

Notes to the Financial Statements

1. SEGMENT INFORMATION

a. Business segments

	Segment revenue		Segment results	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
i. Revenue and results				
Property investment	5,073	4,645	3,465	3,108
Hong Kong	3,952	3,688	3,124	2,832
China	298	227	85	58
Hotels	823	730	256	218
Communications, media and entertainment ("CME")	3,937	3,823	486	456
Pay television	1,884	1,888	337	469
Internet and multimedia	558	481	78	(44)
Telecommunications	1,478	1,448	104	55
Others	17	6	(33)	(24)
Logistics	3,534	3,347	1,935	1,840
Terminals	3,149	2,964	1,800	1,715
Others	385	383	135	125
	12,544	11,815	5,886	5,404
Property development	53	193	7	–
Investment and others	225	175	348	75
Inter-segment revenue (Note)	(279)	(230)	–	–
	12,543	11,953	6,241	5,479
Unallocated income and expenses			(238)	(222)
Operating profit			6,003	5,257
Increase in fair value of investment properties			11,513	10,911
Net other credit/(charges)			47	(190)
Telecommunications			–	(298)
Property development			47	108
			17,563	15,978
Borrowing costs			(562)	(239)
Associates			425	736
Property development			305	639
Terminals			118	96
Investment and others			2	1
Jointly controlled entities			(13)	(2)
Terminals			(13)	(2)
Profit before taxation			17,413	16,473

Property investment revenue includes gross rental income from investment properties of HK\$3,363 million (2004: HK\$3,033 million).

1. SEGMENT INFORMATION (Continued)**a. Business segments** (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Property investment	82	80
CME	196	147
Logistics	–	2
Investment and others	1	1
	279	230

ii. Assets and liabilities	Assets		Liabilities	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
Property investment	81,188	69,261	4,074	3,823
Hong Kong	74,572	63,468	1,708	1,632
China	6,169	5,346	2,224	2,066
Hotels	447	447	142	125
CME	5,407	5,511	1,177	1,174
Pay television	1,560	1,578	532	527
Internet and multimedia	706	804	134	152
Telecommunications	3,133	3,116	500	495
Others	8	13	11	–
Logistics	7,354	6,713	4,167	2,630
Terminals	7,166	6,531	4,117	2,584
Others	188	182	50	46
	93,949	81,485	9,418	7,627
Property development	5,614	4,236	550	198
Unallocated	4,832	4,417	25,998	23,689
Total assets/liabilities	104,395	90,138	35,966	31,514

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, corporate and financing expenses.

Included in the property development segment is the Group's attributable interest in property development projects undertaken by associates, which totals HK\$1,134 million (2004: HK\$1,237 million).

1. SEGMENT INFORMATION *(Continued)*

a. Business segments *(Continued)*

	Capital expenditure		Depreciation and amortisation	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
iii. Other information				
Property investment	775	387	102	138
Hong Kong	684	181	18	53
China	48	164	14	16
Hotels	43	42	70	69
CME	693	834	902	994
Pay television	242	308	334	364
Internet and multimedia	103	183	214	247
Telecommunications	313	329	341	366
Others	35	14	13	17
Logistics	1,105	575	202	264
Terminals	1,103	571	191	249
Others	2	4	11	15
Group total	2,573	1,796	1,206	1,396

The Group has no significant non-cash expenses other than depreciation and amortisation.

b. Geographical segments

During the year, more than 90% of the Group's revenue and operating results arose in Hong Kong and more than 90% of the Group's assets and liabilities were located in Hong Kong.

2. OPERATING PROFIT

a. Operating profit is arrived at:

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
After charging:		
Depreciation		
– assets held for use under operating leases	88	100
– other fixed assets	1,012	1,099
	1,100	1,199
Amortisation		
– programming library	81	122
– leasehold land	25	25
– goodwill	–	50
Total depreciation and amortisation	1,206	1,396
Staff costs	2,216	2,145
including:		
Contributions to defined contribution pension schemes including MPF schemes (after a forfeiture of HK\$5 million (2004: HK\$6 million))	76	69
Increase in liability for defined benefit pension schemes (Note 27)	13	21
Auditors' remuneration		
– audit services	10	9
– other services	2	1
Cost of investment properties sold during the year	41	–
Cost of other properties sold during the year	47	175
Loss on disposal of fixed assets	13	27
and crediting:		
Rental income less direct outgoings including:	3,390	3,092
Contingent rentals	236	190
Interest income	80	42
Dividend income from listed investments	55	53
Dividend income from unlisted investments	115	107

2. OPERATING PROFIT (Continued)

b. Directors' emoluments

Directors' emoluments are as follows:

