

## 1. SEGMENT REPORTING

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

### (a) Business segments

	Hotel and restaurants		Property		Investments		Total	
	2005 HK\$ Million	2004 HK\$ Million Restated	2005 HK\$ Million	2004 HK\$ Million Restated	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million Restated
Turnover	<b>370.9</b>	333.7	<b>94.3</b>	82.8	<b>61.6</b>	28.5	<b>526.8</b>	445.0
Operating results	<b>117.0</b>	107.2	<b>83.0</b>	74.1	<b>59.3</b>	19.4	<b>259.3</b>	200.7
Increase in fair value of investment properties	-	-	<b>271.1</b>	148.7	-	-	<b>271.1</b>	148.7
Other net income	-	-	<b>40.7</b>	-	<b>1.9</b>	20.9	<b>42.6</b>	20.9
							<b>573.0</b>	370.3
Share of profits less losses of associates	-	-	<b>23.2</b>	56.3	<b>1.2</b>	0.1	<b>24.4</b>	56.4
Profit before taxation							<b>597.4</b>	426.7
Taxation							<b>(80.3)</b>	(55.0)
Profit attributable to shareholders							<b>517.1</b>	371.7
Segment assets	<b>149.5</b>	101.1	<b>1,845.1</b>	1,054.2	<b>923.9</b>	820.7	<b>2,918.5</b>	1,976.0
Interest in associates	-	-	<b>14.6</b>	38.9	-	3.5	<b>14.6</b>	42.4
Unallocated assets							<b>1,519.6</b>	1,737.5
Cash and cash equivalents							<b>1,519.6</b>	1,737.5
Total assets							<b>4,452.7</b>	3,755.9
Segment liabilities	<b>(69.0)</b>	(48.8)	<b>(65.7)</b>	(22.4)	<b>(0.9)</b>	(1.6)	<b>(135.6)</b>	(72.8)
Unallocated liabilities							<b>(216.1)</b>	(177.5)
Total liabilities							<b>(351.7)</b>	(250.3)
Depreciation and amortisation for the year	<b>25.2</b>	15.9	-	-	-	-	<b>25.2</b>	15.9
Capital expenditure incurred during the year	<b>34.8</b>	24.9	<b>441.6</b>	36.9	-	-	<b>476.4</b>	61.8

**1. SEGMENT REPORTING** (continued)**(b) Geographical segments**

	Turnover		Operating results	
	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million Restated
Hong Kong	<b>507.4</b>	428.4	<b>239.9</b>	184.1
Singapore	<b>19.4</b>	16.6	<b>19.4</b>	16.6
	<b>526.8</b>	445.0	<b>259.3</b>	200.7

No inter-segment revenue has been recorded during the current and prior years.

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

	2005 HK\$ Million	2004 HK\$ Million Restated
After charging:		
Cost of inventories sold	<b>26.5</b>	26.6
Depreciation and amortisation	<b>25.2</b>	15.9
Staff costs	<b>92.9</b>	84.2
Including:		
Contributions to defined contribution pension schemes (after deducting forfeiture of the Group's contribution of HK\$0.6 million (2004: HK\$0.5 million))	<b>3.1</b>	3.0
Increase in liability for defined benefit pension schemes	<b>1.2</b>	0.9
Total pension cost	<b>4.3</b>	3.9
Auditors' remuneration	<b>0.5</b>	0.5
and crediting:		
Gross rental income from investment properties	<b>94.3</b>	82.8
Less: direct outgoings	<b>(8.4)</b>	(6.8)
	<b>85.9</b>	76.0
Interest income on bank deposits	<b>41.1</b>	3.2
Dividend income from listed investments	<b>20.5</b>	25.3

## 2. OPERATING PROFIT (continued)

## (b) Directors' emoluments

	Fees HK\$000	Basic salaries, housing and other allowances and benefits in kind HK\$000	Discretionary bonuses and/or performance related bonuses HK\$000	Retirement scheme contributions HK\$000	2005 Total HK\$000
<b>Executive Director</b>					
G. W. J. Li	30	780	-	-	810
<b>Non-executive Director</b>					
T. Y. Ng	36	-	-	-	36
<b>Independent non- executive Directors</b>					
B. S. Forsgate	40	-	-	-	40
H. M. V. de Lacy Staunton	30	-	-	-	30
M. K. Tan	40	-	-	-	40
<b>Past Directors</b>					
C. C. Haung	14	-	-	-	14
P. Y. C. Tsui	3	-	-	-	3
	<b>193</b>	<b>780</b>	<b>-</b>	<b>-</b>	<b>973</b>
	Fees HK\$000	Basic salaries, housing and other allowances and benefits in kind HK\$000	Discretionary bonuses and/or performance related bonuses HK\$000	Retirement scheme contributions HK\$000	2004 Total HK\$000
<b>Executive Directors</b>					
G. W. J. Li	20	780	-	-	800
P. Y. C. Tsui	20	-	-	-	20
<b>Non-executive Director</b>					
T. Y. Ng	20	-	-	-	20
<b>Independent non- executive Directors</b>					
B. S. Forsgate	20	-	-	-	20
H. M. V. de Lacy Staunton	20	-	-	-	20
M. K. Tan	5	-	-	-	5
C. C. Haung	20	-	-	-	20
	<b>125</b>	<b>780</b>	<b>-</b>	<b>-</b>	<b>905</b>

