NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Significant 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 disclosure 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 (the "Listing Rules"). A summary of the significant 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 early adoption for accounting periods beginning on or after 1 January 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 2.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated 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. Estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its 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.

1. Significant accounting policies (Continued)

(c) Subsidiaries (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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the shareholders of the Company.

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

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

(d) Associates

An associate is an entity 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.

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

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

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

1. Significant accounting policies (Continued)

(e) Goodwill (Continued)

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, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net 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 is recognised immediately in the consolidated income statement.

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

(f) Other investments in debt and equity securities

The Group's accounting policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity 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 income statement.

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 held for long term purposes are classified as available-for-sale securities 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 equity, except for impairment losses which are recognised directly in the consolidated income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement.

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. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the consolidated income statement, except where the derivative financial instruments qualify for cash flow hedge accounting, in which case any resultant gain or loss is recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. The ineffective portion of any gain or loss and any other changes in fair value of derivative financial instruments are recognised in the consolidated income statement.

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(h) Fixed assets

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold or freehold interest to earn rental income.

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 income statement.

When the Group holds a property interest held under an operating lease to earn rental income 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.

(ii) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses:

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease; and

- other items of plant and equipment.

The Group has taken advantage of the provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment" issued by the HKICPA, with the effect that the land and building which was revalued by the directors in 1981 has not been revalued to fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal. Upon disposal of the land and building which was revalued in 1981, the attributable revaluation surplus is transferred from the land and building revaluation reserve to retained earnings.

Depreciation is calculated to write off the cost of items of property, plant and equipment, using the straight-line method over their estimated useful lives as follows:

– Leasehold land and buildings	22-999 years
– Furniture and fixtures	10% – 20% per annum
– Computer hardware and software	20% per annum
– Motor vehicles	25% per annum

1. Significant accounting policies (Continued)

(h) Fixed assets (Continued)

(ii) Other property, plant and equipment (Continued)

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

(i) Leased assets

(i) Classification of assets leased to the Group

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 may be 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.

(ii) Assets acquired 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 of the assets as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j).

Finance charges implicit in the lease payments are charged to the consolidated income statement 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.

1. Significant accounting policies (Continued)

(i) Leased assets (Continued)

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(j) Impairment of assets

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

Investments in equity securities and other current and non current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities 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 for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for 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 income statement. 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 securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement 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 income statement.

1. Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

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

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than investment properties carried at revalued amounts);

– investments in subsidiaries and associates; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) Calculation of 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).

(ii) Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount except for the land and building which was revalued in 1981. 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.

1. Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

(ii) Recognition of impairment losses (Continued)

When an impairment loss arises on the land and building which was revalued in 1981, it will first be charged against the attributable balance relating to that property included in the land and building revaluation reserve and any excess will be charged to the consolidated income statement.

(iii) 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 impairment losses 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 income statement in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses, except where the receivables are interest-free balances with related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses.

1. Significant accounting policies (Continued)

(m) Interest-bearing borrowings

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

(n) 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.

(o) 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.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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.

1. Significant accounting policies (Continued)

(q) Income tax (Continued)

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. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or 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 Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability 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.

1. **Significant accounting policies** (Continued)

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group 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 non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

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

(i) Sale of goods

Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement 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 in the consolidated income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

(v) Interest income

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

1. Significant accounting policies (Continued)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in the exchange reserve in equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(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) Borrowing Costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1. Significant accounting policies (Continued)

(w) Segment reporting (Continued)

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. For example, segment assets may include inventories, trade receivables and property, plant and equipment. 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 entities 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 loans, borrowings, corporate and financing expenses.

2. Changes in accounting policies

(a) Recently issued accounting standards

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and the Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

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

(i) Employee benefits (HKFRS 2, Share-Based Payment)

In prior years, no amounts were recognised when employees of an associate (which term includes the directors of the associate) were allotted shares in an associate of the Group under an Employee Stock Ownership Plan ("ESOP") operated by that associate.

With effect from 1 January 2005, in order to comply with HKFRS 2, the associate measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the associate is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in the consolidated income statement for the period.

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

(ii) Investment properties (HKAS 40, Investment Property, and HK(SIC) Interpretation 21, Income Taxes – Recovery of Revalued Non-Depreciable Assets)

Changes in accounting policies relating to investment properties are as follows:

– Timing of recognition of movements in fair value in the consolidated income statement

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the consolidated income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognised in the consolidated income statement.

Upon adoption of HKAS 40 with effect from 1 January 2005, all changes in the fair value of investment properties are recognised directly in the consolidated income statement in accordance with the fair value model set out in HKAS 40. Further details of the new accounting policy for investment properties are set out in note 1(h)(i).

– Measurement of deferred tax on movements in fair value

In prior 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 sale. Further, deferred tax in respect of investment properties in Hong Kong was only provided to the extent that tax allowances already given would be clawed back if the property was to be disposed of at its carrying value, as there would be no additional tax payable on disposal.

With effect from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. Further details of the accounting policy for deferred tax are set out in note 1(q).

(iii) Amortisation of positive and negative goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets)

In prior periods:

– positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

(iii) Amortisation of positive and negative goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets) (Continued)

- negative goodwill was recognised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Negative goodwill is recognised directly in the consolidated income statement. Further details of these accounting policies are set out in note 1(e).

(iv) Financial instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement)

In prior years, the accounting policies for certain financial instruments were as follows:

- other non-current investments were stated in the balance sheet at fair value with changes in fair value recognised in the investment revaluation reserve; and

- derivative financial instruments entered into by management to hedge the interest rate risk of a recognised asset or liability were recognised on an accrual basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 January 2005, and in accordance with HKAS 39, the following new accounting policies have been adopted for the financial instruments mentioned above:

- All non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in the investment revaluation reserve in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the investment revaluation reserve in respect of the investment is transferred to the consolidated income statement in the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale securities is recognised directly in the investment revaluation reserve in equity.

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

(iv) Financial instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement) (Continued)

An exception to the above relates to equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost (less impairment losses, if any) until such time, if ever, that a reliable fair value becomes available. At this point, such investments would be carried at fair value in the same way as other available-for-sale securities.

– All derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivative financial instruments held as hedging instruments in a cash flow hedge are recognised in equity to the extent that the hedge is effective and until the hedged transaction occurs. Any other changes in fair value of derivative financial instruments are recognised in the consolidated income statement.

Further details of these accounting policies are set out in notes 1(f) and 1(g).

(v) Changes in presentation (HKAS 1, Presentation of Financial Statements)

Minority interests (HKAS 1, Presentation of Financial Statements and HKAS 27, Consolidated and Separate Financial Statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to the presentation of minority interests. Under the new accounting policy, minority interests are presented as part of equity, separately from interests attributable to the shareholders of the Company. Further details of the new accounting policy are set out in note 1(c).

Presentation of share of associates' taxation (HKAS 1, Presentation of Financial Statements)

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit before taxation.

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

(v) Changes in presentation (HKAS 1, Presentation of Financial Statements) (Continued)

Amounts due from/to subsidiaries and associates (HKAS 1, Presentation of Financial Statements)

In prior years, amounts due from/to subsidiaries and associates were classified as non-current assets if they were expected to be settled after more than one year.

