

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

PRINCIPAL ACTIVITIES AND OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries and associates are set out on page 66.

An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Accounts on pages 29 and 30.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31st December, 2005 are set out in the Consolidated Profit and Loss Account on page 24.

Appropriations of profits and movements in reserves during the financial year are set out in Note 18 to the Accounts on pages 46 to 48.

DIVIDENDS

An interim dividend of 5.0 cents per share was paid on 12th October, 2005. The Directors now recommend the payment on 17th May, 2006 of a final dividend of 12.0 cents per share in respect of the financial year ended 31st December, 2005, payable to Shareholders on record as at 9th May, 2006. This recommendation has been disclosed in the Accounts.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 9 to the Accounts on pages 37 to 40.

DONATIONS

The Group made donations during the financial year totalling HK\$2,085,000.

DIRECTORS

The Directors of the Company during the financial year were Mr. G. W. J. Li, Mr. B. S. Forsgate, Mr. C. C. Haung (retired on 9th May, 2005), Mr. T. Y. Ng, Mr. H. M. V. de Lacy Staunton, Mr. M. K. Tan and Mr. P. Y. C. Tsui (resigned on 27th January, 2005).

Mr. G. W. J. Li and Mr. T. Y. Ng are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

AUDITORS

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

By Order of the Board

Wilson W. S. Chan

Secretary

Hong Kong, 8th March, 2006

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(I) Directors

Gonzaga Wei Jen LI, *Chairman (Age: 76)*

Mr. Li was appointed a Director of the Company in 1980 and became Chairman in 1989. He serves as the Chairman of the Company's Remuneration Committee as well. He is also the senior deputy chairman of the Company's holding company, namely, The Wharf (Holdings) Limited ("Wharf"), the senior deputy chairman of Wheelock and Company Limited ("Wheelock"), the chairman of Modern Terminals Limited, Wheelock Properties Limited ("WPL") and Wheelock Properties (Singapore) Limited ("WPSL") in Singapore, and also the chief executive officer and a director of Wharf China Limited. He is also a director of Joyce Boutique Holdings Limited ("Joyce").

Brian Stuart FORSGATE, *Director (Age: 58)*

Mr. Forsgate has been an independent Non-executive Director of the Company since 2001. He also serves as the chairman of the Company's Audit Committee and a member of the Company's Remuneration Committee. He is also the chairman and the managing director of Eralda Industries Limited.

Tze Yuen NG, *Director (Age: 58)*

Mr. Ng has been a Director of the Company since 1994 and serves as a member of the Company's Audit Committee. He is also a director of Wharf, Joyce, WPL and WPSL in Singapore. He is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Hugh Maurice Victor de LACY STAUNTON, *Director (Age: 70)*

Mr. de Lacy Staunton has been an independent Non-executive Director of the Company since 2001. He was formerly a director of The Cross-Harbour (Holdings) Limited. He is a member of the investment sub-committee of The Community Chest and an advisor to The Bradbury Charitable Foundation.

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(A) Biographical Details of Directors and Senior Managers (continued)

(I) Directors (continued)

Man Kou TAN, Director (Age: 70)

Mr. Tan was appointed a Director of the Company in September, 2004 and has since been an independent Non-executive Director. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He is a consultant of Deloitte Touche Tohmatsu, Hong Kong and has over 30 years of public accounting experience. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Furthermore, he is a member of the Chinese People's Political Consultative Conference and a member of the Selection Committee of the Hong Kong Special Administrative Region. For community services, Mr. Tan has been a member, the honorary treasurer, and the chairman of the Hong Kong Housing Society for more than 20 years. He formerly was also a member of the Airport Consultative Committee.

Notes:

- (1) *Wheelock, Wharf, WF Investment Partners Limited and Wharf Estates Limited (of which Mr. G. W. J. Li and/or Mr. T. Y. Ng is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").*
- (2) *The Company confirms that it has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and the Company still considers the independent Non-executive Directors to be independent.*

(II) Senior Managers

During the year, the senior management responsibilities of the Group were vested with the Chairman in conjunction with the Group's Hotel Manager, namely, Marco Polo Hotels Management Limited, and the Group's Commercial Section Manager, namely, Harbour City Estates Limited.

SUPPLEMENTARY CORPORATE INFORMATION (continued)**(B) Directors' Interests in Shares**

At 31st December, 2005, Directors of the Company had the following personal beneficial interests, all being long positions, in the ordinary shares of the Company's parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and the percentages which the shares represented to the issued share capital of Wharf are also set out below:

Names of Directors	Number of Shares (percentage of issued capital)
Mr. Gonzaga W. J. Li	686,549 (0.028%)
Mr. T. Y. Ng	178,016 (0.007%)

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

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

(C) Substantial Shareholders' Interests

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

Names	No. of Ordinary Shares (percentage of issued capital)
(i) Upfront International Limited	210,379,500 (66.79%)
(ii) Wharf Estates Limited	210,379,500 (66.79%)
(iii) The Wharf (Holdings) Limited	210,379,500 (66.79%)
(iv) WF Investment Partners Limited	210,379,500 (66.79%)
(v) Wheelock and Company Limited	210,379,500 (66.79%)
(vi) HSBC Trustee (Guernsey) Limited	210,379,500 (66.79%)
(vii) Harson Investment Limited	25,357,500 (8.05%)

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (vi) above in that they represent the same block of shares.

