals' effective stake is 65%, was approved by the National Development Reform Commission in March 2005. The project commenced in July 2005 and operation of its five berths, with an estimated capacity of 2.5 million TEUs, is scheduled to commence by the end of 2007.





(left) Unique sports content provides a key differentiation from the competition for Hong Kong Cable
 (middle) Sundream's very successful first film, "49 Days"
 (right) Ko Lai Chak and Lee Ching, Hong Kong's silver medallists in table tennis doubles at the 2004 Olympics, partnering at Wharf T&T's 'Strictly Business' ceremony to overcome the competition
 (bottom) Hong Kong's first ever Digital News Centre in full swing



i-CABLE

2005 was full of competitive challenge and i-CABLE responded with reasonable success. Amid intense competition, total revenue rose by 3% to HK\$2,441 million and operating profit declined by 5% to HK\$282 million.

Despite the more competitive landscape, i-CABLE continued to build market position and both core businesses reported healthy subscription growth, although not as robust as in 2004. Efforts to open new markets also bore fruit. *Newsline Express*, an outdoor news medium on KCR trains, has started to bring in revenue and contribution to profit since August. Subsidiary Sundream's first theatrical production, "*49 Days*", completed in December 2005 and subsequently released in Hong Kong and Southeast Asia in February 2006.

Pay TV

In the face of keener competition in the marketplace, total revenue from Pay TV was virtually unchanged at HK\$1,884 million for the year under review. Operating profit fell by 28% to HK\$337 million.

Underpinned by unique and attractive content as well as effective marketing, CABLE TV reported a year-on-year subscription growth of 5% to 738,000 at the end of 2005 despite aggressive competition. Unbundled mini-packages were

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Non-current assets	2,424
Net current liabilities	(47)
Non-current liabilities	(129)
Net assets	2,248
Capital and reserves	
Share capital	2,019
Reserves	229
	2,248

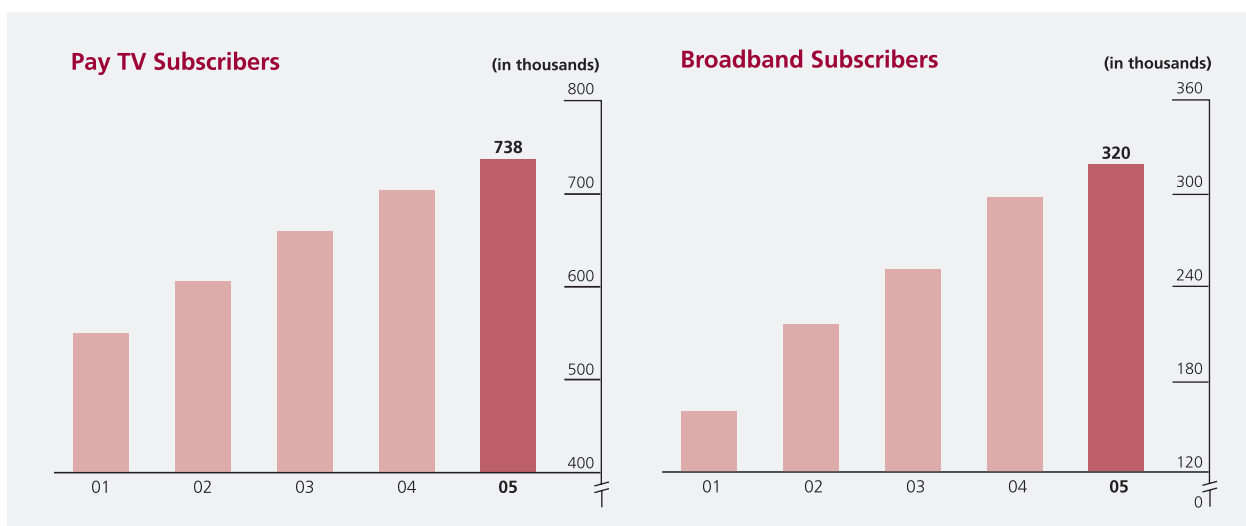
introduced during the year, as a key strategy of market segmentation, to avert a direct price war and were successful in meeting the needs of the market and maintaining subscription growth. In terms of content enrichment, 12 new channels were added to bring the total carried by CABLE TV to 100.

Content differentiation, particularly fresh and local production, has been the key to success in the Pay TV sector. To stay one step ahead of the competition, a new initiative to optimise its content capability was implemented in early 2006. Three new content subsidiaries were formed, namely, i-CABLE News, i-CABLE Sports and i-CABLE Entertainment, to enhance competitiveness to respond to market changes and to facilitate expansion into new markets.

During the year, i-CABLE also strengthened its Horizon Channel's branding and reputation outside of Hong Kong. The channel is now distributed in the USA, South America and Malaysia, on top of the Mainland and Hong Kong.

Internet & Multimedia

This segment achieved solid performance during 2005. Turnover rose by 16% to HK\$558 million. Operating profit improved by a remarkable HK\$122 million to HK\$78 million.



i-CABLE's Broadband business continued its recovery during the year, even as the general market further consolidated, and the subscriber base grew by 10% to 320,000 at the end of 2005. To benefit from triple-play bundling, closer co-operation was developed with fellow subsidiary Wharf T&T in both marketing and operation of voice lines provided over i-CABLE's network infrastructure, installed base more than quadrupled in 2005 to 120,000 versus 29,000 as at the end of 2004.

Wharf T&T

During the year under review, Wharf T&T group, including COL and EC Telecom, increased its total revenue by 2% to HK\$1,478 million with operating profit grew by 89% to HK\$104 million. Free cashflow rose by 511% to HK\$94 million. This was achieved in an increasingly competitive marketplace.

Balance Sheet (Extract)

as at December 31, 2005

	HK\$M
Fixed assets	2,838
Net current liabilities	(166)
Other non-current liabilities	(39)
Net business assets (before debt)	2,633

Results Summary

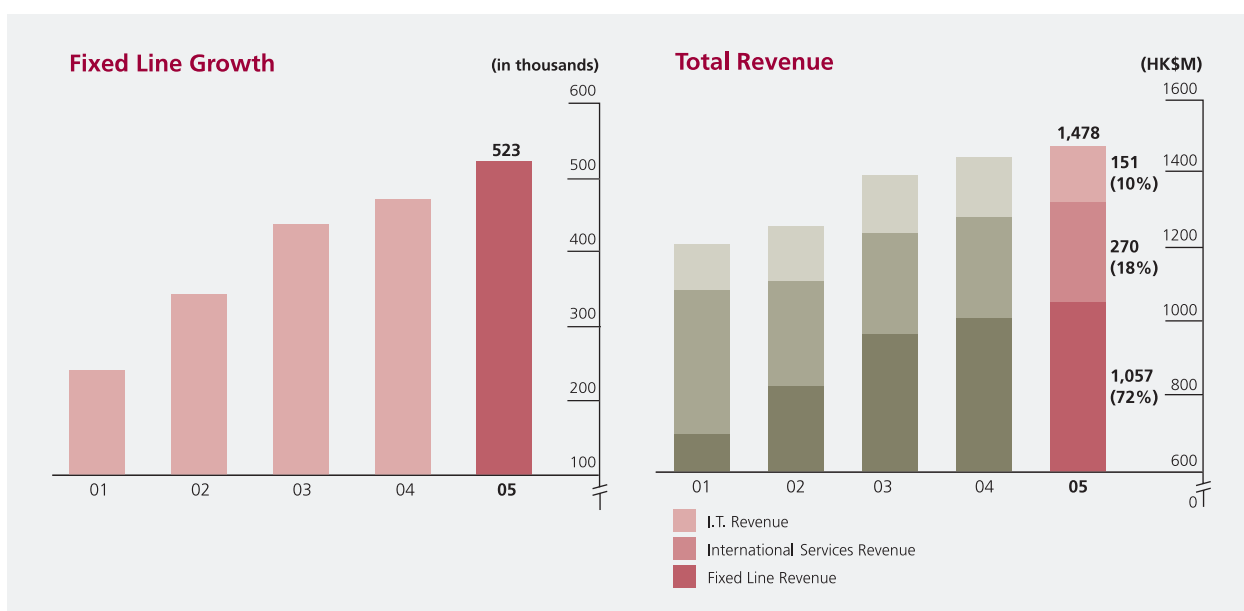
	2005 HK\$M	2004 HK\$M	Change %
Turnover	1,478	1,448	2
Cost of Sales	(505)	(543)	7
Gross Profit	973	905	8
Operating Expenses	(533)	(487)	-9
EBITDA	440	418	5
Depreciation	(336)	(363)	7
Operating profit	104	55*	89

* Before non-recurring fixed assets write-off of HK\$298 million

The fixed line installed base grew by 48,000 or 10% to reach 523,000, representing an overall market share of 13%. Business lines grew by 18,000 or 6% to reach 337,000 (for an 18% market share) while residential lines grew by 29,000 or 19% to 186,000 (for a 9% market share).

Total outgoing IDD volume grew by 11% in 2005 to 558 million minutes, compared with 505 million minutes in 2004. With a sharp focus on IDD and a more sophisticated service engine in place, subsidiary EC Telecom started to rebuild the Home007 business during the year. It plans to leverage on a dual brand strategy to re-establish Wharf T&T as a leader in the marketplace.

To enhance its competitiveness in a highly commoditised market and to provide impetus for new growth, two organisational changes were initiated in the second half of the year. In the residential sector, the fixed line business was transferred to i-CABLE Telecom Limited, a wholly-owned subsidiary of the Group, and is being branded as i-CABLE. The move would facilitate the bundling of voice with broadband service in the residential sector, giving rise to an immediate improvement in sales and operational performance.

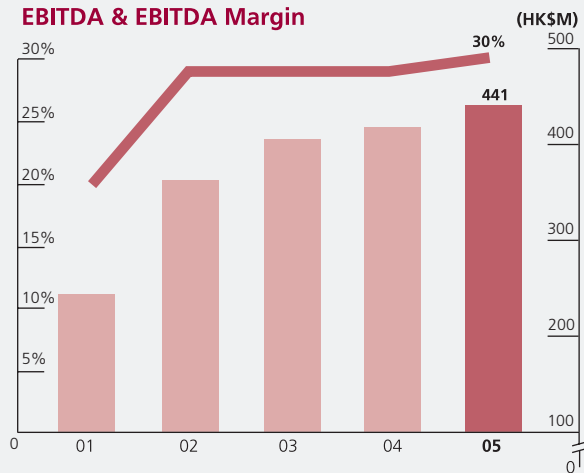


In the business sector, COL was made a wholly-owned subsidiary of Wharf T&T. This would enable the companies to be positioned as an integrated IT and Telecom solution and services provider, with substantial enhancement in its core competence on addressing customer's growing IT and Telecom needs, particularly in data services.

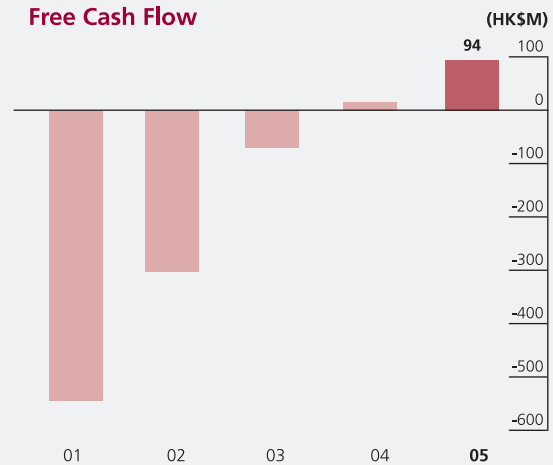
Fixed Line Market Share



EBITDA & EBITDA Margin



Free Cash Flow



Managing Director's Report

Financial Review



Results Review

Liquidity and Financial
Resources

Human Resources

Financial Review

(I) RESULTS REVIEW

In preparing the financial statements for the year ended December 31, 2005, the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including all Hong Kong Accounting Standards ("HKASs") and relevant Interpretations ("HKAS-INTs" and "HK-INTs"), which took effect on January 1, 2005. Applicable prior year adjustments have also been made to 2004's financial statements. The resulting effects of the changes in accounting treatment and presentation are detailed in note 11 to the financial statements.

Profit Attributable to Shareholders

For the year ended December 31, 2005, the Group recorded a profit attributable to Shareholders of HK\$13,888 million, an increase of HK\$1,211 million or 10% over HK\$12,677 million in 2004. Earnings per share were HK\$5.67, compared to HK\$5.18 recorded in the previous year.

In accordance with the new HKFRSs, the Group revalued its investment properties as at December 31, 2005 and accounted for a net attributable surplus to Shareholders of HK\$9,389 million, representing revaluation surplus of HK\$11,513 million less related deferred tax and minority interest of HK\$2,124 million, in its profit and loss account for 2005. The comparative net surplus of HK\$8,937 million has also been restated in 2004's results. Excluding the net revaluation surplus, the Group's net profit would have been HK\$4,499 million, an increase of HK\$759 million or 20% over the HK\$3,740 million in 2004.

The profit growth before the revaluation surplus was driven mainly by the solid performance of the Group's Property Investment segment, which resumed to attain accretive office rental reversion and sustained its continued growth in retail rental income. This also reflects the overall steady growth in the operating profits of its Logistics segment and the Communications, Media and Entertainment ("CME") segment during the year under review. However, this strong operating performance was offset in part by the increase in the Group's borrowing cost caused mainly by a series of interest rate hikes in 2005 and the absence of attributable provision write-back in respect of Bellagio project, which amounted to HK\$442 million in 2004.

Turnover

The Group's turnover for the year grew by HK\$590 million or 5% to HK\$12,543 million, versus HK\$11,953 million achieved in 2004. The growth was primarily underpinned by the increase in revenue by HK\$428 million or 9% from the Property Investment segment, which delivered strong business momentum and recorded encouraging revenue growth across its property portfolios covering high quality retail and office spaces as well as hotels, serviced apartments and residential units. Property investment in China also bore fruit with encouraging revenue growth of 31%.

The Logistics segment also reported steady revenue growth of HK\$187 million or 6% to HK\$3,534 million over 2004, mainly reflecting the continuous rising in containers throughput handled by Modern Terminals.

CME, supported by continuous expansion among its Pay TV, Broadband and telecom subscriber bases, also grew its total revenue healthily by HK\$114 million or 3% to HK\$3,937 million, notwithstanding intense competition in the market.

Operating Profit

The Group's operating profit in 2005 was HK\$6,003 million, HK\$746 million or 14% higher than the HK\$5,257 million in 2004, which was attributable to the favourable results delivered by all its core business segments, in particular the overall operating profit of the Property Investment, which grew by 11% to HK\$3,465 million. The Logistics and CME segments also reported operating profit growth by 5% and 7% to HK\$1,935 million and HK\$486 million respectively. However, within the CME segment, Pay TV operating profit dropped by 28% to HK\$337 million primarily due to decrease in ARPU and increase in operating and marketing cost. Pay TV's adverse operating results were substantially mitigated by Internet and Multimedia's record operating profit of HK\$78 million versus its loss of HK\$44 million incurred in 2004. The Group's operating profit in 2005 also benefited from increase in investment and other profit by HK\$273 million over 2004.

Performance of the Group's business segments is discussed in detail under the Business Review section.

Other Items

Included in the Group's profit is a revaluation surplus of HK\$11,513 million (2004: HK\$10,911 million restated as a prior year adjustment) on revaluation of the Group's investment properties in accordance with the new accounting standard as mentioned above. The total value of the Group's investment properties was HK\$78,224 million as revalued by an independent valuer at December 31, 2005, representing a full-year net appreciation of 17% amidst the continuous strong rebound in the property values particularly in the first half of 2005 though followed by a slower pace of increase in the second half of 2005.

There was also a net write-back of HK\$47 million from the previous provisions for the Group's various properties, based on prevailing market conditions, versus the net other charges of HK\$190 million recognised in 2004, which included Wharf T&T's write-down of HK\$298 million for impairment of its fixed assets and a write-back of HK\$108 million in respect of the Group's various properties.

Borrowing Costs

Net borrowing costs as charged against the results increased by HK\$323 million to HK\$562 million in 2005 from HK\$239 million in 2004. This was primarily due to the continuous interest rate hikes in 2005 as well as the moderate increase in the Group's borrowings caused mainly by the expanding port investment activities undertaken by Modern Terminals. The charge was net of capitalisation of HK\$8 million (2004: HK\$25 million) for the Group's related assets. The Group's average effective borrowing rate in 2005 was 3.56% p.a., compared to 1.56% p.a. in 2004.

Share of Profits less Losses of Associates and Jointly Controlled Entities

The share of profits less losses of associates was HK\$425 million, a decrease of HK\$311 million against the profit of HK\$736 million in 2004. Included in 2004 results was an attributable property write-back of HK\$442 million in respect of the Bellagio development. Excluding this write-back in 2004 for comparison purpose, associates' profits would have increased by HK\$131 million or 45% due mainly to higher profit contribution from the sale of Bellagio residential units in 2005.

The attributable losses of HK\$13 million (2004: HK\$2 million) from jointly controlled entities was mainly related to port investments undertaken by Modern Terminals.

Taxation

The taxation charge was HK\$2,583 million, HK\$342 million or 12% lower than the HK\$2,925 million recorded in 2004. Included in the tax charge is a deferred taxation of HK\$2,045 million (2004: HK\$1,984 million) provided against the surplus arising from the revaluation of investment properties in 2005 in accordance with the new accounting standard. Excluding this deferred item, the remaining tax charge would have been HK\$403 million lower than 2004, which was mainly due to the inclusion of a net deferred tax credit of HK\$305 million recognised by i-CABLE mainly for its tax losses that are expected to be utilised in the coming years.