With effect from 1 January 2005, and in accordance with HKAS 1, the amounts due from/to subsidiaries and associates have been reclassified from non-current assets to current assets/liabilities where there is no unconditional right to defer settlement of the balances for at least twelve months after the balance sheet date.

The change in presentation has been applied retrospectively with comparatives restated.

(b) Change in application of accounting policies

An associate of the Group operates a phantom stock plan, which is a type of deferred profit sharing bonus arrangement, for certain of its key staff. In prior years, this arrangement has been accounted for in accordance with management's interpretation of the then existing accounting standards. During the year, management of the associate have reconsidered the accounting treatment for this arrangement in light of the new guidance set out in HKFRS 2, Share-Based Payment, and HKAS 32, Financial Instruments: Disclosure and Presentation, and have concluded that the arrangement should be accounted for in accordance with the requirements of HKAS 19, Employee Benefits. As a result of the application of this new accounting treatment, the Group's share of the results and assets of this associate changed from 47% to 50%, which is now consistent with its equity shareholding therein. This new accounting treatment has been applied retrospectively by the associate.

(c) Summary of the effect of changes in accounting policies

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and the Group's basic earnings per share for the years ended 31 December 2005 and 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in the consolidated statement of changes in equity.

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(i) Estimated effect on the consolidated income statement for the year ended 31 December 2005

	Estimated effect of new policy (increase/(decrease) in profit for the year)						
	# HKAS 19 $'000 (note 2(b))	# HKFRS 2 $'000 (note 2(a)(i))	# HKAS 1 $'000 (note 2(a)(v))	# HKAS 40 and HK(SIC) Interpretation 21 $'000 (note 2(a)(ii))	* HKFRS 3 $'000 (note 2(a)(iii))	* HKAS 39 $'000 (note 2(a)(iv))	Total $'000
Other operating expenses	–	–	–	–	(117)	–	(117)
Profit from operations	–	–	–	–	(117)	–	(117)
Net valuation gain on investment properties	–	–	–	729,717	–	–	729,717
Gain on disposal of investment properties	–	–	–	(21,818)	–	–	(21,818)
	–	–	–	707,899	(117)	–	707,782
Share of profits less losses of associates	2,348	(6,256)	(23,367)	–	8,564	6,520	(12,191)
Profit before taxation	2,348	(6,256)	(23,367)	707,899	8,447	6,520	695,591
Income tax							
– deferred tax	–	–	–	(132,252)	–	–	(132,252)
– share of associates' taxation	–	–	23,367	–	–	–	23,367
Profit after taxation	2,348	(6,256)	–	575,647	8,447	6,520	586,706
Attributable to:							
Shareholders of the Company	2,348	(6,256)	–	576,085	8,447	6,520	587,144
Minority interests	–	–	–	(438)	–	–	(438)
Profit after taxation	2,348	(6,256)	–	575,647	8,447	6,520	586,706
Basic earnings per share (cents)	0.8	(2.1)	–	195.1	2.8	2.2	198.8

\# adjustments which take effect retrospectively

* adjustments which take effect prospectively from 1 January 2005

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(ii) Effect on the consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year) # HKAS 19	# HKFRS 2	# HKAS 1	# HKAS 40 and HK(SIC) Interpretation 21	Sub-total	2004 (as restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
		(note 2(b))	(note 2(a)(i))	(note 2(a)(v))	(note 2(a)(ii))		
Turnover	1,460,980	–	–	–	–	–	1,460,980
Other revenue	53,146	–	–	–	–	–	53,146
Other net gain	44,862	–	–	–	–	–	44,862
Cost of department store sales	(843,481)	–	–	–	–	–	(843,481)
Cost of property leasing activities	(62,133)	–	–	–	–	–	(62,133)
Other operating expenses	(301,867)	–	–	–	–	–	(301,867)
Profit from operations	351,507	–	–	–	–	–	351,507
Finance costs	(56,670)	–	–	–	–	–	(56,670)
	294,837	–	–	–	–	–	294,837
Net valuation gain on investment properties	–	–	–	–	681,366	681,366	681,366
(Loss)/gain on disposal of investment properties	(4,498)	–	–	–	7,601	7,601	3,103
	290,339	–	–	–	688,967	688,967	979,306
Share of profits less losses of associates	99,423	781	(7,148)	(40,444)	–	(46,811)	52,612
Profit before taxation	389,762	781	(7,148)	(40,444)	688,967	642,156	1,031,918
Income tax							
– current tax	(31,865)	–	–	–	–	–	(31,865)
– deferred tax	(6,280)	–	–	–	(121,233)	(121,233)	(127,513)
– share of associates' taxation	(40,444)	–	–	40,444	–	40,444	–
Profit after taxation	311,173	781	(7,148)	–	567,734	561,367	872,540
Attributable to:							
Shareholders of the Company	310,586	781	(7,148)	–	567,455	561,088	871,674
Minority interests	587	–	–	–	279	279	866
Profit after taxation	311,173	781	(7,148)	–	567,734	561,367	872,540
Basic earnings per share (cents)	105.2	0.3	(2.4)	–	192.1	190.0	295.2

\# adjustments which take effect retrospectively

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(iii) Estimated effect on the consolidated balance sheet at 31 December 2005

	Estimated effect of new policy (increase/(decrease) in net assets)						
	# HKAS 19	# HKFRS 2	# HKAS 1	# HKAS 40 and HK(SIC) Interpretation 21	* HKFRS 3	* HKAS 39	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	(note 2(b))	(note 2(a)(i))	(Note 2(a)(v))	(note 2(a)(ii))	(note 2(a)(iii))	(note 2(a)(iv))	
Non-current assets							
Goodwill	–	–	–	–	235	–	235
Interest in associates	–	(13,355)	14,459	–	10,649	4,416	16,169
Available-for-sale securities	–	–	–	–	–	(45,853)	(45,853)
	–	(13,355)	14,459	–	10,884	(41,437)	(29,449)
Current liabilities							
Amounts due to associates	–	–	(14,459)	–	–	–	(14,459)
Total assets less current liabilities	–	(13,355)	–	–	10,884	(41,437)	(43,908)
Deferred tax liabilities	–	–	–	(415,817)	–	–	(415,817)
Net assets	–	(13,355)	–	(415,817)	10,884	(41,437)	(459,725)
Capital and reserves							
Investment property revaluation reserve	–	–	–	(2,237,484)	–	–	(2,237,484)
Investment revaluation reserve	–	–	–	–	–	(45,853)	(45,853)
Hedging reserve	–	–	–	–	–	(1,284)	(1,284)
Exchange reserve	–	49	–	(2,578)	(23)	(16)	(2,568)
Other capital reserves	(38,658)	–	–	(239,064)	–	–	(277,722)
Retained earnings	38,658	(13,404)	–	2,062,371	10,907	5,716	2,104,248
Attributable to shareholders of the Company	–	(13,355)	–	(416,755)	10,884	(41,437)	(460,663)
Attributable to minority interests	–	–	–	938	–	–	938
Total equity	–	(13,355)	–	(415,817)	10,884	(41,437)	(459,725)

adjustments which take effect retrospectively

* adjustments which take effect prospectively from 1 January 2005

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(iv) Effect on the consolidated balance sheet at 31 December 2004

