

Notes to the Accounts

1. Change in accounting standards

In 2005, the group adopted the new/revised standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 2	The Appropriate Policies for Hotel Properties
HKAS-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HKAS-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

(a) Investment properties

Following the adoption of HKAS 40, changes in the fair values of investment properties are included in the profit and loss account. Previously the group had recorded such fair value changes in the property valuation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. In addition, Hong Kong Accounting Standard Interpretation (“HKAS-Int”) 21 now requires the calculation of deferred taxation arising from the revaluation surpluses of investment properties. Such deferred taxation is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use (i.e. applying profits tax rates).

(b) Leasehold land

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

(c) Financial assets and liabilities

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

Financial assets are now classified into two categories: loans and receivables and available-for-sale investments. Loans and receivables are carried at amortised cost using the effective interest method whereas previously they were carried at cost. Available-for-sale investments are carried at fair value with any unrealised gains and losses recognised in equity. While there is no change in their measurement basis and the treatment of subsequent fair value changes, available-for-sale investments were previously classified as investment securities.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated either at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowing using the effective interest method or at fair value through profit and loss. Borrowings were previously carried at cost.

(d) Derivative financial instruments

Following the adoption of HKAS 32 and HKAS 39, derivatives are now initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value, whereas in previous years, derivative financial instruments were not separately recorded in the financial statements. The recognition and measurement of hedging activities (except for certain hedging activities previously accounted for by the Cathay Pacific group) have also been changed as a result of the adoption.

(e) Goodwill

Following the adoption of HKFRS 3, HKAS 36 and HKAS 38, goodwill on acquisition of subsidiary, jointly controlled and associated companies is no longer amortised but tested annually for impairment as well as when there is indication of impairment. Any impairment loss recognised during the period is charged to the profit and loss account. In previous years, goodwill was amortised on straight line basis over its estimated useful life. This change in accounting policy has been applied prospectively from 1st January 2005 and amortisation of goodwill ceased on 31st December 2004. Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill previously eliminated against reserves, totalling HK\$3,274 million as at 1st January 2005, is not reinstated on the balance sheet or included in the calculation of the profit or loss on disposal of subsidiary, jointly controlled and associated companies.

(f) Associated companies

The group no longer accounts for the indirect interest in an associated company through another associated company under HKAS 28.

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(g) Other new/revised HKASs

Apart from certain presentational changes with comparatives restated, the adoption of the following new HKFRSs does not have any material effects on the accounts:

- (i) HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled and associated companies and other disclosures.
- (ii) HKAS 21 had no material effect on the group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements.
- (iii) HKAS 24 has affected the disclosures of related-party transactions.

The adoption of new/revised HKASs 2, 7, 8, 10, 16, 23, 27, 31, 33, HKFRSs 3, 4, HKAS-Ints 2, 3, 4 and 15 did not result in substantial changes to the group's accounting policies.

(h) The effects of the change in accounting standards on the group accounts are summarised below:

(i) Profit and loss account

	HKAS 40 HK\$M	HKAS- Int 21 HK\$M	HKAS 17 HK\$M	HKAS 32 HK\$M	HKAS 39 HK\$M	HKFRS 3 and HKAS 38 HK\$M	HKAS 28 HK\$M	HKAS 1 HK\$M	Total HK\$M
Year ended 31st December 2005									
Increase in income	850				42				892
Increase in cost of sales	(352)								(352)
(Increase)/decrease in expenses	(7)				37				30
Changes in fair value of investment properties	11,887								11,887
Increase/(decrease) in share of profits less losses of jointly controlled companies	100	(5)						(135)	(40)
Increase/(decrease) in share of profits less losses of associated companies	23	(4)			92			(393)	(282)
(Increase)/decrease in taxation		(2,128)			(1)			528	(1,601)
(Increase)/decrease in profit attributable to minority interests	(431)	82							(349)
Increase/(decrease) in profit attributable to the Company's shareholders	12,070	(2,055)	–	–	170	–	–	–	10,185
Increase/(decrease) in earnings per share (basic and diluted) HK\$	7.88	(1.34)	–	–	0.11	–	–	–	6.65

(i) Profit and loss account (continued)

	HKAS 40 HK\$M	HKAS- Int 21 HK\$M	HKAS 17 HK\$M	HKAS 32 HK\$M	HKAS 39 HK\$M	HKFRS 3 and HKAS 38 HK\$M	HKAS 28 HK\$M	HKAS 1 HK\$M	Total HK\$M
Year ended 31st December 2004									
Increase/(decrease) in income	500			(6)					494
Increase in cost of sales	(408)								(408)
Decrease in expenses	2								2
Changes in fair value of investment properties	15,730								15,730
Increase/(decrease) in share of profits less losses of jointly controlled companies	89							(149)	(60)
Increase/(decrease) in share of profits less losses of associated companies	(36)	6						(389)	(419)
(Increase)/decrease in taxation		(2,785)						538	(2,247)
(Increase)/decrease in profit attributable to minority interests	(994)	176							(818)
Increase/(decrease) in profit attributable to the Company's shareholders	14,883	(2,603)	–	(6)	–	–	–	–	12,274
Increase/(decrease) in earnings per share (basic and diluted) HK\$	9.72	(1.70)	–	–	–	–	–	–	8.02

Notes to the Accounts

(ii) Balance sheet

	HKAS 40 HK\$M	HKAS- Int 21 HK\$M	HKAS 17 HK\$M	HKAS 32 HK\$M	HKAS 39 HK\$M	HKFRS 3 and 38 HK\$M	HKAS 28 HK\$M	HKAS 1 HK\$M	Total HK\$M
As at 31st December 2005									
Increase/(decrease) in property, plant and equipment	40		(102)			(26)			(88)
Decrease in investment properties	(1,344)								(1,344)
Increase in leasehold land and land use rights	720		102						822
Increase in intangible assets						26			26
Decrease in deferred expenditure				(27)					(27)
Increase in jointly controlled companies					5				5
Increase/(decrease) in associated companies	(446)	(41)			46		46		(395)
Increase in net derivative financial instrument liabilities					(47)				(47)
Increase in trade and other receivables					24				24
Increase in trade and other payables				(116)					(116)
Increase in perpetual capital securities				(21)					(21)
Decrease in borrowings				27	23				50
Increase in deferred tax liabilities		(9,953)			(4)				(9,957)
Increase/(decrease) in net assets	(1,030)	(9,994)	–	(137)	47	–	46	–	(11,068)
Increase/(decrease) in opening revenue reserve	33,682	(7,397)	–	(21)	(126)	–	46	–	26,184
Increase/(decrease) in profit attributable to the Company's shareholders	12,070	(2,055)			170				10,185
Increase/(decrease) in ending revenue reserve	45,752	(9,452)	–	(21)	44	–	46	–	36,369
Decrease in property valuation reserve	(46,757)								(46,757)
Increase in cash flow hedge reserve					3				3
Decrease in minority interests	(25)	(542)		(116)					(683)
	(1,030)	(9,994)	–	(137)	47	–	46	–	(11,068)

(ii) Balance sheet (continued)

	HKAS 40 HK\$M	HKAS- Int 21 HK\$M	HKAS 17 HK\$M	HKAS 32 HK\$M	HKAS 39 HK\$M	HKFRS 3 and HKAS 38 HK\$M	HKAS 28 HK\$M	HKAS 1 HK\$M	Total HK\$M
As at 31st December 2004									
Increase/(decrease) in property, plant and equipment	7		(103)			(23)			(119)
Decrease in investment properties	(1,060)								(1,060)
Increase in leasehold land and land use rights	482		103						585
Increase in intangible assets						23			23
Decrease in deferred expenditure				(48)					(48)
Increase/(decrease) in associated companies	(452)	(32)					46		(438)
Increase in trade and other payables				(116)					(116)
Increase in perpetual capital securities				(21)					(21)
Decrease in borrowings				48					48
Increase in deferred tax liabilities		(7,825)							(7,825)
Increase/(decrease) in net assets	(1,023)	(7,857)	–	(137)	–	–	46	–	(8,971)
Increase/(decrease) in opening revenue reserve	18,799	(4,794)		(15)			46		14,036
Increase/(decrease) in profit attributable to the Company's shareholders	14,883	(2,603)		(6)					12,274
Increase/(decrease) in ending revenue reserve	33,682	(7,397)	–	(21)	–	–	46	–	26,310
Decrease in property valuation reserve	(34,680)								(34,680)
Decrease in minority interests	(25)	(460)		(116)					(601)
	(1,023)	(7,857)	–	(137)	–	–	46	–	(8,971)

Notes to the Accounts

- (i) All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the group require retrospective application other than:
- (i) HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The group applied the previous SSAP 24 “Accounting for investments in securities” to investment securities and also to hedging relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

 - (ii) HKAS 36 and 38 and HKFRS 3 – apply prospectively after 1 January 2005.
- (j) No early adoption has taken place of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the group’s accounting policies.
- HKFRS 7 Financial Instruments: Disclosures
 - HKAS 19 (Amendment) Actuarial Gains and Losses, Group Plans and Disclosures
 - HKFRS-Int 4 Determining Whether an Arrangement Contains a Lease

2. Financial risk management

Structure and Policy

Swire Pacific’s Head Office Treasury sets financial risk management policies in accordance with policies and procedures approved by its Board. It also manages the majority of the group’s funding needs and currency, interest rate, credit and event risk exposures. Within the same policy framework, operating subsidiaries manage currency, interest rate and commodity exposures that are specific to particular transactions within their businesses. It is the policy of the Swire Pacific group not to enter into derivative transactions for speculative purposes.