Minority Interests

Minority interests increased by HK\$71 million to HK\$942 million from HK\$871 million in 2004, due mainly to better net profits achieved by the non wholly-owned subsidiaries, namely, Harbour Centre Development Limited, Modern Terminals and i-CABLE. The increase was in part offset by the decrease in minority interests on the Group's increasing its holding interest in Modern Terminals and i-CABLE to 67.6% and 73.6%, respectively, during the year under review.

Included in the Group's profit attributable to shareholders is a profit of HK\$1,674 million (2004: HK\$1,178 million) contributed aggregately from three major non wholly-owned subsidiaries, namely, the 67.6%-owned Modern Terminals, 73.6%-owned i-CABLE and 66.8%-owned Harbour Centre Development Limited.

Consolidated Net Profit Summary

The combined effect of the operating performance of the Group and the net impact on adoption of the new accounting standards for accounting the surplus on revaluation of investment properties and related deferred taxation has boosted the Group's net profit attributable to Shareholders to HK\$13,888 million (2004: HK\$12,677 million). The analysis below sets out the impact of the new accounting standard for investment properties and to better reflect the Group's underlying performance and results with the comparability to 2004:

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Profit attributable to Shareholders as reported in the financial statements	13,888	12,677
Adjustments		
Investment property revaluation surplus	(11,513)	(10,911)
Deferred tax on above surplus	2,045	1,984
Minority interests	79	(10)
Profit attributable to Shareholders before the impact on adoption of HKAS 40	4,499	3,740

There were other new accounting changes in 2005 with minor net impact on the Group's results and the details of which have been included in note 11 to the financial statements.

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Equity

As at December 31, 2005, the Group's net asset value was HK\$65,313 million or HK\$26.68 per share, compared to the restated amount of HK\$54,949 million or HK\$22.46 per share at December 31, 2004, respectively. The increase of HK\$10,364 million was primarily due to the attributable appreciation in value by HK\$9,389 million (net of deferred tax) in the Group's investment properties portfolio based on a revaluation by an independent valuer.

In compliance with the new and revised HKFRSs, the Group's equity attributable to Shareholders as at January 1, 2005 was restated to HK\$54,949 million from the HK\$65,168 million previously reported and the Group's net asset value attributable to Shareholders hence dropped by HK\$4.17 to HK\$22.46 per share from HK\$26.63. The reduction resulted mainly from the provision for deferred tax of HK\$7,380 million on investment properties revaluation surplus, reversal of revaluation reserve of HK\$2,629 million by restating the hotel properties at cost and provision for accumulated depreciation for hotel properties of HK\$221 million. Details of these adjustments are given in note 11 to the financial statements.

The Group's total equity, including minority interests, was HK\$68,429 million as at December 31, 2005, representing an increase of 17% over the HK\$58,624 million as at December 31, 2004.

Supplemental Information on Net Asset Value ("NAV")

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

	NAV to Shareholders	
	Total HK\$ Million	Per share HK\$
Book NAV (based on HKFRSs) at December 31, 2005	65,313	26.68
Adjustments for:–		
Modern Terminals (67.6%)		
– based on the latest transaction price	8,296	3.39
i-CABLE (73.6%)		
– based on market price at December 31, 2005 (@HK\$1.90 p.s.)	1,167	0.48
Hotel properties		
– based on the valuation conducted by an independent valuer	3,360	1.37
Deferred tax for surplus on revaluation of investment properties in Hong Kong*	9,338	3.82
Adjusted underlying NAV at December 31, 2005	87,474	35.74

- * As there is no capital gains tax in Hong Kong, total deferred tax liability in the amount of HK\$9.34 billion (equivalent to HK\$3.82 per share) as provided and included in the consolidated balance sheet would not be payable if the above-mentioned investment properties were to be sold at the revalued amounts under the current tax regime. Accordingly, such deferred tax as provided under HKAS 40 and HKAS-INT 21 has been excluded for the above calculation in order to provide a better understanding of the net asset value attributable to Shareholders.

Net Cash Generated from the Group's Operating Activities

For the year under review, the Group's net cash inflow generated from operating activities was HK\$5.0 billion, representing a decrease of HK\$0.7 billion from HK\$5.7 billion in 2004. The reduction was primarily caused by increase in expenditures on trading properties under development not ready for sale in 2005 and increase in interest payment. Fortunately, this reduction was substantially offset by strong steady operating cash inflow of the Group's Property Investment, Logistics and CME business segments. Net cash of HK\$4.7 billion used in investing activities was mainly spent for capital expenditure and investments in certain subsidiaries, including the considerations of HK\$0.3 billion and HK\$2.4 billion paid for acquisitions of additional 6.5% interest in i-CABLE and 12.3% in Modern Terminals.

Capital Expenditure

The capital expenditure incurred by the Group's core businesses during the year and related capital commitments at December 31, 2005 are analysed as follows:

Business Unit/Company	Capital Expenditure for 2005 <i>HK\$ Million</i>	Capital Commitments as at December 31, 2005	
		Authorised and Contracted for <i>HK\$ Million</i>	Authorised but not Contracted for <i>HK\$ Million</i>
Property Investments/others			
China	48	47	1,007
Harbour City	274	186	14
Other properties/others	457	67	–
	779	300	1,021
Wharf T&T	305	46	95
	1,084	346	1,116
Modern Terminals (67.6%-owned)	394	783	1,864
i-CABLE (73.6%-owned)	282	14	119
	1,760	1,143	3,099
At December 31, 2004	1,368	1,236	1,413

The capital expenditure incurred by the Property Investment segment was mainly related to certain refurbishment and renovation works for enhancing the quality and value of the Group's investment properties. For i-CABLE and Wharf T&T, the capital expenditures were incurred mainly for network upgrade and expansion, as well as procurement of TV production facilities, while that of Modern Terminals was substantially incurred for the construction of the new Container Terminal 9, which is now in full operation, and procurement of various terminal equipments. i-CABLE and Modern Terminals, 73.6%- and 67.6%-owned by the Group, respectively, funded their own capital expenditure programmes.

In addition to the above, the Group also had planned expenditure and other commitment at the end of December 2005 of approximately HK\$3.5 billion for trading properties under development mainly in China, HK\$1.9 billion as committed by Modern Terminals for its investment in Taicang and Dachan Bay port projects and HK\$0.7 billion mainly for i-CABLE's own programming expenditures.

Debts and Gearing

The Group's net debt increased from HK\$14.1 billion at December 31, 2004 to HK\$16.1 billion at December 31, 2005, which was made up of HK\$18.6 billion in debts less HK\$2.5 billion in deposits and cash. Included in the Group's debts were loans of HK\$3.2 billion (2004: HK\$1.6 billion) borrowed by a non wholly-owned subsidiary, Modern Terminals. The loan is without recourse to the Company and other subsidiaries of the Group.

As at December 31, 2005, the ratio of net debt to shareholders' equity and total equity was 24.6% and 23.5%, compared favourably to 25.6% and 24.0% at December 31, 2004, respectively.

Finance and Availability of Facilities

With its inherent strong recurrent operating cash inflow and ample market liquidity, the Group continued to be able to raise funds at low costs in domestic market. In 2005, the Group cancelled some of its loan facilities with higher interest margins and/or shorter maturity and refinance them on more favorable terms. Meanwhile, this enabled the Group to further reduce its average borrowing margin and lengthened its average debt maturity.

The Group's available loan facilities and debt securities totally amounted to HK\$26.8 billion, of which HK\$18.6 billion were outstanding at December 31, 2005 analysed as below:

	31/12/2005			
	Available Facility <i>HK\$ Billion</i>	Total Debts <i>HK\$ Billion</i>		Undrawn Facility <i>HK\$ Billion</i>
Company/wholly-owned subsidiaries				
Committed facilities	17.3	13.7	74%	3.6
Uncommitted facilities	1.7	1.2	6%	0.5
	19.0	14.9	80%	4.1
Non wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	6.5	3.2	17%	3.3
– i-CABLE Communications Limited	0.7	–	–%	0.7
– Others	0.6	0.5	3%	0.1
	26.8	18.6	100%	8.2
Analysis by currency				
Hong Kong dollar		15.7		
United States dollar (swapped into HK dollar)		2.9		
		18.6		

As at December 31, 2005, only HK\$86 million of the Group's debt was secured by mortgage over a property under development with carrying value of HK\$345 million (2004: HK\$271 million).

The Group's debts are primarily denominated in Hong Kong and US dollars and all US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts.

The use of derivative financial instruments is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily used for management of the Group's interest rate exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in Hong Kong and US dollars, to facilitate the Group's business and investment activities. As at December 31, 2005, the Group also maintained a portfolio of available-for-sale investments, primarily in listed blue-chip securities, with a market value of HK\$1.7 billion.

(III) HUMAN RESOURCES

The Group had approximately 12,629 employees as at the end of 2005, as compared with 10,904 at the end of 2004. The increase of 1,725 employees mainly resulted from the recruitment by i-CABLE and Wharf T&T for their Customer Services maintained in Mainland China. Employees are remunerated according to the nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year 2005 amounted to HK\$2,216 million, compared to HK\$2,145 million in 2004.

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the year ended December 31, 2005, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Code") which became applicable to the Company in respect of the year under review were applied by the Company, and the relevant Code provisions in the Code were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, they have confirmed that they have complied with the Model Code.

(C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Four Board meetings were held during the financial year ended December 31, 2005. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
<i>Chairman</i>	
Mr Peter K C Woo, GBS, JP	4
<i>Senior Deputy Chairman</i>	
Mr Gonzaga W J Li	4
<i>Deputy Chairman & Managing Director</i>	
Mr Stephen T H Ng	4
<i>Non-executive Directors</i>	
Mr Erik B Christensen	3
Mr Quinn Y K Law (<i>resigned on November 1, 2005</i>)	3
Ms Doreen Y F Lee	3
Mr T Y Ng	3
<i>Independent Non-executive Directors</i>	
Mr Paul M P Chan	4
Professor Edward K Y Chen, GBS, CBE, JP	3
Dr Raymond K F Ch'ien, GBS, CBE, JP	1
Hon Vincent K Fang, JP	4
Mr Hans Michael Jebsen, BBS	3
Mr Christopher P Langley, OBE (<i>retired on May 18, 2005</i>)	1
Mr James E Thompson, GBS	3

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

(ii) Operation of the Board

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

(E) NON-EXECUTIVE DIRECTORS

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

(F) REMUNERATION OF DIRECTORS

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

One Remuneration Committee meeting was held during the financial year ended December 31, 2005. Attendance of the Members is set out below:

Members	Attendance at Meeting
Mr Peter K C Woo, GBS, JP <i>Chairman</i>	1
Mr Hans Michael Jebsen, BBS	1
Mr James E Thompson, GBS	1

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Given below are the main duties of the Remuneration Committee:

- (a) to consider the Company's policy and structure for all remuneration of Directors and senior management;
- (b) to determine the specific remuneration packages of all executive Directors and senior management;
- (c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and
- (e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended December 31, 2005 is summarised below:

- (a) review of the Company's policy and structure for all remuneration of Directors and senior management;
- (b) consideration of the emoluments for all Directors and senior management; and
- (c) review of the level of fees for Directors and Audit Committee Members.

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

(G) NOMINATION OF DIRECTORS

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

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

(H) AUDITORS' REMUNERATION

The fees in relation to the audit, taxation and other services provided by KPMG, the external auditor of the Company, amounted to HK\$10 million, HK\$1 million and HK\$1 million respectively.

(I) AUDIT COMMITTEE

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

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

Four Audit Committee meetings were held during the financial year ended December 31, 2005. Attendance of the Members is set out below:

Members	Attendance at Meetings
Hon Vincent K Fang, JP <i>Chairman</i>	3
Mr Paul M P Chan	4
Mr Hans Michael Jebsen, BBS	3
Mr James E Thompson, GBS	3

- (l) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of the Audit Committee:
- (a) to consider the appointment of the external auditor and any questions of resignation or dismissal;
 - (b) to discuss with the external auditor before the audit commences, the nature and scope of the audit;
 - (c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements;
 - (d) to discuss problems and reservations arising from the audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary); and
 - (e) to review the audit programme, and ensure co-ordination with external auditors, of the internal audit function;

- (II) The work performed by the Audit Committee for the financial year ended December 31, 2005 is summarised below:
- (a) approval of the remuneration and terms of engagement of the external auditor;
 - (b) review of the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
 - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (I)(c) above regarding the duties of the Audit Committee;
 - (d) discussion with the external auditor before the audit commences, the nature and scope of the audit;
 - (e) review of the audit programme and co-ordination between the external auditors and the internal audit function;
 - (f) review of the Group's financial controls, internal control and risk management systems; and
 - (g) meeting with the external auditor without executive Board members present.

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for the financial year ended December 31, 2005, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended of the Group and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the accounts for the financial year ended December 31, 2005:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(K) COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Statement of Accounts for the financial year ended December 31, 2005.

PRINCIPAL ACTIVITIES AND TRADING OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 146 to 149.

During the financial year, more than 90% of the trading operations of the Company and its subsidiaries in terms of both turnover and operating profit were carried on in Hong Kong. An analysis of the principal activities of the trading operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Accounts on pages 85 to 87.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group and appropriations of profits for the financial year ended December 31, 2005 are set out in the Consolidated Profit and Loss Account on page 78.

Movements in reserves during the financial year are set out in Note 23 to the Accounts on pages 113 to 115.

DIVIDENDS

An interim dividend of 36 cents per share was paid on October 20, 2005. The Directors now recommended for adoption at the Annual General Meeting to be held on Monday, May 29, 2006 the payment on June 6, 2006 to Shareholders on record as at May 29, 2006 of a final dividend of 44 cents per share in respect of the financial year ended December 31, 2005. This recommendation has been disclosed in the Accounts.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 12 to the Accounts on pages 103 to 106.

DONATIONS

The Group made donations during the financial year totalling HK\$6.8 million.

DIRECTORS

The Directors of the Company during the financial year were Messrs P K C Woo, G W J Li, S T H Ng, D J Lawrence (resigned on January 27, 2005), P M P Chan, P M F Cheng (resigned on March 31, 2005), E B Christensen, H M Jebsen, C P Langley (retired on May 18, 2005), Q Y K Law (resigned on November 1, 2005), T Y Ng, J E Thompson, Professor E K Y Chen, Dr R K F Ch'ien and Hon V K Fang and Ms D Y F Lee.

Messrs P K C Woo, S T H Ng, E B Christensen and H M Jebsen and Ms D Y F Lee are due to retire from the Board at the forthcoming Annual General Meeting. Mr E B Christensen has decided not to stand for re-election. The other retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception of the options to subscribe for ordinary shares of the Company and i-CABLE previously granted under the Company's Scheme and i-CABLE's Share Option Scheme (the "i-CABLE's Scheme") to, *inter alia*, certain executives of the Company or its subsidiaries and certain employees of i-CABLE or its subsidiaries respectively, some of whom were Directors of the Company during the financial year.

Under the rules of the two schemes (subject to any such restrictions or alterations as may be prescribed or provided under the Listing Rules of the Stock Exchange from time to time in force), shares of the Company and i-CABLE would be issued at such prices, not being less than 90% and 80% respectively of the Company's and i-CABLE's average closing prices on the Stock Exchange for the five trading days immediately preceding the date of offer of the options, and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant, as determined by the boards of directors of the Company and i-CABLE respectively. During the financial year, no share of the Company or i-CABLE was issued to any Director of the Company under the Company's Scheme or the i-CABLE's Scheme.

AUDITORS

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

By Order of the Board

Wilson W S Chan

Secretary

Hong Kong, March 15, 2006

Report of the Directors *(continued)*

SUPPLEMENTARY CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS

(I) Directors

Peter K C Woo, GBS, JP, Chairman (Age: 59)

Mr Woo has resumed the role of Chairman since 2002 after having formerly served as Chairman of the Company from 1986 to 1994. He also serves as the Chairman of the Company's Remuneration Committee. He is also the chairman of Wheelock and Company Limited ("Wheelock").

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

Gonzaga W J Li, Senior Deputy Chairman (Age: 76)

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

Stephen T H Ng, Deputy Chairman and Managing Director (Age: 53)

Mr Ng joined Wharf in 1981 and became Managing Director in 1989. He has been a director, deputy chairman, president and chief executive officer of i-CABLE Communications Limited since 1999 and became its chairman since 2001. He is also the deputy chairman of Wheelock, a director of Joyce and the chairman, president and chief executive officer of Wharf T&T Limited. He serves as a member of the General Committee of The Hong Kong General Chamber of Commerce.

Paul M P Chan, Director (Age: 50)

Mr Chan was appointed an independent Non-executive Director of the Company in September 2004. He also serves as a member of the Company's Audit Committee. He is the managing partner of Paul Chan & Partners, Certified Public Accountants (Practising). He is also an independent non-executive director of publicly listed I.T Limited, China Resources Cement Holdings Limited, Kingmaker Footwear Holdings Limited and Hong Kong Economic Times Holdings Limited.

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

Mr Chan has over 28 years' experience in accounting and finance field and is currently the president of the HKICPA. He had been a former chairman of the ACCA - Hong Kong and a former member of the World Council of the ACCA in the United Kingdom.

