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
	12	**90,658**	78,916
Goodwill	14	**297**	297
Interest in associates	15	**1,638**	1,583
Interest in jointly controlled entities	16	**896**	348
Available-for-sale investments	17	**1,677**	1,654
Long term receivables	18	**410**	426
Programming library		**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

	Note	**2005** **HK$ Million**	2004 HK$ Million (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	2004
	HK$ Million	*HK$ Million* (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	2004
	HK$ Million	*HK$ Million*
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

i. Revenue and results	Segment revenue 2005 HK$ Million	Segment revenue 2004 HK$ Million	Segment results 2005 HK$ Million	Segment results 2004 HK$ Million (restated)
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 HK$ Million	2004 HK$ Million
Property investment	**82**	80
CME	**196**	147
Logistics	**–**	2
Investment and others	**1**	1
	279	230

ii. Assets and liabilities	Assets **2005 HK$ Million**	Assets 2004 HK$ Million (restated)	Liabilities **2005 HK$ Million**	Liabilities 2004 HK$ Million (restated)
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)*

iii. Other information	Capital expenditure **2005** ***HK$ Million***	Capital expenditure 2004 *HK$ Million*	Depreciation and amortisation **2005** ***HK$ Million***	Depreciation and amortisation 2004 *HK$ Million* (restated)
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	2004
	HK$ Million	*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	2004
	HK$ Million	*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	2004
	HK$ Million	*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				
	Revenue reserves *HK$ Million*	Other reserves *HK$ Million*	Total *HK$ Million*	Minority interests *HK$ Million*	Total equity *HK$ 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 *HK$ Million*	**Minority interests** *HK$ Million*	**2005 Total** *HK$ Million*	Attributable to shareholders *HK$ Million*	Minority interests *HK$ Million*	2004 Total *HK$ Million*
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 *HK$ Million*	Properties under or held for redevelopment *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*
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 redevelopment *HK$ Million*	Hotel and club properties *HK$ Million*	Broadcasting & communications 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	2004
	HK$ Million	*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	2004
	HK$ Million	*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 interest**	Total	Attributable 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	2004
	HK$ Million	*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	2004
	HK$ Million	*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		
	No. of shares	*No. of shares*	**2005**	2004
	Million	*Million*	***HK$ Million***	*HK$ 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 *HK$ Million*	Share premium *HK$ Million*	Capital redemption reserve *HK$ Million*	Other capital reserves *HK$ Million*	Revenue reserves *HK$ Million*	Total *HK$ Million*
b. The Company						
Balance at January 1, 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 **Million**	2004 Million	**2005** **Million**	2004 Million
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 **HK$ Million**	2004 HK$ Million
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 interest rate %	Total *HK$ Million*	One year or less *HK$ Million*	1-2 years *HK$ Million*	2-5 years *HK$ Million*	More than 5 years *HK$ 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 *HK$ Million*	Revaluation of investment properties *HK$ Million*	Others *HK$ Million*	Future benefit of tax losses *HK$ Million*	Total *HK$ Million*
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 *HK$ Million*	2004 *HK$ Million*
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	2004
	HK$ Million	*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
	HK$ Million
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	**Negative fair value**
	HK$ Million	***HK$ Million***
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.

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.

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.

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.

l. 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 be achieved, based on prevailing market conditions and the anticipated costs to completion.

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

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.

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.

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).

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	British Virgin Islands	500 US$1 shares	100	Holding company
	Beijing Capital Times Square Development Company Limited	The People's Republic of China	US$59,000,000	88	Property
	Beijing Times Establishment Property Management Company Limited	The People's Republic of China	US$200,000	75	Property management
	Shanghai Long Xing Property Development Company Limited	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

	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	Telecom-munication
	Wharf T&T Limited	Hong Kong	100,000,000 HK$1 shares	100	Telecom-munication
	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
Salisburgh 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				
Investment properties				
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
Hotels and clubs				
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				
Investment property				
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				
Investment properties				
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 63 Mount Kellett Road, The Peak	RBL 556 R.P.S.A. & S.B.	2001		2035
Mountain Court 11-13 Plantation Road, The Peak	RBL 522, 639, 661	2001		2027
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
Other property				
Delta House, 3 On Yiu Street, Shatin	STTL 422	1999		2047
Properties under redevelopment				
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 Chai Wan Kok Street, Tsuen Wan	TWIL 36		N/A	2047
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
Properties under development/completed properties undertaken by associates				
Bellagio, Sham Tseng Towers 1, 2, 3 & 5	Lot 266 in DD 390	2005		2051
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.) Office	Retail	Residential	Industrial – office/ Industrial	Club House	Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
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%

Address	Lot Number	Year of Completion	Expected Year of Completion	Lease Expiry
Wharf Estates China Limited				
Investment properties				
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
Properties under development				
Wellington Garden Area 8 of 148, Huai Hai Xi Road, Xuhui District, Shanghai			2006	2045
Wuhan Times Square Yan Jiang Da Dao & Nanling Road, Jiangan 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, Wanhangdu 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.)	Office	Retail	Residential	Industrial – office/ Industrial	Club House	Hotel (No. of Rooms)	Stage of Completion	Attributable Interest
	Approximate Gross Floor Areas (sq. ft.)							
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.