The group’s listed associated companies, Cathay Pacific and HAECO, arrange their financial and treasury affairs on a stand-alone basis, in a manner consistent with the overall policies of the group.

Non-listed associated and jointly controlled companies also arrange their financial and treasury affairs on a stand-alone basis. Swire Pacific provides financial support by way of guarantees in cases where significant cost savings are available and risks are acceptable.

Interest Rate Exposure

The level of fixed rate debt for the group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the cash flow cycles of the group’s businesses and investments.

In addition to raising funds on a fixed rate basis, the Swire Pacific group uses interest rate swaps in the management of its long-term interest rate exposure. It also uses forward rate agreements to manage its exposure to short-term interest rate volatility.

Occasionally, the group also enters into fixed-to-floating interest-rate swaps to hedge the fair value interest-rate risk arising where it has borrowed at fixed rates.

As the group has no significant interest-bearing assets, the group’s income and operating cash flows are substantially independent of changes in market interest rates.

Currency Exposure

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

Exposure to movements in exchange rates on individual transactions in the Swire Pacific group is minimised using forward foreign exchange contracts where active markets for the relevant currencies exist. All significant foreign currency borrowings with a fixed maturity date are covered by appropriate currency hedges.

The group's risk management policy is to hedge 100% of all highly probable transactions in each major currency, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive in comparison to the underlying exposure.

Translation exposure arising on consolidation of the group's overseas net assets is reduced, where practicable, by matching assets with borrowings in the same currency. Substantial proportions of the revenues, costs, assets and liabilities of Swire Pacific and its subsidiary companies are denominated in Hong Kong dollars.

The long-term financial obligations of Cathay Pacific have been arranged primarily in currencies in which it has substantial positive operational cash flows, thus establishing a natural currency hedge. The policy adopted requires that anticipated surplus foreign currency earnings should be at least sufficient to meet the foreign currency interest and principal repayment commitments in any year.

Price Risk

The group is exposed to equity securities price risk because investments held by the group are classified on the consolidated balance sheet as available-for-sale investments.

Commodity Exposure

Certain Swire Pacific group companies have underlying exposures to commodity risk. Derivatives including swaps, forwards and options are used in the management of these exposures in accordance with the policies approved by the Board.

Credit Exposure

The group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

When depositing surplus funds or entering into derivative contracts, the group controls its exposure to non-performance by counterparties by transacting with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. The group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of a derivative. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

Liquidity Risk

The group takes liquidity risk into consideration when deciding its sources of funds and their respective tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The group maintains significant undrawn committed revolving credit facilities to further reduce liquidity risk and allow for flexibility in meeting funding requirements.

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Derivatives

It is the policy of the Swire Pacific group not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk and the group is not exposed to market risk since gains and losses on the derivatives are offset by losses and gains on the assets, liabilities or transactions being hedged.

Accounting for derivative financial instruments and hedging activities

Beginning 1st January 2005, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the cash flow hedge reserve are shown in Note 35.

(a) Fair value hedge

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that it hedges takes place). However, when the forecast transaction that is hedged results in the recognition of non-financial asset (for example inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Estimates of fair value of investment properties

DTZ Debenham Tie Leung ("DTZ") were engaged to carry out an independent valuation of the group's investment property portfolio as at 31st December 2005. This valuation was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion".

DTZ has derived the valuation of the group's investment property portfolio by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential. The assumptions are based on market conditions existing at the balance sheet date.

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Management has reviewed the DTZ valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the DTZ valuation of the group's investment property portfolio is reasonable.

(b) Impairment of assets

The group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Turnover

The Company is a limited liability company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is investment holding. The principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 142 to 148.

Turnover represents sales by the Company and its subsidiary companies to outside customers and comprises revenue from:

	Group	
	2005	2004
	HK\$M	HK\$M
Gross rental income from investment properties	4,292	3,975
Charter hire income	1,492	1,297
Sales of development properties	1,339	2,506
Sales of investment properties	509	766
Rendering of services	91	108
Sales of goods	11,214	9,672
	18,937	18,324

5. Other income

	Group	
	2005 HK\$M	2004 HK\$M
<i>Other income includes the following</i>		
Fair value gains/(losses) on derivative instruments		
– forward contracts: fair value hedges	58	–
– forward contracts: transactions not qualifying as hedges	(16)	–
Valuation gains on investment properties from		
– transfer of interest element of land premium to finance cost (Note 10)	158	500
– write-back of provision for land premium	692	–
Profit on sale of a subsidiary company	21	–
Profit on sale of shares in jointly controlled and associated companies	2,270	44
Profit on sale of property, plant and equipment	4	36
Exchange differences	9	4

6. Expenses by nature

Expenses included in cost of sales, distribution costs, administrative and other operating expenses are analysed as follows:

	Group	
	2005 HK\$M	2004 HK\$M
Cost of stocks sold	8,056	7,768
Cost of investment properties sold	416	521
Depreciation of property, plant and equipment	515	516
Staff costs	2,259	2,137
Direct operating expenses of investment properties that		
– generate rental income	843	789
– did not generate rental income	129	114
Operating lease rentals		
– properties	198	140
– other equipment	28	25
Amortisation of leasehold land and land use rights	2	–
Amortisation of intangible assets	10	7
Amortisation of deferred expenditure	21	40
Impairment losses on		
– property, plant and equipment	8	21
– available-for-sale investments	–	15
Write-down of stocks and work in progress	44	48
Auditors' remuneration		
– audit services	11	9
– tax services	18	11
– others	1	2

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7. Segment information

(a) Primary reporting format - business segments by division:

	The Company and its subsidiaries	Jointly controlled companies		Associated companies	Group				
		Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses HK\$M	Share of profits less losses HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to shareholders HK\$M
Year ended 31st December 2005									
Property									
Property investment	4,382	3,064	(518)	29	13	2,588	2,322	1,989	
Property trading	1,339	514		(46)		468	319	262	
Interest on land premium			(158)			(158)	(130)	(130)	
Sales of investment properties	509	93				93	154	154	
Hotels				9	95	104	104	104	
Valuation gains on investment properties from									
– change in fair value		11,881		95	19	11,995	9,953	9,604	
– transfer to finance cost		158				158	130	130	
– write-back of provision for land premium		692				692	571	571	
	6,230	16,402	(676)	87	127	15,940	13,423	12,684	
Aviation									
Airline services and airline catering									
– Cathay Pacific Group					1,418	1,418	1,418	1,418	
– Hong Kong Dragon Airlines					43	43	43	43	
Aircraft engineering					279	279	279	279	
Cargo handling					283	283	283	188	
	–	–	–	–	2,023	2,023	2,023	1,928	
Beverages									
Hong Kong	1,358	152				152	135	121	
Taiwan	1,046	92	(3)	1		90	63	52	
USA	2,783	262	(12)			250	203	203	
Mainland China		(68)		213		145	145	127	
Central costs		(30)				(30)	(29)	(29)	
	5,187	408	(15)	214	–	607	517	474	
Marine Services									
Ship repair, land engineering and harbour towage				30		30	30	30	
Container handling				112	156	268	268	268	
Ship owning and operating	1,492	413	(24)	86		475	467	467	
Sale of an associated company		2,270				2,270	2,270	2,270	
	1,492	2,683	(24)	228	156	3,043	3,035	3,035	
Trading & Industrial									
Car distribution	4,156	245				245	182	182	
Shoe and apparel distribution	1,574	137	(3)	2		136	106	106	
Waste services				83		83	83	83	
Beverage can supply				67		67	67	67	
Paint supply				75		75	75	75	
Other activities	347		1			1	1	1	
Valuation gains on investment properties		6				6	6	6	
	6,077	388	(2)	227	–	613	520	520	
Head Office	153	(39)	135	–	–	96	116	116	
Inter-segment elimination	(202)								
Total	18,937	19,842	(582)	756	2,306	22,322	19,634	18,757	

7. Segment Information (continued)

(a) Primary reporting format - business segments by division (continued):