Edward K Y Chen, GBS, CBE, JP, Director (Age: 61)

Professor Chen has been an independent Non-executive Director of the Company since 2002. He is currently the president of Lingnan University in Hong Kong. He is also an honorary professor and a distinguished fellow of the Centre of Asian Studies at the University of Hong Kong, an honorary professor of Shantou University, and a visiting professor of Jinan University. He was a member of the Legislative Council of Hong Kong in 1991 and 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997. He was also a member of the Hong Kong SAR Basic Law Consultative Committee from 1985 to 1990. He is a director of First Pacific Company Limited, China Resources Peoples Telephone Company Limited and Asia Satellite Telecommunications Holdings Limited and a trustee of Eaton Vance Management Funds. He is currently chairman of the Hong Kong Committee for Pacific Economic Cooperation.

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

Raymond K F Ch'ien, GBS, CBE, JP, Director (Age: 54)

Dr Ch'ien has been an independent Non-executive Director of the Company since 2002. He is the chairman of CDC Corporation, chairman of its subsidiary, China.com Inc, and chairman of MTR Corporation Limited. Dr Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited and VTech Holdings Limited.

In public service, Dr Ch'ien is chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption; chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr Ch'ien is an honorary president and past chairman of the Federation of Hong Kong Industries. From 1992 to 1997, Dr Ch'ien was a member of the Executive Council of Hong Kong, then under British administration. He was appointed a member of the Executive Council of the Hong Kong SAR on July 1, 1997 and served until June 2002. He also served as chairman of Industry and Technology Development Council from 1993 to 1999.

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

Erik B Christensen, Director (Age: 58)

Mr Christensen has been a Director of the Company since 2003. He was formerly the managing director of Modern Terminals, a 67.6%-owned subsidiary of the Company, being one of the world's most efficient container terminal operators. He formerly joined The East Asiatic Company Limited ("EAC") in Denmark as a management trainee in 1965. Between 1970 and 1990, he spent eight years in China and 12 years in Hong Kong - from 1983 as the managing director and chief executive officer for the EAC's group activities in China and Hong Kong. In 1990, Mr Christensen returned to Copenhagen, and in 1995 he became a member of the EAC's group management board.

Hon Vincent K Fang, JP, Director (Age: 62)

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

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

Hans Michael Jebsen, BBS, Director (Age: 49)

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

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

Mr Jebsen was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2001.

Doreen Y F Lee, Director (Age: 49)

Ms Lee joined the Company in 1984 and has been a Director of the Company since 2003. She was appointed as the managing director of Wharf Estates Limited and Wharf Estates China Limited in 2005. She is also an executive director of Harbour City Estates Limited and Times Square Limited. She is responsible for overseeing the investment properties of the Group, particularly, two core properties of the Group, namely, Harbour City and Times Square and also the Group's Times Squares in Beijing, Shanghai, Chongqing and Dalian. Ms Lee is a graduate of The University of Hong Kong where she obtained her bachelor's degree in Arts (Hon).

T Y Ng, Director (Age: 58)

Mr Ng joined the Company in 1985 and has been a Director of the Company since 1998. He is also a director of HCDL, Joyce, WPL and WPSL in Singapore. He is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

James E Thompson, GBS, Director (Age: 66)

Mr Thompson has been an independent Non-executive Director of the Company since 2001. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He established his company, Crown Worldwide, in Japan in 1965. He is the member of the American Chamber of Commerce in Hong Kong ("ACC") and was appointed as the chairman of ACC in 2003. He also serves on Hong Kong - United States Business Council, the Hong Kong Japan Business Co-operation Committee, and the Hong Kong Korea Business Roundtable. Mr Thompson has lived in Hong Kong for 28 years and has served on the Trade Development Council, the ICAC Advisory Committee as well as other government and charitable committees. He was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2003.

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

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

(II) Senior Management

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

(B) DIRECTORS' INTERESTS IN SHARES

- (I) At December 31, 2005, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company and of two subsidiaries of the Company, namely, i-CABLE and Modern Terminals, and the percentages which the shares represented to the issued share capitals of the Company, i-CABLE and Modern Terminals respectively are also set out below:

	No. of Ordinary Shares (Percentage of Issued Capital)	Nature of Interest
The Company		
Mr Gonzaga W J Li	686,549 (0.0281%)	Personal interest
Mr Stephen T H Ng	650,057 (0.0266%)	Personal interest
Mr T Y Ng	178,016 (0.0073%)	Personal interest
i-CABLE		
Mr Gonzaga W J Li	68,654 (0.0034%)	Personal interest
Mr Stephen T H Ng	1,065,005 (0.0527%)	Personal interest
Mr Erik B Christensen	2,500 (0.0001%)	Personal interest
Mr T Y Ng	17,801 (0.0009%)	Personal interest
Modern Terminals		
Mr Hans Michael Jebsen	3,787 (5.40%)	Corporate interest

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

- (II) Set out below are particulars of interests (all being personal interests) in options to subscribe for ordinary shares of the Company granted under the Share Option Scheme of the Company held by Directors of the Company during the financial year (no movement in such options recorded during the year):

Name of Director	Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding throughout the year	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK\$)	Consideration paid for the options granted (HK\$)
Ms Doreen Y F Lee	01/03/2003	40,000	01/08/2005 to 31/07/2006	25.00	1.00

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

- (i) there were no interests, both long and short positions, held as at December 31, 2005 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

(C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at December 31, 2005, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names		No. of Ordinary Shares (Percentage of Issued Capital)	
(i)	Lynchpin Limited	171,974,029	(7.03%)
(ii)	Star Attraction Limited	171,974,029	(7.03%)
(iii)	Wheelock Properties Limited	173,652,029	(7.10%)
(iv)	Myers Investments Limited	173,652,029	(7.10%)
(v)	Wheelock Corporate Services Limited	173,652,029	(7.10%)
(vi)	WF Investment Partners Limited	1,051,765,051	(42.97%)
(vii)	Wheelock and Company Limited	1,222,896,080	(49.97%)
(viii)	HSBC Trustee (Guernsey) Limited	1,222,896,080	(49.97%)
(ix)	J.P. Morgan Chase & Co.	146,448,525	(5.98%)

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

All the interests stated above represented long positions and as at December 31, 2005, there were no short positions recorded in the Register.

(D) EXECUTIVE SHARE INCENTIVE SCHEME OF THE COMPANY

(I) Summary of the Scheme

- (a) *Purpose of the Scheme:*
To give executives of the Group the opportunity of acquiring an equity participation in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Company's continued growth and success.
- (b) *Participants of the Scheme:*
Any employee of the Company or any of its subsidiaries holding an executive, managerial, supervisory or similar position, including a Director of the Company or any of its subsidiaries holding executive office, who accepts the offer of the grant of an option in accordance with the terms of the Scheme.
- (c)
 - (i) *Total number of ordinary shares of HK\$1.00 each in the capital of the Company (the "Shares") available for issue under the Scheme as at December 31, 2005:*
106,732,831
 - (ii) *Percentage of the issued share capital that it represents as at December 31, 2005:*
4.36%
- (d) *Maximum entitlement of each participant under the Scheme as at December 31, 2005:*
Not more than:
 - (i) 10% of the maximum number of Shares available for subscription under the terms of the Scheme; and
 - (ii) in terms of amount of the aggregate subscription price, such amount of aggregate subscription price in respect of all the Shares for which an employee is granted options in any financial year as would exceed five times his or her gross annual remuneration.

- (e) *Period within which the Shares must be taken up under an option:*
Within 10 years from the date on which the option is granted or such shorter period as the Board of Directors may approve.
- (f) *Minimum period for which an option must be held before it can be exercised:*
One year from the date on which the option is granted.
- (g)
 - (i) *Price payable on application or acceptance of the option:*
HK\$1.00
 - (ii) *The period within which payments or calls must or may be made or loans of such purposes must be repaid:*
Seven days after the offer date of an option.
- (h) *Basis of determining the exercise price:*
Pursuant to rule 17.03 (9) of the Listing Rules, the exercise price must be at least the higher of:
 - (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and
 - (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.
- (i) *The remaining life of the scheme:*
Two years

(II) Details of Share Options Granted

Details of share options granted to Directors of the Company are set out in the section headed "Directors' interests in shares" in the Report of the Directors.

Set out below are particulars and movements during the financial year of the Company's outstanding share options which were granted to 12 employees (one of them being Director of the Company), all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

Date granted (Day/Month/Year)	No. of ordinary shares represented by unexercised options outstanding as at 01/01/2005	No. of ordinary shares represented by options lapsed/ exercised during the financial year	No. of ordinary shares represented by unexercised options outstanding as at 31/12/2005	Period during which rights exercisable (Day/Month/Year)	Price per share to be paid on exercise of options (HK\$)
01/08/1996	400,000	200,000	200,000	01/08/1996 to 31/07/2006	25.00

The weighted average closing price of the Shares of the Company immediately before the dates of all exercises by employees of the Company's share options during the financial year was HK\$30.1 per share.

Except as disclosed above, no share option of the Company was issued, exercised, cancelled, lapsed or outstanding throughout the year under review.

(E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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

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

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

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2005:

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

(G) BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of all such bank loans, overdrafts and/or other borrowings of the Company and of the Group as at December 31, 2005 which are repayable on demand or within a period not exceeding one year are set out in Note 24 to the Accounts on pages 116 to 118. Those which would fall due for repayment after a period of one year are particularised in Note 24 to the Accounts on pages 116 to 118.

Set out below is information regarding certain borrowings of the Group outstanding as at December 31, 2005, all in the form of debt securities issued by wholly-owned subsidiaries of and guaranteed by the Company:

Name of Subsidiary/Borrower		Description of Debt Securities Issued	Outstanding Principal Amount
(1)	Wharf International Finance Limited	US\$ Guaranteed Series A Fixed Rate Notes due 2007	US\$309 Million
(2)	Wharf Finance (BVI) Limited	HK\$ Guaranteed Fixed Rate Notes due 2006	HK\$600 Million
		HK\$ Guaranteed Floating Rate Notes due 2006	HK\$340 Million
		HK\$ Guaranteed Fixed Rate Notes due 2006	HK\$400 Million
		HK\$ Guaranteed Fixed Rate Notes due 2006	HK\$200 Million
		HK\$ Guaranteed Fixed Rate Notes due 2007	HK\$250 Million
		US\$ Guaranteed Fixed Rate Notes due 2007	US\$50 Million
		HK\$ Guaranteed Floating Rate Notes due 2008	HK\$100 Million
		HK\$ Guaranteed Fixed Rate Notes due 2008	HK\$300 Million
		HK\$ Guaranteed Floating Rate Notes due 2009	HK\$100 Million
		HK\$ Guaranteed Floating Rate Notes due 2010	HK\$200 Million

(H) INTEREST CAPITALISED

The amount of interest (all being borrowing costs) capitalised by the Group during the financial year is set out in Note 5 to the Accounts on page 90.

(I) PURCHASE, SALE OR REDEMPTION OF SHARES

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

(J) PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended December 31, 2005.

(K) DISCLOSURE OF CONNECTED TRANSACTIONS

Set out below is information in relation to certain connected transactions involving the Company and/or its subsidiaries which were substantially disclosed in the press announcements of the Company dated June 29, 2005, August 1, 2005, October 6, 2005 respectively and were required under the Listing Rules of the Stock Exchange to be disclosed in the Annual Report and Accounts of the Company:

(I) Acquisition of shares in i-CABLE Communications Limited

On June 28, 2005, Wharf Communications Limited, a wholly-owned subsidiary of the Company, entered into two separate sale and purchase agreements respectively with WF Investment Partners Limited ("WF") and Lynchpin Limited ("Lynchpin") for the acquisition of 107,623,761 shares and 17,619,827 shares in i-CABLE Communications Limited ("i-CABLE") (respectively representing 5.3% and 0.9% of the issued share capital of i-CABLE), at considerations payable in cash of HK\$277.1 million and HK\$45.4 million respectively. WF and Lynchpin are wholly-owned subsidiaries of Wheelock and Company Limited ("Wheelock") and Wheelock Properties Limited ("WPL") respectively. The transactions were completed on June 30, 2005.

Since the Company is a 48%-owned associate of Wheelock and WPL is a 74%-owned subsidiary of Wheelock, the abovementioned transactions constituted connected transactions for the Company under the Listing Rules.

(II) Acquisition of shares in Modern Terminals Limited

In May 2005, pursuant to the articles of association of Modern Terminals Limited ("Modern Terminals"), Swire Pacific Limited (the "Vendor") served a transfer notice to Modern Terminals. On June 1, 2005 (the "Offer Date"), Modern Terminals in turn offered to each of the other shareholders of Modern Terminals, including a wholly-owned subsidiary of the Company (the "Subsidiary") which held 55.34% equity interest in Modern Terminals as at the Offer Date, for the purchase by the offerees of 13,551 shares of Modern Terminals ("Offer Shares") at the Purchase Price in proportion to their respective shareholding interests in Modern Terminals under the pre-emptive arrangements. On July 30, 2005, the Subsidiary exercised its Pre-emption Rights to acquire 9,683 shares (the "Acquisition Shares") in Modern Terminals at a purchase price of HK\$214,006.35 per share payable by way of cash. The acquisition of the Acquisition Shares by the Subsidiary was completed on August 15, 2005.

As the Vendor was a substantial shareholder of Modern Terminals immediately before the acquisition of the Acquisition Shares by the Subsidiary, the Vendor was regarded as a connected person of the Company under the Listing Rules. Therefore, the Acquisition constituted a connected transaction of the Company under the Listing Rules.

(III) Shares Buyback in Modern Terminals Limited

On October 6, 2005, Modern Terminals entered into a buyback agreement for the buyback of 1,933 shares in Modern Terminals from Pacific Paradise Assets Limited ("PPAL"), a subsidiary of China Merchants Holdings ("CMH") group. The total consideration of HK\$413,674,274.55 was paid in cash by Modern Terminals to PPAL for the shares buyback. The transaction was completed on October 13, 2005.

PPAL, as a substantial shareholder of Modern Terminals (which is a non wholly-owned subsidiary of the Company), was regarded as a connected person of the Company under the Listing Rules. Therefore, the shares buyback constituted a connected transaction for the Company under the Listing Rules.

(IV) Tenancy Agreement with Joyce Boutique Limited

On January 16, 2006, a renewal tenancy agreement ("JBL Agreement") in respect of certain retail premises at Ground Floor, No. 17-19 Canton Road, Harbour City, Kowloon, Hong Kong for the period from January 2, 2006 to January 1, 2009 was entered into between Wharf Realty Limited ("WRL"), a wholly-owned subsidiary of the Company as the landlord, and Joyce Boutique Limited ("JBL") as the tenant.

As JBL is indirectly 51.9%-owned by a trust of which certain close relatives of the Chairman of the Company are discretionary objects, the JBL Agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

The rent receivable by WRL from JBL under the JBL Agreement for each of the three financial years ended December 31, 2008 will not exceed a cap amount of HK\$15 million.

(V) Tenancy Agreement with Ferragamo Retail HK Limited

On January 18, 2006, a relocation and renewal tenancy agreement ("Ferragamo Agreement") in respect of certain retail premises at Ground Floor and Level 1, Ocean Centre, Harbour City, Kowloon, Hong Kong for the period from January 20, 2006 to January 19, 2009 was entered into between WRL as the landlord, and Ferragamo Retail HK Limited ("Ferragamo") as the tenant.

As Ferragamo is indirectly 40%-owned by a trust of which certain close relatives of the Chairman of the Company are discretionary objects, the abovementioned agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

The rent receivable by WRL from Ferragamo under the Ferragamo Agreement for each of the three financial years ended December 31, 2008 will not exceed a cap amount of HK\$22.36 million.

(VI) Tenancy Agreements with City Super Limited

- (a) Set out below is information in relation to certain continuing connected transactions (the "Transactions") in respect of tenancy agreements between two wholly-owned subsidiaries of the Company and City Super Limited ("City Super"), particulars of which were previously disclosed in the press announcement of the Company dated January 5, 2005.

Description of the Transactions	Amount of rent received by the Company for the year ended December 31, 2005 HK\$ Million
1. Tenancy agreement in respect of B101-B109, Basement 1, Times Square, Causeway Bay, Hong Kong	22.65
2. Tenancy agreement in respect of Shops 3001-3002, Level 3, Gateway Arcade, Harbour City, Kowloon, Hong Kong	20.73

The abovementioned agreements are regarded as connected transactions for the Company by reason of the fact that City Super is 39.08%-owned by Lane Crawford (BVI) Limited which in turn is indirectly wholly-owned by a trust the settlor of which is the Chairman of the Company.

- (b) Confirmation from the Directors

The Directors, including the independent Non-executive Directors, of the Company have reviewed the Transactions mentioned under Section (K)(VI)(a) above and confirmed that the Transactions were entered into:

- (1) by the Group in the ordinary and usual course of its business;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

- (c) Furthermore, the auditors of the Company have advised the following:
- (1) the Transactions had been approved by the Company's Board of Directors;
 - (2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and
 - (3) the relevant cap amounts have not been exceeded during the year ended December 31, 2005.