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(D) Directors' Interests in Competing Business

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

Two Directors of the Company, namely, Messrs. G. W. J. Li and T. Y. Ng, being also directors of the Company's parent company, namely, Wharf, and/or subsidiaries of Wharf, are considered as having an interest in Wharf under paragraph 8.10 of the Listing Rules.

Ownership of property for letting and ownership of hotels by wholly-owned subsidiaries of Wharf constitute competing businesses to the Group.

The commercial premises at Harbour City, being in the vicinity of The Marco Polo Hongkong Hotel, owned by the Wharf group for rental purposes are considered as competing with the commercial premises in The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's extensive experience and expertise in property letting and management, the Group has appointed a subsidiary of Wharf (the "Agents") as the agent for a term up to 31st May, 2008 for the letting, reletting, management, licensing and re-licensing of the commercial premises in The Marco Polo Hongkong Hotel.

Two hotels, namely, The Marco Polo Gateway and The Marco Polo Prince, owned by the Wharf group are also considered as competing businesses of The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has entered into an operations agreement (the "Agreement") with a wholly-owned subsidiary (the "Operator") of Wharf for the appointment of the Operator as manager for a term of three years commencing from 1st January, 2004 to operate, direct, manage and supervise The Marco Polo Hongkong Hotel. The Operator is also responsible for the operation of two hotels in Hong Kong, namely, The Marco Polo Gateway and The Marco Polo Prince, and some other hotels in the Asia Pacific region. Under the terms and conditions of the Agreement, the Operator has agreed, *inter alia*, to operate The Marco Polo Hongkong Hotel as a first class hotel. In the event of the Operator failing to perform the terms and conditions of the Agreement for a period of 20 days after a relevant notice has been served by the Group on the Operator, a 20-day notice of termination may then be given by the Group for terminating the Agreement.

For safeguarding the interests of the Group, the independent non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's hotel and property leasing and management businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of the Wharf group.

SUPPLEMENTARY CORPORATE INFORMATION (continued)**(E) Major Customers and Suppliers**

For the year ended 31st December, 2005:

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

(F) Bank Loans, Overdrafts and Other Borrowings

The Group did not have any bank loans, overdrafts or other borrowings outstanding as at 31st December, 2005.

(G) Interest Capitalised

No interest was capitalised by the Group during the financial year.

(H) Purchase, Sale or Redemption of Shares

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

(I) Public Float

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

(J) Disclosure regarding Continuing Connected Transaction

Set out below is information in relation to a continuing connected transaction involving the Company and/or its subsidiaries, which was substantially disclosed in the press announcement of the Company dated 23rd December, 2004 and was required under the Listing Rules to be disclosed in the Annual Report and Accounts of the Company:

(I) Tenancy Agreement with the Wharf Group

On 23rd December, 2004, a tenancy agreement (the "Agreement") in respect of Shop OT G64, Ground Floor, Ocean Terminal, Harbour City (the "Premises") for the period from 10th January, 2005 to 9th January, 2008 was entered into by The Hongkong Hotel Limited ("HHL"), a wholly-owned subsidiary of the Company, as the tenant with the landlord, namely, Wharf Realty Limited ("WRL"), which is a wholly-owned subsidiary of The Wharf (Holdings) Limited ("Wharf").

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(J) Disclosure regarding Continuing Connected Transaction (continued)

(I) Tenancy Agreement with the Wharf Group (continued)

The aggregate rental payable by HHL to WRL under the Agreement for the three financial years ending 31st December, 2008 would be about HK\$1.3 million per annum. There is a right for either party to early terminate the tenancy at any time after the expiry of the first 12 months of the term (such initial 12-month period being a fixed term under the tenancy agreement without any default provision) by serving on the other party a three-month prior written notice without payment of any compensation by either party.

As the Company is a 67%-owned subsidiary of Wharf, the transaction constitutes a connected transaction for the Company under the Listing Rules. The Premises are presently leased by WRL to HHL for use as a function and banquet room ancillary to The Marco Polo Hongkong Hotel which is owned by HHL, generating satisfactory revenue to HHL.

(II) Confirmation from Directors, etc.

The Directors, including the independent Non-executive Directors, of the Company have reviewed the continuing connected transaction mentioned above (the "Transaction") and confirmed that the Transaction was entered into:

- (a) by the Group in the ordinary and usual course of its business;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing such continuing connected transaction on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Furthermore, the auditors of the Company have advised the following:

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