	The Company and its subsidiaries		Jointly controlled companies	Associated companies	Group			
	Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses HK\$M	Share of profits less losses HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to shareholders HK\$M
Year ended 31st December 2004								
Property								
Property investment	4,060	2,810	(240)	21		2,591	2,251	1,944
Property trading	2,506	838		3		841	566	316
Interest on land premium			(459)			(459)	(379)	(379)
Sales of investment properties	766	245				245	316	316
Hotels				(5)	82	77	77	77
Valuation gains on investment properties from								
– change in fair value		15,620		89	(28)	15,681	12,930	12,112
– transfer to finance cost		500				500	412	412
Write-back of provision for trading properties				299		299	299	299
	7,332	20,013	(699)	407	54	19,775	16,472	15,097
Aviation								
Airline services and airline catering								
Cathay Pacific Group					1,923	1,923	1,923	1,923
Hong Kong Dragon Airlines					104	104	104	104
Aircraft engineering					196	196	196	196
Cargo handling					255	255	255	170
	–	–	–	–	2,478	2,478	2,478	2,393
Beverages								
Hong Kong	1,358	148				148	132	119
Taiwan	1,029	106	(4)			102	65	50
USA	2,591	231	(10)			221	122	122
Mainland China		(75)		215		140	140	124
Central costs		(30)				(30)	(30)	(30)
	4,978	380	(14)	215	–	581	429	385
Marine Services								
Ship repair, land engineering and harbour towage				50		50	50	50
Container handling				104	261	365	365	365
Ship owning and operating	1,297	308	(8)	33		333	326	326
	1,297	308	(8)	187	261	748	741	741
Trading & Industrial								
Car distribution	3,265	147				147	106	106
Shoe and apparel distribution	1,167	96	(1)	9		104	80	80
Waste services				86		86	86	86
Beverage can supply				55		55	55	55
Paint supply				36		36	36	36
Other activities	307	14	3			17	15	15
Valuation gains on investment properties		12				12	10	10
	4,739	269	2	186	–	457	388	388
Head Office								
Expenses	161	(87)	(247)			(334)	(267)	(267)
Valuation gains on investment properties		98				98	81	81
	161	11	(247)	–	–	(236)	(186)	(186)
Inter-segment elimination	(183)							
Total	18,324	20,981	(966)	995	2,793	23,803	20,322	18,818

Notes to the Accounts

7. Segment information (continued)

(a) Primary reporting format - business segments by division (continued):

Analysis of Turnover

	Turnover					
	2005			2004		
	External HK\$M	Inter- segment HK\$M	Total HK\$M	External HK\$M	Inter- segment HK\$M	Total HK\$M
Property						
Property investment	4,349	33	4,382	4,034	26	4,060
Property trading	1,339	–	1,339	2,506	–	2,506
Sales of investment properties	509	–	509	766	–	766
Beverages	5,187	–	5,187	4,978	–	4,978
Marine Services	1,492	–	1,492	1,297	–	1,297
Trading & Industrial	6,036	41	6,077	4,704	35	4,739
Head Office	25	128	153	39	122	161
Inter-segment elimination	–	(202)	(202)	–	(183)	(183)
Segment revenue to external customers	18,937	–	18,937	18,324	–	18,324

Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services.

Analysis of total assets and total liabilities of the group

	Property		Aviation		Beverages		Marine Services		Trading & Industrial		Head Office		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<i>Segment assets</i>	88,788	76,697	–	–	3,132	3,105	4,970	4,063	1,812	1,708	614	745	99,316	86,318
Deferred tax assets (Note 1)	119	–	–	–	56	–	–	1	17	14	–	–	192	15
Jointly controlled companies	1,665	1,857	39	39	1,136	1,070	461	537	568	583	–	–	3,869	4,086
Associated companies	862	584	18,392	17,265	–	–	27	592	–	–	–	–	19,281	18,441
Bank deposits & securities (Note 1)	1,072	1,165	–	–	66	49	279	130	245	132	338	117	2,000	1,593
Total assets	92,506	80,303	18,431	17,304	4,390	4,224	5,737	5,323	2,642	2,437	952	862	124,658	110,453
<i>Segment liabilities</i>	2,166	4,386	–	–	1,135	1,034	381	408	806	883	369	256	4,857	6,967
Current and deferred tax liabilities (Note 1)	11,176	8,707	–	–	259	205	16	13	51	59	79	79	11,581	9,063
Borrowings (Note 1)	9,525	9,041	–	–	407	669	1,982	1,485	6	182	(4,472)	(1,522)	7,448	9,855
Total liabilities	22,867	22,134	–	–	1,801	1,908	2,379	1,906	863	1,124	(4,024)	(1,187)	23,886	25,885
Minority interests	5,686	5,759	34	15	209	165	–	–	–	4	–	–	5,929	5,943
Equity attributable to the Company's shareholders	63,953	52,410	18,397	17,289	2,380	2,151	3,358	3,417	1,779	1,309	4,976	2,049	94,843	78,625
Borrowings comprise:														
External borrowings	6	375	–	–	188	328	11	10	41	178	7,202	8,964	7,448	9,855
Inter-segment borrowings (Note 2)	9,519	8,666	–	–	219	341	1,971	1,475	(35)	4	(11,674)	(10,486)	–	–
Total	9,525	9,041	–	–	407	669	1,982	1,485	6	182	(4,472)	(1,522)	7,448	9,855

Notes:

1. Current and deferred taxation, bank deposits and securities and borrowings are allocated on an actual basis.
2. Exclude equity loans from head office.

7. Segment Information (continued)

(a) Primary reporting format – business segments by division (continued):

An analysis of capital expenditure and depreciation/amortisation of the group is as follows:

	Capital expenditure*		Depreciation		Amortisation	
	2005	2004	2005	2004 (restated)	2005	2004 (restated)
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Property	626	1,394	29	28	14	22
Beverages	175	173	257	269	19	25
Marine Services	1,044	480	194	178	–	–
Trading & Industrial	45	25	32	33	–	–
Head Office	–	1	3	8	–	–
	1,890	2,073	515	516	33	47

* Capital expenditure comprises additions to properties, plant and equipment, investment properties, leasehold land and land use rights and intangible assets.

(b) Secondary reporting format – geographical segments:

The activities of the Swire Pacific group are mainly based in Hong Kong. Ship owning and operating activities are carried out internationally and cannot be attributed to specific geographical areas.

An analysis of turnover, operating profit, segment assets and capital expenditure of the group by principal markets is outlined below:

	Turnover		Operating profit	
	2005	2004	2005	2004 (restated)
	HK\$M	HK\$M	HK\$M	HK\$M
Hong Kong	7,766	7,518	18,373	19,417
Asia (excluding Hong Kong)	5,758	4,608	366	256
North America	3,921	4,901	690	1,000
Ship owning and operating	1,492	1,297	413	308
	18,937	18,324	19,842	20,981

	Segment assets		Capital expenditure	
	2005	2004 (restated)	2005	2004
	HK\$M	HK\$M	HK\$M	HK\$M
Hong Kong	89,448	78,085	638	959
Asia (excluding Hong Kong)	2,800	1,856	119	534
North America	2,098	2,315	89	100
Ship owning and operating	4,970	4,062	1,044	480
	99,316	86,318	1,890	2,073

Notes to the Accounts

8. Directors' emoluments

	Cash			Non cash			Total 2005 HK\$'000	Total 2004 HK\$'000
	Basic salary/ Directors' fees (Note a) HK\$'000	Bonus HK\$'000	Allowances and benefits HK\$'000	Retirement schemes contributions HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000		
Executive Directors								
D M Turnbull	3,817	2,364	65	802	747	2,677	10,472	1,413
P N L Chen							–	–
M Cubbon	2,700	1,774	481	567	630	2,352	8,504	7,788
D Ho	1,421	1,447	538	150	–	1,600	5,156	6,539
K G Kerr	4,782	4,215	342	187	–	2,387	11,913	11,465
Non-Executive Directors								
Baroness Dunn							–	–
J W J Hughes-Hallett							–	19,324
P A Johansen							–	–
Sir Adrian Swire							–	–
Independent Non-Executive Directors								
V H C Cheng	128						128	–
D G Eldon	72						72	200
C K M Kwok	400						400	400
C Lee	400						400	400
M C C Sze	200						200	33
M M T Yang	200						200	200
Total 2005	14,120	9,800	1,426	1,706	1,377	9,016	37,445	47,762
Total 2004	16,858	12,223	2,064	3,699	1,955	10,963	–	47,762

Notes:

- (a) The amounts paid to Independent Non-Executive Directors are directors' fees. Other amounts are basic salaries paid to Executive Directors.
(b) Apart from the directors' fees, the Independent Non-Executive Directors received no other emoluments from the Company or any of its subsidiary companies.
(c) Bonuses paid in the year are based on the previous year's results.
(d) Emoluments for the Executive Directors represented the amount charged to the Company and its subsidiary companies.
(e) D M Turnbull served as an Executive Director during the year.

9. Senior management remuneration

Of the five highest paid individuals in the group, three (2004: four) of them are directors whose emoluments are disclosed in Note 8. The other two (2004: one) highest paid individuals are senior management, the remuneration of whom is disclosed below.