Report of the Auditors



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

We have audited the financial statements on pages 78 to 149 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong 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, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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 Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 of the Group as at December 31, 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
Hong Kong, March 15, 2006

Consolidated Profit and Loss Account

For The Year Ended December 31, 2005

	Note	2005 HK\$ Million	2004 HK\$ Million (restated)
Turnover	1	12,543	11,953
Other net income	3	74	15
		12,617	11,968
Direct costs and operating expenses		(4,201)	(4,204)
Selling and marketing expenses		(620)	(577)
Administrative and corporate expenses		(587)	(534)
Operating profit before depreciation, amortisation, interest and tax		7,209	6,653
Depreciation and amortisation	2	(1,206)	(1,396)
Operating profit	2	6,003	5,257
Increase in fair value of investment properties		11,513	10,911
Net other credit/(charges)	4	47	(190)
		17,563	15,978
Borrowing costs	5	(562)	(239)
Share of profits less losses of associates	6 & 15	425	736
Share of losses of jointly controlled entities	16	(13)	(2)
Profit before taxation		17,413	16,473
Taxation	7(c)	(2,583)	(2,925)
Profit for the year		14,830	13,548
Attributable to:			
Shareholders	8	13,888	12,677
Minority interests		942	871
		14,830	13,548
Dividends attributable to the year	9		
Interim dividend declared during the year		881	802
Final dividend proposed after the balance sheet date		1,077	881
		1,958	1,683
Earnings per share	10		
Basic		HK\$5.67	HK\$5.18
Diluted		HK\$5.67	HK\$5.18

The notes and principal accounting policies on pages 85 to 149 form part of these financial statements.

Consolidated Balance Sheet

At December 31, 2005

	Note	2005 HK\$ Million	2004 HK\$ Million (restated)
Non-current assets			
Fixed assets			
Investment properties		78,224	66,288
Leasehold land		1,430	1,446
Other property, plant and equipment		11,004	11,182
		90,658	78,916
Goodwill	12	297	297
Interest in associates	14	1,638	1,583
Interest in jointly controlled entities	15	896	348
Available-for-sale investments	16	1,677	1,654
Long term receivables	17	410	426
Programming library	18	143	127
Deferred tax assets	25(a)	468	118
Defined benefit pension scheme assets	27	53	31
Derivative financial assets	28	54	–
Long term deposits		–	156
		96,294	83,656
Current assets			
Inventories	19	4,488	3,025
Trade and other receivables	20	1,105	1,248
Deposits and cash		2,508	2,209
		8,101	6,482
Current liabilities			
Trade and other payables	21	(4,848)	(4,618)
Short term loans and overdrafts	24	(4,403)	(3,236)
Derivative financial liabilities	28	(14)	–
Taxation payable	7(e)	(608)	(750)
		(9,873)	(8,604)
Net current liabilities		(1,772)	(2,122)
Total assets less current liabilities		94,522	81,534
Non-current liabilities			
Long term loans	24	(14,155)	(13,206)
Deferred taxation	25(a)	(11,672)	(9,447)
Other deferred liabilities	26	(263)	(257)
Derivative financial liabilities	28	(3)	–
		(26,093)	(22,910)
NET ASSETS		68,429	58,624
Capital and reserves			
Share capital	22	2,448	2,447
Reserves		62,865	52,502
Shareholders' equity	23(a)	65,313	54,949
Minority interests	23(a)	3,116	3,675
TOTAL EQUITY		68,429	58,624

The notes and principal accounting policies on pages 85 to 149 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Company Balance Sheet

At December 31, 2005

	Note	2005 HK\$ Million	2004 HK\$ Million
Non-current assets			
Investments in subsidiaries	13	13,227	13,829
Long term receivables	18	382	382
		13,609	14,211
Current assets			
Trade and other receivables	20	1	1
Deposits and cash		115	1
		116	2
Current liabilities			
Trade and other payables	21	(23)	(20)
Short term loans and overdrafts	24	–	(190)
Taxation payable		(1)	–
		(24)	(210)
Net current assets/(liabilities)		92	(208)
NET ASSETS		13,701	14,003
Capital and reserves			
Share capital	22	2,448	2,447
Reserves		11,253	11,556
SHAREHOLDERS' EQUITY	23(b)	13,701	14,003

The notes and principal accounting policies on pages 85 to 149 form part of these financial statements.

Peter K C Woo
Chairman

Stephen T H Ng
Deputy Chairman & Managing Director

Consolidated Statement of Changes in Equity

For The Year Ended December 31, 2005

	Note	2005 HK\$ Million	2004 HK\$ Million (restated)
Total equity as at January 1 as previously reported			
Shareholders' equity		65,168	51,628
Minority interests (previously presented separately from liabilities and equity at December 31, 2004)		4,355	4,021
		69,523	55,649
Prior year adjustment	11	(10,899)	(8,680)
Total equity as restated		58,624	46,969
Opening balance adjustments	11	(40)	–
		58,584	46,969
Surplus on revaluation of investment properties, net of deferred tax			10,799
Prior year adjustment for investment properties			(10,799)
			–
Surplus on revaluation of hotel and club properties			339
Prior year adjustment for hotel properties			(352)
			(13)
Reserves utilised for acquisition of additional interests in subsidiaries		(2,831)	–
Surplus on revaluation of available-for-sale investments		166	320
Others		9	10
Advances from/(to) minority interests		7	(3)
Net (losses)/gains not recognised in the consolidated profit and loss account		(2,649)	314
Investments revaluation reserves transferred to the consolidated profit and loss account on disposal of available-for-sale investments		(42)	(22)
Profit for the year as previously stated			4,616
Prior year adjustment	11		8,932
Profit for the year (2004: as restated)		14,830	13,548

Consolidated Statement of Changes in Equity *(continued)*

	Note	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
Total recognised income for the year (2004: as restated)			
Shareholders		12,161	12,880
Minority interests		(22)	960
		12,139	13,840
Final dividend approved in respect of the previous year	9(a)	(881)	(685)
Interim dividend approved in respect of the current year	9(a)	(881)	(802)
Dividends paid to minority interests	23(a)	(537)	(698)
Issue of share capital	23(a)	5	–
Total equity as at December 31		68,429	58,624
Attributable to:			
Shareholders		65,313	54,949
Minority interests		3,116	3,675
	23(a)	68,429	58,624

The notes and principal accounting policies on pages 85 to 149 form part of these financial statements.

Consolidated Cash Flow Statement

For The Year Ended December 31, 2005

	Note	2005 HK\$ Million	2004 HK\$ Million
Cash generated from operations	(a)	6,118	6,288
Interest paid		(532)	(263)
Interest received		79	43
Dividends received from associates		56	146
Dividends received from investments		170	160
Hong Kong profits tax paid		(849)	(704)
Overseas tax paid		(1)	–
Net cash generated from operating activities		5,041	5,670
Investing activities			
Purchase of fixed assets		(1,757)	(1,346)
Additions to programming library		(95)	(78)
Net (increase)/decrease in investments in associates		(216)	3
Investment in jointly controlled entities		(554)	(350)
Purchase of available-for-sale investments		(6)	(18)
Purchase of additional interests in subsidiaries		(2,831)	–
Proceeds from disposal of fixed assets		1	22
Proceeds from disposal of investment properties		59	–
Proceeds from sale of an associate		165	15
Net repayment from associates		363	1,102
Proceeds from sale of available-for-sale investments		170	78
Repayment from long term receivables		18	19
Net cash used in investing activities		(4,683)	(553)
Financing activities			
Issue of share capital		5	–
Net drawdown of long term loans		2,873	1,161
Net repayment of short term loans and overdrafts		(801)	(3,393)
Advances from/(to) minority interests		7	(3)
Dividends paid		(1,762)	(1,487)
Dividends paid to minority interests		(537)	(698)
Net cash used in financing activities		(215)	(4,420)
Increase in cash and cash equivalents		143	697
Cash and cash equivalents at January 1		2,209	1,512
Cash and cash equivalents at December 31		2,352	2,209
Analysis of the balance of cash and cash equivalents			
Deposits and cash	(b)	2,352	2,209

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to cash generated from operations**

	2005 HK\$ Million	2004 <i>HK\$ Million</i> (restated)
Operating profit	6,003	5,257
Interest income	(80)	(42)
Dividends receivable from investments	(170)	(160)
Depreciation	1,100	1,199
Amortisation	106	197
Loss on disposal of fixed assets	13	27
Other net income	(74)	(15)
Increase in properties under development for sale	(1,005)	(231)
Decrease in properties held for sale	44	10
Decrease/(increase) in spare parts and consumables	4	(7)
Decrease/(increase) in trade and other receivables	144	(367)
Increase in trade and other payables	42	438
Increase in financial derivative liabilities	7	–
Increase in defined benefit pension scheme assets	(22)	(15)
Increase/(decrease) in other deferred liabilities	6	(3)
Cash generated from operations	6,118	6,288

(b) Cash and cash equivalents

	2005 HK\$ Million	2004 <i>HK\$ Million</i>
Cash and cash equivalents in the consolidated balance sheet	2,508	2,209
Less: deposits with financial institutions with maturity greater than three months	(156)	–
Cash and cash equivalents in the consolidated cash flow statement	2,352	2,209

Notes to the Financial Statements

1. SEGMENT INFORMATION

a. Business segments

	Segment revenue		Segment results	
	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million (restated)
i. Revenue and results				
Property investment	5,073	4,645	3,465	3,108
Hong Kong	3,952	3,688	3,124	2,832
China	298	227	85	58
Hotels	823	730	256	218
Communications, media and entertainment ("CME")	3,937	3,823	486	456
Pay television	1,884	1,888	337	469
Internet and multimedia	558	481	78	(44)
Telecommunications	1,478	1,448	104	55
Others	17	6	(33)	(24)
Logistics	3,534	3,347	1,935	1,840
Terminals	3,149	2,964	1,800	1,715
Others	385	383	135	125
	12,544	11,815	5,886	5,404
Property development	53	193	7	–
Investment and others	225	175	348	75
Inter-segment revenue (Note)	(279)	(230)	–	–
	12,543	11,953	6,241	5,479
Unallocated income and expenses			(238)	(222)
Operating profit			6,003	5,257
Increase in fair value of investment properties			11,513	10,911
Net other credit/(charges)			47	(190)
Telecommunications			–	(298)
Property development			47	108
			17,563	15,978
Borrowing costs			(562)	(239)
Associates			425	736
Property development			305	639
Terminals			118	96
Investment and others			2	1
Jointly controlled entities				
Terminals			(13)	(2)
Profit before taxation			17,413	16,473

Property investment revenue includes gross rental income from investment properties of HK\$3,363 million (2004: HK\$3,033 million).

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

Note: Inter-segment revenue eliminated on consolidation includes:

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Property investment	82	80
CME	196	147
Logistics	–	2
Investment and others	1	1
	279	230

	Assets		Liabilities	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
ii. Assets and liabilities				
Property investment	81,188	69,261	4,074	3,823
Hong Kong	74,572	63,468	1,708	1,632
China	6,169	5,346	2,224	2,066
Hotels	447	447	142	125
CME	5,407	5,511	1,177	1,174
Pay television	1,560	1,578	532	527
Internet and multimedia	706	804	134	152
Telecommunications	3,133	3,116	500	495
Others	8	13	11	–
Logistics	7,354	6,713	4,167	2,630
Terminals	7,166	6,531	4,117	2,584
Others	188	182	50	46
	93,949	81,485	9,418	7,627
Property development	5,614	4,236	550	198
Unallocated	4,832	4,417	25,998	23,689
Total assets/liabilities	104,395	90,138	35,966	31,514

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

Included in the property development segment is the Group's attributable interest in property development projects undertaken by associates, which totals HK\$1,134 million (2004: HK\$1,237 million).

1. SEGMENT INFORMATION *(Continued)*

a. Business segments *(Continued)*

	Capital expenditure		Depreciation and amortisation	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
iii. Other information				
Property investment	775	387	102	138
Hong Kong	684	181	18	53
China	48	164	14	16
Hotels	43	42	70	69
CME	693	834	902	994
Pay television	242	308	334	364
Internet and multimedia	103	183	214	247
Telecommunications	313	329	341	366
Others	35	14	13	17
Logistics	1,105	575	202	264
Terminals	1,103	571	191	249
Others	2	4	11	15
Group total	2,573	1,796	1,206	1,396

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

b. Geographical segments

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

2. OPERATING PROFIT**a. Operating profit is arrived at:**

	2005 HK\$ Million	2004 HK\$ Million (restated)
After charging:		
Depreciation		
– assets held for use under operating leases	88	100
– other fixed assets	1,012	1,099
	1,100	1,199
Amortisation		
– programming library	81	122
– leasehold land	25	25
– goodwill	–	50
Total depreciation and amortisation	1,206	1,396
Staff costs	2,216	2,145
including:		
Contributions to defined contribution pension schemes including MPF schemes (after a forfeiture of HK\$5 million (2004: HK\$6 million))	76	69
Increase in liability for defined benefit pension schemes (Note 27)	13	21
Auditors' remuneration		
– audit services	10	9
– other services	2	1
Cost of investment properties sold during the year	41	–
Cost of other properties sold during the year	47	175
Loss on disposal of fixed assets	13	27
and crediting:		
Rental income less direct outgoings including:	3,390	3,092
Contingent rentals	236	190
Interest income	80	42
Dividend income from listed investments	55	53
Dividend income from unlisted investments	115	107

2. OPERATING PROFIT (Continued)

b. Directors' emoluments

Directors' emoluments are as follows:

	Fees HK\$'000	Basic salaries, housing and other allowances, and benefits in kind HK\$'000	Discretionary bonuses and/or performance related bonuses HK\$'000	Contributions to pension schemes HK\$'000	Compensation for loss of office/ inducement joining the Group HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Board of Directors							
Peter K C Woo	90	9,496	6,120	12	–	15,718	12,560
Gonzaga W J Li	50	4,008	4,120	–	–	8,178	6,867
Stephen T H Ng	50	3,716	7,120	204	–	11,090	9,350
Doreen Y F Lee	50	2,550	2,370	240	–	5,210	4,160
Erik B Christensen	50	2,630	2,279	157	–	5,116	15,781
T Y Ng	50	1,552	986	11	–	2,599	2,135
Independent Non-executive Directors							
Paul M P Chan	65	–	–	–	–	65	9
Edward K Y Chen	50	–	–	–	–	50	35
Raymond K F Ch'ien	50	–	–	–	–	50	35
Vincent K Fang	65	–	–	–	–	65	35
Hans Michael Jebsen	65	–	–	–	–	65	35
James E Thompson	65	–	–	–	–	65	35
Past Directors							
Paul M F Cheng	12	–	–	–	–	12	35
Quinn Y K Law	42	1,649	620	159	–	2,470	2,729
Christopher P Langley	19	–	–	–	–	19	35
David J Lawrence	4	248	83	1	–	336	3,998
	777	25,849	23,698	784	–	51,108	57,834
Total for 2004	589	29,275	27,178	792	–		57,834

In 2005, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$50,000 (2004: HK\$35,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$15,000 per annum were paid to each audit committee member.

c. Emoluments of the highest paid employees

For the year ended December 31, 2005, the top five highest paid individuals are also Directors of the Group and the analyses of their emoluments have been set out in Note 2(b) above.

3. OTHER NET INCOME

Other net income mainly represents net profit on disposal of available-for-sale investments which included a revaluation surplus of HK\$40 million (2004: HK\$22 million) transferred from the investments revaluation reserves.

4. NET OTHER CREDIT/(CHARGES)

	2005 HK\$ Million	2004 HK\$ Million
Net write-back of provisions for properties	47	108
Impairment of broadcasting and communications equipment	–	(298)
	47	(190)

5. BORROWING COSTS

	2005 HK\$ Million	2004 HK\$ Million
Interest on:		
Bank loans and overdrafts	323	90
Other loans repayable within five years	249	106
Other loans repayable over five years	6	9
Other borrowing costs	(8)	59
	570	264
Less: Amount capitalised*	(8)	(25)
Net borrowing costs for the year	562	239

* The borrowing costs have been capitalised at annual rates of between 1.3% to 4.6% (2004: 1.2% to 2.8%).

Included in total interest costs are amounts totalling HK\$425 million (2004: HK\$101 million) in respect of floating rate interest bearing borrowings that are not at fair value through profit or loss.

6. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates mainly comprises attributable profits arising on disposal of Sorrento and Bellagio residential units and contribution from terminals operations.

7. TAXATION

- a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2004: 17.5%).
- b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- c. Taxation in the consolidated profit and loss account represents:–

	2005 HK\$ Million	2004 HK\$ Million (restated)
Current tax		
Hong Kong profits tax	678	702
Underprovision in respect of prior years	28	122
	706	824
Overseas taxation	2	1
Overprovision in respect of prior years	–	(9)
	708	816
Deferred tax		
Change in value of investment properties	2,045	1,984
Origination and reversal of temporary differences	150	125
Benefit of previously unrecognised tax losses now recognised	(320)	–
	1,875	2,109
	2,583	2,925

7. TAXATION (*Continued*)

d. Reconciliation between the actual total tax charge and accounting profit at applicable tax rates

	2005 HK\$ Million	2004 HK\$ Million (restated)
Profit before taxation	17,413	16,473
Notional tax on accounting profit calculated at applicable tax rates	3,110	2,961
Tax effect of non-deductible expenses	23	108
Tax effect of non-taxable revenue	(118)	(85)
Net underprovision in respect of prior years	28	113
Tax effect of tax losses not recognised	41	59
Tax losses utilised	(181)	(231)
Tax effect of previously unrecognised tax losses now recognised as deferred tax assets	(320)	–
Actual total tax charge	2,583	2,925

- e. None of the taxation payable in the balance sheet is expected to be settled after more than one year.
- f. Share of associates' tax for the year ended December 31, 2005 of HK\$24 million (2004: HK\$12 million) is included in the share of profits less losses of associates.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK\$1,455 million (2004: HK\$1,487 million).

