1 Adoption of new and revised Hong Kong Financial Reporting Standards

Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS", which term collectively includes Hong Kong Accounting Standards "HKAS" and related Interpretations "INT") that are effective or available for early adoption for the financial year beginning 1 January 2005. In the current year, the Group has adopted retrospectively, where required, all remaining new and revised HKFRS that are currently in issue and effective for the financial year beginning 1 January 2005 and has elected to early adopt Amendment to HKAS 19, Employee benefits – actuarial gains and losses, group plans and disclosures, ahead of its effective date of 1 January 2006.

HKICPA may issue new and revised standards and interpretations subsequent to the date of issuance of these accounts. In addition, interpretations on the application of HKFRS will continue to develop. These factors may require adoption of new accounting policies.

Note 2 sets out information on the effect of the adoption of new and revised HKFRS accounting policies for the current and prior years. As explained in note 2(n), HKAS 39, Financial instruments: recognition and measurement, does not require retrospective application and therefore adjustments made with respect to the changes in accounting policies under this standard are only recorded as at 1 January 2005 with no retrospective adjustments made to prior year comparatives.

2 Effect of the adoption of new and revised HKFRS accounting policies

The effect, where material, of the adoption is summarised below.

(a) Restatement of prior year and opening balances

(i) Effect on the consolidated profit and loss account for the year ended 31 December 2004

		Effect of adopting new policies – increase (decrease) in profit attributable to shareholders of the Company													
in HK$ millions	2004 (as previously reported)	HKAS 1 (c) & (d)	HKAS 2 (e)	HKAS 12 (f)	HKAS 16 (g)	HK-INT 2 (h)	HKAS 17 (i)	Amend. to HKAS 19 (j)	HKAS 21 (k)	HKAS 28 (l)	HKAS 38 (m)	HKAS 39 (n)	HKFRS 2 (o)	Sub-total	2004 (as restated)
Company and subsidiary companies															
Revenue	134,595	–	–	–	–	–	–	–	–	–	–	–	–	–	134,595
Cost of inventories sold	(52,006)	–	–	–	–	–	–	–	–	–	–	–	–	–	(52,006)
Staff costs	(21,525)	–	–	–	–	–	–	103	–	–	–	–	(56)	47	(21,478)
Telecommunications prepaid customer acquisition costs	(8,423)	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,423)
Depreciation and amortisation	(30,263)	–	–	–	3	(62)	–	–	–	–	(405)	–	–	(464)	(30,727)
Other operating expenses	(38,680)	–	(1,062)	–	63	–	–	19	–	–	488	–	26	(466)	(39,146)
Change in fair value of investment properties	5,244	–	–	–	–	–	–	–	–	–	–	–	–	–	5,244
Profit on disposal of investments, elimination of minority interests and others	19,181	–	–	–	–	–	–	–	–	–	–	–	–	–	19,181
	8,123	–	(1,062)	–	66	(62)	–	122	–	–	83	–	(30)	(883)	7,240
Share of profits less losses of:															
Associated companies	8,822	(2,813)	–	–	–	(27)	–	–	–	(33)	–	–	(28)	(2,901)	5,921
Jointly controlled entities	2,422	(612)	–	–	(13)	(27)	(5)	–	–	–	–	–	–	(657)	1,765
	11,244	(3,425)	–	–	(13)	(54)	(5)	–	–	(33)	–	–	(28)	(3,558)	7,686
Interest and other finance costs	(12,712)	1,662	–	–	(23)	–	–	–	–	–	(147)	–	–	1,492	(11,220)
Profit before taxation	6,655	(1,763)	(1,062)	–	30	(116)	(5)	122	–	(33)	(64)	–	(58)	(2,949)	3,706
Current taxation charge	(3,776)	1,390	–	–	–	–	–	–	–	–	–	–	–	1,390	(2,386)
Deferred taxation credit	6,818	373	–	(2,341)	(7)	–	–	(28)	–	–	–	–	–	(2,003)	4,815
Profit after taxation	9,697	–	(1,062)	(2,341)	23	(116)	(5)	94	–	(33)	(64)	–	(58)	(3,562)	6,135
Allocated as:															
Loss attributable to minority interests	6,431	–	92	265	9	7	–	(3)	–	5	17	–	20	412	6,843
Profit attributable to shareholders of the Company	16,128	–	(970)	(2,076)	32	(109)	(5)	91	–	(28)	(47)	–	(38)	(3,150)	12,978
Earnings per share for profit attributable to shareholders of the Company	HK$3.78	–	(HK$0.23)	(HK$0.49)	HK$0.01	(HK$0.03)	–	HK$0.02	–	–	(HK$0.01)	–	(HK$0.01)	(HK$0.74)	HK$3.04

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

(a) Restatement of prior year and opening balances (continued)

(ii) Effect on the consolidated balance sheet as at 31 December 2004 and 1 January 2005

in HK$ millions	31.12 2004 (as previously reported)	HKAS 1 (c) & (d)	HKAS 2 (e)	HKAS 12 (f)	HKAS 16 (g)	HK-INT 2 (h)	HKAS 17 (i)	Amend. to HKAS 19 (j)	HKAS 21 (k)	HKAS 28 (l)	HKAS 38 (m)	HKFRS 2 (o)	Sub-total	31.12 2004 (as restated)	Effect of HKAS 39 (n)	1.1 2005 (as restated)
		Effect of adopting new policies - increase (decrease) in net assets														
Assets																
Non-current assets																
Fixed assets	210,937	(31,741)	–	–	(21)	(151)	(31,124)	–	–	–	(297)	–	(63,334)	147,603	–	147,603
Investment properties	–	31,741	–	–	–	–	–	–	–	–	–	–	31,741	31,741	–	31,741
Leasehold land prepayments	–	–	–	–	–	–	31,037	–	–	–	–	–	31,037	31,037	–	31,037
Telecommunications licences	102,138	–	–	–	–	–	–	–	–	–	922	–	922	103,060	(153)	102,907
Telecommunications postpaid customer acquisition costs	6,823	–	–	–	–	–	–	–	–	–	–	–	–	6,823	–	6,823
Goodwill	10,241	–	–	181	–	–	–	(15)	170	–	–	–	336	10,577	–	10,577
Brand names and other rights	–	–	–	–	–	–	–	–	–	–	1,559	–	1,559	1,559	–	1,559
Associated companies	55,332	–	–	–	(15)	(76)	–	(6)	47	(395)	–	–	(445)	54,887	(600)	54,287
Interests in joint ventures	35,963	–	–	–	(103)	(82)	(32)	10	–	–	–	–	(207)	35,756	(2,399)	33,357
Deferred tax assets	19,384	–	–	(7,125)	–	–	–	–	–	–	–	–	(7,125)	12,259	–	12,259
Other non-current assets	8,230	–	–	–	–	–	–	–	–	–	–	–	–	8,230	(549)	7,681
Liquid funds and other listed investments	66,503	–	–	–	–	–	–	–	–	–	–	–	–	66,503	(775)	65,728
	515,551	–	–	(6,944)	(139)	(309)	(119)	(11)	217	(395)	2,184	-	(5,516)	510,035	(4,476)	505,559
Current assets																
Cash and cash equivalents	73,798	–	–	–	–	–	–	–	–	–	–	–	–	73,798	–	73,798
Trade and other receivables	46,916	–	(657)	–	–	–	–	–	–	–	(386)	–	(1,043)	45,873	(192)	45,681
Inventories	17,970	–	(481)	–	–	–	–	–	–	–	–	–	(481)	17,489	–	17,489
	138,684	–	(1,138)	–	–	–	–	–	–	–	(386)	–	(1,524)	137,160	(192)	136,968
Current liabilities																
Trade and other payables	63,510	1,944	–	–	668	-	13	(9)	–	–	107	12	2,735	66,245	(2,288)	63,957
Current borrowings	23,118	–	–	–	–	–	–	–	–	–	–	–	–	23,118	–	23,118
Current tax payables	1,898	–	–	–	–	–	–	–	–	–	–	–	–	1,898	–	1,898
	88,526	1,944	–	–	668	–	13	(9)	–	–	107	12	2,735	91,261	(2,288)	88,973
Net current assets	50,158	(1,944)	(1,138)	–	(668)	–	(13)	9	–	–	(493)	(12)	(4,259)	45,899	2,096	47,995
Total assets less current liabilities	565,709	(1,944)	(1,138)	(6,944)	(807)	(309)	(132)	(2)	217	(395)	1,691	(12)	(9,775)	555,934	(2,380)	553,554
Non-current liabilities																
Long term borrowings	254,779	5,096	–	–	–	–	–	–	–	–	–	–	5,096	259,875	(2,544)	257,331
Deferred tax liabilities	11,893	–	–	–	2	–	(18)	(203)	–	–	–	–	(219)	11,674	(32)	11,642
Pension obligations	1,143	–	–	–	–	–	–	1,281	–	–	–	–	1,281	2,424	–	2,424
Other non-current liabilities	–	–	–	–	–	–	–	–	–	–	2,167	–	2,167	2,167	1,071	3,238
	267,815	5,096	–	–	2	–	(18)	1,078	–	–	2,167	–	8,325	276,140	(1,505)	274,635
Minority interests	37,053	(37,053)	–	–	–	–	–	–	–	–	–	–	(37,053)	–	–	–
Net assets	260,841	30,013	(1,138)	(6,944)	(809)	(309)	(114)	(1,080)	217	(395)	(476)	(12)	18,953	279,794	(875)	278,919
Capital and reserves																
Share capital	1,066	–	–	–	–	–	–	–	–	–	–	–	–	1,066	–	1,066
Reserves	259,775	–	(1,040)	(6,230)	(557)	(289)	(64)	(1,017)	210	(334)	(341)	(8)	(9,670)	250,105	(646)	249,459
Shareholders' funds	260,841	–	(1,040)	(6,230)	(557)	(289)	(64)	(1,017)	210	(334)	(341)	(8)	(9,670)	251,171	(646)	250,525
Minority interests	–	30,013	(98)	(714)	(252)	(20)	(50)	(63)	7	(61)	(135)	(4)	28,623	28,623	(229)	28,394
Total equity	260,841	30,013	(1,138)	(6,944)	(809)	(309)	(114)	(1,080)	217	(395)	(476)	(12)	18,953	279,794	(875)	278,919

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

(b) Estimated effect on the current year

(i) Estimated effect on the consolidated profit and loss account for the year ended 31 December 2005

in HK$ millions	HKAS 1 (c) & (d)	HKAS 2 (e)	HKAS 12 (f)	HKAS 16 (g)	HK-INT 2 (h)	HKAS 17 (i)	Amend. to HKAS 19 (j)	HKAS 21 (k)	HKAS 28 (l)	HKAS 38 (m)	HKAS 39 (n)	HKFRS 2 (o)	Total
	Estimated effect of adopting new policies – increase (decrease) in profit attributable to shareholders of the Company												
Company and subsidiary companies													
Revenue	–	–	–	–	–	–	–	–	–	–	–	–	–
Cost of inventories sold	–	–	–	–	–	–	–	–	–	–	–	–	–
Staff costs	–	–	–	–	–	–	80	–	–	–	–	(134)	(54)
Telecommunications prepaid customer acquisition costs	–	–	–	–	–	–	–	–	–	–	–	–	–
Depreciation and amortisation	–	–	–	161	(76)	–	–	–	–	(637)	–	–	(552)
Other operating expenses	–	(706)	–	(35)	–	–	–	–	–	706	350	–	315
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	–	–	–	–
Profit on disposal of investments, elimination of minority interests and others	–	–	–	–	–	–	2	–	212	93	54	30	391
	–	(706)	–	126	(76)	–	82	–	212	162	404	(104)	100
Share of profits less losses of:													
Associated companies	(4,190)	–	–	11	(43)	–	30	–	–	–	102	(18)	(4,108)
Jointly controlled entities	(1,454)	–	–	(17)	(61)	(5)	(1)	–	–	–	–	–	(1,538)
	(5,644)	–	–	(6)	(104)	(5)	29	–	–	–	102	(18)	(5,646)
Interest and other finance costs	2,751	–	–	(12)	–	–	–	–	–	(148)	3	–	2,594
Profit before taxation	(2,893)	(706)	–	108	(180)	(5)	111	–	212	14	509	(122)	(2,952)
Current taxation charge	1,608	–	–	–	–	–	–	–	–	–	–	–	1,608
Deferred taxation credit	1,285	–	(3,990)	–	1	–	(26)	–	–	–	(26)	1	(2,755)
Profit after taxation	–	(706)	(3,990)	108	(179)	(5)	85	–	212	14	483	(121)	(4,099)
Allocated as:													
Loss attributable to minority interests	–	33	326	(29)	8	–	(8)	–	(33)	36	(46)	59	346
Profit attributable to shareholders of the Company	–	(673)	(3,664)	79	(171)	(5)	77	–	179	50	437	(62)	(3,753)
Earnings per share for profit attributable to shareholders of the Company	–	(HK$0.16)	(HK$0.86)	HK$0.02	(HK$0.04)	–	HK$0.02	–	HK$0.04	HK$0.01	HK$0.10	(HK$0.01)	(HK$0.88)

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

(b) Estimated effect on the current year (continued)

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

in HK$ millions	HKAS 1 (c) & (d)	HKAS 2 (e)	HKAS 12 (f)	HKAS 16 (g)	HK-INT 2 (h)	HKAS 17 (i)	Amend. to HKAS 19 (j)	HKAS 21 (k)	HKAS 28 (l)	HKAS 38 (m)	HKAS 39 (n)	HKFRS 2 (o)	Total
	Estimated effect of adopting new policies – increase (decrease) in net assets												
Assets													
Non-current assets													
Fixed assets	(38,557)	–	–	415	(196)	(32,464)	–	–	–	(211)	–	–	(71,013)
Investment properties	38,557	–	–	–	–	–	–	–	–	–	–	–	38,557
Leasehold land prepayments	–	–	–	–	–	32,374	–	–	–	–	–	–	32,374
Telecommunications licences	–	–	–	–	–	–	–	–	–	–	(133)	–	(133)
Telecommunications postpaid customer acquisition costs	–	–	–	–	–	–	–	–	–	–	–	–	–
Goodwill	–	46	572	6	–	–	(13)	121	–	–	84	–	816
Brand names and other rights	–	–	–	–	–	–	–	–	–	1,954	–	–	1,954
Associated companies	–	–	–	(104)	(118)	-	(146)	(50)	(110)	(221)	(142)	(2)	(893)
Interests in joint ventures	–	–	–	(120)	(144)	(37)	19	–	–	–	(754)	–	(1,036)
Deferred tax assets	–	–	(10,100)	–	–	–	–	–	–	–	–	–	(10,100)
Other non-current assets	–	–	–	–	–	–	–	–	–	–	(1,455)	–	(1,455)
Liquid funds and other listed investments	–	–	–	–	–	–	–	–	–	–	(1,580)	–	(1,580)
	–	46	(9,528)	197	(458)	(127)	(140)	71	(110)	1,522	(3,980)	(2)	(12,509)
Current assets													
Cash and cash equivalents	–	–	–	–	–	–	–	–	–	–	–	–	–
Trade and other receivables	–	(1,362)	–	–	–	–	–	–	–	(1,140)	(76)	–	(2,578)
Inventories	–	(464)	–	–	–	–	–	–	–	–	4	–	(460)
	–	(1,826)	–	–	–	–	–	–	–	(1,140)	(72)	–	(3,038)
Current liabilities													
Trade and other payables	3,159	–	–	523	–	10	37	–	–	–	(2,088)	12	1,653
Current borrowings	–	–	–	–	–	–	–	–	–	–	15	–	15
Current tax payables	–	–	–	–	–	–	–	–	–	–	–	–	–
	3,159	–	–	523	–	10	37	–	–	–	(2,073)	12	1,668
Net current assets	(3,159)	(1,826)	–	(523)	–	(10)	(37)	–	–	(1,140)	2,001	(12)	(4,706)
Total assets less current liabilities	(3,159)	(1,780)	(9,528)	(326)	(458)	(137)	(177)	71	(110)	382	(1,979)	(14)	(17,215)
Non-current liabilities													
Long term borrowings	5,429	–	–	–	–	–	–	–	–	–	(3,972)	–	1,457
Deferred tax liabilities	–	–	–	–	30	(17)	(203)	–	–	–	(27)	(1)	(218)
Pension obligations	–	–	–	–	–	–	1,042	–	–	–	–	–	1,042
Other non-current liabilities	–	–	–	–	–	–	–	–	–	662	2,811	–	3,473
	5,429	–	–	–	30	(17)	839	–	–	662	(1,188)	(1)	5,754
Minority interests	(18,663)	–	–	–	–	–	–	–	–	–	–	–	(18,663)
Net assets	10,075	(1,780)	(9,528)	(326)	(488)	(120)	(1,016)	71	(110)	(280)	(791)	(13)	(4,306)
Capital and reserves													
Share capital	–	–	–	–	–	–	–	–	–	–	–	–	–
Reserves	–	(1,695)	(8,983)	(319)	(460)	(69)	(970)	71	(93)	(277)	(691)	(14)	(13,500)
Shareholders' funds	–	(1,695)	(8,983)	(319)	(460)	(69)	(970)	71	(93)	(277)	(691)	(14)	(13,500)
Minority interests	10,075	(85)	(545)	(7)	(28)	(51)	(46)	–	(17)	(3)	(100)	1	9,194
Total equity	10,075	(1,780)	(9,528)	(326)	(488)	(120)	(1,016)	71	(110)	(280)	(791)	(13)	(4,306)

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

The following sets out further information on the adoption of new and revised HKFRS accounting policies for the financial year beginning 1 January 2005 which have been reflected in these accounts. The financial impact is summarised in notes 2(a) and 2(b).

(c) Share of profits less losses of associated companies and jointly controlled entities (HKAS 1, Presentation of financial statements)

In prior years, share of profits less losses of associated companies and jointly controlled entities were presented in the consolidated profit and loss account before the change in fair value of investment properties, interest expense and other finance costs, taxation and minority interests in the associated companies and jointly controlled entities. With effect from 1 January 2005, in accordance with Guidance on Implementing HKAS 1, the Group's share of the results of the associated companies and jointly controlled entities is presented after the change in fair value of investment properties, interest expense and other finance costs, taxation and minority interests in the associated companies and jointly controlled entities.