	At 31 December 2004 (as previously reported) $'000	Effect of new policy (increase/(decrease) in net assets) # HKAS 19 $'000 (note 2(b))	# HKFRS 2 $'000 (Note 2(a)(i))	# HKAS 1 $'000 (note 2(a)(v))	# HKAS 40 and HK(SIC) Interpretation 21 $'000 (note 2(a)(ii))	Sub-total $'000	At 31 December 2004 (as restated) $'000
Non-current assets							
Investment properties	4,135,195	–	–	–	–	–	4,135,195
Other property, plant and equipment	553,060	–	–	–	–	–	553,060
Goodwill	1,178	–	–	–	–	–	1,178
Interest in associates	571,069	–	(7,136)	14,508	–	7,372	578,441
Available-for-sale securities	76,954	–	–	–	–	–	76,954
Deferred tax assets	989	–	–	–	–	–	989
	5,338,445	–	(7,136)	14,508	–	7,372	5,345,817
Current assets							
Amounts due from associates	–	–	–	30	–	30	30
Other current assets	1,415,966	–	–	–	–	–	1,415,966
	1,415,966	–	–	30	–	30	1,415,996
Current liabilities							
Amounts due to associates	–	–	–	(14,538)	–	(14,538)	(14,538)
Other current liabilities	(277,366)	–	–	–	–	–	(277,366)
	(277,366)	–	–	(14,538)	–	(14,538)	(291,904)
Net current assets/(liabilities)	1,138,600	–	–	(14,508)	–	(14,508)	1,124,092
Total assets less current liabilities	6,477,045	–	(7,136)	–	–	(7,136)	6,469,909
Non-current liabilities							
Deferred tax liabilities	(200,081)	–	–	–	(288,777)	(288,777)	(488,858)
Other non-current liabilities	(776,819)	–	–	–	–	–	(776,819)
	(976,900)	–	–	–	(288,777)	(288,777)	(1,265,677)
Net assets	5,500,145	–	(7,136)	–	(288,777)	(295,913)	5,204,232

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(iv) Effect on the consolidated balance sheet at 31 December 2004 (Continued)

	At 31 December 2004 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)					At 31 December 2004 (as restated)
		# HKAS 19	# HKFRS 2	# HKAS 1	# HKAS 40 and HK(SIC) Interpretation 21	Sub-total	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
		(note 2(b))	(Note 2(a)(i))	(note 2(a)(v))	(note 2(a)(ii))		
Capital and reserves							
Share capital	29,533	–	–	–	–	–	29,533
Contributed surplus	754,347	–	–	–	–	–	754,347
Investment property revaluation reserve	1,533,064	–	–	–	(1,533,064)	(1,533,064)	–
Land and building revaluation reserve	174,939	–	–	–	–	–	174,939
Investment revaluation reserve	50,085	–	–	–	–	–	50,085
Exchange reserve	206,448	–	12	–	(3,798)	(3,786)	202,662
Other capital reserves	295,011	(36,308)	–	–	(239,064)	(275,372)	19,639
Retained earnings	2,443,569	36,308	(7,148)	–	1,486,286	1,515,446	3,959,015
Attributable to shareholders of the Company	5,486,996	–	(7,136)	–	(289,640)	(296,776)	5,190,220
Attributable to minority interests	13,149	–	–	–	863	863	14,012
Total equity	5,500,145	–	(7,136)	–	(288,777)	(295,913)	5,204,232

\# adjustments which take effect retrospectively

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(v) Estimated effect on the Company's balance sheet at 31 December 2005

	Estimated effect of new policy (increase/ (decrease) in net assets) #HKAS 1 $'000 (note 2(a)(v))
Non-current assets	
Interests/investments in subsidiaries	(981,265)
Current assets	
Amounts due from subsidiaries	981,333
Current liabilities	
Amounts due to subsidiaries	(68)
Net assets	–
Capital and reserves	
Share capital	–
Reserves	–
Total equity	–

adjustments which take effect retrospectively

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in accounting policies (Continued)

(vi) Effect on the Company's balance sheet at 31 December 2004

	At 31 December 2004 (as previously reported) $'000	Effect of new policy (increase/(decrease) in net assets) #HKAS 1 $'000 (note 2(a)(v))	At 31 December 2004 (as restated) $'000
Non-current assets			
Interests/investments in subsidiaries	3,799,881	(997,891)	2,801,990
Current assets			
Amounts due from subsidiaries	–	998,005	998,005
Other current assets	3,369	–	3,369
	3,369	998,005	1,001,374
Current liabilities			
Amounts due to subsidiaries	–	(114)	(114)
Other current liabilities	(10,107)	–	(10,107)
	(10,107)	(114)	(10,221)
Net current (liabilities)/ assets	(6,738)	997,891	991,153
Net assets	3,793,143	–	3,793,143
Capital and reserves			
Share capital	29,533	–	29,533
Reserves	3,763,610	–	3,763,610
Total equity	3,793,143	–	3,793,143

adjustments which take effect retrospectively

3. Turnover and segment reporting

The principal activities of the Group during the year were the operation of department stores and property investment.

Group turnover for the year comprises the invoiced value of goods sold to customers less returns and income from property investment.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

Business segments

The Group comprises the following business segments:

Department stores: The operating of department stores to offer a wide range of consumer products.

Property investment: The leasing of commercial premises to generate rental income.

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

3. Turnover and segment reporting (Continued)

Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2005	2004	2005	2004 (restated)	2005	2004	2005	2004 (restated)	2005	2004 (restated)
	$'000	$'000	$'000 (note)	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,273,921	1,215,251	262,759	245,729	–	–	–	–	1,536,680	1,460,980
Inter-segment revenue	–	–	72,273	66,892	(72,273)	(66,892)	–	–	–	–
Other revenue from external customers	–	–	33,337	–	–	–	3,610	3,243	36,947	3,243
Total	1,273,921	1,215,251	368,369	312,621	(72,273)	(66,892)	3,610	3,243	1,573,627	1,464,223
Segment result	84,388	60,304	257,288	214,379	–	–	–	–	341,676	274,683
Interest income from bank deposits									48,369	41,159
Unallocated operating income net of expenses									13,664	35,665
Profit from operations									403,709	351,507
Finance costs									(53,934)	(56,670)
									349,775	294,837
Net valuation gain on investment properties (note 13(c))	–	–	729,717	681,366	–	–	–	–	729,717	681,366
Gain on disposal of investment properties (note (13(g))	–	–	9,240	3,103	–	–	–	–	9,240	3,103
									1,088,732	979,306
Share of profits less losses of associates	–	–	–	–	–	–	62,582	52,612	62,582	52,612
Profit before taxation									1,151,314	1,031,918
Income tax									(153,657)	(159,378)
Profit after taxation									997,657	872,540
Depreciation and amortisation	(14,257)	(19,536)	(37,600)	(29,061)	–	–	(362)	(567)	(52,219)	(49,164)
Impairment of fixed assets	–	–	–	–	–	–	(18)	(13)	(18)	(13)
Segment assets	134,017	111,104	5,313,345	4,667,882	(5,452)	(6,238)	–	–	5,441,910	4,772,748
Interest in associates									639,573	578,441
Unallocated assets									1,449,960	1,410,624
Total assets									7,531,443	6,761,813
Segment liabilities	197,863	169,358	32,262	24,110	(5,452)	(6,238)	–	–	224,673	187,230
Unallocated liabilities									1,403,400	1,370,351
Total liabilities									1,628,073	1,557,581
Capital expenditure incurred during the year	19,354	4,738	87,291	10,538	–	–	557	302	107,202	15,578

Note: Operating profit contributed by property investment includes net rental income receivable of $71,260,000 (2004: $65,879,000) from the department store operation.