9. DIVIDENDS

a. Dividends attributable to the year

	2005 HK\$ Million	2004 HK\$ Million
Interim dividend declared and paid of 36 cents (2004: 32.75 cents) per share	881	802
Final dividend of 44 cents (2004: 36 cents) per share proposed after the balance sheet date	1,077	881
	1,958	1,683

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

b. Dividends attributable to the previous financial year, approved and paid during the year

	2005 HK\$ Million	2004 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the year, of 36 cents (2004: 28 cents) per share	881	685

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings attributable to shareholders for the year of HK\$13,888 million (2004: HK\$12,677 million as restated) and the weighted average of 2,448 million (2004: 2,447 million) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on earnings attributable to shareholders for the year of HK\$13,888 million (2004: HK\$12,677 million as restated) and the weighted average of 2,448 million (2004: 2,447 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the year ended December 31, 2005 (see Note 22) has no dilutive effect on the calculation of diluted earnings per share for the year ended December 31, 2005.

11. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards that are effective for accounting periods beginning on or after January 1, 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in the section headed "Principal Accounting Policies" set out on pages 129 to 145. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has opted to early adopt the amendment to HKAS 39, "Financial instruments: Recognition and measurement: The Fair Value Option" ("HKAS 39 (June 2005)") in the consolidated financial statements for the year ended December 31, 2005. Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

a. HKAS 40 "Investment property"

In prior years, investment properties other than those with unexpired lease terms of 20 years or less were stated at fair value. Changes in the value of investment properties were dealt with as movements in the investment properties revaluation reserves. Deficits arising on revaluation on a portfolio basis were set off against previous revaluation surpluses and thereafter charged to the consolidated profit and loss account. Investment properties with unexpired lease terms of 20 years or less were stated at carrying value less accumulated depreciation and impairment provisions, if any.

With effect from January 1, 2005, upon the adoption of HKAS 40, all the Group's investment properties, including those with unexpired lease terms of 20 years or less, are stated at their fair values with all the changes in fair value recognised directly in the consolidated profit and loss account. This new accounting policy has been applied retrospectively. Revenue reserves as at January 1, 2005 and January 1, 2004 were increased by HK\$42,870 million and HK\$32,109 million respectively, representing the transfer of the accumulated attributable revaluation surplus previously recorded in the investment properties revaluation reserves. Shareholders' equity as at January 1, 2005 increased by HK\$11 million, because of an adjustment to restate certain investment properties with unexpired lease terms of 20 years or less at fair value under HKAS 40.

The effect of the change has increased the profit attributable to shareholders and minority interests for the year ended December 31, 2005 by HK\$11,416 million (2004: HK\$10,911 million) and HK\$97 million (2004: HK\$39 million), respectively.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

b. **HKAS-INT 21 “Income taxes – recovery of revalued non-depreciable assets”**

In previous years, deferred taxation was recognised on revaluation changes of the Group’s investment properties on the basis that the recovery of the carrying amount of the investment properties would be through sales and no deferred taxation was provided on the revaluation of investment properties located in Hong Kong, as the capital gain tax rate was nil.

With effect from January 1, 2005, HKAS-INT 21 requires deferred taxation to be recognised on any revaluation of investment properties on the basis that the recovery of the carrying amount of the investment properties would be through use and calculated at the applicable profits tax rate and charged to the profit and loss account. This new accounting policy has been applied retrospectively. Shareholders’ equity as at January 1, 2005 and January 1, 2004 was restated and decreased by HK\$7,380 million and HK\$5,545 million respectively, and minority interests as at January 1, 2005 and January 1, 2004 were restated and decreased by HK\$48 million and HK\$39 million, respectively. The adjustment represented deferred tax liabilities on the revaluation of the Group’s investment properties.

As a result of this change, the deferred tax charge for the year ended December 31, 2005 increased by HK\$2,045 million (2004: HK\$1,984 million). The amounts attributable to shareholders and minority interests are HK\$2,027 million (2004: HK\$1,974 million) and HK\$18 million (2004: HK\$10 million) respectively.

c. **HK-INT 2 “The appropriate accounting policies for hotel properties”**

In prior years, the Group’s hotel and club properties were stated at their open market value based on an annual professional valuation. No depreciation was provided on hotel and club properties with an unexpired lease term of 20 years or more as they were maintained in a continuous state of sound repair and given the estimated lives of the hotel and club properties and their residual values, any depreciation would be immaterial.

With effect from January 1, 2005, upon the adoption of HK-INT 2, hotel and club properties are stated at cost less accumulated depreciation and impairment provisions. The effect of adopting the new accounting policy has been applied retrospectively. Shareholders’ equity as at January 1, 2005 and January 1, 2004 was restated and decreased by HK\$2,850 million and HK\$2,527 million, respectively, and minority interests as at January 1, 2005 and January 1, 2004 were restated and decreased by HK\$632 million and HK\$569 million respectively.

The change has increased the depreciation charge and reduced the profit attributable to shareholders and minority interests for the year ended December 31, 2005 by HK\$21 million and HK\$7 million, respectively (2004: HK\$27 million and HK\$7 million respectively).

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

d. HKAS 17 “Leases”

In prior years, the Group’s leasehold land and buildings were accounted for as finance leases and were stated at cost less accumulated depreciation, except for hotel properties which were stated at revalued amounts.

With effect from January 1, 2005, upon the adoption of HKAS 17, the Group’s interests in leasehold land are accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be split reliably from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Where the two elements cannot be split reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation. Leasehold land under operating leases will no longer be revalued. Instead, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised on a straight line basis over the unexpired lease term. The new accounting policy has been applied retrospectively, which has resulted in reclassification of certain leasehold interests in land with a net book value of HK\$1,446 million as at January 1, 2005 previously included in “fixed assets” as “leasehold land” with the comparative figures restated to conform to the current period’s presentation. This change has no significant impact on the Group’s results and equity.

e. HKFRS 3 “Business Combinations”

In prior years, positive goodwill, being the excess of the cost of a business combination over the net fair value of net assets acquired, which arose on or after January 1, 2001 was capitalised and amortised on a straight line basis over the shorter of its useful life and 20 years and was subject to impairment testing when there were indications of impairment. Goodwill which arose prior to January 1, 2001 was written off to capital reserves in accordance with the transitional provisions set out in the Statement of Standard Accounting Practice 30 “Business combinations”.

With effect from January 1, 2005, in order to comply with HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, the Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash-generating units to which the goodwill has been allocated exceeds its recoverable amount. Also with effect from January 1, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated profit and loss account as it arises.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

e. **HKFRS 3 “Business Combinations”** *(Continued)*

This change in accounting policy has been adopted prospectively from January 1, 2005, and the cessation of amortisation of goodwill has increased the Group’s profit after taxation for the year ended December 31, 2005 by HK\$50 million. In addition, the Group’s negative goodwill of HK\$303 million previously credited to other capital reserves has been transferred to revenue reserves. The Group has furthermore transferred goodwill that arose prior to January 1, 2001 in an amount totalling HK\$3,415 million from other capital reserves to revenue reserves since such goodwill is not allowed to be restated in the balance sheet or included in the calculation of the results on disposal of relevant subsidiaries/associates. The net effect of the above transfers has reduced revenue reserves and increased other capital reserves by the same amount of HK\$3,112 million but has no impact on the Group’s equity.

f. **HKAS 32 “Financial instruments: Disclosure and Presentation”, and HKAS 39 “Financial instruments: Recognition and Measurement”**

The application of HKAS 32 and 39 has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement.

The principal effects of the change on the Group are summarised as below:

i. *Classification and measurement of financial assets and financial liabilities*

From January 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “loans and receivables”, “held-to-maturity financial assets” or “available-for-sale financial assets”. Financial assets at fair value through profit or loss are initially recognised at fair value and subsequently remeasured at fair value with any changes therein being recognised in the profit and loss account. Other financial assets are generally measured at amortised cost using the effective interest method. Available-for-sale financial assets are carried at fair value and any revaluation movements are transferred to the investments revaluation reserve.

The change has resulted in reclassifications of certain financial assets and liabilities together with the corresponding comparatives and has no significant impact on the Group’s results and equity.

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

f. HKAS 32 “Financial instruments: Disclosure and Presentation”, and HKAS 39 “Financial instruments: Recognition and Measurement” (*Continued*)

ii. *Interest-bearing borrowings designated at fair value through profit or loss*

The Group has chosen to early adopt HKAS 39 (June 2005) in these financial statements. Where there is a hedging relationship between the Group’s interest-bearing borrowings and interest rate swaps, which do not qualify for hedge accounting or are not designated as hedging derivative financial instruments, the interest-bearing borrowings are initially recognised at fair value and at each balance sheet date the fair value is remeasured. Any changes in fair value are recognised in the consolidated profit and loss account to offset the change in fair value of the related derivative financial instruments. This accounting treatment has been adopted effective from January 1, 2005 with no effect on revenue reserves as the change in fair value of interest-bearing borrowings exactly matched and was set off against the fair values of the related derivative financial instruments at that date. The change in fair value of interest-bearing borrowings at December 31, 2005 of HK\$43 million has been charged to the consolidated profit and loss account and offset against the gain of HK\$43 million arising on remeasurement of the related derivative financial instruments to fair value at that date.

iii. *Derivatives and hedging*

From January 1, 2005 onwards, all derivatives are initially recognised at fair value on the date of entering into the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognising 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 the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated profit and loss account.

In accordance with HKAS 39, there are three types of hedge relationships: fair value hedges, cash flow hedges and net investment hedges.

– Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges together with any changes in the fair value of the corresponding hedged asset or liability are recorded in the consolidated profit and loss account.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

f. **HKAS 32 "Financial instruments: Disclosure and Presentation", and HKAS 39 "Financial instruments: Recognition and Measurement"** *(Continued)*

iii. *Derivatives and hedging (Continued)*

– Cash flow hedges

Changes in the fair value of derivatives held as hedging instruments that are designated and qualify as cash flow hedges are recognised in equity to the extent that the hedge is effective. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any related cumulative gain or loss existing in equity is recognised in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the related cumulative gain or loss in equity is immediately transferred to the consolidated profit and loss account.

– Net investment hedges

Changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in the consolidated profit and loss account. On disposal of a foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to the consolidated profit and loss account in the period in which the disposal takes place.

At December 31, 2004, the Group's derivative financial instruments, mainly comprising interest rate and currency swaps, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuations. The notional amounts of derivatives were previously recorded off balance sheet. Interest flows arising on the derivatives were previously accounted for on an accruals basis.

The Group has applied the relevant transitional provisions of HKAS 39 and the amendments of HKAS 39 (June 2005) with effect from January 1, 2005. As at January 1, 2005, certain derivative financial instruments which were not designated as hedges or did not qualify for hedge accounting were stated at fair value by an opening balance adjustment which decreased revenue reserves by HK\$40 million. At December 31, 2005, the fair values of the Group's derivative financial instruments recognised in the balance sheet comprise non-current financial derivative assets totalling HK\$54 million and financial derivative liabilities totalling HK\$17 million (comprising non-current liabilities of HK\$3 million and current liabilities of HK\$14 million).

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

g. HKFRS 2 “Share-based payment”

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option’s exercise price receivable.

With effect from January 1, 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- i. all options granted to employees on or before November 7, 2002; or
- ii. all options granted to employees after November 7, 2002 but which had vested before January 1, 2005.

No adjustments to the opening balances as at January 1, 2004 are required as all outstanding options were granted to employees before November 7, 2002.

h. HKAS 1 “Presentation of Financial Statements”

The application of the new HKFRSs has also resulted in changes in the presentation of the financial statements retrospectively with comparatives restated to conform to current period’s presentation, in respect of the following:

- i. In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from January 1, 2005, in order to comply with HKAS 1 “Presentation of Financial Statements” and HKAS 27 “Consolidated and Separate Financial Statements”, minority interests are presented in the consolidated balance sheet as an element of total equity, separately from the equity attributable to the shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated profit and loss account as an allocation of the attributable profit between the minority interests and the shareholders of the Company.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

h. HKAS 1 "Presentation of Financial Statements" *(Continued)*

- ii. In prior years, the Group's share of associates/jointly controlled entities' tax was presented as a component of taxation in the profit and loss account. On adoption of the HKAS 1, the Group's share of associates/jointly controlled entities' profits less losses is presented on an after-tax basis.
- iii. In prior years, amounts due from/(to) associates and minority interests are grouped under "interests in associates" and "minority interests" respectively. On adoption of the HKAS 1, the amounts due from/(to) associates and minority interests are classified as current assets and liabilities where they satisfy the conditions set out in paragraphs 57 and 60 of HKAS 1 for classification as current assets and liabilities.

i. Summary of the effect of changes in the accounting policies

- i. *Effect on opening balance of total equity at January 1, 2005 and January 1, 2004 (as adjusted)*

	Shareholders' equity			Minority interests	Total equity
	Revenue reserves	Other reserves	Total		
	HK\$	HK\$	HK\$		HK\$
	Million	Million	Million	Million	Million
At January 1, 2005					
Prior year adjustments					
HKAS 40	42,881	(42,870)	11	–	11
HKAS-INT 21	(7,380)	–	(7,380)	(48)	(7,428)
HK-INT 2	(221)	(2,629)	(2,850)	(632)	(3,482)
	35,280	(45,499)	(10,219)	(680)	(10,899)
Opening balance adjustments					
HKFRS 3	(3,112)	3,112	–	–	–
HKAS 39	(40)	–	(40)	–	(40)
Total increase/(decrease) in equity	32,128	(42,387)	(10,259)	(680)	(10,939)
At January 1, 2004					
Prior year adjustments					
HKAS 40	32,109	(32,109)	–	–	–
HKAS-INT 21	(5,545)	–	(5,545)	(39)	(5,584)
HK-INT 2	(194)	(2,333)	(2,527)	(569)	(3,096)
Total increase/(decrease) in equity	26,370	(34,442)	(8,072)	(608)	(8,680)

11. CHANGES IN ACCOUNTING POLICIES *(Continued)***i. Summary of the effect of changes in the accounting policies** *(Continued)***ii. Effect on profit after taxation**

	Attributable to shareholders <i>HK\$ Million</i>	Minority interests <i>HK\$ Million</i>	2005 Total <i>HK\$ Million</i>	Attributable to shareholders <i>HK\$ Million</i>	Minority interests <i>HK\$ Million</i>	2004 Total <i>HK\$ Million</i>
HKAS 40	11,416	97	11,513	10,911	39	10,950
HKAS-INT 21	(2,027)	(18)	(2,045)	(1,974)	(10)	(1,984)
HK-INT 2	(21)	(7)	(28)	(27)	(7)	(34)
HKFRS 3	50	–	50	–	–	–
Total increase in profit after taxation	9,418	72	9,490	8,910	22	8,932

12. FIXED ASSETS

	Group						
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & communi- cations equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	Total HK\$ Million
a. Cost or valuation							
Balance at January 1, 2004							
As previously reported	54,580	2,812	3,409	8,784	9,858	–	79,443
Prior year adjustment	270	(21)	(2,693)	–	(5)	–	(2,449)
Land cost adjustment	–	(331)	(86)	–	(1,263)	1,680	–
As restated	54,850	2,460	630	8,784	8,590	1,680	76,994
Additions	92	313	14	601	348	–	1,368
Disposals	(40)	–	–	(304)	(122)	–	(466)
Reclassification	475	(887)	–	(10)	368	44	(10)
Revaluation surpluses/ (deficits)	10,911	(52)	–	–	–	–	10,859
Balance at December 31, 2004 (as restated)	66,288	1,834	644	9,071	9,184	1,724	88,745
Balance at January 1, 2005							
As previously reported	66,046	2,171	3,762	9,071	10,511	–	91,561
Prior year adjustment	242	(21)	(3,032)	–	(5)	–	(2,816)
Land cost adjustment	–	(316)	(86)	–	(1,322)	1,724	–
As restated	66,288	1,834	644	9,071	9,184	1,724	88,745
Exchange adjustment	105	2	–	–	4	23	134
Additions	435	376	15	539	395	–	1,760
Disposals	(46)	–	–	(31)	(88)	–	(165)
Reclassification	(71)	(465)	–	(9)	311	(14)	(248)
Revaluation surpluses/ (deficits)	11,513	(234)	–	–	–	–	11,279
Balance at December 31, 2005	78,224	1,513	659	9,570	9,806	1,733	101,505