	Cash			Non cash			Total 2005 HK\$'000	Total 2004 HK\$'000
	Basic salary HK\$'000	Bonus HK\$'000	Allowances and benefits HK\$'000	Retirement schemes contributions HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000		
C D Pratt	2,250	1,522	452	473	570	2,525	7,792	5,891
J R Slosar	2,850	1,900	349	758	693	1,537	8,087	9,200
Total 2005	5,100	3,422	801	1,231	1,263	4,062	15,879	15,091
Total 2004	4,080	2,509	739	3,300	1,038	3,425	–	15,091

- (a) Bonuses paid in the year are based on the previous year's results.
(b) Remuneration for the senior management represented the amount charged to the Company and its subsidiary companies.
(c) C D Pratt was appointed an Executive Director from 1st February 2006.

10. Net finance charges

	Group			
	2005			2004
	HK\$M	HK\$M	HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		72		65
Other loans and bonds:				
Wholly repayable within five years	47		107	
Not wholly repayable within five years	447		426	
		494		533
Land premium (Note 5)		158		500
Other borrowing costs		19		29
Fair value losses on financial instruments:				
Interest rate swap: fair value hedges	5		–	
Interest rate swap: not qualifying as hedges	(42)		–	
		(37)		–
Deferred into properties under development for sale		(16)		(24)
Capitalised on:				
Investment properties	(18)		(102)	
Vessels	(27)		(2)	
		(45)		(104)
		645		999
Interest income on:				
Short-term deposits and bank balances	(16)		(13)	
Other loans	(47)		(20)	
		(63)		(33)
		582		966

The capitalisation rate applied to funds borrowed generally and used for the development of investment properties and properties for sale is between 0.58% and 6.08% per annum (2004: 0.18% and 6.27% per annum).

Notes to the Accounts

11. Taxation

(a) Taxation charge for the Company and its subsidiary companies

	Group			
	2005 HK\$M	HK\$M	2004 HK\$M	HK\$M
Current taxation:				
Hong Kong profits tax	199		190	
Overseas taxation	402		491	
Over-provision in respect of previous years	(18)		(3)	
		583		678
Deferred taxation:				
Change in fair value of investment properties	2,092		2,785	
Origination and reversal of temporary differences	13		18	
		2,105		2,803
		2,688		3,481

Hong Kong profits tax is calculated at 17.5% (2004 : 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in countries in which the group is assessable for tax.

The tax charge on the group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	Group	
	2005 HK\$M	2004 HK\$M
Profit before taxation	22,322	23,803
Calculated at a tax rate of 17.5% (2004: 17.5%)	3,906	4,166
Share of profits less losses of jointly controlled and associated companies	(536)	(663)
Effect of different tax rates in other countries	48	156
Income not subject to tax	(514)	(130)
Expenses not deductible for tax purposes	12	20
Unused tax losses not recognised	10	10
Temporary differences not recognised	(11)	(42)
Utilisation of previously unrecognised tax losses	(64)	(54)
Recognition of previously unrecognised tax losses	(70)	(17)
Over-provisions in prior years	(18)	(3)
Others	(75)	38
Tax charge	2,688	3,481

(b) Share of jointly controlled and associated companies' taxation of HK\$136 million (2004: HK\$147 million) and HK\$393 million (2004: HK\$381 million) respectively are included in the share of profits less losses of jointly controlled and associated companies.

12. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK\$6,347 million (2004: HK\$3,649 million) is dealt with in the accounts of the Company.

13. Dividends

	Company	
	2005	2004
	HK\$M	HK\$M
Interim dividend paid on 4th October 2005 of HK¢60.0 per 'A' share and HK¢12.0 per 'B' share (2004: HK¢58.0 and HK¢11.6)	919	888
Final proposed dividend of HK¢146.0 per 'A' share and HK¢29.2 per 'B' share (2004: HK¢142.0 and HK¢28.4)	2,235	2,174
	3,154	3,062

The final proposed dividend is not accounted for until it has been approved at the annual general meeting. The amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2006.

14. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK\$18,757 million (2004: HK\$18,818 million) by the weighted average number of 930,375,385 'A' shares and 3,003,486,271 'B' shares in issue during the year and 2004.

Notes to the Accounts

15. Property, plant and equipment

	Group			Company
	Property HK\$M	Plant and equipment HK\$M	Vessels HK\$M	Plant and equipment HK\$M
Cost:				
At 31st December 2004				
– as originally stated	2,299	4,032	5,036	31
– prior year adjustments	(131)	(41)	–	(1)
– as restated	2,168	3,991	5,036	30
Translation differences	(27)	(36)	(14)	–
Change in group	(47)	(27)	–	–
Additions	89	235	1,027	–
Disposals	–	(125)	(67)	–
Transfer from investment properties	30	–	–	–
Amortisation from leasehold land and land use rights capitalised	8	–	–	–
Transfer to stocks	–	(54)	–	–
At 31st December 2005	2,221	3,984	5,982	30
Accumulated depreciation and impairment:				
At 31st December 2004				
– as originally stated	582	2,945	1,496	27
– prior year adjustments	(35)	(18)	–	(1)
– as restated	547	2,927	1,496	26
Translation differences	(5)	(27)	(4)	–
Change in group	(11)	(15)	–	–
Charge for the year	48	280	187	2
Disposals	–	(112)	(61)	–
Impairment charge	8	–	–	–
Transfer to stocks	–	(46)	–	–
At 31st December 2005	587	3,007	1,618	28
Net book value:				
At 31st December 2005	1,634	977	4,364	2

15. Property, plant and equipment (continued)

	Group			Company	
	Property HK\$M	Plant and equipment HK\$M	Vessels HK\$M	Total HK\$M	Plant and equipment HK\$M
Cost:					
At 31st December 2003					
– as originally stated	2,460	3,979	4,657	11,096	31
– prior year adjustments	(206)	(30)	–	(236)	(1)
– as restated	2,254	3,949	4,657	10,860	30
Translation differences	48	62	7	117	–
Additions	87	217	471	775	1
Disposals	(226)	(237)	(99)	(562)	(1)
Transfer from investment properties	5	–	–	5	–
At 31st December 2004	2,168	3,991	5,036	11,195	30
Accumulated depreciation and impairment:					
At 31st December 2003					
– as originally stated	654	2,799	1,409	4,862	24
– prior year adjustments	(31)	(11)	–	(42)	(1)
– as restated	623	2,788	1,409	4,820	23
Translation differences	6	38	2	46	–
Charge for the year	50	293	173	516	4
Disposals	(153)	(192)	(88)	(433)	(1)
Impairment charge	21	–	–	21	–
At 31st December 2004	547	2,927	1,496	4,970	26
Net book value:					
At 31st December 2004	1,621	1,064	3,540	6,225	4

At 31st December 2005 and 2004, none of the property, plant and equipment was pledged as security for the group's long-term loans.

Notes to the Accounts

16. Investment properties

	Group			Company
	Completed HK\$M	Under redevelopment HK\$M	Total HK\$M	Completed HK\$M
At 31st December 2004				
– as originally stated	72,583	3,382	75,965	–
– prior year adjustments	(580)	(480)	(1,060)	508
– as restated	72,003	2,902	74,905	508
Additions	314	192	506	–
Disposals	(424)	–	(424)	–
Transfer upon completion	11	(11)	–	–
Transfer to property, plant and equipment	(30)	–	(30)	–
Transfer to leasehold land	(71)	(167)	(238)	–
Fair value gains	9,461	2,426	11,887	6
At 31st December 2005	81,264	5,342	86,606	514

At 31st December 2003				
– as originally stated	54,674	4,565	59,239	–
– prior year adjustments	(579)	(11)	(590)	398
– as restated	54,095	4,554	58,649	398
Additions	202	681	883	–
Disposals	(501)	(1)	(502)	–
Transfer upon completion	2,512	(2,512)	–	–
Fair value gains	15,695	180	15,875	110
At 31st December 2004	72,003	2,902	74,905	508

- (a) Investment properties, whether completed or in the course of redevelopment, were valued on the basis of open market value at 31st December 2005 by DTZ Debenham Tie Leung, independent professional valuers. This valuation has been incorporated in the accounts as stated in principal accounting policy no. 5.
- (b) At 31st December 2005 and 2004, none of the investment properties were pledged as security for the group's long-term loans.
- (c) The group's interest in investment properties are held in Hong Kong and the lease terms are as follows:

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
On medium-term lease (10 to 50 years)	114	108	114	108
On long-term lease (over 50 years)	86,492	74,797	400	400
	86,606	74,905	514	508

- (d) At 31st December 2005, the group had unprovided contractual obligations for future repairs and maintenance of HK\$115 million.