The presentation of share of profits less losses of associated companies and jointly controlled entities in the consolidated profit and loss account for the comparative year has been restated accordingly.

(d) Minority interests and investment properties (HKAS 1 and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets, and minority interests in the results of the Group were presented in the consolidated profit and loss account separately as a deduction before arriving at the profit attributable to shareholders of the Company. With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the shareholders of the Company, and minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit after taxation between the minority interests and the shareholders of the Company. The presentation of minority interests in the consolidated profit and loss account, consolidated balance sheet and consolidated statement of recognised income and expense for the comparative year has been restated accordingly.

In prior years, investment properties were presented as part of fixed assets in the consolidated balance sheet. With effect from 1 January 2005, in order to comply with HKAS 1, investment properties are presented on the face of the consolidated balance sheet. This change in presentation has been applied retrospectively.

(e) Recognition of losses of handsets delivered to dealers (HKAS 2, Inventories)

In prior years, losses related to handsets delivered to dealers were deferred to match to the economic benefits arising from customer acquisition through the dealers. This deferral and matching treatment as prescribed under SSAP 22, Inventories has been eliminated by HKAS 2. With effect from 1 January 2005, in order to comply with HKAS 2, such losses are recognised when the handsets are delivered to dealers. This change in accounting policy has been applied retrospectively.

(f) Deferred tax assets (HKAS 12, Income taxes)

The Group recognises deferred tax assets for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Because there is no quantification of likelihood provided in HKFRS on the term "probable" it is subject to a varying degree of interpretations. In prior years, probable was interpreted as a more-than-50% likelihood. On transition to HKFRS and on adoption of HKAS 12, the Group has adopted the current interpretation of probable which require a higher hurdle of recognition after assessing all available evidence for the recognition of deferred tax assets for the carry forward of unused tax losses. This change in accounting policy has been applied retrospectively.

(g) Site restoration cost (HKAS 16, Property, plant and equipment)

In accordance with HKAS 16 and its current interpretation, site restoration costs incurred as a consequence of acquiring or using the site are included in the cost of an asset. In prior years, such costs were accounted for to the extent it was recognised as a provision. This change in accounting policy has been applied retrospectively.

(h) Hotel properties and golf courses (Hong Kong Interpretation 2 "HK-INT 2", The appropriate policies for hotel properties)

Hotel properties and golf courses are accounted for at cost less accumulated depreciation. The depreciable amount of the hotel and golf course buildings are depreciated over their remaining useful life and, when the hotel property and golf course are located on leasehold land, the carrying amount of the leasehold land is amortised over the shorter of the remaining term of the lease and the remaining useful life. In prior years, hotel properties and golf courses with unexpired lease term of more than 20 years were accounted for at cost, and when the unexpired lease term was 20 years or less, depreciation was provided on the then carrying value over the remaining term of the lease. This change in accounting policy has been applied retrospectively.

(i) Leasehold land prepayments (HKAS 17, Leases)

The adoption of HKAS 17, Leases has resulted in a change to the accounting policy relating to the reclassification of leasehold land separate from fixed assets to prepaid operating leases. The up-front prepayments made for the leasehold land are presented on the face of the balance sheet as leasehold land prepayments and expensed in the profit or loss on a straight-line basis over the period of the lease. In prior years, the leasehold land prepayments was accounted for at cost or valuation less accumulated depreciation. Apart from certain presentational changes with comparatives restated, this change in accounting policy does not have any material effect on the accounts. This change in accounting policy has been applied retrospectively.

(j) Actuarial gains and losses (Amendment to HKAS 19, Employee benefits – actuarial gains and losses, group plans and disclosures)

Amendment to HKAS 19 provides an option of recognising actuarial gains and losses in full in the year in which they occur, outside profit or loss, in reserves. The Group has elected to take the option to recognise all actuarial gains and losses, including those actuarial gains and losses previously included as part of the transitional unrecognised liabilities on initial adoption of SSAP 34, Employee benefits. In prior years, cumulative unrecognised net actuarial gains and losses, to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets, were recognised in the profit or loss over the average remaining service lives of employees. This change in accounting policy has been applied retrospectively.

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

(k) Translation of goodwill relating to a net investment in a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

Goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the closing rate at each balance sheet date. The previous treatment of goodwill as a non-monetary item which was translated at historic exchange rate is not allowed by HKAS 21. This change in accounting policy has been applied retrospectively.

(l) Recognition of losses of associated companies (HKAS 28, Investments in associates)

Share of loss of an associated company is recognised to the extent of the Group's interest in the associated company. The interest in an associated company is the carrying amount of the investment in the associated company under the equity method together with any long-term receivables and loans that, in substance, form part of the Group's net investment in the associated company. In prior years, the share of loss of an associated company is recognised to the extent of the carrying amount of the investment in the associated company under the equity method. This change in accounting policy has been applied retrospectively.

(m) Telecommunications licences, other rights (HKAS 38, Intangible assets, HKAS 17 and HKAS 32, Financial instruments: disclosure and presentation)

Telecommunications licences comprise the right to use spectrum and the right to provide a telecommunications service. The methods of payment for these rights vary from country to country and include fixed upfront payment and/or periodic payments comprising fixed and/or variable elements in subsequent years.

In prior years, fixed periodic payments made subsequent to the commercial launch of services were charged to the profit or loss as incurred. On transition to HKFRS the Group's listed associated company (formerly a subsidiary) Hutchison Telecommunications International ("HTIL") has adopted the current interpretation of HKAS 38 and HKAS 17 which considers telecommunications licences to be assets representing the right to provide a telecommunications service rather than a right to use an identifiable asset, being the radio spectrum allocated to HTIL under the terms of the licence. In measuring the asset, HTIL has applied HKAS 32 for recognition of the fixed periodic payments as these payments constitute a contractual obligation to deliver cash and hence are considered a financial liability. With effect from 1 January 2005, HTIL has changed its policy in accounting for telecommunications licences whereby upfront payments made for acquiring the telecommunications spectrum licences plus capitalised present value of fixed periodic payments to be made in subsequent years, together with interest accrued prior to the date of first commercial usage of the spectrum, are capitalised and disclosed as non-current assets in the consolidated balance sheet. Telecommunications licences are amortised on a straight-line basis from the date of first commercial usage of the spectrum over the remaining licence period and are stated net of accumulated amortisation. Interest accrued on the present value of fixed periodic payments is charged to interest expense in the profit or loss after the commercial launch. Variable periodic payments made subsequent to the commercial launch of services continue to be recognised in the profit or loss as incurred. This change in accounting policy has been applied retrospectively.

On adoption of HKAS 38, certain other rights that were presented in prior years as part of other non-current assets are presented within brand names and other rights in the consolidated balance sheet with effect from 1 January 2005. This change in presentation has been applied retrospectively.

2 Effect of the adoption of new and revised HKFRS accounting policies (continued)

(n) Financial instruments (HKAS 32 and HKAS 39, Financial instruments: recognition and measurement)

HKAS 32 prescribes disclosure requirements of financial instruments and these disclosure requirements have been applied, where applicable, retrospectively. HKAS 39 deals with recognition, measurement, derecognition of financial instruments and also prescribes requirements for hedge accounting. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, does not require the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects of the adoption of the requirements of HKAS 32 and HKAS 39 are summarised in notes 3(m), 3(n) and 3(s).

The Group's borrowings and debt instruments are initially measured at fair value, net of transaction costs, and are subsequently carried at amortised cost. Any difference between the fair value (net of transaction costs) and the settlement or redemption of borrowings and debt instruments is recognised over the period of the borrowings using effective interest method. In prior years, borrowings and debt instruments were stated at the nominal principal balance and the initial transaction costs incurred were capitalised and included under other non-current assets. The transaction costs were amortised on a straight-line basis over the period of the borrowings.

The Group applied the SSAP 24, Accounting for investments in securities for the 2004 comparative information. No comparatives have been restated and the transitional reclassification adjustments are determined and recorded as at 1 January 2005 and are shown in note 33 as "Adjustments in respect of changes in accounting policies for financial instruments" and new accounting policies and reclassification of the financial assets and liabilities resulting from the adoption of HKAS 39 are effective from 1 January 2005.

(o) Employee share option scheme (HKFRS 2, Share-based payment)

The Company has no share option schemes. Certain of the Company's subsidiary companies and associated companies which have share option schemes recognise the fair value of share options granted to employees as an expense in the profit or loss and a corresponding increase in other reserves within equity. As a transitional provision, the cost of share options granted after 7 November 2002 and had not vested on 1 January 2005 was expensed retrospectively in the profit or loss of the respective years. In the prior years, the provision of share options to employees did not result in an expense in the profit or loss.

At the date of authorisation of these accounts, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital disclosures
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: disclosures
HKFRS Interpretation 4	Determining whether an arrangement contains a lease
HKFRS Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HKFRS Interpretation 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKFRS 3 (Amendment)	Business combinations

The adoption of the above standards and interpretations in future periods is not expected to result in substantial changes to the Group's accounting policies.

3 Significant accounting policies

The accounts have been prepared in accordance with HKFRS issued by HKICPA. The accounts have been prepared under the historical cost convention except for certain properties and financial instruments which are stated at fair values, as explained in the significant accounting policies set out below.

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts for the year ended 31 December 2005 of the Company and of all its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies and jointly controlled entities on the basis set out in notes 3(c) and 3(d) below. Results of subsidiary and associated companies and jointly controlled entities acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 2005 or up to the dates of disposal as the case may be. The acquisition of subsidiaries is accounted for using the purchase method.

(b) Subsidiary companies

A subsidiary is an entity in which the Group, directly or indirectly, controls more than 50% of the equity voting rights or holds more than 50% of the issued share capital or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. In the consolidated accounts, subsidiary companies are accounted for as described in note 3(a) above. In the unconsolidated accounts of the holding company, investments in subsidiary companies are carried at cost less provision for impairment in value.

(c) Associated companies

An associate is an entity, other than a subsidiary or a jointly controlled entity, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

(d) Joint ventures

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities are joint venture which involves the establishment of a separate entity. The results and assets and liabilities of jointly controlled entities are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

3 Significant accounting policies (continued)

(e) Fixed assets

Fixed assets are stated at cost less depreciation and any impairment loss. Buildings are depreciated on the basis of an expected life of fifty years, or the remainder thereof, or over the remaining period of the lease of the underlying leasehold land, whichever is less. The period of the lease includes the period for which a right of renewal is attached.

Depreciation of other fixed assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight-line basis at the following annual rates:

Motor vehicles	20 - 25%
Plant, machinery and equipment	$3^1/_3$ - $33^1/_3$%
Container terminal equipment	5 - 20%
Telecommunications equipment	2.8 - 10%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is the greater

The gain or loss on disposal or retirement of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit or loss.

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed that are held to earn rentals or for capital appreciation or both. Such properties are carried in the balance sheet at their fair value as determined by professional valuation. Changes in fair values of investment properties are recorded in the profit or loss.

(g) Leasehold land prepayments

The upfront prepayments made for the leasehold land are presented on the face of the balance sheet as leasehold land prepayments and expensed in the profit or loss on a straight-line basis over the period of the lease.

(h) Telecommunications licences

Telecommunications licences are comprised of the upfront payments made for acquiring telecommunications spectrum licences plus the capitalised present value of fixed periodic payments to be made in subsequent years, together with the interest accrued prior to the date of first commercial usage of the spectrum. Telecommunications licences are amortised on a straight-line basis from the date of first commercial usage of the related spectrum over the remaining licence periods ranging from approximately 11 to 19 years.

(i) Telecommunications customer acquisition costs

Net costs to acquire mobile telecommunications customers, which are primarily 3G customers, pursuant to a contract with early termination penalties ("Telecommunications postpaid CACs") are capitalised and amortised over the period that the penalties apply (the period of contractual control) which is generally a period of 12-24 months. In the event that a customer churns off the network within the contractual control period, any unamortised customers acquisition costs are written off in the period in which the customers churn.

Net costs to acquire prepaid mobile telecommunications customers, which are primarily 3G customers, ("Telecommunications prepaid CACs") are expensed in the period incurred.

3 Significant accounting policies (continued)

(j) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company, associated company or jointly controlled entity at the date of acquisition. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation.

Goodwill arising on acquisition is retained at the carrying amount as a separate asset or, as applicable, included within investments in associated companies and joint ventures, and subject to impairment review annually and when there are indications that the carrying value may not be recoverable. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the profit or loss.

The profit or loss on disposal of subsidiary company, associated company or jointly controlled entity is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

(k) Brand names and other rights

The payments made for acquiring brand names and other rights are capitalised. Brand names and other rights with indefinite lives are not amortised. Brand names and other rights with definite lives are amortised on a straight-line basis from the date of their first commercial usage over their estimated useful lives ranging from approximately 3 to 40 years.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Liquid funds and other listed investments and other unlisted investments

Liquid funds and other listed investments are investments in listed debt securities, listed equity securities, long term deposits and cash and cash equivalents. Other unlisted investments, disclosed under other non-current assets, are investments in unlisted debt securities, unlisted equity securities and infrastructure projects. These investments are recognised and derecognised on the date the Group commits to purchase or sell the investments or when they expire.

The accounting policies for these investments, other than cash and cash equivalents, in prior years up to 31 December 2004, and up to adoption of HKAS 32 and HKAS 39 on 1 January 2005 are as follows:

Listed debt securities

In prior years, listed debt securities were presented in the balance sheet under liquid funds and other listed investments as listed held-to-maturity debt securities and were measured at cost less provision for impairment in value. From 1 January 2005, investments in listed debt securities are classified as either held-to-maturity investments or available-for-sale investments, which are accounted for as described below.

3 Significant accounting policies (continued)

(m) Liquid funds and other listed investments and other unlisted investments (continued)

Listed equity securities

Listed equity securities represent investments in listed companies which are not subsidiary companies nor associated companies nor joint ventures. In prior years, listed equity securities were presented in the balance sheet under liquid funds and other listed investments as listed equity securities, Hong Kong or listed equity securities, outside Hong Kong and were measured at fair value. From 1 January 2005, investments in listed equity securities are either classified as available-for-sale investments or designated as financial assets at fair value through profit or loss, which are accounted for as described below.

Long term deposits

In prior years, long term deposits were carried at cost less impairment. From 1 January 2005, long term deposits are classified as loans and receivables, which are accounted for as described below.

Unlisted debt securities

In prior years, unlisted debt securities were presented in the balance sheet under other non-current assets as other unlisted investments – held-to-maturity debt securities and were measured at cost less provision for impairment in value. From 1 January 2005, investments in unlisted debt securities are classified as loans and receivables, which are accounted for as described below.

Unlisted equity securities

Unlisted equity securities represent investments in unlisted companies which are not subsidiary companies nor associated companies nor joint ventures. In prior years, unlisted equity securities were presented in the balance sheet under other non-current assets as other unlisted investments – equity securities and advances and were measured at cost less provision for impairment in value. From 1 January 2005, investments in unlisted equity securities are classified as available-for-sale investments, which are accounted for as described below.

Infrastructure projects investments

Interests in infrastructure project investments represent investments where the Group's return is predetermined as a fixed percentage of investment costs in accordance with the provisions of the relevant agreements. In prior years, these investments were presented as other joint ventures under interests in joint ventures and were carried at cost less repayment of capital and provision for impairment in value. Cost included capital contributions and loans to the joint ventures, capitalised interest on related loans incurred up to the date of operations, and, in circumstances where the Group acquired the joint ventures, the purchase consideration which was attributable to their net tangible and intangible assets based upon their estimated fair value at the date of acquisition. Income was recognised on the accrual basis throughout the joint venture period. From 1 January 2005, interests in infrastructure project investments are classified as loans and receivables, which are accounted for as described below.

With effect from 1 January 2005, the Group has adopted HKAS 32 and HKAS 39 and classified these investments, other than cash and cash equivalents, under these categories and account for them as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and are carried at amortised cost less impairment. Interest calculated using the effective interest method is recognised in profit or loss.

3 Significant accounting policies (continued)

(m) Liquid funds and other listed investments and other unlisted investments (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised in the balance sheet at fair value plus transaction costs and subsequently carried at amortised cost less impairment. Interest calculated using the effective interest method is recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets designated at fair value through profit or loss upon initial recognition. These investments are initially recognised in the balance sheet at fair value. Changes in fair value are included in profit or loss.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These investments are initially recognised in the balance sheet at fair value plus transaction costs and measured at each subsequent reporting date at fair value. Changes in fair value are dealt with as movements in the investment revaluation reserve except for impairment losses which are charged to profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Dividends from available-for-sale investments are recognised when the right to receive payment is established. When available-for-sale investments are sold, the cumulative fair value gains or losses previously recognised in the investment revaluation reserve is recognised in profit or loss.

As explained in note 2(n), HKAS 39 does not require retrospective application and therefore adjustments made with respect to the changes in accounting policies under this standard are only recorded as at 1 January 2005 with no retrospective adjustments made to prior year comparatives.

(n) Derivative financial instruments and hedging activities

Derivative financial instruments are utilised by the Group in the management of its foreign currency and interest rate exposures. The Group's policy is not to utilise derivative financial instruments for trading or speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in fair value are recognised based on whether certain qualifying criteria under HKAS 39 are satisfied in order to apply hedge accounting, and if so, the nature of the items being hedged.

Derivatives designated as hedging instruments to hedge the fair value of recognised assets or liabilities may qualify as fair value hedges. The Group mainly enters into interest rate swap contracts to swap certain fixed interest rate borrowings into floating interest rate borrowings. Changes in the fair value of these derivatives, together with the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk are recognised in the profit or loss as interest and other finance costs.