12. FIXED ASSETS (Continued)

	Group						
	Investment properties	Properties under or held for redevelopment	Hotel and club properties	Broad-casting & communications equipment	Other properties and fixed assets	Leasehold land	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million	Million	Million	Million
Accumulated depreciation, amortisation and impairment losses							
Balance at January 1, 2004							
As previously reported	–	–	–	4,064	4,259	–	8,323
Prior year adjustment	–	–	403	–	–	–	403
Land cost adjustment	–	–	(3)	–	(250)	253	–
As restated	–	–	400	4,064	4,009	253	8,726
Charge for the year	–	–	46	727	426	25	1,224
Impairment	–	–	–	298	–	–	298
Written back on disposals	–	–	–	(296)	(121)	–	(417)
Reclassification	–	–	–	(2)	–	–	(2)
Balance at December 31, 2004 (as restated)	–	–	446	4,791	4,314	278	9,829
Balance at January 1, 2005							
As previously reported	39	–	–	4,791	4,588	–	9,418
Prior year adjustment	(39)	–	450	–	–	–	411
Land cost adjustment	–	–	(4)	–	(274)	278	–
As restated	–	–	446	4,791	4,314	278	9,829
Charge for the year	–	–	38	694	368	25	1,125
Written back on disposals	–	–	–	(23)	(82)	–	(105)
Reclassification	–	–	–	(2)	–	–	(2)
Balance at December 31, 2005	–	–	484	5,460	4,600	303	10,847
Net book value							
At December 31, 2005	78,224	1,513	175	4,110	5,206	1,430	90,658
At December 31, 2004 (as restated)	66,288	1,834	198	4,280	4,870	1,446	78,916

b. The analysis of cost or valuation of the above assets is as follows:–

2005 valuation	78,224	–	–	–	–	–	78,224
Cost less provisions	–	1,513	659	9,570	9,806	1,733	23,281
	78,224	1,513	659	9,570	9,806	1,733	101,505
2004 valuation	66,288	–	–	–	–	–	66,288
Cost less provisions	–	1,834	644	9,071	9,184	1,724	22,457
	66,288	1,834	644	9,071	9,184	1,724	88,745

12. FIXED ASSETS (Continued)

	Group						
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & communi- cations equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	Total HK\$ Million
c. Tenure of title to properties (at cost or valuation):–							
At December 31, 2005							
Held in Hong Kong							
Long lease	61,499	–	478	–	3	204	62,184
Medium lease	10,174	928	–	–	4,403	1,203	16,708
Short lease	1,612	–	181	–	1	–	1,794
	73,285	928	659	–	4,407	1,407	80,686
Held outside Hong Kong							
Freehold	20	–	–	–	–	–	20
Long lease	–	–	–	–	–	–	–
Medium lease	4,919	585	–	–	5	326	5,835
	78,224	1,513	659	–	4,412	1,733	86,541
At December 31, 2004							
Held in Hong Kong							
Long lease	51,122	58	461	–	3	86	51,730
Medium lease	8,545	1,267	–	–	4,110	1,321	15,243
Short lease	1,991	–	183	–	1	–	2,175
	61,658	1,325	644	–	4,114	1,407	69,148
Held outside Hong Kong							
Freehold	20	–	–	–	–	–	20
Long lease	5	–	–	–	–	–	5
Medium lease	4,605	509	–	–	5	317	5,436
	66,288	1,834	644	–	4,119	1,724	74,609

12. FIXED ASSETS (*Continued*)**d. Properties revaluation**

The Group's investment properties have been revalued as at December 31, 2005 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

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

e. Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at each balance sheet date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. As a consequence of this exercise, at December 31, 2005 revaluation deficits totalled HK\$234 million (2004: HK\$52 million) of which HK\$158 million (2004: HK\$39 million) was recognised in the consolidated profit and loss account.

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

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

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Within 1 year	3,319	3,066
After 1 year but within 5 years	3,721	3,433
After 5 years	254	107
	7,294	6,606

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$ Million	2004 HK\$ Million
Unlisted shares, at cost less provision	6,792	6,670
Amounts due from subsidiaries	31,225	31,621
	38,017	38,291
Amounts due to subsidiaries	(24,790)	(24,462)
	13,227	13,829

Details of principal subsidiaries at December 31, 2005 are shown on pages 146 to 149.

Amounts due from and to subsidiaries are unsecured, non-interest bearing and classified as non-current as these are not expected to be recoverable/payable within the next twelve months.

14. GOODWILL

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Cost		
Balance at January 1	441	441
Opening balance adjustment (note a)	(144)	–
Balance at December 31	297	441
Accumulated amortisation and impairment losses		
Balance at January 1	(144)	(94)
Eliminated against cost at January 1 (note a)	144	–
Charge for the year	–	(50)
Balance at December 31	–	(144)
Carrying amount		
Balance at December 31	297	297

- a. The opening balance adjustment is to eliminate the corresponding brought forward accumulated amortisation in compliance with the HKFRS 3.
- b. Goodwill is related to the Group's terminals business. As at December 31, 2005, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the terminals business is based on fair value less costs to sell, which is determined by the latest transaction price. No impairment was recorded.

15. INTEREST IN ASSOCIATES

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Share of net tangible assets	334	27
Goodwill	61	–
Amounts due from associates	1,250	1,621
Amounts due to associates	(7)	(65)
	1,638	1,583

Details of principal associates at December 31, 2005 are shown on page 149.

Included in the amounts due from associates are loans totalling HK\$1,153 million (2004: HK\$1,494 million) advanced to certain associates involved in the Sorrento and Bellagio property development projects, of which HK\$1,153 million (2004: HK\$1,420 million) is interest-free. Interest-bearing loans of HK\$74 million outstanding as at December 31, 2004 were fully repaid during the year ended December 31, 2005. The loans are unsecured and are repayable as may from time to time be agreed among the shareholders.

Summary financial information on associates

	2005		2004	
	Total	Attributable	Total	Attributable
	HK\$ Million	interest	HK\$ Million	interest
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Assets	10,906	1,989	11,956	2,909
Liabilities	(6,959)	(1,655)	(10,603)	(2,882)
Equity	3,947	334	1,353	27
Revenues	5,465	1,206	5,232	1,172
Profit before taxation	2,418	449	3,061	748
Taxation	(98)	(24)	(68)	(12)
Profit after taxation	2,320	425	2,993	736

16. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Share of net assets	842	294
Goodwill	54	54
	896	348

Details of principal jointly controlled entities at December 31, 2005 are shown on page 149. The Group's interest in jointly controlled entities mainly represents:-

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

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

b. Suzhou Modern Terminals Limited ("SMTL JV")

SMTL JV is a Sino-foreign joint venture enterprise established with the approval of the Jiang Su Provincial People's Government for a period of 50 years up to 2055, is 70.0%-owned by Modern Terminals Limited.

Notwithstanding the contribution of 51% and 70% of the registered capital by Modern Terminals Limited, the joint venture agreements relating to the establishment of TICT JV and SMTL JV stipulates that all significant financial and operating decisions of TICT JV and SMTL JV must be approved by all of its directors. As neither the Group nor the joint venture partner have the ability to control the boards of directors and the economic activities of TICT JV and SMTL JV, the Group accounts for its investments in TICT JV and SMTL JV as jointly controlled entities.

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

	2005 HK\$ Million	2004 HK\$ Million
Non-current assets	1,644	470
Current assets	43	44
Non-current liabilities	(825)	(59)
Current liabilities	(20)	(161)
Net assets	842	294
Revenue	50	2
Loss for the year	(13)	(2)

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Available-for-sale investments		
Equity securities		
Listed in Hong Kong	735	695
Listed outside Hong Kong	890	868
	1,625	1,563
Unlisted	52	91
	1,677	1,654
Market value of listed securities	1,625	1,563

18. LONG TERM RECEIVABLES

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

19. INVENTORIES

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Properties under development for sale	3,398	2,238
Properties held for sale	972	677
Spare parts and consumables	118	110
	4,488	3,025

- a. The properties under development for sale are expected to be substantially completed and recovered after more than one year.
- b. Properties under development for sale/held for sale are stated at lower of cost and net realisable value. The total carrying value of properties stated at net realisable value at December 31, 2005 was HK\$1,757 million (2004: HK\$1,288 million).

19. INVENTORIES (Continued)

- c. In 2005, net provisions totalling HK\$205 million (2004: HK\$166 million) charged to the consolidated profit and loss account in prior years for properties under development for sale/held for sale were written back as a result of the increase in net realisable value of certain properties.
- d. The carrying value of leasehold land included in properties under development for sale/held for sale is summarised as follows:–

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Held in Hong Kong		
Long lease	155	–
Medium lease	1,642	1,688
	1,797	1,688
Held outside Hong Kong		
Medium lease	1,013	240
	2,810	1,928

20. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at December 31, 2005 as follows:–

	Group		Company	
	2005	2004	2005	2004
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Trade debtors				
0 – 30 days	346	159	–	–
31 – 60 days	220	328	–	–
61 – 90 days	45	124	–	–
Over 90 days	61	32	–	–
	672	643	–	–
Other receivables	433	605	1	1
	1,105	1,248	1	1

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are receivable upon completion of the properties under development. Included in trade and other receivables are mainly denominated in Hong Kong Dollars.

21. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at December 31, 2005 as follows:–

	Group		Company	
	2005	2004	2005	2004
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Trade creditors				
0 – 30 days	281	229	–	–
31 – 60 days	373	132	–	–
61 – 90 days	57	93	–	–
Over 90 days	168	193	–	–
	879	647	–	–
Other payables	3,969	3,971	23	20
	4,848	4,618	23	20

Included in above are trade and other payables denominated in Renminbi of RMB615 million (2004: RMB359 million).

Included in other payables are amounts due to associates totalling HK\$50 million (2004: HK\$Nil). These amounts are unsecured, interest free and repayable on demand.

22. SHARE CAPITAL

	2005	2004	2005	2004
	No. of shares	No. of shares	HK\$ Million	HK\$ Million
	Million	Million		
Authorised				
Ordinary shares of HK\$1 each	3,600	3,600	3,600	3,600
Issued and fully paid				
Balance at January 1	2,447	2,447	2,447	2,447
Exercise of share options	1	–	1	–
Balance at December 31	2,448	2,447	2,448	2,447

Executive share incentive scheme

As at December 31, 2005, options to subscribe for 200,000 (2004: 400,000) ordinary shares of the Company at a price of HK\$25.0 (2004: HK\$25.0) per share granted to a number of executives under the Company's executive share incentive scheme were unexercised. These options are exercisable before July 31, 2006.

During the year, 200,000 options were exercised (2004: Nil) (Note 29(a)).

23. CAPITAL AND RESERVES

	Shareholders' equity									
	Share capital HK\$ Million	Share premium HK\$ Million	Capital redemption reserves HK\$ Million	Investment properties revaluation reserves HK\$ Million	Investments revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total shareholders' equity HK\$ Million	Minority interests HK\$ Million	Total equity HK\$ Million
a. The Group										
i. Company and subsidiaries										
Balance at January 1, 2004										
– as previously reported	2,447	7,742	7	32,109	229	(686)	10,469	52,317	4,021	56,338
Prior year adjustments for (Note 11):										
HKAS 40 & HKAS-INT 21	–	–	–	(32,109)	–	–	26,564	(5,545)	(39)	(5,584)
HK-INT 2	–	–	–	–	–	(2,333)	(194)	(2,527)	(569)	(3,096)
As restated	2,447	7,742	7	–	229	(3,019)	36,839	44,245	3,413	47,658
Surplus on revaluation of investment properties	–	–	–	10,900	–	–	–	10,900	39	10,939
Prior year adjustment for HKAS 40	–	–	–	(10,900)	–	–	–	(10,900)	(39)	(10,939)
Surplus on revaluation of investment properties as restated	–	–	–	–	–	–	–	–	–	–
Surplus on revaluation of hotel and club properties	–	–	–	–	–	283	–	283	56	339
Prior year adjustment for HK-INT 2	–	–	–	–	–	(296)	–	(296)	(56)	(352)
Deficit on revaluation of hotel and club properties as restated	–	–	–	–	–	(13)	–	(13)	–	(13)
Deferred tax on revaluation of certain investment properties	–	–	–	(139)	–	–	–	(139)	(1)	(140)
Prior year adjustment for HK-INT 21	–	–	–	139	–	–	–	139	1	140
Deferred tax on revaluation of certain investment properties as restated	–	–	–	–	–	–	–	–	–	–
Surplus on revaluation of available-for-sale investments	–	–	–	–	232	–	–	232	87	319
Advances to minority interests	–	–	–	–	–	–	–	–	(3)	(3)
Others	–	–	–	–	–	45	(40)	5	5	10
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(22)	–	–	(22)	–	(22)
Profit for the year (restated)	–	–	–	–	–	–	11,943	11,943	871	12,814
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	–	(685)	(685)	–	(685)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	–	(802)	(802)	–	(802)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(698)	(698)
Balance at December 31, 2004 (as restated)	2,447	7,742	7	–	439	(2,987)	47,255	54,903	3,675	58,578

23. CAPITAL AND RESERVES (Continued)

	Shareholders' equity									
	Share capital HK\$ Million	Share premium HK\$ Million	Capital redemption reserves HK\$ Million	Investment properties revaluation reserves HK\$ Million	Investments revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total shareholders' equity HK\$ Million	Minority interests HK\$ Million	Total equity HK\$ Million
Balance at January 1, 2005 – as previously reported	2,447	7,742	7	42,870	439	(358)	11,975	65,122	4,355	69,477
Prior year adjustments for (Note 11): HKAS 40 & HKAS-INT 21	–	–	–	(42,870)	–	–	35,501	(7,369)	(48)	(7,417)
HK-INT 2	–	–	–	–	–	(2,629)	(221)	(2,850)	(632)	(3,482)
As restated	2,447	7,742	7	–	439	(2,987)	47,255	54,903	3,675	58,578
Opening balance adjustments										
HKFRS 3	–	–	–	–	–	3,112	(3,112)	–	–	–
HKAS 39	–	–	–	–	–	–	(40)	(40)	–	(40)
	2,447	7,742	7	–	439	125	44,103	54,863	3,675	58,538
Surplus on revaluation of available-for-sale investments	–	–	–	–	103	–	–	103	63	166
Advances from minority interests	–	–	–	–	–	–	–	–	7	7
Reserve utilised for acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(1,788)	(1,788)	(1,043)	(2,831)
Others	–	–	–	–	–	(62)	55	(7)	9	2
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(40)	–	–	(40)	–	(40)
Profit for the year	–	–	–	–	–	–	13,476	13,476	942	14,418
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	–	(881)	(881)	–	(881)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	–	(881)	(881)	–	(881)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(537)	(537)
Exercise of share options	1	4	–	–	–	–	–	5	–	5
Balance at December 31, 2005	2,448	7,746	7	–	502	63	54,084	64,850	3,116	67,966
ii. Associates/Jointly controlled entities										
Balance at January 1, 2004	–	–	–	–	1	–	(690)	(689)	–	(689)
Profit for the year	–	–	–	–	–	–	734	734	–	734
Surplus on revaluation of available-for-sale investments	–	–	–	–	1	–	–	1	–	1
Balance at December 31, 2004	–	–	–	–	2	–	44	46	–	46
Balance at January 1, 2005	–	–	–	–	2	–	44	46	–	46
Profit for the year	–	–	–	–	–	–	412	412	–	412
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(2)	–	–	(2)	–	(2)
Others	–	–	–	–	–	7	–	7	–	7
Balance at December 31, 2005	–	–	–	–	–	7	456	463	–	463
Total reserves										
At December 31, 2005	2,448	7,746	7	–	502	70	54,540	65,313	3,116	68,429
At December 31, 2004 (restated)	2,447	7,742	7	–	441	(2,987)	47,299	54,949	3,675	58,624

23. CAPITAL AND RESERVES (Continued)

	Share capital	Share premium	Capital redemption reserve	Other capital reserves	Revenue reserves	Total
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
b. The Company						
Balance at January 1, 2004	2,447	7,742	7	306	3,501	14,003
Profit for the year	–	–	–	–	1,487	1,487
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	(685)	(685)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	(802)	(802)
Balance at December 31, 2004 and January 1, 2005	2,447	7,742	7	306	3,501	14,003
Exercise of share options	1	4	–	–	–	5
Transfers	–	–	–	(306)	306	–
Profit for the year	–	–	–	–	1,455	1,455
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	(881)	(881)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	(881)	(881)
Balance at December 31, 2005	2,448	7,746	7	–	3,500	13,701

Included in the Company's revenue reserves was the transfer of HK\$306 million related to intragroup transactions in prior years which are considered by management to be realised and distributable.

Reserves of the Company available for distribution to shareholders at December 31, 2005 amounted to HK\$3,500 million (2004: HK\$3,501 million).

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

After the balance sheet date the Directors proposed a final dividend of 44 cents per share (2004: 36 cents per share) amounting to HK\$1,077 million (2004: HK\$881 million). This dividend has not been recognised as a liability at the balance sheet date.

24. LONG TERM LOANS

	Group		Company	
	2005	2004	2005	2004
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Bonds and notes (unsecured)				
HK dollar fixed rate notes due 2005	–	300	–	–
HK dollar fixed rate notes due 2006	1,193	600	–	–
HK dollar fixed rate notes due 2007	247	–	–	–
HK dollar fixed rate notes due 2008	302	–	–	–
HK dollar fixed rate notes due 2009	101	100	–	–
HK dollar floating rate notes due 2006	340	340	–	–
HK dollar floating rate notes due 2008	100	100	–	–
HK dollar floating rate notes due 2010	200	200	–	–
US dollar fixed rate notes due 2007	2,851	2,412	–	–
	5,334	4,052	–	–
Bank loans (secured)				
Due within 1 year	85	–	–	–
Due after more than 2 years but not exceeding 5 years	–	34	–	–
	85	34	–	–
Bank loans (unsecured)				
Due within 1 year	2,785	2,936	–	190
Due after more than 1 year but not exceeding 2 years	–	1,327	–	–
Due after more than 2 years but not exceeding 5 years	9,254	6,362	–	–
Due after more than 5 years	1,100	1,731	–	–
	13,139	12,356	–	190
Total loans	18,558	16,442	–	190
Less: Amounts due within 1 year	(4,403)	(3,236)	–	(190)
Total long term loans	14,155	13,206	–	–

24. LONG TERM LOANS *(Continued)*

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

	Group		Company	
	2005	2004	2005	2004
	Million	<i>Million</i>	Million	<i>Million</i>
United States dollar ("USD")	21	155	–	–
Renminbi ("RMB")	–	39	–	–

- a. As at December 31, 2005, the Group's net debts, representing the total loans less deposits and cash, are analysed as follows:–

	2005	2004
	HK\$ Million	<i>HK\$ Million</i>
Secured	85	34
Bank loans	85	34
Unsecured	18,473	16,408
Bonds and notes	5,334	4,052
Bank loans	13,139	12,356
Total loans	18,558	16,442
Long term deposit (due to mature in May 2006)	–	(156)
Deposits and cash*	(2,508)	(2,209)
	16,050	14,077

* Short term cash deposits totalling HK\$38 million at December 31, 2005 were pledged as security for a bank credit facility.