For the year under review, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$30,000 (2004: HK\$20,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$10,000 per annum were paid to each audit committee member.

**2. OPERATING PROFIT** (continued)**(c) Emoluments of the highest paid employees**

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31st December, 2005 of the five highest paid employees of the Group, none of whom is a Director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

	2005 HK\$ Million	2004 HK\$ Million
Basic salaries, housing allowances, and other allowances and benefits in kind	4.4	4.9
Retirement scheme contributions	0.3	0.4
Discretionary bonuses and/or performance – related bonuses	0.5	0.4
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	<b>5.2</b>	5.7

The emoluments of the five highest paid individuals are within the following bands:

Bands (in HK\$)	2005 Number of individuals	2004 Number of individuals
Not more than \$1,000,000	2	2
\$1,000,001 – \$1,500,000	3	2
\$1,500,001 – \$2,000,000	–	1

**3. OTHER NET INCOME**

	2005 HK\$ Million	2004 HK\$ Million
Release of deferred income	3.9	20.9
Loss on disposal of available-for-sale investments	(2.0)	–
Write-back of provision for impairment in value of property held for redevelopment	40.7	–
	<b>42.6</b>	20.9

The write-back of provision for impairment in value of property held for redevelopment arose due to an increase in the estimated recoverable amount as a result of improvements in the property market.

#### 4. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5 per cent (2004: 17.5 per cent).

(b) Taxation in the consolidated profit and loss account represents:

	2005 HK\$ Million	2004 HK\$ Million Restated
<b>Current taxation</b>		
Provision for Hong Kong profits tax for the year	31.8	30.7
Overprovision in respect of prior years	–	(3.2)
	<b>31.8</b>	27.5
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	1.1	1.5
Change in fair value of investment properties	47.4	26.0
	<b>48.5</b>	27.5
Total tax charge	<b>80.3</b>	55.0

(c) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2005 HK\$ Million	2004 HK\$ Million Restated
Profit before taxation	597.4	426.7
Notional tax on accounting profit calculated at applicable tax rates	104.5	74.7
Tax effect of non-deductible expenses	1.2	2.3
Tax effect of non-taxable revenue	(25.4)	(18.8)
Overprovision in respect of prior years	–	(3.2)
Actual total tax charge	<b>80.3</b>	55.0

(d) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.

#### 5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of HK\$174.2 million (2004: HK\$22.3 million).

## 6. DIVIDENDS

### (a) Dividends attributable to the year

	2005 HK\$ Million	2004 HK\$ Million
Interim dividend declared and paid of 5.0 cents (2004: 5.0 cents) per share	15.8	15.8
Final dividend of 12.0 cents proposed after the balance sheet date (2004: 12.0 cents) per share	37.8	37.8
	<b>53.6</b>	53.6

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

### (b) Dividends attributable to the previous financial year, approved and paid during the year

	2005 HK\$ Million	2004 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the year, of 12.0 cents per share (2004: 12.0 cents per share)	37.8	37.8

## 7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$517.1 million (2004 restated: HK\$371.7 million) and on 315.0 million (2004: 315.0 million) ordinary shares in issue throughout the year ended 31st December, 2005. For the year under review and the preceding year, there is no difference between the basic and diluted earnings per share.

## 8. CHANGES IN ACCOUNTING POLICIES

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

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in the section headed "Principal Accounting Policies" set out on pages 55 to 65. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

### HKAS 40 "Investment property"

In prior years, investment properties were stated at fair value and surpluses on revaluation were credited to the investment property revaluation reserve. Deficits arising on revaluation were set off against previous revaluation surpluses and thereafter charged to the consolidated profit and loss account. Revaluation was only done as at the financial year-end date.