Derivatives designated as hedging instruments to hedge against the cash flows attributable to recognised liabilities or forecast payments may qualify as cash flow hedges. The Group mainly enters into interest rate swap contacts to swap certain floating interest rate borrowings to fixed interest rate borrowings and foreign currency contracts to hedge the currency risk associated with certain forecast foreign currency payments and obligations. Changes in the fair value of these derivatives are dealt with as movements in hedging reserve.

3 Significant accounting policies (continued)

(n) Derivative financial instruments and hedging activities (continued)

Derivatives that do not qualify for hedge accounting under HKAS 39 will be accounted for with the changes in fair value being recognised in the profit or loss. In prior years, derivative financial instruments for hedging the foreign currency risk of a committed future transaction were recognised on a cash basis. For foreign currency swap agreements entered into for managing exchange rate exposures on certain foreign currency debt instruments, these debt instruments were translated at the contracted swap rates. For interest rate swap agreements entered into for managing the fixed and floating interest rate mix of the Group's total debt portfolio, these derivatives were not recognised on the balance sheet.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(p) Properties under development

Land for properties under development is stated at cost and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion, including capitalised interest on related loans.

(q) Inventories

Inventories consist mainly of retail goods and the carrying value is determined as the estimated selling price less the normal gross profit margin. Other inventories are stated at the lower of cost and net realisable value.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(s) Borrowings and borrowing costs

The Group's borrowings and debt instruments are initially measured at fair value, net of transaction costs, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings and debt instruments is recognised over the period of the borrowings using effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(u) Share capital

Ordinary shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

3 Significant accounting policies (continued)

(v) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

(w) Leased assets

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased.

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Leases payments are treated as consisting of capital and interest elements. The capital element of the leasing commitment is included as a liability and the interest element is charged to the profit or loss. All other leases are accounted for as operating leases and the rental payments are charged to the profit or loss on accrual basis.

(x) Asset impairment

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in profit or loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease.

(y) Pension plans

Pension plans are classified into defined benefit and defined contribution plans.

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full in the period in which they occur, outside profit or loss, in reserves.

The Group's contributions to the defined contribution plans are charged to the profit or loss in the year incurred.

Pension costs are charged against the profit or loss within staff costs.

The pension plans are generally funded by the relevant Group companies taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

(z) Share-based payments

The Company has no share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the respective group companies' estimate of their shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(z) Share-based payments (continued)

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

(aa) Foreign exchange

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of profit or loss.

The accounts of overseas subsidiary and associated companies and jointly controlled entities are translated into Hong Kong dollars using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the profit and loss account items. Exchange differences are dealt with as a movement in exchange reserve.

(ab) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivables for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Port and related services
Revenue from the provision of ports and related services is recognised when the service is rendered.

Property and hotels
Revenue from the sale of properties is recognised either on the date of sale or on the date of issue of the occupation permit, whichever is later.
Rental income is recognised on a straight-line basis over the period of the lease.
Revenue from provision of hotel management, consultancy and technical service is recognised when the service is rendered.

Retail
Revenue from the sale of retail goods is recognised at point of sales less an estimate for sales return based on past experience where goods are sold with a right to return. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sales, including credit card fees payable for the transaction.

Energy and infrastructure
Revenue from the sale of crude oil, natural gas, refined petroleum products and other energy products are recorded on a gross basis when title passes to an external party.
Revenue associated with the sale of transportation, processing and natural gas storage services is recognised when the services is rendered.
Income from infrastructure projects is recognised on a time proportion basis, using the effective interest rate method.
Income from long-term contracts is recognised according to the stage of completion.

Finance and investments
Dividend income from investments in securities is recognised when the Group's right to receive payment is established.
Interest income is recognised on a time proportion basis using the effective interest rate method.

3 Significant accounting policies (continued)

(ab) Revenue recognition (continued)

Mobile and fixed line telecommunications services

Revenue from the provision of mobile telecommunications services with respect to voice, video, internet access, messaging and media services, including data services and information provision, is recognised when the services are rendered and, depending on the nature of the services, is recognised either at gross amount billed to the customer or the amount receivable as commission for facilitating the services.

Revenue from the sales of prepaid mobile calling cards is recognised upon customer's usage of the card or upon the expiry of the service period.

Monthly access charge on the provision of fixed line telecommunications services is recognised on a straight-line basis over the respective period.

Other service income is recognised when services are rendered.

4 Critical accounting policies, estimates and judgements

Note 3 includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The selection and disclosure of the critical accounting policies, estimates and judgements have been discussed with the Group's Audit Committee. The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

(a) Long-lived assets

The Group has made substantial investments in tangible and intangible long-lived assets, primarily in mobile and fixed line telecommunications networks and licences, container terminals, and properties. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

The Group considers its asset impairment accounting policy to be a policy that requires one of the most extensive applications of judgements and estimates by management.

Assets that have an indefinite useful life are tested for impairment annually. Assets that are subject to depreciation and amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit or loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease.

4 Critical accounting estimates and judgements (continued)

(a) Long-lived assets (continued)

Management judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

The Group's 3G businesses commenced commercial operations from 2003 and in accordance with initial business plans are incurring losses as the businesses grow to operating scale. Impairment reviews were undertaken as at 31 December 2005 and 31 December 2004 to assess whether the carrying values of the Group's 3G telecommunications licences and network assets were supported by the net present value of future cash flows forecast to be derived from the use of these assets for each respective business. The results of the reviews undertaken as at 31 December 2005 and 31 December 2004 indicated that no impairment charge was necessary.

The future cash flow projections for the 3G businesses reflect growing recurring revenue and margins derived from an accumulating customer base and diminishing ongoing investments in network infrastructure and in customer acquisitions.

The forecast growth in recurring revenue and margins is driven primarily by the increasing size of the accumulating customer base, accompanied by profitability improvements due to beneficial changes to services usage profiles. Increasing demand for non-voice value added services such as sport and music content, multimedia messaging and video services has been experienced and is forecast to continue. Improving operating margins are forecast driven in part by a change in the mix from voice toward non-voice revenues; increased incoming traffic, which generates revenue from other operators, and on-net or intra-network traffic, which avoids interconnection costs being paid to other operators to terminate calls; and operating cost optimisation and cost savings achieved through network maintenances and other outsourcing programs. Improving profitability is also expected to continue based on the economies of scale effect that is able to be achieved in the customer operations and network operations functions. Also factored into the forecasts are the potential dilutive effect of attracting lower value customer when growing the customer base and the expected effect of market competition and development.

Initial investments in the upfront licence payments and the network infrastructure which has been built for scale have been significant. However, as the network capital expenditures are forecast to decline progressively as a percentage of revenues as the network construction phase nears completion and a lower "maintenance" level of capital expenditure is required for ongoing operation. Customer acquisition costs in the start-up phase of operation have also been significant, but are forecast to reduce based on the improved market acceptance of the new 3G technology and on the widening availability, improving attractiveness and lower unit cost of 3G handsets, all of which supports a lesser need to provide financial incentives for customers to convert to the new technology.

Projections in excess of five years are used to take into account contracted telecommunications spectrum licence periods, increasing market share and growth momentum. The discount rates for the review were based on country specific pre-tax weighted average cost of capital percentages and ranged from 11% to 13%. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

4 Critical accounting estimates and judgements (continued)

(b) Depreciation and amortisation

(i) Fixed assets

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expense in future periods.

(ii) Telecommunications licences

Telecommunications licences comprise the right to use spectrum and the right to provide a telecommunications service. The methods of payment for these rights vary from country to country and include fixed upfront payment and/or periodic payments comprising fixed and/or variable elements in subsequent years.

In prior years, fixed periodic payments made subsequent to the commercial launch of services were charged to the profit or loss as incurred. As disclosed in note 2(m), on transition to HKFRS, the Group's listed associated company (formerly a subsidiary), HTIL has changed its policy in accounting for telecommunications licences, in accordance with current interpretation of HKFRS, whereby upfront payments made for acquiring the telecommunications spectrum licences plus the capitalised present value of fixed periodic payments to be made in subsequent years, together with interest accrued prior to the date of first commercial usage of the spectrum, are capitalised and disclosed as non-current assets in the balance sheet. Telecommunications licences are amortised on a straight-line basis from the date of first commercial usage of the related spectrum over the remaining licence period and are stated net of accumulated amortisation. This change in accounting policy on adoption of HKFRS has been applied retrospectively and the comparative figures have been restated accordingly.

The actual economic lives of the Group's telecommunications spectrum licences may differ from the current contracted licence periods, which could impact the amount of amortisation expense charged to the profit or loss.

(iii) Telecommunications customer acquisition costs

Net costs to acquire mobile telecommunications customers, which are primarily 3G customers, pursuant to a contract with early termination penalties are capitalised and amortised over the period that the penalties apply (the period of contractual control) which is generally a period of 12-24 months. In the event that a customer churns off the network within the contractual control period, any unamortised customers acquisition costs are written off in the period in which the customers churn.

Net costs to acquire prepaid mobile telecommunications customers, which are primarily 3G customers, are expensed in the period incurred.

4 Critical accounting estimates and judgements (continued)

(c) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company, associated company or jointly controlled entity at the date of acquisition. Goodwill is recorded as a separate asset or, as applicable, included within investments in associated companies and joint ventures. Goodwill is also subject to the annual impairment review described above. The results of the reviews undertaken as at 31 December 2005 and 31 December 2004 indicated that no impairment charge was necessary.

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations primarily use cash flow projections based on five year financial budgets approved by management and estimated terminal value at the end of the five year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, growth rates and selection of discount rates, to reflect the risks involved, ranging from 6% to 13% and the earnings multiple that can be realised for the estimated terminal value. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(d) Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed that are held to earn rentals or for capital appreciation or both. Such properties are carried in the balance sheet at their fair value as determined by professional valuation. Changes in fair values of investment properties are recorded in the profit or loss.

(e) Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the accounts.

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Because there is no quantification of likelihood provided in HKFRS on the term "probable" it is subject to a varying degree of interpretations. In prior years, probable was interpreted as a more-than-50% likelihood. On transition to HKFRS and on adoption of HKAS 12 the Group has adopted the current interpretation of probable which requires a higher hurdle of recognition after assessing all available evidence for the recognition of deferred tax assets for the carry forward of unused tax losses. This change in accounting policy on adoption of HKFRS has been applied retrospectively and the comparative figures have been restated accordingly.

Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the profit or loss.

4 Critical accounting estimates and judgements (continued)

(e) Taxation (continued)

The 3G businesses commenced commercial operations from 2003 and in accordance with initial business plans are incurring losses as the businesses grow to operating scale. Deferred tax assets have been recognised for the carryforward amount of unused tax losses relating to the Group's 3G operation in the UK where, among other things, taxation losses can be carried forward indefinitely and there is availability of group relief for tax purposes that can be utilised to offset taxable profits generated by the Group's other operations in the UK. No deferred tax assets have been recognised for the unused tax losses carried-forward by the Group's 3G other operations since there are less opportunities to utilise the tax losses in the near term, for instance, unlike the UK there is no opportunity for group relief and in certain countries tax losses will expire if not utilised within a short period of time e.g. tax losses in Italy will expire if not utilised within 5 years. The ultimate realisation of deferred tax assets recognised for **3** UK depends principally on this business achieving profitability and generating sufficient taxable profits to utilise the underlying unused tax losses. It may be necessary for some or all of the deferred tax assets recognised to be reduced and charged to the profit or loss if there is a significant adverse change in the projected performance and resulting projected taxable profits of this business. Judgement is required to determine key assumptions adopted in the taxable profit and loss projections and changes to key assumptions used can significantly affect these taxable profit and loss projections.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues 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.

(f) Pension costs

The Group operates several defined benefit plans. Pension costs for defined benefit plans are using the projected unit credit method in accordance with HKAS 19, Employee benefits. Under this method, the cost of providing pensions is charged to the profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. On adoption of HKAS 19 and Amendment to HKAS 19, Employee benefits – actuarial gains and losses, group plans and disclosures, actuarial gains and losses are recognised in full in the year in which they occur, outside the profit or loss, in reserves. Previously, cumulative unrecognised net actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets were recognised over the average remaining service lives of employees. This change in accounting policy on adoption of HKFRS has been applied retrospectively and the comparative figures have been restated accordingly.

Management appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the HKFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

5 Financial risk management

The Group's major financial instruments include liquid funds and other listed investments and borrowings. Details of these financial instruments are disclosed in the respective notes. The Group's treasury function sets financial risk management policies in accordance with policies and procedures approved by its Executive Directors, which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks including interest rate and foreign exchange risks, and for providing cost efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. The Group uses derivatives, principally interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transaction for speculative purposes.

(a) Cash management and funding

The Group operates a central cash management system for all of its unlisted subsidiaries. Except for listed and certain overseas entities, the Group generally obtains long-term financing at the Group level to on-lend or contribute as equity to its subsidiaries and associates to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings, which change depending upon financial market conditions and projected interest rates. The Group regularly and closely monitors its overall net debt position and reviews its funding costs and maturity profile to facilitate refinancing.

(b) Interest rate exposure

The Group's main interest risk exposures relate to US dollar, Euro and HK dollar borrowings. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses a combination of interest rate swaps and forward rate agreements to manage its long-term interest rate exposure and exposure to short-term interest rate volatility respectively, as described in note 29.

(c) Foreign currency exposure

For overseas subsidiaries and associates and other investments, which consist of non-HK dollar and non-US dollar assets, the Group generally endeavours to establish a natural hedge with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in the local currency are not attractive, the Group may not borrow in the local currency and instead monitor the development of the businesses' cashflow and the debt markets and, when appropriate, would expect to refinance these businesses with local currency borrowings. During the year, the HK dollar strengthened against the currencies of most of those countries where the Group has overseas operations. This gave rise to an unrealised charge of HK$13,904 million (2004 - unrealised gain of HK$7,983 million) on translation of these operations' net assets to the Group's HK dollar reporting currency, which was reflected as a movement in the Group's reserves. Exposure to movements in exchange rates on individual transactions directly related to the underlying businesses is minimised using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist, as described in note 29.

(d) Credit exposure

The Group's holdings of cash, managed funds and other liquid investments expose the Group to credit risk of the counterparty. The Group controls its credit risk to non-performance by its counterparties through the setting of approved counterparty credit limits which are regularly reviewed and by monitoring their credit ratings.

6 Turnover and revenue

Turnover comprises revenues from the sales of goods and development properties, provision of services and rental income from investment properties, interest income and finance charges earned, and dividend income from equity investments. An analysis of revenue of the Company and subsidiary companies is as follows:

	2005 HK$ millions	2004 HK$ millions
Sales of goods	**83,271**	70,029
Rendering of services	**93,315**	58,975
Interest	**5,495**	5,302
Dividends	**503**	289
	182,584	134,595

7 Segment information

Segment information is presented in respect of the Group's primary business segments and secondary geographical segments. The column headed as Company and Subsidiaries refers to the Company and subsidiary companies' respective items. The column headed as Associates and JCE refers to the Group's share of associated companies and jointly controlled entities' respective items and is included as supplementary information. (See notes 21 and 22)

Telecommunications – **3** Group includes 3G operations in the UK, Italy, Sweden, Austria, Denmark, Norway and Ireland and the 2G and 3G operations in Australia.

Revenue from external customers is after elimination of inter-segment revenue. The amount eliminated attributable to Property and hotels is HK$308 million (2004 – HK$330 million), Finance & investments and others is HK$306 million (2004 – HK$188 million) and Hutchison Telecommunications International is HK$17 million (2004 – HK$71 million).