17. Leasehold land and land use rights

The group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group	
	2005 HK\$M	2004 HK\$M
At 1st January	585	181
Translation differences	7	–
Additions	2	404
Transfer from investment properties	238	–
Amortisation		
– charge for the year	(2)	–
– amount capitalised under property, plant and equipment	(8)	–
At 31st December	822	585
Held in Hong Kong:		
On medium-term lease (10 to 50 years)	102	104
On long-term lease (over 50 years)	316	77
Held outside Hong Kong:		
On long-term lease (over 50 years)	404	404
	822	585

At 31st December 2005 and 2004, none of the leasehold land and land use rights was pledged as security for the group's long-term loans.

18. Intangible assets

	Group		
	Goodwill HK\$M	Computer software HK\$M	Total HK\$M
Cost:			
At 31st December 2004			
– as originally stated	–	–	–
– prior year adjustments	–	41	41
– as restated	–	41	41
Additions	18	13	31
At 31st December 2005	18	54	72
Accumulated amortisation and impairment:			
At 31st December 2004			
– as originally stated	–	–	–
– prior year adjustments	–	18	18
– as restated	–	18	18
Amortisation for the year	–	10	10
At 31st December 2005	–	28	28
Net book value:			
At 31st December 2005	18	26	44

Notes to the Accounts

18. Intangible assets (continued)

	Group		
	Goodwill HK\$M	Computer software HK\$M	Total HK\$M
Cost:			
At 31st December 2003			
– as originally stated	–	–	–
– prior year adjustments	–	30	30
– as restated	–	30	30
Additions	–	11	11
At 31st December 2004	–	41	41
Accumulated amortisation and impairment:			
At 31st December 2003			
– as originally stated	–	–	–
– prior year adjustments	–	11	11
– as restated	–	11	11
Amortisation for the year	–	7	7
At 31st December 2004	–	18	18
Net book value:			
At 31st December 2004	–	23	23

Amortisation of HK\$10 million (2004: HK\$7 million) is included in administrative expenses in the profit and loss account.

19. Subsidiary companies

	Company	
	2005 HK\$M	2004 HK\$M
Unlisted shares at cost less provisions	5,366	4,322
Amounts due from subsidiary companies less provisions		
– interest-free	3,267	2,744
– interest-bearing at 0.23% to 7.75% (2004: 0.06% to 5.125%)	5,746	3,123
	14,379	10,189

The amounts receivable are unsecured and have no fixed terms of repayment.

The principal subsidiary companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 142 to 148.

20. Jointly controlled companies

	Group		Company	
	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 HK\$M
Unlisted shares at cost			384	383
Share of net liabilities, unlisted	(646)	(758)		
Goodwill on acquisition	37	36		
Loans due from jointly controlled companies less provisions				
– interest-free	4,360	4,687		
– interest-bearing at 5% to 7.75% (2004: 5% to 5.125%)	118	121	86	121
	3,869	4,086	470	504
Dividends received and receivable by the Company and its subsidiary companies from jointly controlled companies	624	571	144	61

The amounts receivable are unsecured and have no fixed terms of repayment.

The group's share of assets and liabilities and results of jointly controlled companies are summarised below:

	Group	
	2005 HK\$M	2004 HK\$M
Non-current assets	3,815	3,910
Current assets	2,619	2,810
Current liabilities	(4,034)	(4,240)
Non-current liabilities	(2,973)	(3,177)
Minority interests	(73)	(61)
Net liabilities	(646)	(758)
Revenue	5,596	4,980
Expenses	(4,704)	(3,838)
Profit before taxation	892	1,142
Taxation	(136)	(147)
Profit for the year	756	995

The principal jointly controlled companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 142 to 148.

Notes to the Accounts

21. Associated companies

	Group		Company	
	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 HK\$M
Shares at cost				
– Listed in Hong Kong			1,714	1,701
– Unlisted			187	783
			1,901	2,484
Share of net assets				
– Listed in Hong Kong	17,437	16,274		
– Unlisted	615	946		
	18,052	17,220		
Goodwill on acquisition	144	126		
	18,196	17,346		
Loans due from associated companies less provisions				
– Interest-free	463	466	–	–
– Interest-bearing at 0.73% to 4.88% (2004: 0.56% to 1.88%)	622	629	–	–
	19,281	18,441	1,901	2,484
Dividends received and receivable by the Company and its subsidiary companies from associated companies	1,528	1,625	1,211	1,368

The amounts receivable are unsecured and have no fixed terms of repayment.

The group's share of assets and liabilities and results of associated companies are summarised below:

	Group	
	2005 HK\$M	2004 HK\$M
Non-current assets	31,250	35,608
Current assets	10,740	5,400
Current liabilities	(7,359)	(6,692)
Non-current liabilities	(16,258)	(16,874)
Minority interests	(321)	(222)
Net assets	18,052	17,220
Revenue	27,001	21,394
Profit before taxation	2,699	3,174
Taxation	(393)	(381)
Profit for the year	2,306	2,793

- The market value of the shares in the listed associated companies at 31st December 2005 was HK\$24,431 million (2004: HK\$25,272 million).
- The principal associated companies of Swire Pacific Limited, which materially affected the results or assets of the group, are shown on pages 142 to 148. In addition, the abridged financial statements of Cathay Pacific Airways Limited are shown on pages 149 to 150.

22. Available-for-sale investments

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Shares listed in Hong Kong	115	42	61	–
Securities listed overseas	109	94	–	–
Unlisted investments	246	163	–	–
	470	299	61	–

23. Derivative financial instruments

	Group	
	2005	
	Assets HK\$M	Liabilities HK\$M
Cross-currency swaps – cash flow hedges	6	1
Interest-rate swaps – cash flow hedges	17	–
Interest-rate swaps – fair value hedges	–	25
Forward foreign exchange contracts – cash flow hedges	–	46
Forward foreign exchange contracts – fair value hedges	–	15
Interest-rate swaps – not qualifying as hedges	16	–
Forward foreign exchange contracts – not qualifying as hedges	10	9
Total	49	96
<i>Less non-current portion:</i>		
Cross-currency swaps – cash flow hedges	6	1
Interest-rate swaps – cash flow hedges	17	–
Interest-rate swaps – fair value hedges	–	25
Interest-rate swaps – not qualifying as hedges	8	–
	31	26
Current portion	18	70

Gains and losses in equity on forward foreign exchange contracts as of 31st December 2005 will be released to the profit and loss account at various dates between one month to ten months from the balance sheet date.

Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31st December 2005 were HK\$2,000 million (2004: HK\$1,650 million).

At 31st December 2005, the fixed interest rates vary from 2.55% to 3.38% and the main floating rates are HIBOR and LIBOR.

Notes to the Accounts

24. Properties for sale

	Group	
	2005 HK\$M	2004 HK\$M
Completed properties for sale		
Freehold land	21	9
Leasehold land	14	61
Development costs	265	136
	300	206
Properties under development for sale		
Freehold land	61	123
Development costs	168	545
	229	668
	529	874

At 31st December 2005, none of the properties for sale was pledged as security for the group's long-term loans (2004: HK\$670 million).

25. Stocks and work in progress

	Group	
	2005 HK\$M	2004 HK\$M
Goods for sale	1,055	970
Manufacturing materials	135	132
Production supplies	121	103
Work in progress	23	31
	1,334	1,236

26. Trade and other receivables

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Trade debtors	1,200	1,040	–	–
Amounts due from subsidiary companies	–	–	118	112
Amounts due from jointly controlled companies	11	11	–	–
Amounts due from associated companies	48	66	–	–
Other receivables	1,066	942	11	197
	2,325	2,059	129	309

The amounts due from subsidiary, jointly controlled and associated companies are unsecured and interest free. Except for amounts due from subsidiary companies which have no fixed terms of repayment, the balance is on normal trade credit terms.

The fair values of trade and other receivables are not materially different from their book values.

At 31st December 2005, the aged analysis of trade debtors was as follows:

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Under three months	1,158	972	–	–
Between three and six months	34	49	–	–
Over six months	8	19	–	–
	1,200	1,040	–	–

The various group companies have different credit policies, dependent on the requirements of their markets and the businesses which they operate. Aged analyses of debtors are prepared and closely monitored in order to minimise any credit risk associated with receivables.

There is no concentration of credit risk with respect to trade receivables, as the group has a large number of customers, internationally dispersed.

27. Short-term deposits and bank balances

The effective interest rate on short-term deposits of the group are ranged from 0.05% to 4.2% (2004: 0.01% to 2.27%); these deposits have an average maturity of 31 days for the group.

Notes to the Accounts

28. Trade and other payables

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Trade creditors	826	645	2	1
Amounts due to intermediate holding company	79	82	15	23
Amounts due to jointly controlled companies	5	20	–	–
Amounts due to associated companies	41	16	–	–
Amounts due to subsidiary companies	–	–	1,120	824
Interest-bearing advances from jointly controlled companies at 0.08% to 5.00% (2004: 0.01% to 1.21%)	253	337	–	–
Interest-bearing advances from associated companies at 0.73% to 4.88% (2004: 0.56% to 1.57%)	150	150	–	–
Advances from minority interests	116	116	–	–
Other payables	3,079	3,139	39	181
	4,549	4,505	1,176	1,029

The amounts due to intermediate holding, subsidiary, jointly controlled and associated companies and advances from minority interests are unsecured and have no fixed terms of repayment. Apart from certain amounts due to jointly controlled and associated companies which are interest-bearing as specified above, the balance is interest free.