3. Turnover and segment reporting (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Hong Kong is a major market for the Group's businesses. Australia and United States are the major markets for property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Australia		United States		Others		Total	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,389,801	1,320,502	123,468	113,033	23,411	23,590	–	3,855	1,536,680	1,460,980
Segment result	179,677	149,758	152,811	112,740	8,722	9,237	466	2,948	341,676	274,683
Interest income from bank deposits									48,369	41,159
Unallocated operating income net of expenses									13,664	35,665
Profit from operations									403,709	351,507
Finance costs									(53,934)	(56,670)
									349,775	294,837
Net valuation gain on investment properties (note 13(c))	757,805	691,952	(30,456)	(12,219)	2,368	1,633	–	–	729,717	681,366
Gain on disposal of investment properties (note (13(g))	2,278	–	–	–	6,962	–	–	3,103	9,240	3,103
									1,088,732	979,306
Share of profits less losses of associates	–	–	–	–	62,582	52,612	–	–	62,582	52,612
Profit before taxation									1,151,314	1,031,918
Income tax									(153,657)	(159,378)
Profit after taxation									997,657	872,540
Segment assets	3,803,975	3,055,047	1,497,985	1,560,170	145,402	162,835	–	934	5,447,362	4,778,986
Inter-segment elimination	(5,452)	(6,238)	–	–	–	–	–	–	(5,452)	(6,238)
	3,798,523	3,048,809	1,497,985	1,560,170	145,402	162,835	–	934	5,441,910	4,772,748
Capital expenditure incurred during the year	32,800	9,373	72,582	1,712	1,820	3,993	–	500	107,202	15,578

4. Other revenue and other net gain

	2005	2004
	$'000	$'000
Other revenue		
Compensation received on early termination of a lease	33,337	–
Dividend income from listed securities	4,717	2,872
Dividend income from unlisted securities	1,808	5,457
Interest income from listed securities	427	415
Interest income from bank deposits	48,369	41,159
Others	3,610	3,243
	92,268	53,146
Other net gain		
Net gain/(loss) on disposal of fixed assets	506	(71)
Net foreign exchange (loss)/gain	(4,377)	9,817
Net realised gain on disposal of trading securities	3,592	9,025
Net gain on remeasurement to fair value of trading securities	12,947	32,489
Impairment of available-for-sale securities	–	(8,018)
Net gain on dissolution of a subsidiary	10,035	1,620
	22,703	44,862

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2005	2004
			(restated)
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans repayable within five years	53,934	56,670
(b)	Staff costs (excluding directors' remuneration):		
	Contributions to defined contribution retirement plans	8,765	8,362
	Salaries, wages and other benefits	148,524	144,000
		157,289	152,362
(c)	Rentals received and receivable from investment properties:		
	Gross rentals	(262,759)	(245,729)
	Less: direct outgoings	65,082	62,133
		(197,677)	(183,596)
(d)	Other items:		
	Amortisation of goodwill (note 15)	–	235
	Recognition of negative goodwill	–	(352)
	Depreciation and amortisation		
	– other assets	49,468	48,559
	– assets held for use under finance lease	370	370
	– lease incentives	2,381	–
	Impairment losses provided/(written-back)		
	– fixed assets (note 13(a))	18	13
	– trade receivables	5	(653)
	– available-for-sale securities	–	8,018
	Auditors' remuneration		
	– current year	1,981	2,255
	– prior year	–	29
	Operating lease charges: minimum lease payments		
	– rentals of land and buildings	24,786	33,428
	– contingent rentals	179	965
	Share of associates' taxation	23,367	40,444
	Cost of inventories sold (note 19(b))	877,009	843,481

6. Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2005	2004 (restated)
	$'000	$'000
Current tax – Hong Kong Profits tax		
Provision for the year	18,270	18,637
Under/(over)-provision in respect of prior years	4	(168)
	18,274	18,469
Current tax – Overseas		
Provision for the year	17,018	13,455
Over-provision in respect of prior years	(4)	(59)
	17,014	13,396
Deferred tax		
Origination and reversal of temporary differences (note 26(b))		
– changes in fair value of investment properties	132,252	121,233
– other temporary differences	(13,883)	6,280
	118,369	127,513
Total income tax expense	153,657	159,378

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. Income tax in the consolidated income statement (Continued)

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

	2005	**2004**
		(restated)
	$'000	$'000
Profit before taxation	1,151,314	1,031,918
Notional Hong Kong Profits Tax calculated at 17.5%	201,480	180,586
Tax effect of non-deductible expenses	9,871	6,982
Tax effect of non-taxable revenue	(13,684)	(12,641)
Tax effect of temporary differences not recognised	(1,327)	(3,135)
Tax effect of unused tax losses not recognised	1,041	645
Tax effect of previously unrecognised tax losses utilised this year	(15,161)	(6,713)
Tax effect of previously unrecognised tax losses recognised this year	(24,471)	–
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	(4,330)	(6,809)
Effect of overseas withholding tax	238	690
Over-provision in prior years	–	(227)
Actual tax expense	153,657	159,378

7. Directors' remuneration

(a) The remuneration of the directors is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2005 Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
Mr. Karl C. Kwok	30	2,514	–	1	2,545
Mr. Lester Kwok	30	720	–	6	756
Mr. Mark Kwok	30	1,600	65	130	1,825
	90	4,834	65	137	5,126
Non-executive directors					
Dr. Bill Kwok	30	–	–	–	30
Dr. Kwok Man Cho	30	–	–	–	30
Dr. Philip Kwok	30	534	–	–	564
Miss Adriana Chan	15	217	–	–	232
	105	751	–	–	856
Independent non-executive directors					
Miss Maria Tam Wai Chu	70	60	–	–	130
Mr. Ignatius Wan Chiu Wong	70	25	–	–	95
Mr. Iain F. Bruce	70	90	–	–	160
Mr. Anthony Francis Martin Conway	70	40	–	–	110
	280	215	–	–	495
	475	5,800	65	137	6,477

7. **Directors' remuneration** (Continued)

(a) The remuneration of the directors is as follows: (Continued)

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2004 Total $'000
Executive directors					
Mr. Karl C. Kwok	30	2,489	–	–	2,519
Mr. Lester Kwok	30	–	–	–	30
Mr. Mark Kwok	30	1,465	149	127	1,771
	90	3,954	149	127	4,320
Non-executive directors					
Dr. Bill Kwok	30	–	–	–	30
Dr. Kwok Man Cho	30	–	–	–	30
Dr. Philip Kwok	30	534	–	–	564
Miss Adriana Chan	30	474	–	–	504
	120	1,008	–	–	1,128
Independent non-executive directors					
Miss Maria Tam Wai Chu	70	60	–	–	130
Mr. Ignatius Wan Chiu Wong	70	–	–	–	70
Mr. Iain F. Bruce	70	90	–	–	160
Mr. Anthony Francis Martin Conway	35	–	–	–	35
	245	150	–	–	395
	455	5,112	149	127	5,843