## 8. CHANGES IN ACCOUNTING POLICIES (continued)

### HKAS 40 “Investment property” (continued)

With effect from 1st January, 2005, on adoption of HKAS 40, the Group’s investment properties are stated at fair value with all the changes in fair value reported in the consolidated profit and loss account. This new accounting policy has been applied retrospectively. The revenue reserve as at 1st January, 2005 and 1st January, 2004 was restated and increased by HK\$823.3 million and HK\$674.6 million, respectively, which represented the transfer from the investment property revaluation reserve. Such transfer has no effect on the Group’s shareholders’ equity. The effect of the change in accounting for revaluation surpluses has increased the profit attributable to shareholders for the year ended 31st December, 2005 by HK\$271.1 million (2004: HK\$148.7 million).

### HKAS – INT 21 “Income taxes – recovery of revalued non-depreciable assets”

In previous years, no deferred taxation was recognised on revaluation of the Group’s investment properties on the basis that the recovery of the carrying amount of the investment properties would be through sale and such deferred taxation should be calculated at the tax rate applicable on eventual sale, which is nil in Hong Kong.

With effect from 1st January, 2005, HKAS-INT 21 requires deferred taxation to be recognised for any changes in fair value of investment properties on the basis that the recovery of the carrying amount of the investment properties would be through use and be calculated at the applicable profits tax rate and charged to the consolidated profit and loss account. This new accounting policy has been applied retrospectively. Shareholders’ equity as at 1st January, 2005 and 1st January, 2004 was restated and decreased by HK\$144.1 million and HK\$118.1 million respectively. The adjustments represent deferred tax liabilities attributable to the fair value gains on the Group’s investment properties. The change has increased the deferred tax charge for the year ended 31st December, 2005 by HK\$47.4 million (2004: HK\$26.0 million).

### HK – INT 2 “The appropriate accounting policies for hotel properties” and HKAS 17 “Leases”

In prior years, the Group’s hotel property was stated at fair value based on an annual professional valuation. No depreciation was provided on the hotel property on the basis that it was maintained in a continuous state of sound repair such that, given the estimated life of the hotel property and its residual value, any depreciation was immaterial.

With effect from 1st January, 2005, on adoption of HK-INT 2 and HKAS 17, the cost of the Group’s hotel property was split into a lease of land and a lease of a building in proportion to the relative fair values of the interest in the land and the building elements at the inception of the lease. The leasehold land is stated at cost and is amortised over the period of the lease on a straight-line basis whereas the building is stated at cost less accumulated depreciation and impairment. These new accounting policies have been applied retrospectively. Shareholders’ equity as at 1st January, 2005 and 1st January, 2004 was restated and decreased by HK\$1,813.0 million, which comprised a reversal of the hotel property revaluation reserve of HK\$1,756.9 million and adjustments to the revenue reserve of HK\$56.1 million, and HK\$1,644.3 million, which comprised a reversal of the hotel property revaluation reserve of HK\$1,589.9 million and adjustments to the revenue reserve of HK\$54.4 million, respectively. The change has increased the depreciation charge to the consolidated profit and loss account for the year ended 31st December, 2005 by HK\$5.8 million (2004 as restated: HK\$1.7 million).

**8. CHANGES IN ACCOUNTING POLICIES** (continued)**HKAS 1 “Presentation of financial statements”**

The application of the new HKFRSs has also resulted in changes in the presentation of the accounts retrospectively with comparatives restated to conform to current period's presentation, in particular, the presentation of the Group's share of associates' taxation. In prior years, the Group's share of associates' tax was presented as a component of taxation in the consolidated profit and loss account. On adoption of the HKAS 1, the Group's share of associates' profits less losses is presented on a post-tax basis.

**Summary of the effect of changes in the accounting policies**

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

	Revenue reserve HK\$ Million	Other reserves HK\$ Million	Total equity HK\$ Million
<b>At 1st January, 2005</b>			
Prior year adjustments			
HKAS 40	<b>823.3</b>	<b>(823.3)</b>	–
HKAS-INT 21	<b>(144.1)</b>	–	<b>(144.1)</b>
HK-INT 2	<b>(56.1)</b>	<b>(1,756.9)</b>	<b>(1,813.0)</b>
Total increase/(decrease) in equity	<b>623.1</b>	<b>(2,580.2)</b>	<b>(1,957.1)</b>
<b>At 1st January, 2004</b>			
Prior year adjustments			
HKAS 40	674.6	(674.6)	–
HKAS-INT 21	(118.1)	–	(118.1)
HK-INT 2	(54.4)	(1,589.9)	(1,644.3)
Total increase/(decrease) in equity	502.1	(2,264.5)	(1,762.4)