Business segment

	Revenue							
	Company and Subsidiaries HK$ millions	**Associates and JCE HK$ millions**	**2005 Total HK$ millions**	**% [(a)]**	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2004 Total HK$ millions	% [(a)]
ESTABLISHED BUSINESSES								
Ports and related services	**26,561**	**3,356**	**29,917**	**15%**	23,847	3,133	26,980	16%
Property and hotels	**4,275**	**5,990**	**10,265**	**5%**	4,909	4,208	9,117	5%
Retail	**78,850**	**9,930**	**88,780**	**44%**	64,303	3,996	68,299	41%
Cheung Kong Infrastructure	**2,508**	**14,082**	**16,590**	**8%**	2,683	12,109	14,792	9%
Husky Energy	**–**	**22,879**	**22,879**	**11%**	–	17,524	17,524	11%
Finance & investments and others	**8,527**	**2,003**	**10,530**	**5%**	8,178	2,759	10,937	7%
Hutchison Telecommunications International	**24,480**	**919**	**25,399**	**12%**	14,933	3,473	18,406	11%
Subtotal – established businesses	**145,201**	**59,159**	**204,360**	**100%**	118,853	47,202	166,055	100%
TELECOMMUNICATIONS – 3 Group	**37,383**	**119**	**37,502**		15,742	–	15,742	
	182,584	**59,278**	**241,862**		134,595	47,202	181,797	

7 Segment information (continued)

Business segment (continued)

	EBIT (LBIT) [b]							
	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2005 Total HK$ millions	% [a]	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2004 Total HK$ millions	% [a]
ESTABLISHED BUSINESSES								
Ports and related services	8,978	1,241	10,219	17%	7,704	1,252	8,956	16%
Property and hotels	1,994	1,945	3,939	7%	2,275	728	3,003	5%
Retail	2,761	500	3,261	6%	2,908	294	3,202	6%
Cheung Kong Infrastructure	1,088	5,587	6,675	11%	759	5,162	5,921	10%
Husky Energy	–	6,140	6,140	10%	–	2,793	2,793	5%
Finance & investments and others	5,009	482	5,491	9%	8,287	702	8,989	16%
Hutchison Telecommunications International	2,586	203	2,789	5%	(669)	831	162	–
	22,416	16,098	38,514		21,264	11,762	33,026	
Change in fair value of investment properties	3,685	1,540	5,225	9%	5,244	58	5,302	9%
Profit on disposal of investments and others[c]	15,717	–	15,717	26%	19,181	–	19,181	33%
EBIT – established businesses	41,818	17,638	59,456	100%	45,689	11,820	57,509	100%
TELECOMMUNICATIONS – 3 Group[d]								
EBIT (LBIT) before depreciation, amortisation and telecommunications prepaid CACs	1,825	–	1,825		(7,906)	–	(7,906)	
Telecommunications prepaid CACs	(11,444)	–	(11,444)		(8,423)	–	(8,423)	
LBIT before depreciation and amortisation and after telecommunications prepaid CACs	(9,619)	–	(9,619)		(16,329)	–	(16,329)	
Depreciation	(9,086)	–	(9,086)		(8,399)	–	(8,399)	
Amortisation of licence fees and other rights	(6,060)	–	(6,060)		(6,055)	–	(6,055)	
Amortisation of telecommunications postpaid CACs	(11,515)	–	(11,515)		(7,666)	–	(7,666)	
Profit on elimination of minority interests[c]	9,400	–	9,400		–	–	–	
LBIT – Telecommunications – 3 Group	(26,880)	–	(26,880)		(38,449)	–	(38,449)	
EBIT	14,938	17,638	32,576		7,240	11,820	19,060	
Group's share of the following profit and loss items of associated companies and jointly controlled entities:								
Interest and other finance costs		(2,751)				(2,327)		
Current taxation		(1,608)				(1,390)		
Deferred taxation		(1,285)				(417)		
Share of profits less losses of associated companies and jointly controlled entities		11,994				7,686		

7 Segment information (continued)

Business segment (continued)

	Depreciation and amortisation					
	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2005 Total HK$ millions	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2004 Total HK$ millions
ESTABLISHED BUSINESSES						
Ports and related services	2,649	456	3,105	2,610	387	2,997
Property and hotels	301	204	505	295	142	437
Retail	1,769	80	1,849	1,419	57	1,476
Cheung Kong Infrastructure	209	2,668	2,877	234	2,318	2,552
Husky Energy	–	3,196	3,196	–	2,810	2,810
Finance & investments and others	135	76	211	153	101	254
Hutchison Telecommunications International	4,003	98	4,101	3,896	335	4,231
Subtotal - established businesses	9,066	6,778	15,844	8,607	6,150	14,757
TELECOMMUNICATIONS - 3 Group	26,661	–	26,661	22,120	–	22,120
	35,727	6,778	42,505	30,727	6,150	36,877

	Capital expenditure							
	Fixed assets, investment properties, leasehold land prepayments		Telecommunications licences		Telecommunications postpaid customer acquisition costs		Brand names and other rights	
	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions	2005 HK$ millions	2004 HK$ millions
ESTABLISHED BUSINESSES								
Ports and related services	4,951	4,654	–	–	–	–	796	25
Property and hotels	226	794	–	–	–	–	–	–
Retail	2,454	2,249	–	–	–	–	–	–
Cheung Kong Infrastructure	78	77	–	–	–	–	–	–
Husky Energy	–	–	–	–	–	–	–	–
Finance & investments and others	422	104	–	–	–	–	–	–
Hutchison Telecommunications International	4,824	4,876	–	182	533	722	–	–
Subtotal - established businesses	12,955	12,754	–	182	533	722	796	25
TELECOMMUNICATIONS - 3 Group	14,051	21,428	221	–	12,099	12,082	–	5
	27,006	34,182	221	182	12,632	12,804	796	30

7 Segment information (continued)

Business segment (continued)

	Total assets							
	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2005 Total assets	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2004 Total assets
	Segment assets (f)	Deferred tax assets			Segment assets (f)	Deferred tax assets		
	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions
ESTABLISHED BUSINESSES								
Ports and related services	69,622	215	9,856	79,693	66,666	98	6,817	73,581
Property and hotels	45,050	12	20,717	65,779	41,687	1	20,018	61,706
Retail	37,383	282	1,520	39,185	29,952	296	1,166	31,414
Cheung Kong Infrastructure	15,918	287	38,995	55,200	16,772	5	40,387	57,164
Husky Energy	–	–	21,892	21,892	–	–	17,662	17,662
Finance & investments and others	116,461	32	2,676	119,169	137,019	24	2,271	139,314
Hutchison Telecommunications International	–	–	6,759	6,759	32,395	774	2,322	35,491
Subtotal - established businesses	284,434	828	102,415	387,677	324,491	1,198	90,643	416,332
TELECOMMUNICATIONS - 3 Group (e)	194,264	14,895	203	209,362	219,802	11,061	–	230,863
	478,698	15,723	102,618	597,039	544,293	12,259	90,643	647,195

	Total liabilities							
	Segment liabilities (g)	Current & long term borrowings and other non-current liabilities	Current & deferred tax liabilities	2005 Total liabilities	Segment liabilities (g)	Current & long term borrowings and other non-current liabilities	Current & deferred tax liabilities	2004 Total liabilities
	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions
ESTABLISHED BUSINESSES								
Ports and related services	11,980	27,057	6,532	45,569	11,394	23,505	6,010	40,909
Property and hotels	2,319	815	3,874	7,008	2,500	921	3,353	6,774
Retail	9,059	25,761	463	35,283	13,086	21,283	694	35,063
Cheung Kong Infrastructure	1,203	9,068	2,112	12,383	1,246	13,413	1,947	16,606
Husky Energy	–	–	1,651	1,651	–	–	879	879
Finance & investments and others	13,831	77,406	864	92,101	5,781	66,963	484	73,228
Hutchison Telecommunications International	–	–	–	–	6,840	18,654	168	25,662
Subtotal - established businesses	38,392	140,107	15,496	193,995	40,847	144,739	13,535	199,121
TELECOMMUNICATIONS - 3 Group	20,804	128,277	334	149,415	27,822	140,421	37	168,280
	59,196	268,384	15,830	343,410	68,669	285,160	13,572	367,401

7 Segment information (continued)

Geographical segment

	Revenue					
	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2005 Total HK$ millions	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2004 Total HK$ millions
Hong Kong	36,459	13,154	49,613	36,081	11,290	47,371
Mainland China	13,256	6,310	19,566	10,794	6,666	17,460
Asia and Australia	36,055	7,108	43,163	23,521	8,352	31,873
Europe	89,028	9,645	98,673	57,091	3,225	60,316
Americas and others	7,786	23,061	30,847	7,108	17,669	24,777
	182,584	59,278	241,862	134,595	47,202	181,797

	EBIT (LBIT) (b)					
	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2005 Total HK$ millions	Company and Subsidiaries HK$ millions	Associates and JCE HK$ millions	2004 Total HK$ millions
Hong Kong	2,801	5,419	8,220	5,139	4,440	9,579
Mainland China	4,078	1,988	6,066	3,276	1,805	5,081
Asia and Australia	2,663	1,734	4,397	(1,030)	2,455	1,425
Europe	(26,906)	755	(26,151)	(28,795)	244	(28,551)
Americas and others	3,500	6,202	9,702	4,225	2,818	7,043
Change in fair value of investment properties	3,685	1,540	5,225	5,244	58	5,302
Profit on disposal of investments, elimination of minority interests and others	25,117	–	25,117	19,181	–	19,181
EBIT	14,938	17,638	32,576	7,240	11,820	19,060
Group's share of the following profit and loss items of associated companies and jointly controlled entities:						
Interest and other finance costs		(2,751)			(2,327)	
Current taxation		(1,608)			(1,390)	
Deferred taxation		(1,285)			(417)	
Share of profits less losses of associated companies and jointly controlled entities		11,994			7,686	

7 Segment information (continued)

Geographical segment (continued)

	Capital expenditure							
	Fixed assets, investment properties, leasehold land prepayments		Telecommunications licences		Telecommunications postpaid customer acquisition costs		Brand names and other rights	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$ millions	HK$ millions	**HK$ millions**	HK$ millions	**HK$ millions**	HK$ millions	**HK$ millions**	HK$ millions
Hong Kong	**1,789**	2,609	**–**	–	**477**	429	**–**	–
Mainland China	**2,355**	2,010	**–**	–	**–**	–	**–**	25
Asia and Australia	**6,500**	6,481	**–**	182	**617**	1,367	**–**	–
Europe	**15,418**	21,955	**221**	–	**11,538**	11,008	**–**	5
Americas and others	**944**	1,127	**–**	–	**–**	–	**796**	–
	27,006	34,182	**221**	182	**12,632**	12,804	**796**	30

	Total assets							
	Company and Subsidiaries		Investments in associated		Company and Subsidiaries		Investments in associated	
	Segment assets (f)	**Deferred tax assets**	**companies and interests in joint ventures**	**2005 Total assets**	Segment assets (f)	Deferred tax assets	companies and interests in joint ventures	2004 Total assets
	HK$ millions	**HK$ millions**	**HK$ millions**	**HK$ millions**	HK$ millions	HK$ millions	HK$ millions	HK$ millions
Hong Kong	**81,827**	**78**	**37,561**	**119,466**	98,399	414	29,301	128,114
Mainland China	**28,031**	**301**	**25,649**	**53,981**	19,001	31	24,259	43,291
Asia and Australia	**36,221**	**141**	**9,894**	**46,256**	52,806	439	16,276	69,521
Europe	**251,776**	**15,165**	**5,369**	**272,310**	271,921	11,341	1,905	285,167
Americas and others	**80,843**	**38**	**24,145**	**105,026**	102,166	34	18,902	121,102
	478,698	**15,723**	**102,618**	**597,039**	544,293	12,259	90,643	647,195

(a) The percentages shown represent the contributions to total revenues and EBIT of established businesses.

(b) Earnings (losses) before interest expense and taxation ("EBIT" or "LBIT") represents the EBIT (LBIT) of the Company and subsidiary companies as well as the Group's share of the EBIT (LBIT) of associated companies and jointly controlled entities which is included as supplementary information. EBIT (LBIT) is defined as earnings (losses) before interest expense and other finance costs and taxation. Information concerning EBIT (LBIT) has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of profit from operations. The Group considers EBIT (LBIT) to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBIT (LBIT) is not a measure of financial performance under generally accepted accounting principles in Hong Kong and the EBIT (LBIT) measures used by the Group may not be comparable to other similarly titled measures of other companies. EBIT (LBIT) should not necessarily be construed as an alternative to profit from operations as determined in accordance with generally accepted accounting principles in Hong Kong.

(c) See note 8 for further details on respective items.

(d) Included in LBIT of Telecommunications – **3** Group for year ended 31 December 2004 were contributions from key suppliers totalling HK$3,381 million which resulted from discussions with some of our key 3G suppliers regarding the adverse effects of delays and the small beginning of the year customer base on revenue and costs.

(e) Included in this amount is an unrealised foreign currency exchange loss arising in 2005 of HK$18,979 million (2004 – gain of HK$13,099 million) from the translation of overseas subsidiaries accounts to Hong Kong dollars with an offsetting amount recorded in exchange reserve.

(f) Segment assets comprise fixed assets, investment properties, leasehold land prepayments, telecommunications licences, telecommunications postpaid customer acquisition costs, goodwill, brand names and other rights, other non-current assets, liquid funds and other listed investments, cash and cash equivalents and other current assets.

(g) Segment liabilities comprise trade and other payables and pension obligations.

8 Profit on disposal of investments, elimination of minority interests and others

	2005 HK$ millions	2004 HK$ millions
ESTABLISHED BUSINESSES		
Profit on disposal of subsidiaries	**14,050**	5,400
Profit on disposal of associated companies	**3,699**	13,759
Impairment loss	**(2,032)**	(791)
Others	**–**	813
TELECOMMUNICATIONS - 3 Group		
Profit on elimination of minority interests	**9,400**	–
	25,117	19,181

Profit on disposal of subsidiaries for the year includes a profit of HK$5,500 million arising from the disposal of a 20% interest in Hongkong International Terminals and a 10% interest in COSCO-HIT Terminals (Hong Kong), a profit of HK$1,150 million from issuance of new HTIL shares to privatise Hutchison Global Communications Holdings Limited ("HGC") and a profit of HK$7,400 million from the disposal of a 19.3% interest in HTIL.

Profit on disposal of associated companies of HK$3,699 million relates to the disposal of a 49% interest in the Australian electricity distribution businesses.

The impairment loss relates to certain infrastructure operations and projects of Cheung Kong Infrastructure. The impairment loss was primarily made against fixed assets of HK$769 million due to physical damage and technical obsolescence, against leasehold land prepayments, outside Hong Kong of HK$21 million by references to the latest market transaction prices and against investments in associated companies and jointly controlled entities of HK$1,116 million and other non-current assets of HK$126 million due to lower projected revenue from certain projects and operations.

Profit on elimination of minority interests of HK$9,400 million arises from the exercise of the right to purchase the minority shareholders' interests in Hutchison 3G UK Holdings at a substantial discount to their net asset value.

Profit on disposal of subsidiaries in 2004 included a profit of HK$1,300 million from the disposal of 47.4% of HGC and a profit of HK$4,100 million from the disposal of 29.8% in HTIL. Profit on disposal of associated companies in 2004 represented the profit arising from the disposal of Procter & Gamble-Hutchison. The impairment loss recognised in 2004 represents a write-off of the Group's premium on acquisition of certain infrastructure joint ventures in the Mainland. Others in 2004 represents a reversal of provisions previously made against equity securities.

9 Interest and other finance costs

	2005 HK$ millions	2004 HK$ millions
Bank loans and overdrafts	**6,332**	4,223
Other loans repayable within 5 years	**572**	723
Other loans not wholly repayable within 5 years	**387**	315
Notes and bonds repayable within 5 years	**1,798**	971
Notes and bonds not wholly repayable within 5 years	**5,818**	4,445
Interest bearing loans from minority interests wholly repayable within 5 years	**229**	749
Interest bearing loans from minority interests not wholly repayable within 5 years	**2**	1
	15,138	11,427
Notional non-cash interest accretion	**846**	662
	15,984	12,089
Less: interest capitalised	**(579)**	(869)
	15,405	11,220

The borrowing costs have been capitalised at a rate of 3% – 7% per annum (2004 – 5% – 7% per annum).

Notional non-cash interest accretion represents amortisation of upfront facility fees and other notional adjustments to accrete the carrying amount of certain obligations recognised in the balance sheet such as asset retirement obligation to the present value of the estimated future cash flows expected to be required for their settlement in the future.

10 Directors' emoluments

Directors' emoluments comprise payments to directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the directors of the Company excludes amounts received from the Company's listed subsidiaries and paid to the Company. The amounts paid to each director for both 2004 and 2005 are as below:

	2005					
Name of directors	Fees HK$ millions	Basic salaries, allowances and benefits-in-kind HK$ millions	Bonuses HK$ millions	Provident fund contributions HK$ millions	Inducement or compensation fees HK$ millions	Total emoluments HK$ millions
LI Ka-shing [(a) (g)]	0.05	–	–	–	–	0.05
LI Tzar Kuoi, Victor						
Paid by the Company	0.10	4.44	26.00	–	–	30.54
Paid by Cheung Kong Infrastructure	0.07	–	8.00	–	–	8.07
Paid to the Company	(0.07)	–	–	–	–	(0.07)
	0.10	4.44	34.00	–	–	38.54
FOK Kin-ning, Canning [(b)]	0.10	9.83	119.00	2.03	–	130.96
CHOW WOO Mo Fong, Susan [(b)]	0.10	7.34	26.00	1.47	–	34.91
Frank John SIXT [(b)]	0.16	7.32	25.88	0.64	–	34.00
LAI Kai Ming, Dominic [(b)]	0.10	4.88	11.00	0.85	–	16.83
KAM Hing Lam [(b)]						
Paid by the Company	0.10	2.25	6.30	–	–	8.65
Paid by Cheung Kong Infrastructure	0.07	4.20	3.87	–	–	8.14
Paid to the Company	(0.07)	(4.20)	–	–	–	(4.27)
	0.10	2.25	10.17	–	–	12.52
George Colin MAGNUS [(b) (d)]	0.12	3.36	3.50	–	–	6.98
William SHURNIAK [(e) (f)]	0.20	–	–	–	–	0.20
Michael David KADOORIE [(c)]	0.10	–	–	–	–	0.10
Holger KLUGE [(c) (f) (g)]	0.24	–	–	–	–	0.24
Simon MURRAY [(c)]	0.10	–	–	–	–	0.10
OR Ching Fai, Raymond [(c)]	0.10	–	–	–	–	0.10
Peter Alan Lee VINE [(c) (h)]	–	–	–	–	–	–
WONG Chung Hin [(c) (f) (g)]	0.24	–	–	–	–	0.24
Total	1.81	39.42	229.55	4.99	–	275.77

(a) No management remuneration was paid to Mr Li Ka-shing during the year other than director's fee of HK$50,000 (2004 - HK$50,000) which he paid to Cheung Kong (Holdings) Limited.

(b) Directors' fees received by these directors from the Company's listed subsidiaries during the period they served as executive directors that have been paid to the Company are not included in the amounts above.

(c) Independent non-executive directors. The total emoluments of the independent non-executive directors of the Company are HK$780,000 (2004 - HK$750,000).

(d) Re-designated as non-executive director on 1 November 2005.

(e) Non-executive director.

(f) Members of the Audit Committee.

(g) Members of the Remuneration Committee.

(h) Retired as director and member of the Audit Committee on 7 January 2005 and received director's fee and committee member's fees of HK$3,288 for the six day period.