7. Directors' remuneration (Continued)

(b) The remuneration of the directors is within the following bands:

$	Number of directors 2005	2004
0 – 500,000	7	7
500,001 – 1,000,000	2	2
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	1	1
	11	11

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: three) individuals are as follows:

	2005 $'000	2004 $'000
Salaries, allowances and benefits in kind	6,570	6,363
Contributions to defined contribution retirement plans	408	372
Discretionary bonuses	239	305
	7,217	7,040

The emoluments of the three (2004: three) individuals with the highest emoluments within the following bands are analysed as follows:

$	Number of individuals 2005	2004
1,000,001–1,500,000	–	1
1,500,001–2,000,000	1	–
2,000,001–2,500,000	–	–
2,500,001–3,000,000	1	1
3,000,001–3,500,000	1	1
	3	3

9. Profit attributable to shareholders of the Company

The consolidated profit attributable to shareholders of the Company includes a profit of $402,172,000 (2004: $362,690,000) which has been dealt with in the financial statements of the Company.

10. Dividends

(a) Dividends payable to shareholders of the Company attributable to the year

	2005	**2004**
	$'000	$'000
Interim dividend declared and paid of 19 cents (2004: 14 cents) per share	56,112	41,346
Final dividend proposed after the balance sheet date of 51 cents (2004: 41 cents) per share	150,616	121,084
	206,728	162,430

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

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

	2005	**2004**
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 41 cents (2004: 39 cents) per share	121,084	115,177

11. Basic earnings per share

(a) The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2005 of $997,251,000 (2004 (as restated): $871,674,000) divided by 295,326,000 shares (2004: 295,326,000 shares) in issue during the year.

There were no outstanding potential shares throughout the years presented.

(b) **Adjusted basic earnings per share excluding the net valuation gain on investment properties and the related deferred tax thereon**

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the year should be adjusted for the net valuation gain on investment properties and the related deferred tax thereon in arriving at the "underlying profit attributable to the shareholders of the Company".

11. Basic earnings per share (Continued)

(b) **Adjusted basic earnings per share excluding the net valuation gain on investment properties and the related deferred tax thereon** (Continued)

The difference between the underlying profit attributable to shareholders of the Company and profit attributable to shareholders of the Company as shown in the consolidated income statement for the year is reconciled as follows:

	2005		2004	
		Amount per share		Amount per share
	$'000	cents	$'000	cents
Profit attributable to shareholders of the Company as shown in the consolidated income statement	997,251	337.7	871,674	295.2
Net valuation gain on investment properties	(729,717)	(247.1)	(681,366)	(230.7)
	267,534	90.6	190,308	64.5
Increase in deferred tax liabilities in relation to the net valuation gain on investment properties	132,252	44.8	121,233	41.0
	399,786	135.4	311,541	105.5
Net valuation (loss)/gain on investment properties net of related deferred tax attributable to minority interests	(438)	(0.2)	279	0.1
Underlying profit attributable to shareholders of the Company	399,348	135.2	311,820	105.6

12. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") and a number of MPF exempted defined contribution schemes ("MPF exempted schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement schemes administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was $8,902,000 (2004: $8,489,000).

13. Fixed assets

(a) The Group

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2005	607,506	433,545	1,041,051	4,135,195	5,176,246
Exchange adjustments	215	(35)	180	(105,165)	(104,985)
Additions	–	32,808	32,808	21,641	54,449
Disposals	(2,111)	(998)	(3,109)	(27,231)	(30,340)
Transfer	230,100	–	230,100	(230,100)	–
Surplus on revaluation	–	–	–	730,917	730,917
At 31 December 2005	835,710	465,320	1,301,030	4,525,257	5,826,287
Accumulated depreciation, amortisation and impairment:					
At 1 January 2005	143,088	344,903	487,991	–	487,991
Exchange adjustments	215	(15)	200	–	200
Charge for the year	21,958	27,880	49,838	–	49,838
Written back on disposals	(1,473)	(885)	(2,358)	–	(2,358)
Impairment loss (note 5(d))	–	18	18	–	18
At 31 December 2005	163,788	371,901	535,689	–	535,689

13. Fixed assets (Continued)

(a) The Group (Continued)

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Lease incentives:					
At 1 January 2005	–	–	–	–	–
Exchange adjustments	–	–	–	94	94
Additions	–	–	–	52,753	52,753
Amortisation for the year	–	–	–	(2,381)	(2,381)
At 31 December 2005	–	–	–	50,466	50,466
Net book value:					
At 31 December 2005	671,922	93,419	765,341	4,575,723	5,341,064
Cost or valuation:					
At 1 January 2004	607,438	502,398	1,109,836	3,423,487	4,533,323
Exchange adjustments	68	132	200	74,258	74,458
Additions	–	9,693	9,693	5,885	15,578
Disposals	–	(77,702)	(77,702)	(49,219)	(126,921)
Transfer	–	(976)	(976)	122	(854)
Surplus on revaluation	–	–	–	680,662	680,662
At 31 December 2004	607,506	433,545	1,041,051	4,135,195	5,176,246
Accumulated depreciation, amortisation and impairment:					
At 1 January 2004	127,755	389,505	517,260	–	517,260
Exchange adjustments	68	126	194	–	194
Charge for the year	15,265	33,664	48,929	–	48,929
Written back on disposals	–	(77,551)	(77,551)	–	(77,551)
Transfer	–	(854)	(854)	–	(854)
Impairment loss (note 5(d))	–	13	13	–	13
At 31 December 2004	143,088	344,903	487,991	–	487,991
Net book value:					
At 31 December 2004	464,418	88,642	553,060	4,135,195	4,688,255

13. Fixed assets (Continued)

(a) The Group (Continued)

The analysis of cost or valuation of the fixed assets and carrying amount of lease incentives of the Group is as follows:

	At cost $'000	At professional valuation in 2005 $'000	At directors' valuation in 1981 $'000 (note (b))	Total $'000
At 31 December 2005				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	230,220	–	150,263	380,483
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	11,827	–	–	11,827
Investment properties				
Long lease				
– in Hong Kong	–	2,418,900	–	2,418,900
– outside Hong Kong	–	92,989	–	92,989
Medium term lease in Hong Kong	–	518,822	–	518,822
Freehold outside Hong Kong	–	1,494,546	–	1,494,546
Other fixed assets	465,320	–	–	465,320
	1,150,767	4,525,257	150,263	5,826,287
Lease incentives of freehold investment properties outside Hong Kong	–	50,466	–	50,466
	1,150,767	4,575,723	150,263	5,876,753

13. Fixed assets (Continued)

(a) The Group (Continued)

	At cost $'000	At professional valuation in 2004 $'000	At directors' valuation in 1981 $'000 (note (b))	Total $'000
At 31 December 2004				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	120	–	150,263	150,383
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	13,723	–	–	13,723
Investment properties				
Long lease				
– in Hong Kong	–	1,989,700	–	1,989,700
– outside Hong Kong	–	91,236	–	91,236
Medium term lease in Hong Kong	–	427,417	–	427,417
Freehold outside Hong Kong	–	1,626,842	–	1,626,842
Other fixed assets	433,545	–	–	433,545
	890,788	4,135,195	150,263	5,176,246

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment" issued by the HKICPA, with the effect that the land and building which was revalued by the directors in 1981 has not been revalued to fair value at the balance sheet date. The carrying amount of the land and building at 31 December 2005 is $106,049,000 (2004: $107,882,000).