(ii) *Effect on profit after taxation*

	2005 HK\$ Million	2004 HK\$ Million
HKAS 40	<b>271.1</b>	148.7
HKAS-INT 21	<b>(47.4)</b>	(26.0)
HK-INT 2	<b>(5.8)</b>	(1.7)
Total increase in profit after taxation	<b>217.9</b>	121.0



## 9. FIXED ASSETS

	Group					Total HK\$ Million
	Investment properties	Property held for redeve- lopment	Hotel property	Other fixed assets	Leasehold land	
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	
<b>(a) Cost or valuation</b>						
Balance at 1st January, 2004						
As previously reported	817.0	28.3	1,661.0	164.9	–	2,671.2
Prior year adjustment	–	–	(1,589.9)	–	–	(1,589.9)
Land cost adjustment	–	–	(15.9)	–	15.9	–
As restated	817.0	28.3	55.2	164.9	15.9	1,081.3
Additions	7.3	29.6	12.0	12.9	–	61.8
Disposals	–	–	–	(21.9)	–	(21.9)
Revaluation surplus	148.7	–	–	–	–	148.7
Balance at 31st December, 2004 (as restated)	973.0	57.9	67.2	155.9	15.9	1,269.9
Balance at 1st January, 2005						
As previously reported	<b>973.0</b>	<b>57.9</b>	<b>1,840.0</b>	<b>155.9</b>	–	<b>3,026.8</b>
Prior year adjustment	–	–	(1,756.9)	–	–	(1,756.9)
Land cost adjustment	–	–	(15.9)	–	15.9	–
As restated	<b>973.0</b>	<b>57.9</b>	<b>67.2</b>	<b>155.9</b>	<b>15.9</b>	<b>1,269.9</b>
Additions	<b>316.9</b>	<b>141.4</b>	<b>16.3</b>	<b>24.0</b>	–	<b>498.6</b>
Disposals	–	–	–	(21.8)	–	(21.8)
Provision for impairment written back	–	40.7	–	–	–	40.7
Reclassification	–	(240.0)	–	–	–	(240.0)
Revaluation surplus	<b>271.1</b>	–	–	–	–	<b>271.1</b>
Balance at 31st December, 2005	<b>1,561.0</b>	–	<b>83.5</b>	<b>158.1</b>	<b>15.9</b>	<b>1,818.5</b>

## 9. FIXED ASSETS (continued)

	Group					Total HK\$ Million
	Investment properties HK\$ Million	Property held for redeve- lopment HK\$ Million	Hotel property HK\$ Million	Other fixed assets HK\$ Million	Leasehold land HK\$ Million	
<b>(a) Cost or valuation (continued)</b>						
<b>Accumulated depreciation and amortisation</b>						
Balance at 1st January, 2004						
As previously reported	-	-	-	129.4	-	129.4
Prior year adjustment	-	-	54.4	-	-	54.4
Land cost adjustment	-	-	(0.6)	-	0.6	-
As restated	-	-	53.8	129.4	0.6	183.8
Charge for the year	-	-	1.7	14.2	-	15.9
Written back on disposals	-	-	-	(21.9)	-	(21.9)
Balance at 31st December, 2004 (as restated)	-	-	55.5	121.7	0.6	177.8
Balance at 1st January, 2005						
As previously reported	-	-	-	121.7	-	121.7
Prior year adjustment	-	-	56.1	-	-	56.1
Land cost adjustment	-	-	(0.6)	-	0.6	-
As restated	-	-	55.5	121.7	0.6	177.8
Charge for the year	-	-	5.8	19.4	-	25.2
Written back on disposals	-	-	-	(21.8)	-	(21.8)
Balance at 31st December, 2005	-	-	61.3	119.3	0.6	181.2
<b>Net book value</b>						
At 31st December, 2005	1,561.0	-	22.2	38.8	15.3	1,637.3
At 31st December, 2004 (as restated)	973.0	57.9	11.7	34.2	15.3	1,092.1
<b>(b) The analysis of cost or valuation of the above assets is as follows:</b>						
2005 valuation	1,561.0	-	-	-	-	1,561.0
Cost less provisions	-	-	83.5	158.1	15.9	257.5
	1,561.0	-	83.5	158.1	15.9	1,818.5
2004 valuation	973.0	-	-	-	-	973.0
Cost less provisions	-	57.9	67.2	155.9	15.9	296.9
	973.0	57.9	67.2	155.9	15.9	1,269.9
<b>(c) Tenure of title to properties at cost or valuation:</b>						
Long term lease held in Hong Kong						
Over 50 years	1,561.0	-	83.5	-	15.9	1,660.4

**9. FIXED ASSETS** (continued)**(d) Properties valuation**

The Group's investment properties in Hong Kong have been revalued as at 31st December, 2005 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis. The surplus or deficit arising on revaluation is recognised directly in the consolidated profit and loss account.