At 31st December 2005, the aged analysis of trade creditors was as follows:

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Under three months	808	638	–	–
Between three and six months	1	–	–	–
Over six months	17	7	2	1
	826	645	2	1

29. Provisions

	Group		
	Land Premium HK\$M	Others HK\$M	Total HK\$M
At 1st January 2004	4,349	21	4,370
Additional provisions	–	36	36
Unused amounts reversed	(41)	–	(41)
Paid during the year	(2,085)	(2)	(2,087)
At 31st December 2004	2,223	55	2,278
Additional provisions	–	11	11
Unused amounts reversed	(692)	(1)	(693)
Translation differences	–	(1)	(1)
Paid during the year	(1,531)	(29)	(1,560)
At 31st December 2005	–	35	35

The Hong Kong SAR Government Lands Department had claimed for land premium in relation to the Cityplaza Four, Three and One office towers in previous years. The claims were fully settled in the current year.

30. Perpetual Capital Securities

The Perpetual Capital Securities, amounting to US\$300 million each and bearing cumulative interest at 9.33% and 8.84% per annum, were issued by two wholly-owned subsidiaries (the 'Issuers') on 23rd October 1996 and 6th May 1997 respectively. They have no scheduled maturity but are redeemable at the option of the Company or the respective Issuer either (i) at any time on or after 30th October 2006 and 13th May 2017 respectively or (ii) at any time upon amendment or imposition of certain taxes and, in any case, become due in the event of the Company's or the respective Issuer's winding up. The Perpetual Capital Securities are unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company.

The fair value of the Perpetual Capital Securities is HK\$4,950 million (2004: HK\$5,178 million).

Notes to the Accounts

31. Borrowings

	Group	
	2005 HK\$M	2004 HK\$M
Bank overdrafts and short-term loans	889	2,635
Long-term loans and bonds		
– at amortised cost	1,293	2,593
– at fair value	676	–
	1,969	2,593
	2,858	5,228
Less: Security deposit	(43)	–
	2,815	5,228

The maturity of long-term loans and bonds is as follows:

	Group	
	2005 HK\$M	2004 HK\$M
Bank loans (secured):		
Repayable between one and two years	–	370
Bank loans (unsecured):		
Repayable within one year	–	11
Repayable between one and two years	–	9
Repayable between two and five years	–	214
Other borrowings (unsecured):		
Repayable within one year	500	–
Repayable between one and two years	676	499
Repayable between two and five years	593	1,291
Repayable after five years	200	199
	1,969	2,593
Security deposit	(43)	–
Amount due within one year included under current liabilities	(500)	(11)
	1,426	2,582

Borrowings are repayable on various dates up to 2011 at interest rates from 2.38% to 4.6% per annum (2004: 0.45% to 4.0% per annum).

31. Borrowings (continued)

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates are as follows:

	6-12 months HK\$M	1-5 years HK\$M	Over 5 years HK\$M	Total HK\$M
At 31st December 2005	1,389	1,269	200	2,858
At 31st December 2004	2,646	2,383	199	5,228

The effective interest rates at the balance sheet date were as follows:

	2005			2004		
	HK\$ %	US\$ %	Others %	HK\$ %	US\$ %	Other %
Bank overdrafts	–	4 – 8.5	–	–	6.25 – 8.75	–
Bank loans	5 – 7.75	6.75	1.53 – 8.5	5 – 5.125	3.75	1.36 – 8.75
Other borrowings	2.38 – 4.6	–	–	0.45 – 4	–	–

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Bank loans	–	593	–	593
Other borrowings	1,469	1,989	1,460	1,998
	1,469	2,582	1,460	2,591
Less: Security deposit	(43)	–	(43)	–
	1,426	2,582	1,417	2,591

The fair values of non-current borrowings are quoted from the relevant financial institutions.

The carrying amounts of short-term borrowings approximate their fair value.

Notes to the Accounts

31. Borrowings (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2005 HK\$M	2004 HK\$M
Hong Kong dollar	2,572	4,312
US dollar	23	518
New Taiwan dollar	189	371
Other currencies	74	27
	2,858	5,228

The group has the following undrawn committed borrowing facilities:

	Group	
	2005 HK\$M	2004 HK\$M
Floating rate		
– expiring within one year	366	1,255
– expiring beyond one year	3,600	2,600
	3,966	3,855

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

32. Deferred taxation

The movement on the net deferred tax liabilities account is as follows:

	Group		Company	
	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 (restated) HK\$M
At 1st January	8,825	6,024	74	58
– opening adjustment for HKAS 39	(3)	–	–	–
– as restated	8,822	6,024	74	58
Translation differences	2	(2)	–	–
Charged to profit and loss account	2,105	2,803	1	16
Charged to equity	6	–	–	–
At 31st December	10,935	8,825	75	74

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits are probable. The group has unrecognised tax losses of HK\$731 million (2004: HK\$966 million) to carry forward against future taxable income. These tax losses have no expiry date (2004: no expiry date).

32. Deferred taxation (continued)

The movement in deferred tax assets and liabilities (prior to offsetting balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Group							
	Accelerated tax depreciation		Investment property valuation		Others		Total	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 (restated) HK\$M
At 1st January (restated)	1,531	1,456	7,345	4,560	76	78	8,952	6,094
Opening adjustment for HKAS 39	–	–	–	–	(3)	–	(3)	–
Translation differences	–	–	3	–	(1)	–	2	–
Charged/(credited) to profit and loss account	121	75	2,092	2,785	57	(2)	2,270	2,858
Charged to equity	–	–	–	–	6	–	6	–
At 31st December	1,652	1,531	9,440	7,345	135	76	11,227	8,952

	Company							
	Accelerated tax depreciation		Investment property valuation		Defined benefit retirement plans		Total	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 (restated) HK\$M
At 1st January	11	12	47	30	16	16	74	58
(Credited)/charged to profit and loss account	–	(1)	1	17	–	–	1	16
At 31st December	11	11	48	47	16	16	75	74

Deferred tax assets

	Group							
	Assets write-down/ impairment provisions		Tax losses		Others		Total	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
At 1st January	58	51	53	–	16	20	127	71
Translation differences	–	1	–	–	–	–	–	1
(Charged)/credited to profit and loss account	8	6	53	53	104	(4)	165	55
At 31st December	66	58	106	53	120	16	292	127

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the balance sheet.

Notes to the Accounts

32. Deferred taxation (continued)

	Group		Company	
	2005 HK\$M	2004 (restated) HK\$M	2005 HK\$M	2004 (restated) HK\$M
Deferred tax assets:				
– To be recovered after more than 12 months	(5)	(5)	–	–
– To be recovered within 12 months	(187)	(10)	–	–
	(192)	(15)	–	–
Deferred tax liabilities:				
– To be settled after more than 12 months	11,108	8,838	75	74
– To be settled within 12 months	19	2	–	–
	11,127	8,840	75	74
	10,935	8,825	75	74

33. Retirement benefits

The group operates various retirement benefit plans providing resignation and retirement benefits to staff. Most retirement benefit plans for staff employed on expatriate terms are contributory, whilst most plans for locally-engaged employees are non-contributory. The assets of the plans are administered by independent trustees and are maintained independently of the group's finances. The majority of the plans are of the defined benefit type and contributions to such plans are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past services liabilities, on an on-going basis, as computed by actuarial valuations.

All new employees are offered the choice of joining the retirement benefit plans or the mandatory provident fund ("MPF") scheme. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant monthly income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution. Employees engaged outside Hong Kong are covered by appropriate local arrangements.

Total retirement benefit costs recognised in the profit and loss account for the year ended 31st December 2005 amounted to HK\$106 million (2004: HK\$92 million), including HK\$17 million (2004: HK\$10 million) in respect of defined contribution plans.

For financial statements purpose, defined benefit plans are valued using the projected unit credit method in accordance with HKAS 19. Principal plans in Hong Kong were last valued by qualified actuaries, Watson Wyatt Hong Kong Limited and HSBC Life (International) Limited as at 31st December 2003. The figures disclosed as at 31st December 2005 and 2004 were estimated by Cannon Trustees Limited, the main administration manager of the group's defined benefit plans. Plans in the United States and Taiwan are valued by independent qualified actuaries in corresponding countries. In addition, the group operates a post-employment health care and life insurance benefit plan for certain retired employees in the United States, with method of accounting and frequency of valuations similar to those used for defined benefit plans.