10 Directors' emoluments (continued)

	2004					
Name of directors	Fees HK$ millions	Basic salaries, allowances and benefits-in-kind HK$ millions	Bonuses HK$ millions	Provident fund contributions HK$ millions	Inducement or compensation fees HK$ millions	Total emoluments HK$ millions
LI Ka-shing [(a)]	0.05	–	–	–	–	0.05
LI Tzar Kuoi, Victor						
Paid by the Company	0.10	4.44	27.50	–	–	32.04
Paid by Cheung Kong Infrastructure	0.07	–	6.24	–	–	6.31
Paid to the Company	(0.07)	–	–	–	–	(0.07)
	0.10	4.44	33.74	–	–	38.28
FOK Kin-ning, Canning [(b)]	0.10	9.76	124.85	1.93	–	136.64
CHOW WOO Mo Fong [(b)]	0.10	7.05	28.60	1.40	–	37.15
Frank John SIXT [(b)]	0.10	7.05	27.50	0.61	–	35.26
LAI Kai Ming, Dominic [(b)]	0.10	4.41	10.00	0.77	–	15.28
George Colin MAGNUS [(b)]	0.10	4.03	3.50	–	–	7.63
KAM Hing Lam						
Paid by the Company	0.10	2.25	6.93	–	–	9.28
Paid by Cheung Kong Infrastructure	0.07	4.20	2.64	–	–	6.91
Paid to the Company	(0.07)	(4.20)	–	–	–	(4.27)
	0.10	2.25	9.57	–	–	11.92
William SHURNIAK [(e) (f)]	0.20	–	–	–	–	0.20
Michael David KADOORIE [(c)]	0.10	–	–	–	–	0.10
Holger KLUGE [(c) (f)]	0.05	–	–	–	–	0.05
Simon MURRAY [(c)]	0.10	–	–	–	–	0.10
OR Ching Fai, Raymond [(c)]	0.10	–	–	–	–	0.10
Peter Alan Lee VINE [(c) (f)]	0.20	–	–	–	–	0.20
WONG Chung Hin [(c) (f)]	0.20	–	–	–	–	0.20
Total	1.70	38.99	237.76	4.71	–	283.16

The Company does not have an option scheme for the purchase of ordinary shares in the Company. None of the directors have received any share-based payments from the Company or any of its subsidiaries during the year (2004 – Nil).

In 2005, the five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary, allowances and benefits-in-kind – HK$5.59 million; provident fund contribution – HK$0.44 million; and bonus – HK$26.0 million. In 2004, the five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary, allowances and benefits-in-kind – HK$3.95 million; provident fund contribution – HK$0.48 million; and bonus – HK$55.0 million.

11 Taxation

	Current taxation HK$ millions	Deferred taxation HK$ millions	2005 Total HK$ millions	Current taxation HK$ millions	Deferred taxation HK$ millions	2004 Total HK$ millions
Hong Kong	532	554	1,086	747	1,060	1,807
Outside Hong Kong	1,979	(5,092)	(3,113)	1,639	(5,875)	(4,236)
	2,511	(4,538)	(2,027)	2,386	(4,815)	(2,429)

Hong Kong profits tax has been provided for at the rate of 17.5% (2004 – 17.5%) on the estimated assessable profits less estimated available tax losses. Taxation outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses. During the year, the Group recognised deferred tax assets related to the losses of 3G businesses in the UK amounting to HK$5,926 million (2004 – HK$6,249 million) (See note 23).

The differences between the Group's expected tax charge (credit), calculated at the domestic rates applicable to the country concerned, and the Group's tax charge (credit) for the years were as follows:

	Established businesses HK$ millions	Telecom-munications - 3 Group HK$ millions	2005 Total HK$ millions
Tax calculated at the domestic rates applicable in the country concerned	1,947	(13,927)	(11,980)
Tax losses not recognised	1,801	8,112	9,913
Tax incentives	(899)	–	(899)
Income not subject to taxation	(1,478)	(166)	(1,644)
Expenses not deductible for taxation purposes	2,904	38	2,942
Recognition of previously unrecognised tax losses	(131)	–	(131)
Utilisation of previously unrecognised tax losses	(568)	–	(568)
Under provision in prior years	119	83	202
Deferred tax assets written off	2	–	2
Other temporary differences	206	(84)	122
Effect of change in tax rate	(6)	20	14
Total taxation for the year	3,897	(5,924)	(2,027)

11 Taxation (continued)

	Established businesses HK$ millions	Telecom-munications – 3 Group HK$ millions	2004 Total HK$ millions
Tax calculated at the domestic rates applicable in the country concerned	3,316	(12,830)	(9,514)
Tax losses not recognised	911	6,624	7,535
Tax incentives	(573)	–	(573)
Income not subject to taxation	(801)	(230)	(1,031)
Expenses not deductible for taxation purposes	808	–	808
Recognition of previously unrecognised tax losses	(38)	–	(38)
Utilisation of previously unrecognised tax losses	(190)	–	(190)
Under provision in prior years	20	186	206
Deferred tax assets written off	439	–	439
Other temporary differences	(48)	3	(45)
Effect of change in tax rate	(26)	–	(26)
Total taxation for the year	3,818	(6,247)	(2,429)

12 Dividends

	2005 HK$ millions	2004 HK$ millions
Interim, paid of HK$0.51 per share (2004 – HK$0.51)	**2,174**	2,174
Final, proposed of HK$1.22 per share (2004 – HK$1.22)	**5,201**	5,201
	7,375	7,375

13 Earnings per share for profit attributable to shareholders of the Company

The calculation of earnings per share is based on profit attributable to shareholders of the Company HK$14,343 million (2004 – HK$12,978 million) and on 4,263,370,780 shares in issue during 2005 (2004 – 4,263,370,780 shares).

The Company has no share option scheme. Certain of the Company's subsidiary and associated companies have employee share options and convertible debts outstanding as at 31 December 2005. The employee share options and convertible debts of these subsidiary and associated companies outstanding as at 31 December 2005 did not have any dilutive effect on earnings per share.

14 Fixed assets

	Land and buildings HK$ millions	Telecom-munications network assets HK$ millions	Other assets HK$ millions	Total HK$ millions
Cost				
At 1 January 2004	28,926	56,336	76,077	161,339
Additions	1,952	5,620	25,492	33,064
Disposals	(750)	(2,290)	(2,647)	(5,687)
Relating to subsidiaries acquired	264	5,519	2,249	8,032
Relating to subsidiaries disposed of	(17)	(1)	(86)	(104)
Transfer from (to) current assets	(586)	(1,529)	801	(1,314)
Transfer between categories / investment properties / leasehold land prepayments	724	23,717	(24,926)	(485)
Exchange translation differences	781	3,457	4,344	8,582
At 1 January 2005	**31,294**	**90,829**	**81,304**	**203,427**
Additions	**1,318**	**5,014**	**18,526**	**24,858**
Disposals	**(106)**	**(707)**	**(2,092)**	**(2,905)**
Relating to subsidiaries acquired	**595**	**5,720**	**5,805**	**12,120**
Relating to subsidiaries disposed of	**(166)**	**(34,612)**	**(7,968)**	**(42,746)**
Revaluation upon transfer to investment properties	**5**	**–**	**–**	**5**
Transfer from (to) current assets	**25**	**(180)**	**88**	**(67)**
Transfer between categories / investment properties / leasehold land prepayments	**(677)**	**13,135**	**(13,257)**	**(799)**
Exchange translation differences	**(1,077)**	**(8,099)**	**(6,708)**	**(15,884)**
At 31 December 2005	**31,211**	**71,100**	**75,698**	**178,009**

14 Fixed assets (continued)

	Land and buildings HK$ millions	Telecom-munications network assets HK$ millions	Other assets HK$ millions	Total HK$ millions
Accumulated depreciation and impairment				
At 1 January 2004	5,176	6,407	26,248	37,831
Charge for the year	747	6,927	7,011	14,685
Impairment recognised	31	1,157	265	1,453
Disposals	(114)	(517)	(2,044)	(2,675)
Relating to subsidiaries acquired	70	2,062	723	2,855
Relating to subsidiaries disposed of	(2)	–	(82)	(84)
Transfer from (to) current assets	(1)	(708)	148	(561)
Transfer between categories / investment properties/ leasehold land prepayments	79	32	(131)	(20)
Exchange translation differences	243	519	1,578	2,340
At 1 January 2005	**6,229**	**15,879**	**33,716**	**55,824**
Charge for the year	**751**	**8,259**	**7,047**	**16,057**
Impairment recognised	**282**	**57**	**589**	**928**
Impairment reversed	**–**	**–**	**(25)**	**(25)**
Disposals	**(61)**	**(682)**	**(1,606)**	**(2,349)**
Relating to subsidiaries acquired	**43**	**2,120**	**2,510**	**4,673**
Relating to subsidiaries disposed of	**(44)**	**(12,591)**	**(3,985)**	**(16,620)**
Transfer from (to) current assets	**(5)**	**(148)**	**9**	**(144)**
Transfer between categories / investment properties / leasehold land prepayments	**38**	**(898)**	**851**	**(9)**
Exchange translation differences	**(338)**	**(1,163)**	**(3,103)**	**(4,604)**
At 31 December 2005	**6,895**	**10,833**	**36,003**	**53,731**
Net book value				
At 31 December 2005	**24,316**	**60,267**	**39,695**	**124,278**
At 31 December 2004	25,065	74,950	47,588	147,603

Land and buildings include projects under development in the amount of HK$1,339 million (2004 – HK$2,003 million).

Cost and net book value of fixed assets include HK$98,810 million (2004 – HK$95,283 million) and HK$78,808 million (2004 – HK$81,611 million) respectively relating to 3G businesses. Impairment reviews were undertaken as at 31 December 2005 and 31 December 2004 to assess whether the carrying values of the Group's 3G telecommunications licences and network assets were supported by the net present value of future cash flows forecast to be derived from the use of these assets for each respective business. Note 4(a) contains information about the estimates, assumptions and judgements relating to the impairment reviews. The results of the reviews undertaken as at 31 December 2005 and 31 December 2004 indicated that no impairment charge was necessary.

15 Investment properties

	2005 HK$ millions	2004 HK$ millions
Valuation		
At 1 January	**31,741**	25,892
Additions	**30**	53
Disposals	**(94)**	(24)
Relating to subsidiaries acquired	**2,574**	23
Relating to subsidiaries disposed of	**(23)**	–
Change in fair value of investment properties	**3,685**	5,244
Transfer from fixed assets and leasehold land prepayments	**634**	553
Exchange translation differences	**10**	–
At 31 December	**38,557**	31,741

Investment properties have been fair valued as at 31 December 2005 by DTZ Debenham Tie Leung Limited, professional valuers, on an open market value basis.

The Group's investment properties comprise:

	2005 HK$ millions	2004 HK$ millions
Hong Kong		
Long leasehold (not less than 50 years)	**14,983**	13,177
Medium leasehold (less than 50 years but not less than 10 years)	**20,167**	17,661
Outside Hong Kong		
Freehold	**212**	206
Medium leasehold	**3,195**	697
	38,557	31,741

At 31 December, the analysis of the Group's aggregate future minimum lease payments receivable under non-cancellable operating leases is as follows:

	2005 HK$ millions	2004 HK$ millions
Within 1 year	**1,679**	1,312
After 1 year, but within 5 years	**2,618**	2,156
After 5 years	**235**	394

16 Leasehold land prepayments

	2005 HK$ millions	2004 HK$ millions
Net book value		
At 1 January	**31,037**	31,027
Additions	**2,118**	1,065
Disposals	**–**	(4)
Relating to subsidiaries acquired	**37**	18
Relating to subsidiaries disposed of	**(16)**	(4)
Revaluation upon transfer to investment properties	**183**	–
Depreciation for the year	**(982)**	(1,174)
Impairment recognised	**(21)**	–
Transfer to investment properties	**(505)**	(135)
Transfer from fixed assets	**661**	47
Exchange translation differences	**(138)**	197
At 31 December	**32,374**	31,037

The Group's leasehold land prepayments comprise:

	2005 HK$ millions	2004 HK$ millions
Hong Kong		
Long leasehold	**1,600**	1,900
Medium leasehold	**14,024**	14,387
Outside Hong Kong		
Long leasehold	**1,076**	406
Medium leasehold	**15,614**	14,064
Short leasehold (less than 10 years)	**60**	280
	32,374	31,037

Leasehold land prepayments represent interests in leasehold land held for own use under operating leases.

17 Telecommunications licences

	2005 HK$ millions	2004 HK$ millions
Net book value		
At 1 January	**102,907**	98,943
Additions	**221**	182
Relating to subsidiaries acquired	**2,402**	1,653
Relating to subsidiaries disposed of	**(4,682)**	–
Amortisation for the year	**(5,989)**	(5,884)
Exchange translation differences	**(10,235)**	8,166
At 31 December	**84,624**	103,060
Cost	**97,608**	112,383
Accumulated amortisation	**(12,984)**	(9,323)
	84,624	103,060

The Group's 3G businesses commenced commercial operations from 2003 and in accordance with initial business plans are incurring losses as the businesses grow to operating scale. Impairment reviews were undertaken as at 31 December 2005 and 31 December 2004 to assess whether the carrying values of the Group's 3G telecommunications licences and network assets were supported by the net present value of future cash flows forecast to be derived from the use of these assets for each respective business. Note 4(a) contains information about the estimates, assumptions and judgements relating to the impairment reviews. The results of the reviews undertaken as at 31 December 2005 and 31 December 2004 indicated that no impairment charge was necessary.

18 Telecommunications postpaid customer acquisition costs

	2005 HK$ millions	2004 HK$ millions
Net book value		
At 1 January	**6,823**	1,647
Additions to telecommunications postpaid CACs	**12,632**	12,804
Relating to subsidiaries disposed of	**(261)**	–
Amortisation and write off for the year	**(12,013)**	(8,583)
Exchange translation differences	**(1,009)**	955
At 31 December	**6,172**	6,823
Cost	**21,260**	13,647
Accumulated amortisation	**(15,088)**	(6,824)
	6,172	6,823

19 Goodwill

	2005 HK$ millions	2004 HK$ millions
Cost		
At 1 January	**10,577**	8,583
Relating to subsidiaries acquired	**10,426**	1,308
Relating to increase in interests in subsidiaries	**4,814**	478
Relating to subsidiaries disposed	**(5,838)**	–
Relating to partial disposal of subsidiaries	**(169)**	(349)
Exchange translation differences	**(1,856)**	557
At 31 December	**17,954**	10,577

The carrying amount of goodwill primarily arises from the acquisition of four retail chains: Marionnaud of €651 million (2004 - nil); Kruidvat of €600 million (2004 – €600 million); Merchant Retail Group of £136 million (2004 – nil) and Superdrug of £78 million (2004 – £78 million); increased shareholdings in **3** Italia of €229 million (2004 – €62 million); and Hutchison Harbour Ring of HK$410 million (2004 – HK$410 million).

Note 4(c) contains information about the estimates, assumptions and judgements relating to goodwill impairment reviews.

20 Brand names and other rights

	Brand names HK$ millions	Other rights HK$ millions	Total HK$ millions
Net book value			
At 1 January 2005	**–**	**1,559**	**1,559**
Additions	**–**	**796**	**796**
Relating to subsidiaries acquired	**2,497**	**3,362**	**5,859**
Relating to subsidiaries disposed of	**(651)**	**(2,894)**	**(3,545)**
Amortisation for the year	**(30)**	**(656)**	**(686)**
Exchange translation differences	**(191)**	**(213)**	**(404)**
At 31 December 2005	**1,625**	**1,954**	**3,579**
Cost	**1,625**	**2,995**	**4,620**
Accumulated amortisation	**–**	**(1,041)**	**(1,041)**
	1,625	**1,954**	**3,579**

	Brand names HK$ millions	Other rights HK$ millions	Total HK$ millions
Net book value			
At 1 January 2004	–	1,929	1,929
Additions	–	30	30
Amortisation for the year	–	(401)	(401)
Exchange translation differences	–	1	1
At 31 December 2004	–	1,559	1,559
Cost	–	2,223	2,223
Accumulated amortisation	–	(664)	(664)
	–	1,559	1,559

The brand names as at 31 December 2005 primarily resulted from the retail chain acquisition in the current year and are assessed to have indefinite useful lives. The factors considered in the assessment of the useful lives include analysis of market and competitive trends, product life cycles, brand extension opportunities and management's long term strategic development. Overall, these factors provided evidence that the brand names are expected to generate long term net cash inflows to the Group indefinitely.

The carrying value of brand names as at 31 December 2005 was determined by an external valuer based on a royalty relief methodology, a commonly applied approach to valuing brand names, which was completed in December 2005.

Other rights, which include operating and service content rights, have finite useful lives.

21 Associated companies

	2005 HK$ millions	2004 HK$ millions
Unlisted shares	**7,481**	1,646
Listed shares, Hong Kong	**20,806**	9,512
Listed shares, outside Hong Kong	**10,341**	10,928
Share of undistributed post acquisition reserves	**17,561**	19,664
	56,189	41,750
Amounts due from associated companies	**9,145**	13,137
	65,334	54,887

The market value of the above listed investments at 31 December 2005 was HK$117,222 million (2004 – HK$67,676 million).

Particulars regarding the principal associated companies are set forth on pages 204 to 208.

The aggregate amounts of revenues, results, assets and liabilities of the Group's associated companies are as follows:

	2005 HK$ millions	2004 HK$ millions
Revenues	**124,717**	93,585
Profit for the year	**24,666**	17,030
Non-current assets	**301,297**	228,731
Current assets	**43,401**	25,795
Total assets	**344,698**	254,526
Non-current liabilities	**165,020**	134,483
Current liabilities	**50,233**	27,372
Total liabilities	**215,253**	161,855

21 Associated companies (continued)

The Group's share of the revenues, expenses, results and contingent liabilities of associated companies are as follows:

	2005 HK$ millions	2004 HK$ millions
Revenues	37,957	34,543
Expenses	(20,361)	(20,116)
EBITDA [(a)]	17,596	14,427
Depreciation and amortisation	(5,516)	(5,171)
Change in fair value of investment properties	177	192
EBIT [(b)]	12,257	9,448
Interest and other finance costs	(2,333)	(2,076)
Current taxation	(1,111)	(1,127)
Deferred taxation	(746)	(324)
Profit after taxation	8,067	5,921
Contingent liabilities	1,000	876

(a) EBITDA is defined as earnings before interest expense and other finance costs, taxation, depreciation and amortisation, and includes profit on disposal of investments and other earnings of a cash nature but excludes changes in the fair value of investment properties.

(b) EBIT is defined as earnings before interest expense and other finance costs and taxation.

22 Interests in joint ventures

	2005 HK$ millions	2004 HK$ millions
Jointly controlled entities		
Unlisted shares	18,293	15,253
Share of undistributed post acquisition reserves	(2,797)	(2,932)
	15,496	12,321
Amounts due from jointly controlled entities	21,788	21,036
	37,284	33,357
Other joint ventures		
Cost of investments	–	2,174
Amounts due from other joint ventures	–	225
	–	2,399
	37,284	35,756

There are no material contingent liabilities relating to the Group's interest in the joint ventures, save as for those disclosed under note 37.