**(e) Properties schedule at 31st December, 2005**

Address	Lot number	Year of completion	Stage of completion	Lease expiry	Site area (sq.ft.)	Approximate gross floor areas (sq.ft.)	Usage	Attributable interest
<b>Investment properties</b>								
The Marco Polo	KML 91	1969	Completed	2863	*	34,000	Office	100%
Hongkong Hotel (Commercial Section)	S.A. & KML 10					136,700	Retail	100%
Harbour City Tsimshatsui	S.B.							
Various units at Star House Tsimshatsui	KML 10 S.A.	1966	Completed	2863	N/A	50,780	Retail	100%
<b>Hotel property</b>								
The Marco Polo Hongkong Hotel Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	58,814	664 rooms	Hotel	100%
<b>Property under development for sale</b>								
60 Victoria Road Kennedy Town	IL 8079	N/A	Superstructure in progress	2064	6,100	54,000	Residential	100%

\* This investment property forms part of The Marco Polo Hongkong Hotel.

- (f)** The Group leases out its investment properties under operating leases which generally run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may contain a contingent rent element which is based on various percentages of tenants' sales receipts.

Contingent rental income earned by the Group for the year amounted to HK\$21.6 million (2004: HK\$24.8 million).

**9. FIXED ASSETS** (continued)

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

	<b>2005</b> <b>HK\$ Million</b>	2004 HK\$ Million
Within 1 year	<b>80.2</b>	56.0
After 1 year but within 5 years	<b>126.1</b>	142.9
After 5 years	–	–
	<b>206.3</b>	198.9

**10. AMOUNTS DUE FROM/TO SUBSIDIARIES**

The amounts due from/to subsidiaries are unsecured, recoverable/repayable on demand and interest free.

Details of principal subsidiaries at 31st December, 2005 are shown on page 66.

**11. INTEREST IN ASSOCIATES**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b> <b>HK\$ Million</b>	2004 HK\$ Million	<b>2005</b> <b>HK\$ Million</b>	2004 HK\$ Million
Share of net tangible assets	<b>14.6</b>	35.0	–	–
Loan due from an associate	–	36.8	–	36.8
Amount due to an associate	–	(29.4)	–	–
	<b>14.6</b>	42.4	–	36.8

Details of principal associates at 31st December, 2005 are shown on page 66.

- (a) The loan advanced to an associate involved in a property development project bore interest at rates as determined by the shareholders of the associate with reference to the prevailing market rates and was fully repaid during the current year.

**11. INTEREST IN ASSOCIATES** (continued)

(b) Summary financial information on associates:

	2005		2004	
	100% HK\$ Million	Group's effective interest HK\$ Million	100% HK\$ Million	Group's effective interest HK\$ Million
Assets	<b>388.1</b>	<b>77.6</b>	715.7	162.8
Liabilities	<b>(315.1)</b>	<b>(63.0)</b>	(639.3)	(127.8)
Equity	<b>73.0</b>	<b>14.6</b>	76.4	35.0
Revenues	<b>215.2</b>	<b>43.0</b>	851.4	170.3
Profit before taxation	<b>140.8</b>	<b>28.9</b>	323.6	64.8
Taxation	<b>(22.3)</b>	<b>(4.5)</b>	(42.1)	(8.4)
Profit after taxation	<b>118.5</b>	<b>24.4</b>	281.5	56.4

**12. AVAILABLE-FOR-SALE INVESTMENTS**

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Equity securities		
Listed in Hong Kong, at market value	<b>23.5</b>	24.1
Listed outside Hong Kong, at market value	<b>870.0</b>	734.3
Unlisted	<b>893.5</b>	758.4
	<b>29.3</b>	62.0
	<b>922.8</b>	820.4

Included in the above equity securities are investments in a listed company, the carrying value of which constituted more than 10% of the Group's total assets at 31st December, 2005. Details of this listed company are shown as follows:

Name of company	Place of incorporation	Percentage of total issued ordinary shares held
Hongkong Land Holdings Limited	Bermuda	1.55 %

**13. EMPLOYEE BENEFITS****(a) Defined benefit pension schemes**

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$ Million</b>	HK\$ Million
Defined benefit pension schemes	<b>9.1</b>	8.7

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contribution from employers, which are in accordance with recommendations made by actuaries based on their valuation. The latest valuations of the schemes as at 31st December, 2005 were performed either internally or by Watson Wyatt Hong Kong Limited, using the projected unit credit method with funding ratio 95.5% and 112.1% respectively.