The carrying amount of the land and building that would have been included in the financial statements had the asset been carried at cost less accumulated depreciation at 31 December 2005 is $37,575,000 (2004: $38,285,000).

(c) Investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on a market value basis at 31 December 2005. Investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers or Bolton & Baer, Ltd., Realty Appraisers on a market value basis at 31 December 2005. The net valuation gain of $729,717,000 (2004: $681,366,000), has been recognised in the consolidated income statement.

13. Fixed assets (Continued)

(d) Fixed assets held under finance leases

The Group leases office equipment under finance leases with a term of three years. At the end of the lease term, the title of the office equipment will either be transferred to the Group or the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The net book value of office equipment held under finance leases of the Group at 31 December 2005 was $771,000 (2004: $1,141,000).

(e) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to ten years, with an option to renew the lease after that date at which time all terms will be renegotiated. None of the leases includes contingent rentals.

The gross carrying amount of investment properties of the Group held for use in operating leases was $4,575,723,000 (2004: $4,135,195,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2005	**2004**
	$'000	$'000
Within one year	182,077	188,991
After one year but within five years	428,549	285,238
After five years	106,776	63,263
	717,402	537,492

(f) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.

(g) In September 2005, the Group disposed of an investment property located in the United States and portions of an investment property located in Hong Kong which gave rise to a gain before tax of $6,962,000 and $2,278,000 respectively.

In September 2004, the Group disposed of an investment property located in New Zealand which gave rise to a gain before tax of $3,103,000 (as restated). A bank loan in the amount of $37,597,000 secured by pledged bank deposits was repaid upon disposal.

(h) During the year, lease incentives of $52,753,000 were paid to tenants of an investment property in Australia. The lease incentives are amortised over the lease term.

14. Investments in subsidiaries

	Company 2005	Company 2004
	$'000	$'000
Unlisted shares, at cost	2,801,990	2,801,990

Details of the principal subsidiaries are set out on pages 98 to 100.

15. Goodwill

	Group Positive goodwill	Group Negative goodwill	Group Total
	$'000	$'000	$'000
Cost:			
At 1 January 2005	177,932	(2,558)	175,374
Opening balance adjustments to			
– eliminate accumulated amortisation	(176,754)	–	(176,754)
– derecognition of negative goodwill	–	2,558	2,558
At 31 December 2005	1,178	–	1,178
Accumulated amortisation:			
At 1 January 2005	176,754	(2,558)	174,196
Opening balance adjustments to			
– eliminate against cost	(176,754)	–	(176,754)
– derecognition of the accumulated amortisation of negative goodwill	–	2,558	2,558
At 31 December 2005	–	–	–
Carrying amount:			
At 31 December 2005	1,178	–	1,178

15. Goodwill (Continued)

	Group		
	Positive goodwill $'000	**Negative goodwill** $'000	**Total** $'000
Cost:			
At 1 January 2004	178,553	(2,558)	175,995
Disposals	(621)	–	(621)
At 31 December 2004	177,932	(2,558)	175,374
Accumulated amortisation:			
At 1 January 2004	177,140	(2,558)	174,582
Amortisation for the year (note 5(d))	235	–	235
Written back on disposals	(621)	–	(621)
At 31 December 2004	176,754	(2,558)	174,196
Carrying amount:			
At 31 December 2004	1,178	–	1,178

The amortisation of positive goodwill for the year ended 31 December 2004 was included in "other operating expenses" in the consolidated income statement.

As explained further in note 2 with effect from 1 January 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

	2005 $'000	**2004** $'000
Properties investment–the United States	1,178	1,178

The recoverable amount of the CGU is determined based on fair value less cost to sell. The fair values were assessed by a realty appraiser on a market value basis at 31 December 2005. The management considered that no impairment was necessary.

16. Interest in associates

	Group 2005	Group 2004 (restated)
	$'000	$'000
Unlisted shares		
Share of net assets other than goodwill and intangible assets	439,059	406,629
Share of positive goodwill and intangible assets of an associate	200,514	174,272
Negative goodwill on acquisition	–	(2,460)
	639,573	578,441

(a) Details of the principal associates are set out on page 101.

(b) Additional information in respect of the Group's material associate, WL Investments Limited ("WL"), extracted from its audited financial statements, is given as follows:

	2005	2004 (restated)
	$'000	$'000
Operating results		
Turnover	13,642,311	11,871,203
Profit before taxation	174,564	191,095
Profit after taxation	124,848	105,042
Group's share of profit after taxation attributable to the material associate	62,424	52,521
Non-current assets	1,886,715	1,706,955
Current assets *	2,319,018	2,131,468
Total assets	4,205,733	3,838,423
Current liabilities	575,916	576,229
Non-current liabilities	2,351,153	2,100,560
Total liabilities	2,927,069	2,676,789
Net assets	1,278,664	1,161,634
Group's share of net assets attributable to the material associate	639,332	580,817

* Current assets comprise mainly inventories of motor vehicles.

16. Interest in associates (Continued)

(c) Summary financial information of associates

	Assets	Liabilities	Equity	Revenues	Profit
	$'000	$'000	$'000	$'000	$'000
2005					
100 per cent	4,215,810	(2,936,823)	(1,278,987)	13,644,824	125,130
Group's effective interest	2,107,905	(1,468,412)	(639,493)	6,822,412	62,565
2004					
100 per cent	3,847,916	(2,686,240)	(1,161,676)	11,872,654	105,190
Group's effective interest	1,923,958	(1,343,120)	(580,838)	5,936,327	52,595

The Group has not recognised share of accumulated losses of an associate of $80,000 at 31 December 2005 (2004: $63,000).

17. Available-for-sale securities

	Group	
	2005	2004
	$'000	$'000
Equity securities		
– Listed outside Hong Kong, at market value	19,455	15,141
– Unlisted but quoted	5,565	4,392
– Unlisted	11,568	57,421
	36,588	76,954

The unlisted equity securities are carried at cost of $11,568,000 at 31 December 2005. Management consider that their fair value cannot be measured reliably as there is no quoted price available.

18. Trading securities

	Group 2005 $'000	Group 2004 $'000
Debt securities (at market value)		
– Listed outside Hong Kong	10,594	11,383
Equity securities (at market value)		
Listed		
– in Hong Kong	109,137	86,411
– outside Hong Kong	51,255	47,118
	160,392	133,529
Investment funds (at market value)		
– Listed outside Hong Kong	1,771	4,053
– Unlisted but quoted	31,962	20,620
	33,733	24,673
	204,719	169,585

19. Inventories

(a) Inventories in the balance sheet comprise:

	Group 2005 $'000	Group 2004 $'000
Merchandise held for sale	68,096	52,929
Merchandise held for sale in transit	498	355
	68,594	53,284

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group 2005 $'000	Group 2004 $'000
Carrying amount of inventories sold	877,370	846,725
Reversal of write-down of inventories	(361)	(3,244)
	877,009	843,481

The reversal of write-down of inventories made in the prior year arose due to an increase in the estimated net realisable value of certain merchandise held for sale as a result of a change in consumer preferences.