Particulars regarding the principal jointly controlled entities are set forth on pages 204 to 208.

22 Interests in joint ventures (continued)

The aggregate amounts of revenues, results, assets and liabilities related to the Group's interest in its jointly controlled entities are as follows:

	2005 HK$ millions	2004 HK$ millions
Revenues	**46,829**	27,741
Profit for the year	**9,248**	4,455
Non-current assets	**105,150**	81,649
Current assets	**39,503**	42,406
Total assets	**144,653**	124,055
Non-current liabilities	**81,065**	86,187
Current liabilities	**36,898**	25,171
Total liabilities	**117,963**	111,358

The Group's share of the revenues, expenses, results, contingent liabilities and capital commitments of jointly controlled entities are as follows:

	2005 HK$ millions	2004 HK$ millions
Revenues	**21,321**	12,659
Expenses	**(16,041)**	(9,174)
EBITDA [(a)]	**5,280**	3,485
Depreciation and amortisation	**(1,262)**	(979)
Change in fair value of investment properties	**1,363**	(134)
EBIT [(b)]	**5,381**	2,372
Interest and other finance costs	**(418)**	(251)
Current taxation	**(497)**	(263)
Deferred taxation	**(539)**	(93)
Profit after taxation	**3,927**	1,765
Contingent liabilities	**2,698**	2,712
Capital commitments	**1,088**	126

(a) EBITDA is defined as earnings before interest expense and other finance costs, taxation, depreciation and amortisation, and includes profit on disposal of investments and other earnings of a cash nature but excludes changes in the fair value of investment properties.

(b) EBIT is defined as earnings before interest expense and other finance costs and taxation.

23 Deferred taxation

	2005 HK$ millions	2004 HK$ millions
Deferred tax assets	**15,723**	12,259
Deferred tax liabilities	**13,750**	11,674
Net deferred tax assets	**1,973**	585

Movements in net deferred tax assets are as follows:

	2005 HK$ millions	2004 HK$ millions
At 1 January	**617**	(4,985)
Relating to subsidiaries acquired	**(1,386)**	46
Relating to subsidiaries disposed of	**45**	–
Transfer to current tax	**(745)**	321
Net credit (charge) to reserves	**62**	(26)
Net credit (charge) for the year		
Unused tax losses	**6,066**	7,882
Accelerated depreciation allowances	**(591)**	(2,138)
Fair value adjustments arising from acquisitions	**396**	387
Revaluation of investment properties and other investments	**(631)**	(942)
Withholding tax on unremitted earnings	**(471)**	(312)
Other temporary differences	**(231)**	(62)
Exchange translation differences	**(1,158)**	414
At 31 December	**1,973**	585

Analysis of net deferred tax assets:

	2005 HK$ millions	2004 HK$ millions
Unused tax losses	**15,783**	12,568
Accelerated depreciation allowances	**(1,998)**	(2,343)
Fair value adjustments arising from acquisitions	**(5,938)**	(6,018)
Revaluation of investment properties and other investments	**(4,311)**	(2,903)
Withholding tax on unremitted earnings	**(1,451)**	(938)
Other temporary differences	**(112)**	219
	1,973	585

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated balance sheet are determined after appropriate offset.

At 31 December 2005, the Group has recognised deferred tax assets amounting to HK$15,723 million (2004 – HK$12,259 million) of which HK$14,895 million (2004 – HK$11,061 million) relates to the Group's 3G businesses.

23 Deferred taxation (continued)

Note 4(e) contains information about the estimates, assumptions and judgements relating to the recognition of deferred tax assets for unused tax losses carried forward.

As shown below, the Group has not recognised deferred tax assets arising from unutilised tax losses amounting to HK$26,592 million at 31 December 2005 (2004 – HK$22,278 million) where it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses.

The potential deferred tax assets (liabilities) which have not been provided for in the accounts are as follows:

	2005 **HK$ millions**	2004 HK$ millions
Arising from unutilised tax losses	**26,592**	22,278
Arising from accelerated depreciation allowances	**(3,840)**	(3,234)
Arising from deductible temporary differences	**131**	15

The unrecognised tax losses carried forward amounted to HK$91,196 million at 31 December 2005 (2004 – HK$78,641 million), out of which HK$74,822 million (2004 – HK$56,009 million) is attributable to the start up 3G businesses. Of these, HK$42,953 million (2004 – HK$38,540 million) can be carried forward indefinitely. The remaining HK$48,243 million (2004 – HK$40,101 million) expires in the following years:

	2005 **HK$ millions**	2004 HK$ millions
In the first year	**157**	134
In the second year	**5,985**	210
In the third year	**11,950**	6,965
In the fourth year	**17,843**	14,791
In the fifth to tenth years inclusive	**12,308**	18,001
	48,243	40,101

24 Other non-current assets

	2005 HK$ millions	2004 HK$ millions
Other unlisted investments		
Loans and receivables		
Unlisted debt securities	**2,197**	–
Infrastructure project investments	**754**	–
	2,951	–
Available-for-sale investments		
Unlisted equity securities	**1,383**	–
Held-to-maturity debt securities	**–**	175
Equity securities and advances	**–**	5,814
Forward foreign exchange contracts – cash flow hedges	**92**	–
Others	**–**	2,241
	4,426	8,230

From 1 January 2005 onwards, the Group's other unlisted investments, included under other non-current assets, have been reclassified in accordance with the measurement categories of HKAS 39. No comparatives have been reclassified as HKAS 39 does not require retrospective application.

Unlisted equity securities where there is a history of dividends are carried at fair value based on the discounted present value of expected future dividends. The remaining unlisted equity securities are carried at cost less impairment, if any, because there is no active market to determine their fair market value and the amounts are not significant to the Group.

The carrying value of the unlisted debt securities approximates the fair value as these investments bear floating interest rates and are repriced within one to six months period at the prevailing market interest rates.

Others as at 31 December 2004 mainly represent deferred loan facility fees.

Weighted average effective interest rate of unlisted debt securities as at 31 December 2005 is 5.2%.

25 Liquid funds and other listed investments

	2005 HK$ millions	2004 HK$ millions
Available-for-sale investments		
Managed funds, outside Hong Kong	**42,153**	–
Listed debt securities	**5,067**	–
Listed equity securities, Hong Kong	**5,260**	–
Listed equity securities, outside Hong Kong	**3,345**	–
	55,825	–
Loans and receivables		
Long term deposits	**3,733**	–
Financial assets at fair value through profit or loss	**1,111**	–
Managed funds, outside Hong Kong	**–**	46,349
Listed held-to-maturity debt securities	**–**	6,684
Long term deposits	**–**	3,840
Equity securities		
Listed equity securities, Hong Kong	**–**	5,010
Listed equity securities, outside Hong Kong	**–**	4,620
Liquid funds and other listed investments	**60,669**	66,503
Components of Managed funds, outside Hong Kong are as follows:		
Listed debt securities	**40,696**	–
Listed held-to-maturity debt securities	**–**	43,615
Cash and cash equivalents	**1,457**	2,734
	42,153	46,349

From 1 January 2005 onwards, the Group's liquid funds and other listed investments have been reclassified in accordance with the measurement categories of HKAS 39. No comparatives have been reclassified as HKAS 39 does not require retrospective application.

The fair value of the available-for-sale investments and financial assets at fair value through profit or loss are based on quoted market prices. The market value of the liquid funds and other listed investments excluding long term deposits at 31 December 2005 was HK$56,936 million (2004 – HK$61,898 million).

Loans and receivables, represent long term deposits, are carried at amortised cost, which approximates their fair value as the deposits carry floating interest rates and are repriced every three months based on the prevailing market interest rates. The weighted average effective interest rate on long term deposits as at 31 December 2005 was 4.9% (2004 – 2.9%).

25 Liquid funds and other listed investments (continued)

As at 31 December 2005, liquid funds and other listed investments are denominated in the following currencies:

	Financial assets at fair value through profit or loss Percentage	Available-for-sale Percentage	Loans and receivables Percentage
HK dollars	–	10%	–
US dollars	–	78%	98%
Euro	–	8%	–
Others	100%	4%	2%
	100%	100%	100%

Listed debt securities as at 31 December 2005 and listed held-to-maturity debt securities as at 31 December 2004 presented above are analysed as follows:

	2005 Percentage	2004 Percentage
Credit ratings		
Aaa/AAA	**83%**	83%
Aa1/AA+	**4%**	4%
Aa2/AA	**5%**	4%
Aa3/AA-	**7%**	9%
A3/A-	**1%**	–
	100%	100%
Sectorial		
US Treasury notes	**48%**	45%
Government issued guaranteed notes	**23%**	24%
Supranational notes	**15%**	16%
Others	**14%**	15%
	100%	100%
Weighted average maturity	**3.1 years**	4.0 years
Weighted average effective interest rate, inclusive of the effects of hedging transactions	**3.03%**	3.03%

26 Cash and cash equivalents

	2005 HK$ millions	2004 HK$ millions
Cash at bank and in hand	**15,706**	26,711
Short term bank deposits	**34,011**	47,087
	49,717	73,798

The carrying amount of cash and cash equivalents approximates their fair value.

27 Trade and other receivables

	2005 HK$ millions	2004 HK$ millions
Trade receivables	**14,818**	19,002
Other receivables and prepayments	**21,193**	26,871
	36,011	45,873

The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 45 days. The carrying amount of these assets approximates their fair value.

At 31 December, the ageing analysis of the trade receivables is as follows:

	2005 HK$ millions	2004 HK$ millions
Current	**10,338**	14,807
31 - 60 days	**1,840**	2,007
61 - 90 days	**678**	848
Over 90 days	**1,962**	1,340
	14,818	19,002

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed. The Group's 5 largest customers contributed less than 5% of the Group's turnover for the years ended 31 December 2005 and 2004.

28 Trade and other payables

	2005 HK$ millions	2004 HK$ millions
Trade payables	**17,141**	16,860
Other payables and accruals	**36,310**	47,441
Interest free loans from minority interests	**3,159**	1,944
Cross currency interest rate swap – cash flow hedges	**231**	–
Forward foreign exchange contracts – cash flow hedges for forecast payments and obligations	**32**	–
	56,873	66,245

At 31 December, the ageing analysis of the trade payables is as follows:

	2005 HK$ millions	2004 HK$ millions
Current	**11,009**	11,436
31 – 60 days	**2,550**	3,299
61 – 90 days	**3,033**	857
Over 90 days	**549**	1,268
	17,141	16,860

The Group's 5 largest suppliers accounted for less than 15% of the Group's cost of purchases for the years ended 31 December 2005 and 2004.

29 Borrowings

	2005 HK$ millions	2004 HK$ millions
Bank loans		
Repayable within 5 years	**89,003**	91,226
Not wholly repayable within 5 years	**33,578**	51,194
	122,581	142,420
Other loans		
Repayable within 5 years	**289**	3,281
Not wholly repayable within 5 years	**7,818**	7,275
	8,107	10,556
Notes and bonds		
US$750 million notes-Series A, 6.95% due 2007	**5,736**	5,807
US$500 million notes-Series B, 7.45% due 2017	**3,715**	3,871
US$500 million notes-Series C, 7.5% due 2027	**3,715**	3,871
US$250 million notes-Series D, 6.988% due 2037	**1,921**	1,935
US$175 million notes, LIBOR + 0.45% due 2008	**1,361**	1,365
US$1,500 million notes, 7% due 2011	**11,308**	11,700
US$3,500 million notes, 6.5% due 2013	**26,187**	27,300
US$1,500 million notes, 5.45% due 2010	**11,296**	11,700
US$2,000 million notes, 6.25% due 2014	**15,201**	15,600
US$1,500 million notes, 7.45% due 2033	**11,342**	11,700
EUR500 million bonds, 5.5% due 2006	**4,614**	5,225
EUR93 million bonds, 2.5% due 2008	**854**	–
EUR1,000 million notes, 5.875% due 2013	**9,140**	10,450
EUR1,000 million notes, 4.125% due 2015	**9,142**	–
GBP325 million bonds, 6.75% due 2015	**4,340**	4,852
AUD425 million notes, 6.5% due 2006	**2,404**	2,533
AUD800 million notes, BBSW + 0.65% due 2008	**4,523**	4,768
JPY30,000 million notes, 3.5% due 2032	**1,995**	2,244
	128,794	124,921
Interest bearing loans from minority interests		
Repayable within 5 years	**4,816**	4,172
Not wholly repayable within 5 years	**613**	924
	5,429	5,096
	264,911	282,993
Borrowings analysed as:		
Current portion	**26,028**	23,118
Long term portion	**238,883**	259,875
	264,911	282,993

29 Borrowings (continued)

Borrowings are repayable as follows:

	2005 HK$ millions	2004 HK$ millions
Bank loans		
Current portion	**18,828**	21,458
After 1 year, but within 2 years	**7,544**	17,242
After 2 years, but within 5 years	**81,456**	61,703
After 5 years	**14,753**	42,017
Other loans		
Current portion	**182**	1,660
After 1 year, but within 2 years	**103**	970
After 2 years, but within 5 years	**5,250**	3,344
After 5 years	**2,572**	4,582
Notes and bonds		
Current portion	**7,018**	–
After 1 year, but within 2 years	**5,736**	7,758
After 2 years, but within 5 years	**18,034**	11,940
After 5 years	**98,006**	105,223
Interest bearing loans from minority interests		
After 1 year, but within 2 years	**2,647**	–
After 2 years, but within 5 years	**2,169**	4,172
After 5 years	**613**	924
	264,911	282,993

The borrowings include financing for 3G businesses totalling HK$127,615 million (2004 – HK$139,476 million) of which HK$107,852 million (2004 – HK$106,353 million) were guaranteed by the Group.

The bank and other loans of the Group are secured to the extent of HK$36,967 million (2004 – HK$57,009 million) of which HK$15,653 million (2004 – HK$29,044 million) and HK$20,047 million (2004 – HK$22,990 million) are non guaranteed and guaranteed loans respectively for 3G businesses.

The US$250 million notes – Series D due 2037 are subject to repayment at the option of the holders thereof on 1 August 2009.

Borrowings amounting to HK$141,049 million (2004 – HK$162,347 million) bear interest at floating interest rates and borrowings amounting to HK$123,862 million (2004 – HK$120,646 million) bear interest at fixed interest rates.

The Group has entered into interest rate swap agreements with banks and other financial institutions mainly to swap fixed interest rate borrowings to floating interest rate borrowings to manage the fixed and floating interest rate mix of the Group's total debt portfolio. At 31 December 2005, the notional amount of the outstanding interest rate swap agreements with financial institutions amounted to HK$96,706 million (2004 – HK$97,458 million).

In addition, interest rate swap agreements with notional amount of HK$7,838 million (2004 – HK$10,956 million) were entered to swap floating interest rate borrowings to fixed interest rate borrowings to mitigate interest rate exposures to certain infrastructure project related borrowings. The agreements have fixed interest payments ranging from 3.4% to 6.7% and were entered for a period ranging from 5 to 6 years.

29 Borrowings (continued)

As at 31 December 2005, the Group had entered into currency swap arrangements with banks to swap US dollar borrowings principal amount of HK$1,365 million to non US dollar borrowings to match currency exposure of the underlying businesses.

As at 31 December 2004, the Group had entered into currency swap arrangements with banks to swap non HK dollar borrowings of HK$650 million to US dollar borrowings, US dollar borrowings of HK$1,365 million to non US dollar borrowings and non US dollar borrowings of HK$3,606 million to non US dollar borrowings to match currency exposure of the underlying businesses.

The following table sets out the effective interest rates of the borrowings at the balance sheet date and the periods in which they reprice or mature, whichever is earlier (inclusive of the effects of hedging transactions):

	Weighted average effective interest rate	Less than 1 month	Within 1 to 12 months	Within 1 to 5 years	Over 5 years	Total
	%	HK$ millions	HK$ millions	HK$ millions	HK$ millions	HK$ millions
2005						
Bank loans	**4.1%**	**38,162**	**80,917**	**97**	**3,405**	**122,581**
Other loans	**6.3%**	**–**	**7,504**	**87**	**516**	**8,107**
Notes and bonds	**6.3%**	**15,201**	**84,276**	**2,750**	**26,567**	**128,794**
Interest bearing loan from minority interests	**5.3%**	**–**	**4,849**	**–**	**580**	**5,429**
		53,363	**177,546**	**2,934**	**31,068**	**264,911**
2004						
Bank loans	3.6%	57,404	83,213	1,437	366	142,420
Other loans	5.4%	–	9,811	126	619	10,556
Notes and bonds	5.1%	15,600	87,894	1,943	19,484	124,921
Interest bearing loan from minority interests	5.2%	–	4,082	31	983	5,096
		73,004	185,000	3,537	21,452	282,993

29 Borrowings (continued)

The carrying amounts and fair values of the borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	HK$ millions	HK$ millions	**HK$ millions**	HK$ millions
Bank loans	**122,581**	142,420	**122,538**	141,297
Other loans	**8,107**	10,556	**8,092**	10,576
Notes and bonds	**128,794**	124,921	**140,837**	133,450
Interest bearing loans from minority interests	**5,429**	5,096	**5,429**	5,098
	264,911	282,993	**276,896**	290,421

The fair values of the long term borrowings are estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued. The carrying amounts of current portion of the long term borrowings approximate their fair value.

Borrowings are denominated in the following currencies (inclusive of the effect of hedging transactions):

	2005	2004
	Percentage	Percentage
HK dollars	**16%**	16%
US dollars	**35%**	34%
Euro	**32%**	31%
British Pounds	**3%**	3%
Other currencies	**14%**	16%
	100%	100%

30 Pension obligations

	2005 HK$ millions	2004 HK$ millions
Defined benefit plans		
Plan obligations	**2,323**	2,424

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

(a) Defined benefit plans

The Group's major defined benefit plans are in Hong Kong, the United Kingdom and the Netherlands. The plans are either contributory final salary pension plans or non contributory guaranteed return defined contribution plans. No other post-retirement benefits are provided.