(i) The amount recognised in the consolidated balance sheet is as follows:

	<b>2005</b>	2004
	<b>HK\$ Million</b>	HK\$ Million
Present value of funded obligations	<b>60.2</b>	68.3
Fair value of scheme assets	<b>(64.6)</b>	(68.8)
Net unrecognised actuarial losses	<b>(4.7)</b>	(8.2)
	<b>(9.1)</b>	(8.7)

(ii) Movements in the net assets recognised in the consolidated balance sheet are as follows:

	<b>2005</b>	2004
	<b>HK\$ Million</b>	HK\$ Million
Balance at 1st January	<b>(8.7)</b>	(8.6)
Contributions paid	<b>(1.6)</b>	(1.0)
Expense recognised in the consolidated profit and loss account	<b>1.2</b>	0.9
Balance at 31st December	<b>(9.1)</b>	(8.7)

**13. EMPLOYEE BENEFITS** (continued)**(a) Defined benefit pension schemes** (continued)

(iii) Expense recognised in the consolidated profit and loss account is as follows:

	2005 HK\$ Million	2004 HK\$ Million
Current service cost	3.1	3.0
Interest cost	2.6	2.5
Expected return on scheme assets	(4.7)	(4.6)
Net actuarial losses recognised	0.2	–
	<b>1.2</b>	0.9

The expense is recognised in the following line items in the consolidated profit and loss account:

	2005 HK\$ Million	2004 HK\$ Million
Direct costs and operating expenses	1.0	0.8
Selling and marketing expenses	0.2	0.1
	<b>1.2</b>	0.9
Actual return on scheme assets	<b>4.9</b>	7.0

(iv) The principal actuarial assumptions used as at 31st December, 2005 (expressed as a range) are as follows:

	2005	2004
Discount rate at 31st December	4.25-5%	4-5%
Expected rate of return on scheme assets	5-8%	5-8%
Future salary increases		
2005	N/A	2-5%
2006	2-4%	2%
2007	2-4%	2-4%
2008 onwards	2-4%	2-4%

**(b) Defined contribution pension schemes**

A number of defined contribution pension schemes (including the Mandatory Provident Fund) are available to the employees of the Group. For defined contribution pension schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds. The contributions are expenses as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

**14. INVENTORIES**

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Property under development for sale	240.0	–
Hotel consumables	3.5	3.4
	<b>243.5</b>	3.4

- (a) Property under development for sale is stated at the lower of cost and net realisable value. The total carrying value of property stated at net realisable value at 31st December, 2005 was HK\$240.0 million.
- (b) At 31st December, 2005, the carrying value of long term leasehold land situated in Hong Kong included in property under development for sale was HK\$158.5 million.

**15. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million
Trade debtors				
Due within 30 days	39.3	31.8	–	–
Due after 30 days but within 60 days	2.5	4.1	–	–
Due after 60 days but within 90 days	0.1	0.1	–	–
Over 90 days	0.1	0.1	–	–
	<b>42.0</b>	36.1	–	–
Other receivables	49.5	5.2	1.0	0.3
Amounts due from fellow subsidiaries	14.3	10.1	–	–
	<b>105.8</b>	51.4	1.0	0.3

The Group has defined credit policies in each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. The above includes deposits paid amounting to HK\$0.9 million (2004: HK\$0.6 million) which are expected to be recovered after one year.



**16. TRADE AND OTHER PAYABLES**

	Group		Company	
	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million
Trade creditors				
Due within 30 days	<b>11.2</b>	12.8	–	–
Due after 30 days but within 60 days	<b>3.9</b>	3.8	–	–
Due after 60 days but within 90 days	<b>0.4</b>	0.1	–	–
Over 90 days	–	0.1	–	–
	<b>15.5</b>	16.8	–	–
Other payables and provisions	<b>88.5</b>	42.5	<b>0.6</b>	0.7
Amounts due to fellow subsidiaries	<b>4.8</b>	8.3	–	–
Amounts due to an associate	<b>25.2</b>	–	–	–
	<b>134.0</b>	67.6	<b>0.6</b>	0.7

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK\$18.6 million (2004: HK\$14.9 million) which are expected to be settled after one year.