	Fees HK\$'000	Basic salaries, housing and other allowances, and benefits in kind HK\$'000	Discretionary bonuses and/or performance related bonuses HK\$'000	Contributions to pension schemes HK\$'000	Compensation for loss of office/ inducement joining the Group HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Board of Directors							
Peter K C Woo	90	9,496	6,120	12	–	15,718	12,560
Gonzaga W J Li	50	4,008	4,120	–	–	8,178	6,867
Stephen T H Ng	50	3,716	7,120	204	–	11,090	9,350
Doreen Y F Lee	50	2,550	2,370	240	–	5,210	4,160
Erik B Christensen	50	2,630	2,279	157	–	5,116	15,781
T Y Ng	50	1,552	986	11	–	2,599	2,135
Independent Non-executive Directors							
Paul M P Chan	65	–	–	–	–	65	9
Edward K Y Chen	50	–	–	–	–	50	35
Raymond K F Ch'ien	50	–	–	–	–	50	35
Vincent K Fang	65	–	–	–	–	65	35
Hans Michael Jebesen	65	–	–	–	–	65	35
James E Thompson	65	–	–	–	–	65	35
Past Directors							
Paul M F Cheng	12	–	–	–	–	12	35
Quinn Y K Law	42	1,649	620	159	–	2,470	2,729
Christopher P Langley	19	–	–	–	–	19	35
David J Lawrence	4	248	83	1	–	336	3,998
	777	25,849	23,698	784	–	51,108	57,834
Total for 2004	589	29,275	27,178	792	–		57,834

In 2005, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$50,000 (2004: HK\$35,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$15,000 per annum were paid to each audit committee member.

c. Emoluments of the highest paid employees

For the year ended December 31, 2005, the top five highest paid individuals are also Directors of the Group and the analyses of their emoluments have been set out in Note 2(b) above.

3. OTHER NET INCOME

Other net income mainly represents net profit on disposal of available-for-sale investments which included a revaluation surplus of HK\$40 million (2004: HK\$22 million) transferred from the investments revaluation reserves.

4. NET OTHER CREDIT/(CHARGES)

	2005 HK\$ Million	2004 HK\$ Million
Net write-back of provisions for properties	47	108
Impairment of broadcasting and communications equipment	–	(298)
	47	(190)

5. BORROWING COSTS

	2005 HK\$ Million	2004 HK\$ Million
Interest on:		
Bank loans and overdrafts	323	90
Other loans repayable within five years	249	106
Other loans repayable over five years	6	9
Other borrowing costs	(8)	59
	570	264
Less: Amount capitalised*	(8)	(25)
Net borrowing costs for the year	562	239

* The borrowing costs have been capitalised at annual rates of between 1.3% to 4.6% (2004: 1.2% to 2.8%).

Included in total interest costs are amounts totalling HK\$425 million (2004: HK\$101 million) in respect of floating rate interest bearing borrowings that are not at fair value through profit or loss.

6. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates mainly comprises attributable profits arising on disposal of Sorrento and Bellagio residential units and contribution from terminals operations.

7. TAXATION

- a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2004: 17.5%).
- b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- c. Taxation in the consolidated profit and loss account represents:–

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
Current tax		
Hong Kong profits tax	678	702
Underprovision in respect of prior years	28	122
	706	824
Overseas taxation	2	1
Overprovision in respect of prior years	–	(9)
	708	816
Deferred tax		
Change in value of investment properties	2,045	1,984
Origination and reversal of temporary differences	150	125
Benefit of previously unrecognised tax losses now recognised	(320)	–
	1,875	2,109
	2,583	2,925

7. TAXATION (Continued)**d. Reconciliation between the actual total tax charge and accounting profit at applicable tax rates**

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i> (restated)
Profit before taxation	17,413	16,473
Notional tax on accounting profit calculated at applicable tax rates	3,110	2,961
Tax effect of non-deductible expenses	23	108
Tax effect of non-taxable revenue	(118)	(85)
Net underprovision in respect of prior years	28	113
Tax effect of tax losses not recognised	41	59
Tax losses utilised	(181)	(231)
Tax effect of previously unrecognised tax losses now recognised as deferred tax assets	(320)	–
Actual total tax charge	2,583	2,925

- e. None of the taxation payable in the balance sheet is expected to be settled after more than one year.
- f. Share of associates' tax for the year ended December 31, 2005 of HK\$24 million (2004: HK\$12 million) is included in the share of profits less losses of associates.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK\$1,455 million (2004: HK\$1,487 million).