33. Retirement benefits (continued)

(a) The amounts recognised in the consolidated balance sheet are as follows:

	2005			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
Present value of funded obligations	1,418	–	1,418	39
Fair value of plan assets	(1,454)	–	(1,454)	(140)
	(36)	–	(36)	(101)
Present value of unfunded obligations	–	41	41	–
Net unrecognised actuarial (losses)/gains	(61)	1	(60)	6
Unrecognised past service costs	(1)	–	(1)	–
Net retirement benefit liabilities/(assets)	(98)	42	(56)	(95)
Represented by:				
Retirement benefit assets	(201)	–	(201)	(95)
Retirement benefit liabilities	103	42	145	–
	(98)	42	(56)	(95)
	2004			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
Present value of funded obligations	1,300	–	1,300	36
Fair value of plan assets	(1,304)	–	(1,304)	(129)
	(4)	–	(4)	(93)
Present value of unfunded obligations	–	62	62	–
Net unrecognised actuarial (losses)/gains	(64)	(23)	(87)	1
Unrecognised past service costs	(2)	–	(2)	–
Net retirement benefit liabilities/(assets)	(70)	39	(31)	(92)
Represented by:				
Retirement benefit assets	(163)	–	(163)	(92)
Retirement benefit liabilities	93	39	132	–
	(70)	39	(31)	(92)

Notes to the Accounts

33. Retirement benefits (continued)

(b) Movements in the net retirement benefit liabilities/(assets) are as follows:

	2005			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
At 1st January	(70)	39	(31)	(92)
Translation differences	(1)	–	(1)	–
Contributions paid	(110)	(3)	(113)	–
Net expenses recognised in the profit and loss account	83	6	89	(3)
At 31st December	(98)	42	(56)	(95)

	2004			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
At 1st January	(49)	34	(15)	(90)
Dissolution of a subsidiary company	6	–	6	–
Contributions paid	(102)	(2)	(104)	–
Net expenses recognised in the profit and loss account	75	7	82	(2)
At 31st December	(70)	39	(31)	(92)

33. Retirement benefits (continued)

(c) Net expenses recognised in the consolidated profit and loss account are as follows:

	Group					
	2005			2004		
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M
Current service cost	92	2	94	89	2	91
Interest cost	68	3	71	56	3	59
Expected return on plan assets	(80)	–	(80)	(71)	–	(71)
Past service costs recognised	–	–	–	(1)	–	(1)
Net actuarial losses recognised	3	1	4	2	2	4
	83	6	89	75	7	82

The above net expenses were mainly included in administrative expenses in the consolidated profit and loss account. The actual return on defined benefit plan assets was a gain of HK\$118 million (2004: HK\$152 million).

(d) The principal actuarial assumptions used are as follows:

	2005		2004	
	Group		Group	
	Defined benefit plans %	Other post-employment benefits %	Defined benefit plans %	Other post-employment benefits %
Discount rate	3.75 – 6.0	6.0	3.25 – 6.25	6.25
Expected rate of return on plan assets	2.75 – 8.0	N/A	2.75 – 8.25	N/A
Expected rate of future salary increases	2.5 – 5.0	N/A	2 – 5.5	N/A
Expected rate of increase in cost of covered health care benefits	N/A	9.0	N/A	9.0

34. Share capital

	Company				
	'A' shares of HK\$0.60 each	'B' shares of HK\$0.12 each	'A' shares HK\$M	'B' shares HK\$M	Total HK\$M
Authorised:					
At 31st December 2005 and 2004	1,140,000,000	3,600,000,000	684	432	1,116
Issued and fully paid:					
At 31st December 2005 and 2004	930,375,385	3,003,486,271	558	361	919

Except for voting rights, which are equal, the entitlements of 'A' and 'B' shareholders are in the proportion 5 to 1. During the year, the Company did not purchase, sell or redeem any of its shares.

Notes to the Accounts

35. Reserves

	Revenue reserve HK\$M	Property valuation reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
Company							
At 1st January 2004	10,496	–	342	33	–	–	10,871
Profit for the year	3,649	–	–	–	–	–	3,649
2003 Final dividend (note 13)	(1,562)	–	–	–	–	–	(1,562)
2004 Interim dividend (note 13)	(888)	–	–	–	–	–	(888)
At 31st December 2004	11,695	–	342	33	–	–	12,070
At 1st January 2005	11,695	–	342	33	–	–	12,070
Profit for the year	6,347	–	–	–	–	–	6,347
2004 Final dividend (note 13)	(2,174)	–	–	–	–	–	(2,174)
2005 Interim dividend (note 13)	(919)	–	–	–	–	–	(919)
Revaluation surplus on available-for-sale investments recognised during the year	–	–	–	–	61	–	61
At 31st December 2005	14,949	–	342	33	61	–	15,385
Group							
At 1st January 2004							
– as originally stated	47,200	19,673	342	33	156	(363)	67,041
– change in accounting standards							
Prior year adjustments for							
– HKAS 32	(15)	–	–	–	–	–	(15)
– HKAS 40	18,799	(19,673)	–	–	–	–	(874)
– HKAS 28	46	–	–	–	–	–	46
– HKAS-Int 21	(4,794)	–	–	–	–	–	(4,794)
	14,036	(19,673)	–	–	–	–	(5,637)
– as restated	61,236	–	342	33	156	(363)	61,404
Profit for the year	18,818	–	–	–	–	–	18,818
2003 Final dividend (note 13)	(1,562)	–	–	–	–	–	(1,562)
2004 Interim dividend (note 13)	(888)	–	–	–	–	–	(888)
Goodwill reinstated on disposal of jointly controlled and associated companies	36	–	–	–	–	–	36
Exchange differences on cash flow hedges							
– recognised during the year	–	–	–	–	–	(449)	(449)
– deferred tax recognised	–	–	–	–	–	32	32
– transferred to the profit and loss account	–	–	–	–	–	178	178
Net fair value gains on available-for-sale investments recognised during the year	–	–	–	–	76	–	76
Exchange differences	61	–	–	–	–	–	61
At 31st December 2004	77,701	–	342	33	232	(602)	77,706

35. Reserves (continued)

<i>Group</i>	Revenue reserve HK\$M	Property valuation reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2005							
– as per above	77,701	–	342	33	232	(602)	77,706
– opening adjustment for HKAS 39	(126)	–	–	–	–	80	(46)
– as restated	77,575	–	342	33	232	(522)	77,660
Profit for the year	18,757	–	–	–	–	–	18,757
2004 Final dividend (note 13)	(2,174)	–	–	–	–	–	(2,174)
2005 Interim dividend (note 13)	(919)	–	–	–	–	–	(919)
Net fair value gains on available-for-sale investments recognised during the year	–	–	–	–	60	–	60
Exchange differences on cash flow hedges							
– recognised during the year	–	–	–	–	–	572	572
– deferred tax recognised	–	–	–	–	–	(83)	(83)
– transferred to the profit and loss account	–	–	–	–	–	124	124
– transferred to initial costs of hedged items	–	–	–	–	–	(81)	(81)
Exchange differences	8	–	–	–	–	–	8
At 31st December 2005	93,247	–	342	33	292	10	93,924

The group revenue reserve includes accumulated losses from jointly controlled companies amounting to HK\$2,173 million (2004: HK\$2,270 million) and retained revenue reserves from associated companies amounting to HK\$16,124 million (2004: HK\$14,909 million).

- Distributable reserves of the Company at 31st December 2005 amounted to HK\$14,949 million (2004: HK\$11,695 million).
- The revenue reserve includes HK\$2,235 million (2004: HK\$2,174 million) representing the proposed final dividend for the year (note 13).

Notes to the Accounts

36. Minority interests

	Group	
	2005 HK\$M	2004 HK\$M
At 1st January		
– as originally stated	6,544	5,231
– prior year adjustments	(601)	(414)
	5,943	4,817
– opening adjustment for HKAS 39	(3)	–
– as restated	5,940	4,817
Capital contribution	–	15
Repayment of capital contribution	(314)	(297)
Share of revaluation surplus		
on available-for-sale investments	7	–
Share of profits less losses	877	1,504
Dividends paid and payable	(593)	(99)
Translation differences	12	3
At 31st December	5,929	5,943

37. Contingencies and commitments

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
(a) Outstanding commitments for capital expenditure at the year end:				
Property, plant and equipment				
Contracted for but not provided for in the accounts	1,924	2,179	99	99
Authorised by Directors but not contracted for	4,259	2,755	–	–
Investment properties				
Contracted for but not provided for in the accounts	199	480	–	–
Authorised by Directors but not contracted for	2,694	147	–	–
(b) Outstanding commitments for capital expenditure at the year end (included in (a) above) relating to the group's interest in jointly controlled companies:				
Contracted for but not provided for in the accounts	99	99	99	99
(c) In addition, the group's share of the capital commitments of its jointly controlled companies at the year end (not included in (a) above):				
Contracted for but not provided for in the accounts	78	136	–	–
Authorised by Directors but not contracted for	92	97	–	–
(d) Guarantees have been given in respect of bank loans and other liabilities outstanding at 31st December amounting to:				
Subsidiary companies	–	–	7,274	9,443
Jointly controlled companies	1,204	1,229	1,204	1,229
Associated companies	9	30	–	–
Third parties	165	166	–	–
	1,378	1,425	8,478	10,672

38. Operating lease arrangements

The group acts as both lessor and lessee under operating leases. Details of the group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The group leases out land and buildings and vessels under operating leases. The leases for land and buildings typically run for a period of three to six years. The turnover-related rental income received during the year amounted to HK\$116 million (2004: HK\$103 million). The leases for vessels typically run for an initial period of six months to five years with an option to renew the lease after that date, at which time all terms are renegotiated.