**17. SHARE CAPITAL**

	2005		2004	
	No. of shares Million	HK\$ Million	No. of shares Million	HK\$ Million
Authorised Ordinary shares of HK\$0.50 each	<b>380.0</b>	<b>190.0</b>	380.0	190.0
Issued and fully paid Ordinary shares of HK\$0.50 each	<b>315.0</b>	<b>157.5</b>	315.0	157.5

## 18. RESERVES

	Share premium HK\$ Million	Investment property revaluation reserve HK\$ Million	Hotel property revaluation reserve HK\$ Million	Investments revaluation reserve HK\$ Million	Revenue reserve HK\$ Million	Total HK\$ Million
<b>(a) The Group</b>						
<b>(i) Company and subsidiaries</b>						
Balance at 1st January, 2004						
As previously reported	542.0	674.6	1,589.9	8.4	1,671.5	4,486.4
Prior year adjustment for						
– investment properties and related deferred tax	–	(674.6)	–	–	556.5	(118.1)
– hotel property	–	–	(1,589.9)	–	(54.4)	(1,644.3)
As restated	542.0	–	–	8.4	2,173.6	2,724.0
Revaluation surplus						
Investment properties	–	148.7	–	–	–	148.7
– Prior year adjustment for HKAS 40	–	(148.7)	–	–	–	(148.7)
As restated	–	–	–	–	–	–
Hotel property	–	–	167.0	–	–	167.0
– Prior year adjustment for HK– Int 2	–	–	(167.0)	–	–	(167.0)
As restated	–	–	–	–	–	–
Available-for-sale investments	–	–	–	262.6	–	262.6
Deferred tax on revaluation of investment properties	–	(26.0)	–	–	–	(26.0)
Prior year adjustment for HKAS Int 21	–	26.0	–	–	–	26.0
Deferred tax on revaluation of investment properties as restated	–	–	–	–	–	–
Profit for the year	–	–	–	–	315.3	315.3
Dividend approved in respect of the previous year	–	–	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2004 (as restated)	542.0	–	–	271.0	2,435.3	3,248.3

## 18. RESERVES (continued)

	Share premium HK\$ Million	Investment property revaluation reserve HK\$ Million	Hotel property revaluation reserve HK\$ Million	Investments revaluation reserve HK\$ Million	Revenue reserve HK\$ Million	Total HK\$ Million
<b>(a) The Group (continued)</b>						
<b>(i) Company and subsidiaries (continued)</b>						
Balance at 1st January, 2005						
As previously reported	542.0	823.3	1,756.9	271.0	1,812.2	5,205.4
Prior year adjustments for						
– investment properties and related deferred tax	–	(823.3)	–	–	679.2	(144.1)
– hotel property	–	–	(1,756.9)	–	(56.1)	(1,813.0)
As restated	542.0	–	–	271.0	2,435.3	3,248.3
Revaluation surplus						
available-for-sale investments	–	–	–	133.4	–	133.4
Profit for the year	–	–	–	–	492.7	492.7
Dividend approved in respect of the previous year	–	–	–	–	(37.8)	(37.8)
Dividend declared in respect of the current year	–	–	–	–	(15.8)	(15.8)
Balance at 31st December, 2005	542.0	–	–	404.4	2,874.4	3,820.8
<b>(ii) Associates</b>						
Balance at 1st January, 2004	–	–	–	0.8	41.9	42.7
Revaluation surplus						
available-for-sale investments	–	–	–	0.7	–	0.7
Profit for the year	–	–	–	–	56.4	56.4
Balance at 31st December, 2004 and at 1st January, 2005	–	–	–	1.5	98.3	99.8
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	(1.5)	–	(1.5)
Profit for the year	–	–	–	–	24.4	24.4
Balance at 31st December, 2005	–	–	–	–	122.7	122.7
<b>Total reserves</b>						
At 31st December, 2005	542.0	–	–	404.4	2,997.1	3,943.5
At 31st December, 2004 (restated)	542.0	–	–	272.5	2,533.6	3,348.1

**18. RESERVES** (continued)

	Share premium HK\$ Million	Investment property revaluation reserve HK\$ Million	Hotel property revaluation reserve HK\$ Million	Investments revaluation reserve HK\$ Million	Revenue reserve HK\$ Million	Total HK\$ Million
<b>(b) The Company</b>						
Balance at 1st January, 2004	542.0	-	-	-	200.4	742.4
Profit for the year	-	-	-	-	22.3	22.3
Dividend approved in respect of the previous year	-	-	-	-	(37.8)	(37.8)
Dividend declared in respect of the current year	-	-	-	-	(15.8)	(15.8)
Balance at 31st December, 2004 and at 1st January, 2005	<b>542.0</b>	-	-	-	<b>169.1</b>	<b>711.1</b>
Profit for the year	-	-	-	-	<b>174.2</b>	<b>174.2</b>
Dividend approved in respect of the previous year	-	-	-	-	<b>(37.8)</b>	<b>(37.8)</b>
Dividend declared in respect of the current year	-	-	-	-	<b>(15.8)</b>	<b>(15.8)</b>
Balance at 31st December, 2005	<b>542.0</b>	-	-	-	<b>289.7</b>	<b>831.7</b>