- b. As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have fully been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

24. LONG TERM LOANS (Continued)

- c. Over 90% of the bonds and notes either bear interest at floating rates or have been swapped to floating rates determined by reference to the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate. Their effective interest rates at the balance sheet date and the maturity dates are summarised as follows:–

	2005					
	Effective		One year	1-2	2-5	More than
	interest	Total	or less	years	years	5 years
	rate	HK\$	HK\$	HK\$	HK\$	HK\$
	%	Million	Million	Million	Million	Million
Bonds and notes						
HK\$1,850 million fixed rate notes	3.8	1,843	1,193	247	403	–
HK\$640 million floating rate notes	3.3	640	340	–	300	–
US\$359 million fixed rate notes	7.2	2,851	–	2,851	–	–
	5.5	5,334	1,533	3,098	703	–
Bank loans	3.2	13,224	2,870	–	9,254	1,100

- d. Included in the Group's total loans are bank loans totalling HK\$3,227 million (2004: HK\$1,597 million) borrowed by a non wholly-owned subsidiary, Modern Terminals Limited. The loans are without recourse to the Company and other subsidiaries.
- e. Certain banking facilities of the Group are secured by mortgages over a property under development for sale with a carrying value of HK\$345 million as at December 31, 2005.
- f. Certain Group's borrowings are attached with financial covenants which require, at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required level.

25. DEFERRED TAXATION

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

	Group	
	2005 HK\$ Million	2004 HK\$ Million (restated)
Deferred tax liabilities	11,672	9,447
Deferred tax assets	(468)	(118)
Net deferred tax liabilities	11,204	9,329

25. DEFERRED TAXATION *(Continued)*

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

	Depreciation allowances in excess of the related depreciation <i>HK\$ Million</i>	Revaluation of investment properties <i>HK\$ Million</i>	Others <i>HK\$ Million</i>	Future benefit of tax losses <i>HK\$ Million</i>	Total <i>HK\$ Million</i>
Balance at January 1, 2004					
– as previously reported	1,866	364	2	(596)	1,636
Prior year adjustment	–	5,584	–	–	5,584
As restated	1,866	5,948	2	(596)	7,220
Charged/(credited) to the consolidated profit and loss account	114	1,984	(2)	13	2,109
Balance at December 31, 2004 (as restated)	1,980	7,932	–	(583)	9,329
Balance at January 1, 2005					
– as previously reported	1,980	504	–	(583)	1,901
Prior year adjustment	–	7,428	–	–	7,428
As restated	1,980	7,932	–	(583)	9,329
Charged/(credited) to the consolidated profit and loss account	136	2,045	(2)	(304)	1,875
Balance at December 31, 2005	2,116	9,977	(2)	(887)	11,204

b. Deferred tax assets unrecognised

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

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Deductible temporary differences	(1)	(2)
Future benefit of tax losses	(1,028)	(1,457)
Net deferred tax assets unrecognised	(1,029)	(1,459)

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at December 31, 2005. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations expire five years after the relevant accounting year end date.

26. OTHER DEFERRED LIABILITIES

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Club debentures issued (non-interest bearing)	220	222
Deferred revenue	38	25
Others	5	10
	263	257

27. DEFINED BENEFIT PENSION SCHEMES

	Group	
	2005	2004
	HK\$ Million	HK\$ Million
Defined benefit pension scheme assets	53	31

The Group makes contributions to six defined benefit pension schemes that provide pension benefits for employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions from employers, which are in accordance with recommendations made by actuaries based on their valuation of the schemes. The latest valuations of the schemes as at December 31, 2005 were performed either by HSBC Life (International) Limited, Watson Wyatt Hong Kong Limited, who are independent qualified actuaries or internally, using the projected unit credit method. The funding ratios of the principal schemes were 102% and 132% respectively.

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

	2005	2004
	HK\$ Million	HK\$ Million
Present value of funded obligations	(712)	(719)
Fair value of plan assets	855	805
Net unrecognised actuarial gains	(97)	(70)
Unrecognised transitional liability	7	15
	53	31

- b. Movements in the net asset in the consolidated balance sheet are as follows:–

	2005	2004
	HK\$ Million	HK\$ Million
At January 1	31	15
Contributions paid	35	37
Expenses recognised in the consolidated profit and loss account	(13)	(21)
At December 31	53	31

27. DEFINED BENEFIT PENSION SCHEMES *(Continued)*

- c. Expenses recognised in the consolidated profit and loss account are as follows:–

	2005 HK\$ Million	2004 HK\$ Million
Current service cost	31	31
Interest cost	33	31
Expected return on scheme assets	(57)	(48)
Net actuarial losses recognised	(2)	–
Net transitional liability recognised	8	7
	13	21

The expenses are recognised in the following line items in the consolidated profit and loss account:–

Direct costs and operating expenses	13	20
Administrative and corporate expenses	–	1
	13	21
Actual return on scheme assets	(64)	(91)

- d. The principal actuarial assumptions used as at December 31, 2005 (expressed as a range) are as follows:–

	2005	2004
Discount rate at December 31	4.25% – 5.0%	4.0% – 5.0%
Expected rate of return on scheme assets	5.0% – 8.0%	5.0% – 8.0%
Future salary increases – 2005	N/A	2.0% – 5.0%
– 2006	2.0% – 4.0%	2.0% – 3.0%
– thereafter	2.0% – 4.0%	2.0% – 4.0%

28. FINANCIAL INSTRUMENTS

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

a. Interest rate risk

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

At December 31, 2005, the Group has a number of fixed rate interest bearing notes. The Group's overall risk management strategy is to have a floating rate funding. Accordingly, the Group has entered into a number of interest rate swaps ("IRS") with notional amounts matching exactly the principal amounts of the respective loans. Effectively, the Group pays interest at floating rates on these borrowings. In each of the IRS entered into by the Group, the timing of IRS cash flows equals those of the loan's interest expenses. The fair value of the IRS at inception is considered to be zero.

The notional amount and expiry dates of the IRS outstanding at December 31, 2005 were as follows:–

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

For the year ended December 31, 2005, the average interest rate of the IRS is 3.9%.

The fair value of the IRS is calculated as the present value of the estimated future cash flows. The net fair values of the IRS at December 31, 2005 were as follows:–

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

28. FINANCIAL INSTRUMENTS *(Continued)*

a. **Interest rate risk** *(Continued)*

Profit/(loss) recognised in the consolidated profit and loss account is as follows:–

	2005 HK\$ Million
Included in borrowing costs	
– profit on revaluation of IRS	43
– loss on remeasurement of fair value of interest-bearing borrowings	(43)
	–

b. **Foreign currency risk**

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

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

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

The contract amounts of the outstanding forward exchange contracts at December 31, 2005 was HK\$3,025 million (2004: HK\$4,238 million).

The net fair values of forward foreign exchange contracts at December 31, 2005 were as follows:–

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

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

The revaluation loss on forward foreign exchange contracts of HK\$7 million is recognised as within direct costs and operating expenses in the consolidated profit and loss account.

28. FINANCIAL INSTRUMENTS (*Continued*)

c. **Liquidity risk**

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

d. **Credit risk**

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. There are no significant concentrations of credit risk within the Group.

e. **Fair values**

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

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

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

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2005.

f. Comparative information for 2004 is not disclosed as such information is not required to be restated when HKAS 32 is first applied.

29. EQUITY COMPENSATION BENEFITS

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

a. Movement in share options

	2005 Number	2004 Number
At January 1	400,000	400,000
Exercised	(200,000)	–
At December 31	200,000	400,000
Options vested at December 31	200,000	–

- b. During the year ended December 31, 2005 and 2004, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme.

During the year ended December 31, 2005, 200,000 options were exercised to subscribe for ordinary shares under the Company's Executive Share Incentive Scheme (2004: Nil).

c. Terms of share options at the balance sheet date

Exercise period	Exercise price	2005 Number	2004 Number
8/1/2005 – 7/31/2006	HK\$25.00	200,000	400,000

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

Exercise date	Exercise Price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	2005 No. of shares	2004 No. of shares
August 31, 2005	25.00	28.55	250,000	10,000	—
September 2, 2005	25.00	29.95	1,625,000	65,000	—
September 7, 2005	25.00	30.60	250,000	10,000	—
September 8, 2005	25.00	30.10	500,000	20,000	—
September 9, 2005	25.00	30.50	500,000	20,000	—
September 13, 2005	25.00	30.15	875,000	35,000	—
September 27, 2005	25.00	30.10	1,000,000	40,000	—
				200,000	—

30. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the year ended December 31, 2005:

- a. As disclosed in Note 15, loans totalling HK\$1,153 million (2004: HK\$1,494 million) advanced by the Group to an associate involved in the Bellagio property development project are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loans during the year is not material in the context of these financial statements.
- b. In respect of the year ended December 31, 2005, the Group earned rental income totalling HK\$239 million (2004: HK\$135 million) from various tenants which are wholly-owned by, or are non wholly-owned subsidiaries of, companies which in turn are wholly-owned by the family interests of, or by a trust the settlor of which is, the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.
- c. In respect of the year ended December 31, 2005, the Group purchased 125.2 million shares in i-CABLE Communications Limited for HK\$0.3 billion from two subsidiaries of its principal shareholder. The transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

31. CONTINGENT LIABILITIES

As at December 31, 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK\$24,216 million (2004: HK\$23,128 million).

32. COMMITMENTS

		Group	
		2005	2004
		HK\$ Million	HK\$ Million
a. Capital commitments			
Authorised and contracted for		1,143	1,236
Authorised but not contracted for		3,099	1,413
		4,242	2,649
b. Programming and other commitments			
Authorised and contracted for		581	747
Authorised but not contracted for		80	148
		661	895
c. Properties under development for sale			
Authorised and contracted for		855	280
Authorised but not contracted for		2,654	1,430
		3,509	1,710
d. Commitment for acquisition of investments			
Authorised and contracted for		1,874	–

The above commitment for acquisition of investments of HK\$1,874 million at December 31, 2005 mainly represented Modern Terminals' equity investment commitment for Taicang and Dachan Bay port projects.

33. POST BALANCE SHEET EVENTS

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 9.

34. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 11.

In addition, the presentation of certain comparative figures in the segment reporting as disclosed in note 1 to the financial statements has been reclassified to conform for the current year's presentation which management consider gives a better indication of the results of the Group for the year.

35. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new statements have not been adopted since they are only effective after December 31, 2005:–

	Effective for accounting periods beginning on or after
HK(IFRIC) 4, Determining whether an arrangement contains a lease	January 1, 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	December 1, 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	January 1, 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	January 1, 2006
– Cash flow hedge accounting of forecast intragroup transactions	January 1, 2006
– Financial guarantee contracts	January 1, 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	January 1, 2006
– HKAS 27, Consolidated and separate financial statements	January 1, 2006
– HKFRS 3, Business combinations	January 1, 2006
HKFRS 7, Financial instruments: disclosures	January 1, 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	January 1, 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on December 1, 2005 and would be first applicable to the Group's financial statements for the period beginning January 1, 2006.

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on March 15, 2006.

Principal Accounting Policies

a. Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for adoption for accounting periods beginning on or after January 1, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 11.

b. Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

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

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

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

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

c. Basis of consolidation

i. Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Principal Accounting Policies (*continued*)

c. **Basis of consolidation** (*Continued*)

i. *Subsidiaries and controlled companies (Continued)*

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

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

ii. *Associates and jointly controlled entities*

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

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

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

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

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

c. Basis of consolidation *(Continued)*

iii. Goodwill

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

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

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

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

d. Fixed assets

i. Investment properties

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

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

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

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

ii. Hotel and club properties

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

Principal Accounting Policies (*continued*)

d. Fixed assets (*Continued*)

iii. Broadcasting and communications equipment

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

iv. Other properties and fixed assets held for own use

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

v. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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

e. Depreciation of fixed assets

i. Investment properties

No depreciation is provided on investment properties.

ii. Hotel and club properties

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

iii. Broadcasting and communications equipment

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

iv. Other properties and fixed assets held for own use

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

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

f. Investments in debt and equity securities

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

f. Investments in debt and equity securities *(Continued)*

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses.

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

Other investments in securities are classified as available-for-sale investments and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investments revaluation reserves in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised, the cumulative gain or loss previously recognised directly in the investments revaluation reserves in equity is recognised in the consolidated profit and loss account.

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

g. Derivative financial instruments

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

h. Hedging

i. Fair value hedge

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

ii. Cash flow hedge

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

Principal Accounting Policies (*continued*)

h. Hedging (*Continued*)

ii. Cash flow hedge (Continued)

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

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

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

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

iii. Hedge of net investment in a foreign operation

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

i. Leased assets

i. Classification of leased assets

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

i. Leased assets (Continued)

ii. Assets held under operating leases

- (a) Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.
- (b) The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property. Information on accounting policies for land held under operating leases for development for sale is provided in note (l).

iii. Assets held under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note (e). Impairment losses are accounted for in accordance with the accounting policy as set out in note (k). Finance charges implicit in the lease payments are charged to the consolidated profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

j. Programming library

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

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

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

k. Impairment of assets

i. Impairment of financial assets

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

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses arising on current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses arising on equity securities are not reversed.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

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

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

k. Impairment of assets *(Continued)*

ii. Impairment of other assets

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

– Recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

l. Inventories

i. Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions.

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

Principal Accounting Policies (*continued*)

I. Inventories (*Continued*)

ii. Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes the aggregate costs of development, borrowing costs capitalised and other direct expenses. Net realisable value is estimated by the management, taking into account the expected price ultimately to be achieved, based on prevailing market conditions and the anticipated costs to completion.

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

iii. Spare parts and consumables

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

m. Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

n. Interest-bearing borrowings

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

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

o. Trade and other payables

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

p. Cash and cash equivalents

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

q. Foreign currencies

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

r. Recognition of revenue

- i.* Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised in the accounting period in which they are earned.
- ii.* Income arising from the sale of properties held for sale is recognised upon the execution of the formal sale and purchase agreement or the issue of occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under other payables.
- iii.* Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.
- iv.* Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

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

Principal Accounting Policies (*continued*)

r. Recognition of revenue (*Continued*)

- v. Interest income is recognised as it accrues using the effective interest method.
- vi. *Deferred revenue*
Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

s. Borrowing costs

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

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

t. Income tax

- i. Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- ii. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- iii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

t. Income tax (Continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or *vice versa*, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Principal Accounting Policies (*continued*)

v. Provisions and contingent liabilities

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

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

w. Segment reporting

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

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

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

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

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

x. Employee benefits

i. Defined benefit pension schemes

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

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

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

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

ii. Shared based payments

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

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

Principal Accounting Policies (*continued*)

x. **Employee benefits** (*Continued*)

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

y. **Significant accounting estimates and judgements**

Key sources of estimation uncertainty

Notes 27 and 28 contain information about the assumptions and their risk relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

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

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

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

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

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

y. Significant accounting estimates and judgements *(Continued)*

Key sources of estimation uncertainty (Continued)

- Assessment of provision for properties held under development and for sale
Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) internal estimates of costs based on quotes by suppliers.