The Group's major plans were valued by Watson Wyatt, qualified actuaries as at 31 December 2005 and 31 December 2004 using the projected unit credit method to account for the Group's pension accounting costs.

The principal actuarial assumptions used for the purpose of the actuarial valuation were as follows:

	2005	2004
Discount rate applied to defined benefit plan obligations	**4.0% - 9.0%**	3.5% - 10.0%
Expected return on plan assets	**4.0% - 9.0%**	4.5% - 11.0%
Future salary increases	**2.0% - 5.0%**	2.0% - 4.9%
Interest credited on plan accounts	**5.0% - 6.0%**	5.0% - 6.0%

The expected return on plan assets is based on market expectations for returns and long-term benchmark allocation of equities and bonds in each Plan and allowing for administration fees and other expenses charged to the Plans.

The amount recognised in the consolidated balance sheet is determined as follows:

	2005 HK$ millions	2004 HK$ millions
Present value of defined benefit obligations	**10,545**	10,401
Fair value of plan assets	**8,222**	7,977
Net defined benefit plan obligations	**2,323**	2,424

Fair value of plan assets of HK$8,222 million (2004 - HK$7,977 million) includes investments in the Company's shares with a fair value of HK$51 million (2004 - HK$57 million).

30 Pension obligations (continued)

(a) Defined benefit plans (continued)

Changes in the present value of the defined benefit obligations are as follows:

	2005 HK$ millions	2004 HK$ millions
At 1 January	10,401	8,282
Current service cost	571	500
Actual employee contributions	112	118
Interest cost	464	446
Past service cost	29	–
Actuarial loss on obligation	590	417
Gains on curtailments	(48)	–
Relating to subsidiaries acquired	211	–
Relating to subsidiaries disposed	(206)	–
Benefits paid on settlements	(120)	–
Actual benefits paid	(418)	(287)
Exchange differences	(1,041)	925
At 31 December	10,545	10,401

Changes in the fair value of the plan assets are as follows:

	2005 HK$ millions	2004 HK$ millions
At 1 January	7,977	6,339
Expected return on plan assets	522	463
Actuarial gains on plan assets	463	74
Actual company contributions	509	499
Actual employee contributions	112	118
Relating to subsidiaries acquired	135	–
Relating to subsidiaries disposed	(194)	–
Assets distributed on settlements	(120)	–
Actual benefits paid	(418)	(287)
Exchange differences	(764)	771
At 31 December	8,222	7,977

30 Pension obligations (continued)

(a) Defined benefit plans (continued)

The amount recognised in the consolidated profit and loss account is as follows:

	2005 HK$ millions	2004 HK$ millions
Current service cost	**571**	500
Past service cost	**29**	–
Interest cost	**464**	446
Gains on curtailment	**(48)**	–
Expected return on plan assets	**(522)**	(463)
Total expense	**494**	483
Less: expense capitalised	**(15)**	(22)
Total, included in staff costs	**479**	461

The actuarial losses recognised in the statement of recognised income and expense in current year was HK$127 million (2004 – HK$343 million). The cumulative actuarial losses recognised in the statement recognised income and expense amounted to HK$1,393 million (2004 – HK$1,352 million).

Fair value of the plan assets are analysed as follows:

	2005 Percentage	2004 Percentage
Equity instruments	**63%**	61%
Debt instruments	**33%**	31%
Other assets	**4%**	8%
	100%	100%

The experience adjustments are as follows:

	2005 HK$ millions	2004 HK$ millions
Present value of defined benefit obligations	**10,545**	10,401
Fair value of plan assets	**8,222**	7,977
Deficit	**2,323**	2,424
Experience adjustments on defined benefit obligations	**(308)**	(69)
Experience adjustments on plan assets	**429**	51

There is no immediate requirement for the Group to fund the deficit between the fair value of defined benefit plan assets and the present value of the defined benefit plan obligations disclosed as at 31 December 2005. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. The realisation of the deficit is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. Funding requirements of the Group's major defined benefit plans are detailed below.

30 Pension obligations (continued)

(a) Defined benefit plans (continued)

The Group operates two principal plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. A formal independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 29 February 2004 reported a funding level of 99% of the accrued actuarial liabilities on an ongoing basis. The employers' annual contributions were adjusted to fully fund the plan as advised by the independent actuaries. The valuation used the aggregate cost method and the main assumptions in the valuation are an investment return of 6.0% per annum and salary increases of 4.0%. The valuation was performed by Tian Keat Aun, a Fellow of The Institute of Actuaries, of Watson Wyatt Hong Kong Limited. The funding of the plan will be reassessed based upon the results of next formal actuarial valuation to be completed by 28 February 2007 in accordance with the requirements of ORSO. The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2005 this plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements. During the year, forfeited contributions totalling HK$40 million (2004 – HK$36 million) were used to reduce the current year's level of contributions and HK$3 million was available at 31 December 2005 (2004 – HK$4 million) to reduce future years' contributions.

The Group operates three contributory defined benefit plans in the United Kingdom for its ports division, of which the Port of Felixstowe Pension Plan is the principal plan. The plans are all final salary in nature. On the assumptions adopted at the last formal actuarial valuation using the projected unit method at 1 January 2004, the ratio of assets to liabilities for the Felixstowe Scheme was 78%. The sponsoring employer's contributions have been increased from August 2004 to finance the increased cost of accrual of benefits and to fund the deficit over the employees' remaining expected future working lives. The main assumptions in the valuation are an investment return of 6.5% per annum, pensionable salary increases of 3.0% per annum and pension increases of 2.75% per annum. The valuation was performed by Graham Mitchell, a Fellow of the Institute of Actuaries, of Watson Wyatt LLP.

The Group's defined benefit pension plan for its retail operations in the United Kingdom was assumed on acquisition of a subsidiary company in 2002 and is not open to new entrants. The first formal valuation for funding purposes was carried out at 31 March 2003. On the assumptions adopted at the valuation using the projected unit method, the ratio of actual asset value to the target asset value being funded for past service benefits was 61%. The sponsoring employer's contributions have been increased from April 2003 to fund the deficit over a period of 12 years. The main assumptions in the valuation are an investment return of 5.5% to 6.5% per annum and pensionable salary increases of 4% per annum. The valuation was performed by Chris Norden, a Fellow of the Institute of Actuaries, of Hewitt Bacon & Woodrow Limited. The funding of the plan will be reviewed within three years of the last formal valuation.

The Group's defined benefit pension plans for its ports and retail operations in the Netherlands are guaranteed contracts undertaken by insurance companies to provide defined benefit pensions in return for actuarially agreed contributions. The risk of providing past pension benefits is underwritten by the insurance companies. The Group does not carry funding risk relating to past service. The funding rate to provide current year benefits varies in accordance with annual actuarial calculations.

The Group's defined benefit retirement plan for its retail operations in the United Kingdom was assumed on acquisition of a subsidiary company in 2005. The plan is final salary in nature with a money purchase underpin arrangement. The scheme is not open to new entrants since 1 April 2001. The latest formal valuation of the scheme was undertaken at 1 April 2003 by Ian W H Pope, a Fellow of the Faculty of Actuaries, of Kerr & Co. using the projected unit method. The principal long term assumptions were that the annual rate of return on investments would exceed the annual increase in earnings by 3% and the annual increase in pension would be 2.5%.

(b) Defined contribution plans

The Group's costs in respect of defined contribution plans for the year amounted to HK$683 million (2004 – HK$637 million). Forfeited contributions totalling HK$7 million (2004 – HK$1 million) were used to reduce the current year's level of contributions and no forfeited contribution was available at 31 December 2005 (2004 – nil) to reduce future years' contributions.

31 Other non-current liabilities

	2005 HK$ millions	2004 HK$ millions
Interest rate swaps – cash flow hedges	**10**	–
Interest rate swaps – fair value hedges	**2,801**	–
Obligations for telecommunications licences and other rights	**662**	2,167
	3,473	2,167

32 Share capital

	2005 Number of shares	2004 Number of shares	2005 HK$ millions	2004 HK$ millions
Authorised:				
Ordinary shares of HK$0.25 each	**5,500,000,000**	5,500,000,000	**1,375**	1,375
7½% cumulative redeemable participating preference shares of HK$1 each	**402,717,856**	402,717,856	**403**	403
			1,778	1,778
Issued and fully paid:				
Ordinary shares	**4,263,370,780**	4,263,370,780	**1,066**	1,066

33 Equity

	Share capital HK$ millions	Share premium[(a)] HK$ millions	Exchange reserve HK$ millions	Other reserves[(b)] HK$ millions	Retained profit HK$ millions	Shareholders' funds HK$ millions	Minority interests[(c)] HK$ millions	Total equity HK$ millions
At 31 December 2004, as previously reported	1,066	28,359	21,602	(884)	210,698	260,841	30,013	290,854
Prior year adjustments in respect of the adoption of new and revised HKFRS accounting policies (note 2(a))	–	–	(629)	89	(9,130)	(9,670)	(1,390)	(11,060)
At 31 December 2004, as restated	1,066	28,359	20,973	(795)	201,568	251,171	28,623	279,794
Adjustments in respect of financial instruments (note 2(a))	–	–	49	2,044	(2,739)	(646)	(229)	(875)
At 1 January 2005, as restated	1,066	28,359	21,022	1,249	198,829	250,525	28,394	278,919
Fair value changes in available-for-sale investments	–	–	–	(116)	–	(116)	(1)	(117)
Fair value changes arising from business combination	–	–	–	786	–	786	447	1,233
Fair value adjustment upon transfer from other properties to investment properties	–	–	–	186	–	186	2	188
Deferred tax effect on fair value adjustment upon transfer from other properties to investment properties	–	–	–	(31)	–	(31)	–	(31)
Valuation released upon disposal of available-for-sale investments	–	–	–	(847)	–	(847)	2	(845)
Gain on cash flow hedges	–	–	–	305	–	305	52	357
Exchange translation differences	–	–	(13,904)	–	–	(13,904)	(1,511)	(15,415)
Actuarial gains and losses of defined benefit plans	–	–	–	–	(284)	(284)	1	(283)
Deferred tax effect on actuarial gains and losses of defined benefit plans	–	–	–	–	93	93	–	93
Net income (expense) recognised directly in equity	–	–	(13,904)	283	(191)	(13,812)	(1,008)	(14,820)
Profit (loss) after taxation	–	–	–	–	14,343	14,343	(789)	13,554
Total recognised income and expense	–	–	(13,904)	283	14,152	531	(1,797)	(1,266)
Dividends paid relating to 2004	–	–	–	–	(5,201)	(5,201)	–	(5,201)
Dividends paid relating to 2005	–	–	–	–	(2,174)	(2,174)	–	(2,174)
Dividends paid to minority interests	–	–	–	–	–	–	(2,374)	(2,374)
Equity contribution from minority interests	–	–	–	–	–	–	749	749
Shares issued by a subsidiary to acquire minority interests of HGC	–	–	–	–	–	–	1,919	1,919
Capitalisation of loan from minority interests	–	–	–	–	–	–	1,138	1,138
Purchase of minority interests in subsidiary companies	–	–	–	–	–	–	(11,348)	(11,348)
Share option scheme	–	–	–	89	–	89	61	150
Relating to subsidiary companies acquired	–	–	–	–	–	–	2,436	2,436
Relating to disposal of subsidiary and associated companies	–	–	–	(216)	–	(216)	(9,103)	(9,319)
At 31 December 2005	1,066	28,359	7,118	1,405	205,606	243,554	10,075	253,629

33 Equity (continued)

	Share capital HK$ millions	Share premium[(a)] HK$ millions	Exchange reserve HK$ millions	Other reserves[(b)] HK$ millions	Retained profit HK$ millions	Shareholders' funds HK$ millions	Minority interests[(c)] HK$ millions	Total equity HK$ millions
At 1 January 2004, as previously reported	1,066	28,359	13,570	(923)	201,945	244,017	33,916	277,933
Prior year adjustments in respect of the adoption of new and revised HKFRS accounting policies (note 2(a))	–	–	(580)	35	(5,665)	(6,210)	(882)	(7,092)
At 1 January 2004, as restated	1,066	28,359	12,990	(888)	196,280	237,807	33,034	270,841
Fair value changes in other listed equity investments	–	–	–	659	–	659	13	672
Valuation released upon disposal of other listed equity investments	–	–	–	(587)	–	(587)	2	(585)
Deferred tax effect on revaluation of other listed equity investments	–	–	–	(33)	–	(33)	(6)	(39)
Exchange translation differences	–	–	7,983	–	–	7,983	1,064	9,047
Actuarial gains and losses of defined benefit plans	–	–	–	–	(328)	(328)	(12)	(340)
Deferred tax effect on actuarial gains and losses of defined benefit plans	–	–	–	–	13	13	–	13
Net income (expense) recognised directly in equity	–	–	7,983	39	(315)	7,707	1,061	8,768
Profit (loss) after taxation	–	–	–	–	12,978	12,978	(6,843)	6,135
Total recognised income and expense	–	–	7,983	39	12,663	20,685	(5,782)	14,903
Dividends paid relating to 2003	–	–	–	–	(5,201)	(5,201)	–	(5,201)
Dividends paid relating to 2004	–	–	–	–	(2,174)	(2,174)	–	(2,174)
Dividends paid to minority interests	–	–	–	–	–	–	(2,555)	(2,555)
Equity contribution from minority interests	–	–	–	–	–	–	376	376
Purchase of minority interests in subsidiary companies	–	–	–	–	–	–	234	234
Share option scheme	–	–	–	54	–	54	22	76
Relating to subsidiary companies acquired	–	–	–	–	–	–	(110)	(110)
Relating to partial disposal of subsidiary companies	–	–	–	–	–	–	3,404	3,404
At 31 December 2004	1,066	28,359	20,973	(795)	201,568	251,171	28,623	279,794

(a) Capital redemption reserve of HK$404 million was included in share premium in all reporting years.

(b) Other reserves comprise revaluation reserve, hedging reserve and other capital reserves. As at 31 December 2005, revaluation reserve surplus amounted to HK$1,291 million (1 January 2005 – surplus of HK$1,534 million and 1 January 2004 – deficit of HK$923 million), hedging reserve deficit amounted to HK$40 million (1 January 2005 – deficit of HK$374 million and 1 January 2004 – nil) and other capital reserves surplus amounted to HK$154 million (1 January 2005 – HK$89 million and 1 January 2004 – HK$35 million). Fair value changes arising from business combination and revaluation surplus (deficit) arising from revaluation to market value of listed debt securities and listed equity securities which are available for sale are included in the revaluation reserve. Fair value changes arising from the effective portion of hedging instruments designated as cashflow hedges are included in the hedging reserve.

(c) Amount shown excludes interest free and interest bearing loans from minority interests which have been reclassified and included under trade and other payables (note 28) and borrowings (note 29) respectively.

(d) The Group's share of exchange translation differences of associated companies and jointly controlled entities are gains of HK$252 million (2004 – gain of HK$444 million) and HK$120 million (2004 – loss of HK$183 million) respectively. The Group's share of actuarial gains and losses which are recognised directly in equity by associated companies and jointly controlled entities amounted to a loss of HK$166 million (2004 – loss of HK$2 million) and a gain of HK$10 million (2004 – gain of HK$5 million) respectively.

34 Notes to consolidated cash flow statement

(a) Reconciliation of profit after taxation to cash generated from operating activities before interest and other finance costs, profits tax paid, telecommunications prepaid CACs[a] and changes in working capital

	2005 HK$ millions	2004 HK$ millions
Profit after taxation	**13,554**	6,135
Adjustments for:		
Current taxation charge	**2,511**	2,386
Deferred taxation credit	**(4,538)**	(4,815)
Interest and other finance costs	**15,405**	11,220
Change in fair value of investment properties	**(3,685)**	(5,244)
Depreciation and amortisation	**35,727**	30,727
Non-cash items included in profit on disposal of investments, elimination of minority interests and others	**(8,518)**	(22)
Share of associated companies' and jointly controlled entities'		
Current taxation charge	**1,608**	1,390
Deferred taxation charge	**1,285**	417
Interest and other finance costs	**2,751**	2,327
Change in fair value of investment properties	**(1,540)**	(58)
Depreciation and amortisation	**6,778**	6,150
EBITDA[b]	**61,338**	50,613
Telecommunications prepaid CACs	**11,954**	8,423
EBITDA before telecommunications prepaid CACs	**73,292**	59,036
Share of EBITDA of associated companies and jointly controlled entities	**(22,876)**	(17,912)
Loss (profit) on disposal of unlisted investments	**(11)**	8
Profit on disposal of fixed assets	**(144)**	(277)
Dividends received from associated companies and jointly controlled entities	**4,705**	3,936
Distribution from property jointly controlled entities	**4,479**	2,674
Decrease in properties under development	**18**	675
Profit on disposal of subsidiary and associated companies and jointly controlled entities	**(17,182)**	(19,427)
Other non-cash items	**418**	1,484
	42,699	30,197

a CACs represents customer acquisition costs

b EBITDA, included as a subtotal as supplementary information, represents the EBITDA of the Company and subsidiary companies as well as the Group's share of the EBITDA of associated companies and jointly controlled entities. EBITDA is defined as earnings before interest expense and other finance costs, taxation, depreciation and amortisation, and includes profit on disposal of investments, elimination of minority interests and others and other earnings of a cash nature but excludes changes in the fair value of investment properties. Information concerning EBITDA has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of gross cash flow generation. The Group considers EBITDA to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA is not a measure of cash liquidity or financial performance under generally accepted accounting principles in Hong Kong and the EBITDA measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA should not necessarily be construed as an alternative to cash flow as determined in accordance with generally accepted accounting principles in Hong Kong.