20. Debtors, deposits and prepayments

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	$'000	$'000	$'000
Trade and other debtors, net of impairment loss for doubtful debts	21,481	13,886	322	–
Deposits and prepayments	21,674	39,281	204	207
	43,155	53,167	526	207

The ageing analysis of trade and other debtors, net of impairment loss for doubtful debts, is as follows:

	Group	
	2005	**2004**
	$'000	$'000
Current	19,444	11,749
One to three months overdue	1,688	1,476
More than three months overdue	349	661
	21,481	13,886

Debts are normally due within 30 days from the date of billing.

All debtors, deposits and prepayments, apart from certain rental deposits totalling $8,329,000 (2004: $8,186,000), are expected to be recovered within one year.

21. Amounts due from/(to) subsidiaries, fellow subsidiaries and associates

The amounts due from/(to) subsidiaries, fellow subsidiaries and associates are unsecured, interest free and have no fixed repayment terms.

22. Cash and cash equivalents

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	$'000	$'000	$'000
Cash at bank and in hand	74,418	118,418	1,594	3,162
Bank deposits	1,086,297	1,006,041	244,668	–
Cash and cash equivalents	1,160,715	1,124,459	246,262	3,162

22. Cash and cash equivalents (Continued)

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the operations to which they relate:

	Group	
	2005	**2004**
	'000	'000
United States Dollars	USD 54,566	USD 45,385
New Zealand Dollars	NZD 1,231	NZD 9,092
Australian Dollars	AUD 3,972	AUD 4,283
Canadian Dollars	CAD 555	CAD 542
Japanese Yen	JPY 17,398	JPY 2,397

23. Creditors and accrued charges

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	$'000	$'000	$'000
Trade and other creditors	224,622	185,201	10,301	9,198
Accrued charges	27,330	29,951	1,623	909
	251,952	215,152	11,924	10,107

The ageing analysis of trade and other creditors is as follows:

	Group	
	2005	**2004**
	$'000	$'000
Amounts not yet due	223,951	145,336
On demand or overdue for less than one month	380	35,212
One to three months overdue	23	915
Three to twelve months overdue	268	3,738
	224,622	185,201

24. Secured bank loans

At 31 December 2005, the secured bank loans of the Group were repayable as follows:

	Group	
	2005	**2004**
	$'000	$'000
Within one year or on demand	724,518	48,548
After one year but within two years	–	776,768
	724,518	825,316

At 31 December 2005, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of $1,071,648,000 (2004: $1,137,960,000) granted to the Group:

	Group	
	2005	**2004**
	$'000	$'000
Land and buildings	106,049	107,882
Investment properties	3,864,904	3,354,570
	3,970,953	3,462,452

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). At 31 December 2005, none of the covenants relating to drawn down facilities had been breached.

25. Obligations under finance leases

At 31 December 2005, the Group had minimum lease payments obligations under finance leases repayable as follows:

	Group	
	2005	**2004**
	$'000	$'000
Within one year	51	614
After one year but within two years	–	51
	51	665

26. Income tax in the balance sheet

(a) Income tax in the consolidated balance sheet represents:

	Group 2005 $'000	Group 2004 $'000
Provision for Hong Kong Profits Tax for the year	18,270	18,637
Provisional Profits Tax paid	(14,014)	(14,304)
	4,256	4,333
Overseas taxation payable	734	5,864
	4,990	10,197
Represented by:		
Current tax recoverable	(8,349)	(277)
Current tax payable	13,339	10,474
	4,990	10,197

26. Income tax in the balance sheet (Continued)

(b) Deferred tax (assets) and liabilities recognised

The components of deferred tax (assets) and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Revaluation of land and buildings	Provisions	Future benefit of tax losses	Withholding tax on undistributed profits of a subsidiary	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:							
At 1 January 2005 (as restated)	12,434	446,211	29,310	(834)	(10)	758	487,869
Charged/(credited) to the consolidated income statement (note 6(a))	(4,144)	132,252	–	15,492	(24,473)	(758)	118,369
Credited to exchange reserve	(36)	(8,461)	–	(557)	–	–	(9,054)
At 31 December 2005	8,254	570,002	29,310	14,101	(24,483)	–	597,184
At 1 January 2004 (as restated)	6,527	319,452	29,310	(618)	(6)	–	354,665
Charged/(credited) to the consolidated income statement (note 6(a))	5,759	121,233	–	(177)	(4)	702	127,513
Charged/(credited) to exchange reserve	148	5,526	–	(39)	–	56	5,691
At 31 December 2004 (as restated)	12,434	446,211	29,310	(834)	(10)	758	487,869

	2005	2004 (restated)
	$'000	$'000
Net deferred tax assets recognised in the consolidated balance sheet	(25,766)	(989)
Net deferred tax liabilities recognised in the consolidated balance sheet	622,950	488,858
	597,184	487,869

26. Income tax in the balance sheet (Continued)

(c) Deferred tax assets not recognised

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

	Group	
	2005	**2004**
		(restated)
	$'000	$'000
Deductible temporary differences	11,419	12,746
Future benefit of tax losses	124,686	163,277
	136,105	176,023

The Group has not recognised deferred tax assets in respect of tax losses of certain subsidiaries as management of the Group considers that it is not possible at 31 December 2005 to estimate with, any degree of certainty, the future taxable profits which may be earned by these subsidiaries and against which the accumulated tax losses may be offset in the foreseeable future. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2005, temporary differences relating to the undistributed profits of subsidiaries amounted to $1,124,327,000 (2004 (restated): $1,019,698,000). Deferred tax liabilities of $337,298,000 (2004 (restated): $305,909,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27. Capital and reserves

(a) Group

Details of the movements in capital and reserves of the Group are set out on pages 31 to 33.

Retained earnings attributable to the shareholders of the Company at 31 December 2005 include net valuation gain on investment properties after deferred tax of $2,062,371,000 (2004 (restated): $1,486,286,000).

(b) Company

	Share capital $'000 (note (c))	Contributed surplus $'000 (note (d)(vi))	Retained earnings $'000	Total $'000
At 1 January 2005	29,533	2,997,350	766,260	3,793,143
Dividends approved in respect of the previous year (note 10(b))	–	–	(121,084)	(121,084)
Profit for the year	–	–	402,172	402,172
Dividends declared and paid in respect of the current year (note 10(a))	–	–	(56,112)	(56,112)
At 31 December 2005	29,533	2,997,350	991,236	4,018,119
At 1 January 2004	29,533	2,997,350	560,093	3,586,976
Dividends approved in respect of the previous year (note 10(b))	–	–	(115,177)	(115,177)
Profit for the year	–	–	362,690	362,690
Dividends declared and paid in respect of the current year (note 10(a))	–	–	(41,346)	(41,346)
At 31 December 2004	29,533	2,997,350	766,260	3,793,143

(c) Share capital

	2005 $'000	2004 $'000
Authorised:		
400,000,000 shares of $0.1 each	40,000	40,000
Issued and fully paid:		
295,326,000 shares of $0.1 each	29,533	29,533

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

27. Capital and reserves (Continued)

(d) Nature and purpose of reserves

(i) Land and building revaluation reserve

The revaluation reserve has been set up and are dealt with in accordance with the accounting policy adopted for land and buildings in notes 1(h)(ii).