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

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

Principal Subsidiaries, Associates and Jointly Controlled Entities

At December 31, 2005

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
Properties				
# Wharf Estates Limited	Hong Kong	2 HK\$1 shares	100	Holding company
Harbour City				
Harbour City Estates Limited	Hong Kong	2 HK\$1 shares	100	Property
Wharf Realty Limited	Hong Kong	2 HK\$1 shares	100	Property
* Harbour Centre Development Limited	Hong Kong	315,000,000 HK\$0.5 shares	67	Holding company
Times Square				
Times Square Limited	Hong Kong	2 HK\$10 shares	100	Property
# Wharf Estates Development Limited	Hong Kong	2 HK\$1 shares	100	Holding company
Plaza Hollywood				
Plaza Hollywood Limited	Hong Kong	10,000 HK\$1 shares	100	Property
Delta Realty Limited	Hong Kong	2 HK\$1 shares	100	Property
Feckenham Limited	Hong Kong	2 HK\$10 shares	100	Property
Framenti Company Limited	Hong Kong	2 HK\$1 shares	100	Property
HKRT Peak Properties Limited	Hong Kong	3,000,000 HK\$10 shares	100	Property
Hong Tai Yuen Limited	Hong Kong	500,000 HK\$1 shares	100	Property
New Tech Centre Limited	Hong Kong	10,000 HK\$1 shares	100	Property
Olinda Limited	Hong Kong	2 HK\$10 shares	100	Property
Roville Company Limited	Hong Kong	2 HK\$1 shares	100	Property
Spring Wealth Investments Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
# Wharf China Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
Wharf Estates China Limited				
Beijing Capital Times Square Development Company Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Beijing Times Establishment Property Management Company Limited	The People's Republic of China	US\$59,000,000	88	Property
Shanghai Long Xing Property Development Company Limited	The People's Republic of China	US\$200,000	75	Property management
	The People's Republic of China	US\$45,000,000	100	Property

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
Shanghai Times Square Property Management (Shanghai) Company Limited	The People's Republic of China	US\$500,000	100	Property management
Dalian Times Square Development Company, Limited	The People's Republic of China	RMB200,000,000	100	Property
Han Long Development (Wuhan) Company Limited	The People's Republic of China	US\$33,100,000	100	Property
Long Qing Property Development (Chongqing) Company Limited	The People's Republic of China	RMB171,050,000	100	Property
Shanghai Jiu Zhou Property Development Company Limited	The People's Republic of China	US\$20,000,000	85	Property
Shanghai Long Shen Real Estate Development Company Limited	The People's Republic of China	US\$22,330,000	55	Property
Shanghai Wellington Garden Estate Development Company Limited	The People's Republic of China	US\$16,666,666	59	Property
Shanghai Wheelock Square Development Limited	The People's Republic of China	US\$80,000,000	98	Property
Logistics				
Wharf Transport Investments Limited	Hong Kong	2 HK\$1 shares	100	Holding company
The "Star" Ferry Company, Limited	Hong Kong	1,440,000 HK\$5 shares	100	Public transport
Hong Kong Tramways, Limited	Hong Kong	21,937,500 HK\$5 shares	100	Public transport
Modern Terminals Limited	Hong Kong	70,116 HK\$1,000 shares	68	Container terminal
Hotels				
Wharf Hotel Investments Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
Marco Polo Hotels Management Limited	Hong Kong	2 HK\$10 shares	100	Hotel management
The Hongkong Hotel Limited	Hong Kong	100,000 HK\$1 shares	67	Hotel and property
The Marco Polo Hotel (Hong Kong) Limited	Hong Kong	1,000 HK\$1 shares	100	Hotel operation
The Prince Hotel Limited	Hong Kong	2 HK\$1 shares	100	Hotel operation

Principal Subsidiaries, Associates and Jointly Controlled Entities *(continued)*

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
CME				
# Wharf Communications Limited	Hong Kong	1,000,000 HK\$10 shares	100	Holding company
COL Limited	Hong Kong	40,000 HK\$500 shares	100	Computer services
Hong Kong Cable Enterprises Limited	Hong Kong	2 HK\$1 shares	74	Advertising airtime, programming licensing and channel carriage services
Hong Kong Cable Television Limited	Hong Kong	750,000,000 HK\$1 shares	74	Pay television services
* i-CABLE Communications Limited	Hong Kong	2,019,234,400 HK\$1 shares	74	Holding company
i-CABLE Network Limited	Hong Kong	100 HK\$1 shares 2 HK\$1 non-voting deferred shares	74	Network operation services
i-CABLE Satellite Television Limited	Hong Kong	2 HK\$1 shares	74	Non-domestic television services and programming licensing
i-CABLE WebServe Limited	Hong Kong	2 HK\$1 shares	74	Internet and multimedia services
Rediffusion Satellite Services Limited	Hong Kong	1,000 HK\$10 shares	74	Satellite television services
EC Telecom Limited	Hong Kong	2 HK\$1 shares	100	Telecommunication
Wharf T&T Limited	Hong Kong	100,000,000 HK\$1 shares	100	Telecommunication
Investment and others				
Wharf Limited	Hong Kong	2 HK\$10 shares	100	Management services
Wharf Finance Limited (formerly Fortune Growth Investments Limited)	Hong Kong	2 HK\$1 shares	100	Finance
Wharf Finance (BVI) Limited	British Virgin Islands	500 US\$1 shares	100	Finance
# Wharf International Finance Limited	Cayman Islands	500 US\$1 shares	100	Finance
# Wharf Hong Kong Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company

Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to the Group	Principal activities
Property				
Diamond Hill Development Holdings Limited	British Virgin Islands	Ordinary	33	Holding company
Harriman Leasing Limited	Hong Kong	Ordinary	50	Leasing agent
Hopfield Holdings Limited	British Virgin Islands	Ordinary	33	Holding company
Salisbury Company Limited	Hong Kong	Ordinary	33	Property
Kowloon Properties Company Limited	Hong Kong	Ordinary	33	Property
Jointly controlled entities				
	Place of incorporation	Registered and paid up capital	Percentage of equity attributable to the Group	Principal activities
Logistics				
Taicang International Container Terminals Company Limited	The People's Republic of China	RMB450,800,000	34	Container terminal operations
Suzhou Modern Terminals Limited	The People's Republic of China	RMB196,228,709	47	Container terminal operations

All the subsidiaries listed above were, as at December 31, 2005, indirect subsidiaries of the Company except where marked #.

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

Subsidiaries held directly

* Listed companies

Schedule of Principal Properties

As at December 31, 2005

Address	Lot Number	Year of Completion	Expected Year of Completion	Lease Expiry
Wharf Estates Limited				
Harbour City				
<i>Investment properties</i>				
Ocean Terminal, Harbour City, Tsimshatsui	KPP 83	1966		2012
Ocean Centre, Harbour City, Tsimshatsui	KML 11 S.A.	1977		2880
Wharf T & T Centre, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
World Commerce Centre, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
World Finance Centre, Harbour City, Tsimshatsui	KML 11 S.D.	1983		2880
Ocean Galleries, Harbour City, Tsimshatsui	KML 11 S.B. & D.	1981/83		2880
Gateway I, Harbour City, Tsimshatsui	KML 11 R.P.	1994		2880
Gateway II, Harbour City, Tsimshatsui	KML 11 S.B. & D.	1998/99		2880
The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui (Commercial Section)	KML 91 S.A. & KML 10 S.B.	1969		2863
<i>Hotels and clubs</i>				
The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969		2863
The Marco Polo Gateway, Harbour City, Tsimshatsui	KML 11 S.B.	1981		2880
The Marco Polo Prince, Harbour City, Tsimshatsui	KML 11 S.D.	1981		2880
Pacific Club Kowloon, Harbour City, Tsimshatsui	KPP 6	1990		2006
Times Square				
<i>Investment property</i>				
Times Square, Sharp Street East, Causeway Bay	IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A., B & R.P., IL 722 & IL 718	1993		2850/60/80
Wharf Estates Development Limited				
<i>Investment properties</i>				
Plaza Hollywood, 3 Lung Poon Street, Diamond Hill	NKIL 6160	1997		2047
World Trade Square, Hoi Bun Road, Kwun Tong	KTIL 713	1991		2047
26-27/F, World-Wide House, Central	IL 8432	1979		2053
Various Units of Cable TV Tower, Hoi Shing Road, Tsuen Wan	TWTL 218	1992		2047
Various Units of Grandtech Centre, On Sum Street, Shatin	STTL 375	1996		2047
Various Units of Strawberry Hill, 8 Plunkett's Road, The Peak	RBL 512 & 1004	1974/77		2027/28
77 Peak Road, The Peak	RBL 836	1951		2029
Chelsea Court	RBL 556 R.P.S.A. & S.B.	2001		2035
63 Mount Kellett Road, The Peak				
Mountain Court	RBL 522, 639, 661	2001		2027
11-13 Plantation Road, The Peak				
1 Plantation Road, The Peak	RBL 534 S.E. & F.	2002		2028
Various units of Star House, 3 Salisbury Road, Kowloon	KML 10 S.A.	1966		2863
<i>Other property</i>				
Delta House, 3 On Yiu Street, Shatin	STTL 422	1999		2047
<i>Properties under redevelopment</i>				
Gough Hill Residences, 3-5 Gough Hill Path, The Peak	RBL 1169		2006	2031/50
60 Victoria Road, Kennedy Town, Hong Kong	IL 8079		2006	2064
Cable TV Tower South	TWIL 36		N/A	2047
Chai Wan Kok Street, Tsuen Wan				
Kowloon Godown, 1-3 Kai Hing Road, Kowloon Bay	NKIL 5805, 5806 & 5982		N/A	2047
Yau Tong Godown, 5 Tung Yuen Street, Kowloon	YTIL 4SA & adjoining Government land		N/A	2047
<i>Properties under development/completed properties undertaken by associates</i>				
Bellagio, Sham Tseng	Lot 266 in DD 390	2005		2051
Towers 1, 2, 3 & 5				
Various Lots at Yau Tong Bay, Yau Tong, Kowloon	R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay		N/A	2047

Site Area (sq. ft.)	Approximate Gross Floor Areas (sq. ft.)					Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
	Office	Retail	Residential	Industrial – office/ Industrial	Club House			
346,719		658,000						100%
126,488	677,000	224,000						100%
(a)	257,000							100%
(a)	257,000							100%
(a)	512,000							100%
(a)		386,000						100%
(a)	1,128,000	108,000						100%
(a)	1,570,000	400,000	670,000					100%
(b)	34,000	137,000						67%
58,814						664		67%
(a)						431		100%
(a)						394		100%
48,309					139,000			100%
112,441	1,033,000	936,000						100%
280,510		562,000						100%
48,438	330,000	65,000						100%
N/A	21,000							100%
N/A				522,000				100%
N/A				380,000				100%
N/A			34,200					100%
76,728			32,000					100%
29,640			43,000					100%
32,145			49,900					100%
97,670			97,000					100%
N/A		50,780						67%
70,127				349,000				100%
49,321			32,900				Superstructure in progress	100%
6,100			54,000				Superstructure in progress	67%
66,005				584,600			Planning stage	100%
165,809			995,000				Planning stage	100%
40,637		41,000	203,000				Planning stage	100%
N/A			588,100					33 1/3%
2,185,000		301,000	8,740,000				Planning stage	15.6%

Schedule of Principal Properties *(continued)*

Address	Lot Number	Year of Completion	Expected Year of Completion	Lease Expiry
Wharf Estates China Limited				
<i>Investment properties</i>				
Beijing Capital Times Square 88 West Changan Avenue, Beijing		1999		2044
Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai		1999		2043
Chongqing Times Square Zou Rong Road/Min Zu Road, Yuzhong District, Chongqing		2004		2050
<i>Properties under development</i>				
Wellington Garden Area 8 of 148, Huai Hai Xi Road, Xuhui District, Shanghai			2006	2045
Wuhan Times Square Yan Jiang Da Dao & Nanling Road, Jiangnan District, Wuhan			2007	2053/73
Dalian Times Square Ren Min Road, Zhongshan District, Dalian			2008	2039/2069
No.1 Xin Hua Lu 176, Huai Hai Xi Road, Changning District, Shanghai			2008	2044
Commercial development at Lot 1717, Nan Jing Xi Road, Jingan District, Shanghai			2009	2046
Jing An Garden 398, Wanhangu Road, Jingan District, Shanghai			2009	2043/63
No. 11 Dong Da Jie Junction of Dong Da Jie & Fu He, Jinjiang District, Chengdu			2010	2045/75

Including basement carpark area

* Residential includes office-apartments

Notes:

(a) Part of Harbour City, total site area is 428,719 sq.ft.

(b) Part of The Marco Polo Hongkong Hotel building.

Site Area (sq. ft.)	Approximate Gross Floor Areas (sq. ft.)					Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
	Office	Retail	Residential	Industrial – office/ Industrial	Club House			
141,007	625,000	670,000 [#]						88%
148,703	331,000	685,000 [#]	195,000					100%
95,799	13,800	724,000 [#]						100%
80,482			562,000 ^{**}				Superstructure in progress	59%
188,090		27,000	2,008,000 ^{**}			360	Superstructure in progress	100%
171,356		178,000	1,689,000 [#]				Foundation in progress	100%
118,220			257,000 [#]				Planning stage	85%
136,432	1,501,000 [*]	79,000					Foundation in progress	98%
170,825			962,700 ^{**}				Planning stage	55%
761,520	909,000	189,000	4,356,000 ^{**}			400	Planning stage	100%

Ten-year Financial Summary

	1996 HK\$Million	Restated 1997 HK\$Million	Restated 1998 HK\$Million	Restated 1999 HK\$Million	Restated 2000 HK\$Million
Summary of Profit and Loss Account					
Turnover (Note 1)	8,405	10,980	10,840	10,521	12,023
Group profit attributable to shareholders	2,239	1,882	1,922	3,217	2,480
Prior year adjustment (Note 2, 4 to 7)	–	(960)	(51)	294	14
Restated amount	2,239	922	1,871	3,511	2,494
Dividends	2,593	1,793	1,790	1,881	1,908
Summary of Balance Sheet					
Fixed assets (Note 5 and 7)	98,326	93,434	71,651	73,362	77,237
Goodwill	–	–	–	–	–
Long term deposits	–	–	–	–	–
Associates (Note 4)	2,769	4,463	3,842	5,197	4,972
Jointly controlled entities	–	–	–	–	–
Available-for-sale investments (Note 4)	4,324	7,824	7,107	5,258	1,901
Long term receivables	104	238	349	506	433
Programming library/defined benefit pension scheme assets/pre-operating expenses (Note 5 and 7)	2,391	2,432	653	575	570
Deferred tax assets (Note 6)	–	–	–	–	–
Derivative financial assets	–	–	–	–	–
Current assets	8,337	8,777	8,529	12,536	7,390
Current liabilities (Note 3)	(9,589)	(8,457)	(13,469)	(10,345)	(12,893)
Long term loan/deferred liabilities (Note 2)	(15,983)	(25,997)	(22,322)	(26,802)	(17,156)
Deferred taxation (Note 6 and 7)	(470)	(517)	(518)	(507)	(478)
Derivative financial liabilities	–	–	–	–	–
	90,209	82,197	55,822	59,780	61,976
Representing:					
Share capital	2,300	2,295	2,295	2,446	2,446
Reserves (Note 2 to 7)	83,527	75,638	49,624	51,966	55,504
Shareholders' equity	85,827	77,933	51,919	54,412	57,950
Minority interests (Note 2, 4 to 7)	4,382	4,264	3,903	5,368	4,026
	90,209	82,197	55,822	59,780	61,976

Note:

Certain figures have been reclassified or restated as set out below:

1. Turnover figures for the years ended December 31, 1997 and onwards are presented in accordance with the requirements SSAP 1 (revised) "Presentation of financial statements".
2. These figures have been restated pursuant to the adoption of SSAP 28 "Provisions, contingent liabilities and contingent assets" as explained in Note 11b to the financial statements of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
3. These figures have been restated pursuant to the adoption of SSAP 9 (revised) "Events after the balance sheet date" as explained in Note 11c to the financial statements of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.

	2001 HK\$Million	Restated 2002 HK\$Million	2003 HK\$Million	Restated 2004 HK\$Million	2005 HK\$Million
Summary of Profit and Loss Account					
Turnover (Note 1)	11,725	11,333	11,253	11,953	12,543
Group profit attributable to Shareholders	2,519	2,303	3,043	3,767	13,888
Prior year adjustment (Note 2, 4 to 7)	–	(44)	–	8,910	–
Restated amount	2,519	2,259	3,043	12,677	13,888
Dividends	1,908	1,370	1,487	1,683	1,958
Summary of Balance Sheet					
Fixed assets (Note 5 and 7)	74,445	69,044	71,120	78,916	90,658
Goodwill	419	397	347	297	297
Long term deposits	468	156	156	156	–
Associates (Note 4)	3,389	3,367	2,075	1,583	1,638
Jointly controlled entities	–	–	–	348	896
Available-for-sale investments (Note 4)	1,088	1,178	1,392	1,654	1,677
Long term receivables	485	459	439	426	410
Programming library/defined benefit pension scheme assets/pre-operating expenses (Note 5 and 7)	533	468	432	158	196
Deferred tax assets (Note 6)	–	108	112	118	468
Derivative financial assets	–	–	–	–	54
Current assets	7,637	5,945	5,089	6,482	8,101
Current liabilities (Note 3)	(12,181)	(11,420)	(11,160)	(8,604)	(9,873)
Long term loan/deferred liabilities (Note 2)	(17,441)	(16,673)	(12,605)	(13,463)	(14,418)
Deferred taxation (Note 6 and 7)	(467)	(1,614)	(1,748)	(9,447)	(11,672)
Derivative financial liabilities	–	–	–	–	(3)
	58,375	51,415	55,649	58,624	68,429
Representing:					
Share capital	2,447	2,447	2,447	2,447	2,448
Reserves (Note 2 to 7)	52,198	45,287	49,181	52,502	62,865
Shareholders' equity	54,645	47,734	51,628	54,949	65,313
Minority interests (Note 2, 4 to 7)	3,730	3,681	4,021	3,675	3,116
	58,375	51,415	55,649	58,624	68,429

4. These figures have been restated pursuant to the adoption of SSAP 24 "Accounting for investments in securities" as explained in Note 10 to the 1999 financial statements. Figures for 1996 have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
5. These figures have been restated pursuant to the adoption of Interpretation 9 "Accounting for pre-operating costs" as explained in Note 8 to 2000 financial statements. Figures for 1997 and 1996 have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
6. These figures have been restated pursuant to the adoption of SSAP 12 (revised) "Income taxes" as explained in Note 11 to the financial statements of 2003. Figures for 2001 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
7. These figures have been restated pursuant to the adoption of all applicable HKFRSs as explained in Note 11 to the financial statements of 2005. Figures for 2003 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.



www.wharfholdings.com