At 31st December, the future aggregate minimum lease payments under non-cancellable operating leases receivable by the group were as follows:

	Group		Company	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Land and buildings:				
Not later than one year	2,817	2,573	9	9
Later than one year but not later than five years	5,072	3,933	2	3
Later than five years	796	435	–	–
	8,685	6,941	11	12
Vessels:				
Not later than one year	794	501	–	–
Later than one year but not later than five years	355	58	–	–
Later than five years	146	–	–	–
	1,295	559	–	–
	9,980	7,500	11	12

Assets held for deployment in operating leases at 31st December were as follows:

	Group				Company	
	2005		2004		2005	2004
	Investment Property HK\$M	Vessels HK\$M	Investment Property HK\$M	Vessels HK\$M	Investment property HK\$M	Investment property HK\$M
Cost or revaluation	81,264	5,141	72,003	4,550	514	508
Less: accumulated depreciation	–	1,618	–	1,496	–	–
Net book value	81,264	3,523	72,003	3,054	514	508
Depreciation for the year	–	187	–	173	–	–

Notes to the Accounts

38. Operating lease arrangements (continued)

(b) Lessee

The group leases land and buildings, vessels and other equipment under operating leases. These leases typically run for an initial period of one to nine years with an option to renew the lease after that date, at which time all terms are renegotiated. The turnover-related rentals paid during the year amounted to HK\$11 million (2004: HK\$7 million).

At 31st December, the future aggregate minimum lease payments under non-cancellable operating leases payable by the group were as follows:

	Group	
	2005	2004
	HK\$M	HK\$M
Land and buildings:		
Not later than one year	167	107
Later than one year but not later than five years	181	148
Later than five years	11	11
	359	266
Vessels:		
Not later than one year	18	8
Other equipment:		
Not later than one year	21	19
	398	293

The Company did not have any material operating lease commitments at 31st December 2005 and 2004.

39. Related party transactions

There are agreements for services (“Agreements”), in respect of which John Swire & Sons (H.K.) Limited (“JSSHK”) provided services to various companies in the group and under which costs were reimbursed and fees payable. In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and jointly controlled companies of the Company, where there were no agreements for services with such companies, and (B) in the case of its subsidiary and associated companies with such agreements, as 2.5% of their relevant consolidated profits before taxation and minority interests after certain adjustments. The Agreements took effect from 1st January 2005 and will terminate on 31st December 2007. For the year ended 31st December 2005, service fees payable amounted to HK\$130 million (2004: HK\$122 million). Expenses of HK\$67 million (2004: HK\$67 million) were reimbursed at cost; in addition, HK\$129 million (2004: HK\$138 million) in respect of shared administrative services were reimbursed.

The above transactions (except shared administrative services) are continuing connected transactions which give rise to disclosure obligation under Chapter 14A of the Listing Rules. (Please also refer to the Directors’ Report on pages 66 to 67.)

The following is a summary of other significant transactions between the group and related parties, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the group’s business. These transactions were not connected transactions or continuing connected transactions under the Listing Rules.

	Notes	Jointly controlled companies		Associated companies		Fellow subsidiaries		Intermediate holding company	
		2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Revenue from	(a)								
– Sales of beverage drinks		–	–	12	12	–	–	–	–
– Sales of other goods		–	29	–	–	–	–	–	–
– Rendering of services		26	27	10	8	–	–	–	–
Purchases of beverage cans	(a)	146	140	–	–	–	–	–	–
Purchases of other goods	(a)	34	57	–	–	–	–	–	–
Purchases of services	(a)	–	–	18	14	13	10	–	–
Rental revenue	(b)	–	5	5	7	6	7	34	37
Interest income	(c)	7	7	19	10	–	–	–	–
Interest charges	(c)	7	1	–	–	–	–	–	–
Disposal of a subsidiary		–	–	–	–	40	–	–	–

The Company’s subsidiary, Swire Coca-Cola Beverages Xiamen Limited (“SCCXM”) extended a loan of RMB20 million to each of Swire Coca-Cola Beverages Hefei Limited, Nanjing BC Foods Co. Ltd., Taikoo (Guangzhou) Sugar Limited and Sunshine Melody (Guangzhou) Properties Management Limited, all being subsidiaries of the Company. As security for these loans, another subsidiary of the Company, Swire Beverages Limited, entered into a Pledge Agreement with SCCXM on 4th January, 2006 to pledge the dividends receivable from SCCXM. These loans and the transaction under the pledge agreement were not connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.

Amounts due to intermediate holding company at 31st December 2005 are disclosed in note 28. These balances arise in the normal course of business, are non-interest-bearing and have no fixed settlement dates.

Notes:

- Sales and purchases of goods and rendering of services to and from related parties were conducted in the normal course of business at prices and on terms no less than those charged to/by and contracted with other customers/suppliers of the group.
- The Swire Properties group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying periods up to six years. The leases were entered into on normal commercial terms.
- Loans advanced to jointly controlled and associated companies at 31st December 2005 are disclosed in notes 20 and 21 respectively, whilst loans due to jointly controlled and associated companies are disclosed in note 28.
- A subsidiary company was disposed to a fellow subsidiary of the group at valuation of the business.
- Key management compensation has been disclosed in notes 8 and 9.

Notes to the Accounts

40. Notes to the consolidated cash flow statement

	Group	
	2005 HK\$M	2004 HK\$M
(a) Reconciliation of operating profit to cash generated from operations		
Operating profit	19,842	20,981
Profit on sale of a subsidiary	(21)	–
Profit on disposal of investment properties	(93)	(245)
Change in fair value of investment properties	(11,887)	(15,730)
Valuation gain on investment properties from transfer of interest element of land premium to finance cost	(158)	(500)
Depreciation of property, plant and equipment	515	516
Profit on disposal of property, plant and equipment	(4)	(36)
Amortisation of deferred expenditure	21	40
Amortisation of leasehold land and land use rights	2	–
Amortisation of intangible assets	10	7
Impairment losses on:		
Property, plant and equipment	8	21
Available-for-sale investments	–	15
Profit on sale of shares in jointly controlled and associated companies	(2,270)	(44)
Other items	(57)	(40)
Operating profit before working capital changes	5,908	4,985
(Increase) /decrease in long-term receivables	(6)	9
Increase in deferred expenditure	(128)	(21)
Decrease in properties for sale	438	915
Increase in stocks and work in progress	(171)	(375)
(Increase)/decrease in trade and other receivables	(455)	476
(Decrease)/increase in trade and other payables	(556)	75
Cash generated from operations	5,030	6,064
(b) Purchase of property, plant and equipment		
Properties	89	87
Plant and machinery	235	217
Vessels	1,000	469
Total	1,324	773

The above figures do not include interest capitalised on property, plant and equipment.

40. Notes to the consolidated cash flow statement (continued)

	Group	
	2005 HK\$M	2004 HK\$M
(c) Sale of a subsidiary company		
Net assets disposed of:		
Property, plant and equipment	48	–
Trade and other receivables	3	–
Short-term deposits and bank balances	3	–
Long-term loans	(34)	–
Trade and other payables	(1)	–
	19	–
Profit on disposal	21	–
	40	–
Satisfied by:		
Cash	37	–
Receivable	3	–
	40	–
Analysis of net inflow of cash and cash equivalents in respect of the sale of a subsidiary company:		
Cash proceeds	37	–
Less: short-term deposits and bank balances in the subsidiary company disposed of	(3)	–
	34	–
Net inflow of cash and cash equivalent in respect of the sale of a subsidiary company	34	–

(d) Analysis of changes in financing during the year

	Group			
	Loans, bonds and perpetual capital securities		Minority interests	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
At 1st January	9,841	10,668	5,943	4,817
Net cash outflow from financing	(2,297)	(816)	(314)	(282)
Disposal of subsidiary	(34)	–	–	–
Minority interests' share of profits less losses	–	–	877	1,504
Dividends paid	–	–	(593)	(99)
Other non-cash movements	(76)	(11)	16	3
At 31st December	7,434	9,841	5,929	5,943

41. Immediate and ultimate holding company

The immediate holding company is John Swire & Sons (H.K.) Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in the United Kingdom.