Notes:

- (i) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The investments revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of available-for-sale investments.
- (ii) Reserves of the Company available for distribution to shareholders at 31st December, 2005 amounted to HK\$289.7 million (2004: HK\$169.1 million).

**19. DEFERRED INCOME**

The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2005	2004
	HK\$ Million	HK\$ Million
Balance at 1st January	5.2	25.3
Additions	0.3	0.8
Credited to the consolidated profit and loss account	(3.9)	(20.9)
Balance at 31st December	<b>1.6</b>	5.2

**20. DEFERRED TAXATION**

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

	Group			Total HK\$ Million
	Depreciation allowances in excess of the related depreciation HK\$ Million	Revaluation of investment properties HK\$ Million	Retirement scheme assets HK\$ Million	
Balance at 1st January, 2004				
As previously reported	11.4	–	1.5	12.9
Prior year adjustment	–	118.1	–	118.1
As restated	11.4	118.1	1.5	131.0
Charged to the consolidated profit and loss account	1.5	26.0	–	27.5
Balance at 31st December, 2004 (as restated)	12.9	144.1	1.5	158.5
Balance at 1st January, 2005				
As previously reported	<b>12.9</b>	–	<b>1.5</b>	<b>14.4</b>
Prior year adjustment	–	<b>144.1</b>	–	<b>144.1</b>
As restated	<b>12.9</b>	<b>144.1</b>	<b>1.5</b>	<b>158.5</b>
Charged to the consolidated profit and loss account	<b>1.1</b>	<b>47.4</b>	–	<b>48.5</b>
Balance at 31st December, 2005	<b>14.0</b>	<b>191.5</b>	<b>1.5</b>	<b>207.0</b>

- (b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31st December, 2005 and 2004.

## 21. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK\$28.1 million (2004: HK\$25.0 million) which included management fees of HK\$23.2 million (2004: HK\$20.5 million) and marketing fees of HK\$4.9 million (2004: HK\$4.5 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such a management agreement, entered into on 2nd January, 2004, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules but are exempted under the provisions of the Listing Rules which were in force prior to 31st March, 2004 from the requirements relating to connected transactions.
- (b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11th April, 2003 to 10th April, 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK\$61.7 million (2004: HK\$57.3 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

## 22. CONTINGENT LIABILITIES

As at 31st December, 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts and credit facilities up to HK\$41.5 million (2004: HK\$3.0 million). HK\$38.4 million of such facilities was also secured by a deposit with bank of HK\$38.4 million.

## 23. COMMITMENTS

Capital commitments outstanding at 31st December, 2005 not provided for in the accounts were as follows:

	2005 HK\$ Million	Group 2004 HK\$ Million
Contracted but not provided for	27.4	217.1
Authorised but not contracted for	6.2	9.8
	<b>33.6</b>	226.9

## 24. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 6(a).

## 25. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in Note 8.

## 26. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The Group does not have a significant concentration of credit risk.

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### (c) Foreign currency risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in Hong Kong dollars.

### (d) Fair value

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

## 27. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

Note 13 contains information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key sources of estimation uncertainty are as follows:

– *Valuation of investment properties*

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

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

– *Assessment of the useful economic lives for depreciation of fixed assets*

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

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

– *Assessment of provision for properties held under “non-current assets”*

Management assesses the recoverable amount of each property based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows.



**27. ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**(a) Key sources of estimation uncertainty** (continued)– *Assessment of provision for properties under development for sale*

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

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

**(b) Critical accounting judgements in applying the Group's accounting policies**

Management considers that there are no critical accounting judgements in applying the Group's accounting policies.

## 28. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31ST DECEMBER, 2005

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31st December, 2005 and which have not been adopted in these accounts.

Of these developments, the following relate to matters that may be relevant to the Group's operations and accounts:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1st January, 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement: – Financial guarantee contracts	1st January, 2006
HKFRS 7, Financial instruments: disclosures	1st January, 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1st January, 2007

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

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

## 29. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company is The Wharf (Holdings) Limited, a company incorporated and listed in Hong Kong.

## 30. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Directors on 8th March, 2006.