34 Notes to consolidated cash flow statement (continued)

(b) Changes in working capital

	2005 HK$ millions	2004 HK$ millions
Increase in inventories	(2,808)	(6,386)
Decrease (increase) in debtors and prepayments	722	(11,398)
Increase (decrease) in creditors	(1,300)	9,669
Other non-cash items	(3,443)	(779)
	(6,829)	(8,894)

(c) Purchase of subsidiary companies

	2005 Book value HK$ millions	2005 Fair value HK$ millions	2004 Fair value HK$ millions
Aggregate net assets acquired at acquisition date (excluding cash and cash equivalents):			
Fixed assets	6,399	7,447	5,177
Investment properties	2,340	2,574	23
Leasehold land prepayments	37	37	18
Telecommunications licences	2,402	2,402	1,653
Brand names and other rights	–	5,859	–
Associated companies	273	273	3
Liquid funds and other listed investments	1	1	71
Inventories	2,960	2,960	95
Trade and other receivables	4,258	4,953	1,362
Bank and other loans	(10,608)	(10,718)	(4,489)
Pension obligations	(76)	(76)	–
Creditors and taxation	(9,024)	(9,024)	(843)
Deferred taxation	142	(1,386)	46
Loans from minority interests	(3)	(3)	–
Minority interests	(1,050)	(2,436)	110
	(1,949)	2,863	3,226
Goodwill arising on acquisition		10,426	1,308
		13,289	4,534
Less: Cost of investments just prior to purchase		(4,405)	(2,240)
Less: Excess of the Group's interest in the net fair value over acquisition cost		(47)	(5)
		8,837	2,289
Discharged by:			
Cash payment		9,459	3,026
Less: Cash and cash equivalents purchased		(829)	(762)
Total net cash consideration		8,630	2,264
Deferred consideration		207	25
Total consideration		8,837	2,289

34 Notes to consolidated cash flow statement (continued)

(c) Purchase of subsidiary companies (continued)

Included in the net assets acquired above are acquisitions of Partner Communications Company Limited ("Partner") and Marionnaud Parfumeries SA ("Marionnaud"). The contribution to the Group's revenue and profit after taxation from each of these subsidiaries acquired since the respective date of acquisition is immaterial.

Acquisition of Partner

The Group's interest in Partner was held indirectly through HTIL. In April 2005, HTIL increased its interest in Partner from 42.9% to 52.2% following the completion of a buyback of shares by Partner from certain of its shareholders. Subsequent to the completion of the share buyback Partner ceased to be an associated company and became a subsidiary of the Group. As disclosed in note (d) below, the Group disposed of a 19.3% interest in HTIL in December 2005 and as a result of this disposal both HTIL and Partner ceased to be a subsidiary and became an associated company of the Group with effect from 21 December 2005. The assets and liabilities of Partner have been deconsolidated from the Group before the balance sheet date and the incremental contribution by Partner to the Group's profit for the period from the date of acquisition to the date of disposal is not material to the Group.

The net assets of Partner acquired in the April 2005 transaction, and the goodwill arising, are as follows:

	At acquisition date	
	Fair value HK$ millions	Acquiree's carrying amount HK$ millions
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	4,425	4,425
Telecommunications licences	2,402	2,402
Brand names and other rights	4,088	–
Inventories	168	168
Trade and other receivables	1,523	1,523
Bank and other loans	(5,354)	(5,244)
Creditors and taxation	(1,624)	(1,624)
Deferred taxation	(581)	523
Minority interests	(2,416)	(1,041)
	2,631	1,132
Goodwill arising on acquisition	839	
	3,470	
Less: Cost of investments just prior to purchase	(3,478)	
	(8)	
Discharged by:		
Cash payment	–	
Less: Cash and cash equivalents purchased	(8)	
Total net cash consideration	(8)	

The goodwill can be attributable to the anticipated profitability of the acquired business and the anticipated future operating synergies from the combination.

34 Notes to consolidated cash flow statement (continued)

(c) Purchase of subsidiary companies (continued)

Acquisition of Marionnaud

In April 2005, the Group acquired more than 95% interest in Marionnaud. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	At acquisition date	
	Fair value HK$ millions	Acquiree's carrying amount HK$ millions
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	993	993
Associated companies	273	273
Brand names and other rights	1,491	–
Liquid funds and other listed investments	1	1
Inventories	2,547	2,547
Trade and other receivables	3,199	2,489
Bank and other loans	(5,311)	(5,311)
Creditors and taxation	(6,548)	(6,548)
Deferred taxation	98	98
	(3,257)	(5,458)
Goodwill arising on acquisition	6,636	
	3,379	
Discharged by:		
Cash payment	3,722	
Cash and cash equivalents purchased	(343)	
Total net cash consideration	3,379	

The goodwill can be attributable to the anticipated profitability of the acquired business and the anticipated future operating synergies from the combination.

34 Notes to consolidated cash flow statement (continued)

(d) Disposal of subsidiary companies

	2005 **HK$ millions**	2004 HK$ millions
Aggregate net assets disposed at date of disposal (excluding cash and cash equivalents):		
Fixed assets	**26,126**	20
Investment properties	**23**	–
Leasehold land prepayments	**16**	4
Telecommunications licences	**4,682**	–
Telecommunications postpaid customer acquisition costs	**261**	–
Brand names and other rights	**3,545**	–
Associated companies	**2**	–
Liquid funds and other listed investments	**416**	–
Inventories	**695**	7
Trade and other receivables	**11,702**	2
Bank and other loans	**(26,693)**	–
Pension obligations	**(12)**	–
Creditors and taxation	**(10,809)**	(40)
Other non-current liabilities	**(1,184)**	–
Deferred taxation	**(45)**	–
Minority interests	**(7,010)**	(5)
Loans from minority interests	**(312)**	28
Reserves	**(55)**	–
Goodwill	**5,838**	–
	7,186	16
Profit on disposal	**7,390**	32
	14,576	48
Less: Investments retained subsequent to disposal	**(6,826)**	–
	7,750	48
Satisfied by:		
Cash and cash equivalents received as consideration	**10,192**	79
Less: Cash and cash equivalents sold	**(2,442)**	(31)
Total net cash consideration	**7,750**	48

Included in the net assets disposed above are disposal of HTIL. On 21 December 2005, the Group disposed of a 19.3% interest in HTIL to an independent party. Subsequent to the completion, the Group's interest in HTIL has been reduced from 69.1% to 49.8%. The transaction resulted in HTIL ceasing to be a subsidiary and becoming an associated company of the Group.

34 Notes to consolidated cash flow statement (continued)

(e) Disposal of associated companies

	2005 HK$ millions	2004 HK$ millions
Net proceeds from disposal of:		
ETSA Utilities and CHEDHA Holdings Pty Limited	**12,013**	–
Procter & Gamble-Hutchison	**–**	14,600
Others	**35**	11
	12,048	14,611

The effect on the Group's results from the disposal of associated companies is immaterial for the years ended 31 December 2005 and 2004.

35 Share-based payments

The Company has no share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based payments to certain employees. The aggregate amount of the share-based payments recognised by these companies are not material to the Group.

36 Pledge of assets

At 31 December 2005, the Group's share of H3G S.p.A. and its respective assets were pledged as security for 3G project financing facilities and amounted to HK$66,845 million (2004 – HK$73,781 million) as at 31 December 2005. In addition, HK$8,554 million (2004 – HK$40,633 million) of assets were pledged as security for bank and other loans of the Group. Included in the above amount of assets pledged, HK$29,477 million (2004 – HK$35,953 million) relates to the pledge of fixed assets and HK$1,766 million (2004 – HK$1,060 million) relates to the pledge of inventories.

37 Contingent liabilities

The holding company, Hutchison Whampoa Limited, and its subsidiaries provide guarantees in respect of bank and other borrowing facilities utilised by its associated companies and jointly controlled entities as follows:

	2005 HK$ millions	2004 HK$ millions
To associated companies		
Telecommunications businesses	**6,373**	–
Other businesses	**–**	1,257
	6,373	1,257
To jointly controlled entities		
Property businesses	**5,232**	4,916
Other businesses	**3,520**	1,269
	8,752	6,185

At 31 December 2005 the Group had provided performance and other guarantees of HK$6,165 million (2004 – HK$5,994 million) primarily for telecommunications businesses.

38 Commitments

Outstanding Group commitments not provided for in the accounts at 31 December 2005 are as follows:

Capital commitments

1. Contracted for:
   - i. Container terminals, Hong Kong – HK$349 million (2004 – HK$520 million)
   - ii. Container terminals, Mainland China – HK$6,614 million (2004 – HK$340 million)
   - iii. Container terminals, others – HK$2,707 million (2004 – HK$1,879 million)
   - iv. Telecommunications, **3** Group – HK$7,546 million (2004 – HK$8,081 million)
   - v. Hutchison Telecommunications International Limited – nil (2004 – HK$2,037 million)
   - vi. Investment properties in Hong Kong – nil (2004 – HK$2 million)
   - vii. Investment properties outside Hong Kong – HK$20 million (2004 – nil)
   - viii. Investment in Joint Venture in Hong Kong – nil (2004 – HK$869 million)
   - ix. Investment in Joint Venture outside Hong Kong – HK$1,328 million (2004 – HK$6,914 million)
   - x. Other fixed assets – HK$356 million (2004 – HK$231 million)

2. Authorised but not contracted for:

   The Group, as part of its annual budget process, estimates future capital expenditures and these budgeted amounts are shown below. These estimates are subject to a rigorous authorisation process before the expenditure is committed.
   - i. Container terminals, Hong Kong – HK$2,154 million (2004 – HK$916 million)
   - ii. Container terminals, Mainland China – HK$6,454 million (2004 – HK$14,882 million)
   - iii. Container terminals, others – HK$17,623 million (2004 – HK$6,040 million)
   - iv. Telecommunications, **3** Group – HK$14,462 million (2004 – HK$13,550 million)
   - v. Hutchison Telecommunications International Limited – nil (2004 – HK$7,908 million)
   - vi. Investment properties outside Hong Kong – HK$1,288 million (2004 – HK$1,202 million)
   - vii. Investment in Joint Venture outside Hong Kong – HK$146 million (2004 – HK$956 million)
   - viii. Other fixed assets – HK$4,225 million (2004 – HK$5,636 million)

Operating lease commitments – future aggregate minimum lease payments for land and buildings leases

Established Businesses

1. In the first year – HK$6,172 million (2004 – HK$5,264 million)
2. In the second to fifth years inclusive – HK$16,154 million (2004 – HK$13,993 million)
3. After the fifth year – HK$31,485 million (2004 – HK$30,845 million)

Telecommunications – **3** Group

1. In the first year – HK$1,537 million (2004 – HK$1,585 million)
2. In the second to fifth years inclusive – HK$4,661 million (2004 – HK$4,093 million)
3. After the fifth year – HK$9,242 million (2004 – HK$10,718 million)

38 Commitments (continued)

Operating lease commitments – future aggregate minimum lease payments for other assets

Established Businesses

1. In the first year – HK$341 million (2004 – HK$428 million)
2. In the second to fifth years inclusive – HK$557 million (2004 – HK$740 million)
3. After the fifth year – HK$266 million (2004 – HK$1,215 million)

Telecommunications – **3** Group

1. In the first year – HK$31 million (2004 – HK$61 million)
2. In the second to fifth years inclusive – HK$69 million (2004 – HK$39 million)
3. After the fifth year – HK$42 million (2004 – HK$9 million)

Other commitments

3G handsets – HK$23,485 million (2004 – HK$16,679 million)

39 Related parties transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Transactions between the Group and other related parties during the year are not significant to the Group. The amount of outstanding balances with associated companies and jointly controlled entities are disclosed in notes 21 and 22. These balances are unsecured and of which HK$5,705 million (2004 – HK$10,512 million) are interest bearing.

The Group has entered into joint ventures with Cheung Kong (Holdings) Limited, a substantial shareholder of the Company, to undertake various, mainly property, projects. At 31 December 2005, included in associated companies and interests in joint ventures on the balance sheet is a total amount of HK$20,694 million (2004 – HK$20,520 million) representing equity contributions to and the net amount due from these related entities. The Group had guaranteed bank and other borrowing facilities of HK$5,232 million (2004 – HK$4,916 million) for the benefit of these same entities. During the year, the Group has entered into an agreement with certain of these entities to effectively purchase an investment property for a total consideration of approximately HK$2,197 million.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 10.

40 Legal proceedings

As at 31 December 2005, the Group is not engaged in any material litigation or arbitration proceedings, and no material litigation or claim is known by the Group to be pending or threatened against it.

41 Subsequent events

Subsequent to the balance sheet date, the Group entered into a structured pre-IPO transaction with an investment bank involving a private placement of an effective of approximately 10% indirect interest held by the Company in **3** Italia S.p.A. ("**3** Italia") for cash consideration of €420 million (approximately HK$3,864 million). The placement price will reflect a premium to the Group's current carrying value for its investment in **3** Italia Holders of the placed shares will have the right to exchange them for **3** Italia's shares on an IPO, or to put them to the Group in certain defined circumstances. The Group will also have the right to repurchase the placed shares in certain circumstances. If the put or call option is exercised by the holders of the placed shares or by the Group in certain defined circumstances, the repurchase price will be at the initial purchase price plus a premium to be calculated by reference to 3-months Euribor interest rates plus 0.9% (subject to adjustments).

Due to the transaction nature, any profit which may result from the transaction will only be recognised by the Group upon the exchange of the placed shares for the shares of **3** Italia.

42 US dollar equivalents

Amounts in these accounts are stated in Hong Kong dollars (HK$), the currency of the place in which the Company is incorporated and is the functional currency of the Company. The translation into US dollars of these accounts as of, and for the year ended, 31 December 2005, is for convenience only and has been made at the rate of HK$7.80 to US$1. This translation should not be construed as a representation that the Hong Kong dollar amounts actually represented have been, or could be, converted into United States dollars at this or any other rate.

43 Approval of accounts

The accounts set out on pages 123 to 208 were approved by the Board of Directors on 23 March 2006.

44 Profit before taxation

In accordance with the disclosure requirements of the Companies Ordinance and the Listing Rules of Hong Kong, profit before taxation is shown after crediting and charging the following items:

	2005 HK$ millions	2004 HK$ millions
Credits:		
Share of profits less losses of associated companies		
Listed	7,032	4,895
Unlisted	1,035	1,026
	8,067	5,921
Share of gross rental income from associated companies and jointly controlled entities	672	571
Gross rental income from investment properties		
Listed subsidiary – Hutchison Harbour Ring Limited	64	–
Other subsidiaries (excluding Hutchison Harbour Ring Limited)	1,856	1,820
Less: intra group rental income	(246)	(256)
	1,674	1,564
Less: related outgoings	(67)	(51)
Net rental income of subsidiary companies	1,607	1,513
Dividend and interest income from managed funds and other investments		
Listed	2,141	2,139
Unlisted	166	172
Charges:		
Depreciation and amortisation		
Fixed assets	16,057	14,685
Telecommunications licences	5,989	5,884
Telecommunications postpaid customer acquisition costs	12,013	8,583
Leasehold land prepayments	982	1,174
Brand names and other rights	686	401
	35,727	30,727
Inventories write off	2,825	1,558
Operating leases		
Properties	9,796	7,942
Hire of plant and machinery	553	624
Auditors' remuneration		
Audit and audit related work – PricewaterhouseCoopers	176	155
– other auditors	45	25
Non audit work – PricewaterhouseCoopers	22	27
– other auditors	57	20

45 Balance sheet of the Company, unconsolidated

In accordance with the disclosure requirements of the Companies Ordinance of Hong Kong, the balance sheet of the Company as at 31 December 2005 is set out as follows:

	2005 HK$ millions	2004 HK$ millions
Assets		
Non-current assets		
Subsidiary companies		
Unlisted shares [(a)]	728	728
Amounts due from subsidiary companies	57,647	49,556
	58,375	50,284
Current assets		
Dividends and other receivables from subsidiary companies	30,027	15,600
Current liabilities		
Bank overdrafts	2	2
Other payables and accruals	106	100
	108	102
Net current assets	29,919	15,498
Net assets	88,294	65,782
Capital and reserves		
Share capital (note 32)	1,066	1,066
Reserves [(b)]	87,228	64,716
Shareholders' funds	88,294	65,782

Fok Kin-ning, Canning
Director

Frank John Sixt
Director

45 Balance sheet of the Company, unconsolidated (continued)

(a) Particulars regarding the principal subsidiary companies are set forth on pages 204 to 208.

(b) Reserves

	Share premium HK$ millions	Retained profit HK$ millions	Total HK$ millions
At 1 January 2005	**28,359**	**36,357**	**64,716**
Profit for the year	**–**	**29,887**	**29,887**
2004 final dividend paid	**–**	**(5,201)**	**(5,201)**
2005 interim dividend paid	**–**	**(2,174)**	**(2,174)**
At 31 December 2005	**28,359**	**58,869**	**87,228**
At 1 January 2004	28,359	28,121	56,480
Profit for the year	–	15,611	15,611
2003 final dividend paid	–	(5,201)	(5,201)
2004 interim dividend paid	–	(2,174)	(2,174)
At 31 December 2004	28,359	36,357	64,716

(c) The Company does not have an option scheme for the purchase of ordinary shares in the Company.

(d) Pursuant to the disclosure requirement of the Companies Ordinance of Hong Kong, the Company is required to disclose that it has guaranteed the borrowings of its finance and subsidiary companies which have been consolidated and included in the consolidated balance sheet of the Group. Of the consolidated borrowings included in note 29 totalling HK$264,911 million (2004 – HK$282,993 million), the Company has guaranteed a total of HK$215,761 million (2004 – HK$217,138 million) which has been borrowed in the name of subsidiary companies.

(e) The Company provided guarantees in respect of the bank and other borrowing facilities utilised by the jointly controlled entities totalling HK$3,309 million (2004 – HK$1,110 million). This amount has been included in the Group's contingent liabilities disclosed in note 37.

(f) Pursuant to the disclosure requirement of the Companies Ordinance of Hong Kong, the net profit of the Company is HK$29,887 million (2004 – HK$15,611 million) and is included in determining the profit attributable to shareholders of the Company in the consolidated profit and loss account.

(g) Reserves of the Company available for distribution to shareholders of the Company as at 31 December 2005 amounting to HK$58,869 million (2004 – HK$36,357 million).