(ii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in note 1(f).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

(iv) Other capital reserves

Other capital reserves at 31 December 2004 represented various appropriations of retained earnings which arose over twenty years ago. Management has reviewed the nature of the items comprising the balance and has concluded that, based on prevailing accounting policies, the balance should be transferred to retained earnings at 31 December 2005.

(v) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(g).

(vi) Contributed surplus

Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to the contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained earnings, under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

27. Capital and reserves (Continued)

(e) Distributability of reserves of the Company

At 31 December 2005, the aggregate amount of reserves available for distribution to shareholders of the Company was $3,988,586,000 (2004: $3,763,610,000). After balance sheet date the directors proposed a final dividend of 51 cents per share (2004: 41 cents per share), amounting to $150,616,000 (2004: $121,084,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) The Group's share of the post-acquisition accumulated reserves of associates is as follows:

	2005	**2004**
		(restated)
	$'000	$'000
Retained earnings	479,100	417,324
Exchange reserve	(3,173)	(1,353)
Hedging reserve	(1,284)	–
	474,643	415,971

28. Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	Group	
	2005	**2004**
	$'000	$'000
Authorised and contracted for	9,904	14,969
Authorised but not contracted for	110	110
	10,014	15,079

28. Commitments (Continued)

(b) Commitments under operating leases

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2005	**2004**
	$'000	$'000
Within one year	28,672	24,914
After one year but within five years	44,525	29,851
	73,197	54,765

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated. Certain leases contain a contingent rental element. The amount of contingent rent incurred in 2005 is stated in note 5(d).

29. Financial instruments

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

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, cash at bank and investments. Management has a credit policy in place and the exposures to these risks are monitored on an ongoing basis.

Bank deposits and cash at bank are normally placed with licensed banks. Investments are normally only in liquid securities (except where entered into for long term strategic purposes) and with counterparties that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantee given by the Company in respect of certain loans and other facilities granted to certain subsidiaries as disclosed in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. 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.

29. Financial instruments (Continued)

(c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2005						2004					
	Effective interest rate %	Total $'000	One year or less $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Effective interest rate %	Total $'000	One year or less $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000
Repricing dates for assets/ (liabilities) which reprice before maturity												
Cash and cash equivalents	4.57	1,160,715	1,160,715	–	–	–	3.64	1,124,459	1,124,459	–	–	–
Bank loans	6.91	(724,518)	(724,518)	–	–	–	6.83	(825,316)	(48,548)	(776,768)	–	–
		436,197	436,197	–	–	–		299,143	1,075,911	(776,768)	–	–
Maturity dates for assets which do not reprice before maturity												
Interest-bearing listed debt securities												
– Australia	7.50	5,841	–	5,841	–	–	7.50	6,348	–	–	6,348	–
– South Africa	12.84	4,753	–	–	–	4,753	12.84	5,035	–	–	–	5,035
		10,594	–	5,841	–	4,753		11,383	–	–	6,348	5,035

The Company

	2005						2004					
	Effective interest rate %	Total $'000	One year or less $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Effective interest rate %	Total $'000	One year or less $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000
Repricing dates for assets which reprice before maturity												
Cash and cash equivalents	4.12	246,262	246,262	–	–	–	0.00	3,162	3,162	–	–	–

29. Financial instruments (Continued)

(d) Currency risk

The Group is exposed to foreign currency risks through certain bank deposits that are dominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Australian dollars (AUD). The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2005 and 2004 except for those available-for-sale securities the fair value of which cannot be reliably measured.

30 Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of $905,648,000 (2004: $970,960,000), of which $724,518,000 (2004: $825,316,000) was utilised at 31 December 2005.

31. Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2005	**2004**
	$'000	$'000
Directors' fees	90	90
Salaries and other short-term employee benefits	10,733	9,741
Contributions to defined contribution retirement plans	494	425
	11,317	10,256

31. Related party transactions (Continued)

(b) Recurring transactions

Fellow subsidiaries represent subsidiaries of Wing On International Holdings Limited, the Company's immediate holding company. Material related party transactions are as follows:

(i) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to $14,407,000 (2004: $14,578,000) during the year. The net amount due from the fellow subsidiary at 31 December 2005 amounted to $1,372,000 (2004: net amount due to the fellow subsidiary of $709,000).

(ii) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $2,199,000 (2004: $2,026,000) during the year. The net amount due to the fellow subsidiary at 31 December 2005 amounted to $547,000 (2004: $92,000).

(iii) The Company reimbursed a fellow subsidiary for the sharing of office space and facilities during 2004. Reimbursements payable to this fellow subsidiary for the year ended 31 December 2004 amounted to $30,000. The amount had been fully settled by 31 December 2004. No similar transactions have been entered into during the current year.

(iv) A fellow subsidiary, engaging in securities trading, deals in securities for certain subsidiaries of the Group. Commission of $185,000 (2004: $428,000) was payable to the fellow subsidiary during the year. The amount due from the fellow subsidiary at 31 December 2005 amounted to $370,000 (2004: $13,742,000).

(v) A subsidiary provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to $848,000 (2004: $667,000) during the year. The net amount due to the fellow subsidiary at 31 December 2005 amounted to $257,000 (2004: $325,000).

The directors of the Group are of the opinion that the above transactions were payable at pre-determined amounts in accordance with terms mutually agreed by the Group and the respective companies.

32. 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 2.

33. Parent and ultimate holding company

At 31 December 2005, the directors consider the immediate parent to be Wing On International Holdings Limited ("WOIH"), incorporated in Bermuda, and the ultimate holding company to be Kee Wai Investment Company (BVI) Limited ("KW(BVI)"), incorporated in the British Virgin Islands. Messrs. Karl C. Kwok, Lester Kwok, Bill Kwok and Mark Kwok, directors of the Company, together control approximately 78.95% of the voting rights in KW(BVI). KW(BVI) does not produce financial statements available for public use while WOIH produces financial statements available for public use.

34. Critical accounting estimates

Note 15 and 29 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Recognition of deferred tax assets

As explained in note 26, the Group recognises deferred tax assets in respect of tax losses based on the management's estimation of future taxable profits against which the accumulated tax losses may be offset in the foreseeable future for each individual subsidiary. As the Group assumed, based on the current economic conditions, its department stores operation can maintain its profitability in the near future, it is possible that certain assumptions adopted in the preparation of the profit forecasts for these operations may not be indicative of future taxable profits against what the accumulated tax losses may be offset. Any increase or decrease in the provision for deferred taxation would affect the Group's net asset value.

(b) Valuation of investment properties

As described in note 13(c), the investment properties were revalued by independent professional valuers on a market value basis at 31 December 2005. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the Group's results in future years.

(c) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation expense for future periods is adjusted if there are material changes from previous estimates.

(Expressed in Hong Kong dollars)

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are applicable to the Group but not effective for the accounting year ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS 19	Employee benefits – Actuarial gains and losses, Group plans and disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	– The fair value option	1 January 2006
	– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
– HKAS 1	Presentation of financial statements	1 January 2006
– HKAS 27	Consolidated and separate financial statements	1 January 2006
– HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

35. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2005 (Continued)

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 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 them is unlikely to have a significant impact on the Group's results of operations and financial position.