9. DIVIDENDS

a. Dividends attributable to the year

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Interim dividend declared and paid of 36 cents (2004: 32.75 cents) per share	881	802
Final dividend of 44 cents (2004: 36 cents) per share proposed after the balance sheet date	1,077	881
	1,958	1,683

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

b. Dividends attributable to the previous financial year, approved and paid during the year

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 36 cents (2004: 28 cents) per share	881	685

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings attributable to shareholders for the year of HK\$13,888 million (2004: HK\$12,677 million as restated) and the weighted average of 2,448 million (2004: 2,447 million) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on earnings attributable to shareholders for the year of HK\$13,888 million (2004: HK\$12,677 million as restated) and the weighted average of 2,448 million (2004: 2,447 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the year ended December 31, 2005 (see Note 22) has no dilutive effect on the calculation of diluted earnings per share for the year ended December 31, 2005.

11. CHANGES IN ACCOUNTING POLICIES

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

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in the section headed "Principal Accounting Policies" set out on pages 129 to 145. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has opted to early adopt the amendment to HKAS 39, "Financial instruments: Recognition and measurement: The Fair Value Option" ("HKAS 39 (June 2005)") in the consolidated financial statements for the year ended December 31, 2005. Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

a. HKAS 40 "Investment property"

In prior years, investment properties other than those with unexpired lease terms of 20 years or less were stated at fair value. Changes in the value of investment properties were dealt with as movements in the investment properties revaluation reserves. Deficits arising on revaluation on a portfolio basis were set off against previous revaluation surpluses and thereafter charged to the consolidated profit and loss account. Investment properties with unexpired lease terms of 20 years or less were stated at carrying value less accumulated depreciation and impairment provisions, if any.

With effect from January 1, 2005, upon the adoption of HKAS 40, all the Group's investment properties, including those with unexpired lease terms of 20 years or less, are stated at their fair values with all the changes in fair value recognised directly in the consolidated profit and loss account. This new accounting policy has been applied retrospectively. Revenue reserves as at January 1, 2005 and January 1, 2004 were increased by HK\$42,870 million and HK\$32,109 million respectively, representing the transfer of the accumulated attributable revaluation surplus previously recorded in the investment properties revaluation reserves. Shareholders' equity as at January 1, 2005 increased by HK\$11 million, because of an adjustment to restate certain investment properties with unexpired lease terms of 20 years or less at fair value under HKAS 40.

The effect of the change has increased the profit attributable to shareholders and minority interests for the year ended December 31, 2005 by HK\$11,416 million (2004: HK\$10,911 million) and HK\$97 million (2004: HK\$39 million), respectively.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

b. **HKAS-INT 21 “Income taxes – recovery of revalued non-depreciable assets”**

In previous years, deferred taxation was recognised on revaluation changes of the Group’s investment properties on the basis that the recovery of the carrying amount of the investment properties would be through sales and no deferred taxation was provided on the revaluation of investment properties located in Hong Kong, as the capital gain tax rate was nil.

With effect from January 1, 2005, HKAS-INT 21 requires deferred taxation to be recognised on any revaluation of investment properties on the basis that the recovery of the carrying amount of the investment properties would be through use and calculated at the applicable profits tax rate and charged to the profit and loss account. This new accounting policy has been applied retrospectively. Shareholders’ equity as at January 1, 2005 and January 1, 2004 was restated and decreased by HK\$7,380 million and HK\$5,545 million respectively, and minority interests as at January 1, 2005 and January 1, 2004 were restated and decreased by HK\$48 million and HK\$39 million, respectively. The adjustment represented deferred tax liabilities on the revaluation of the Group’s investment properties.

As a result of this change, the deferred tax charge for the year ended December 31, 2005 increased by HK\$2,045 million (2004: HK\$1,984 million). The amounts attributable to shareholders and minority interests are HK\$2,027 million (2004: HK\$1,974 million) and HK\$18 million (2004: HK\$10 million) respectively.

c. **HK-INT 2 “The appropriate accounting policies for hotel properties”**

In prior years, the Group’s hotel and club properties were stated at their open market value based on an annual professional valuation. No depreciation was provided on hotel and club properties with an unexpired lease term of 20 years or more as they were maintained in a continuous state of sound repair and given the estimated lives of the hotel and club properties and their residual values, any depreciation would be immaterial.

With effect from January 1, 2005, upon the adoption of HK-INT 2, hotel and club properties are stated at cost less accumulated depreciation and impairment provisions. The effect of adopting the new accounting policy has been applied retrospectively. Shareholders’ equity as at January 1, 2005 and January 1, 2004 was restated and decreased by HK\$2,850 million and HK\$2,527 million, respectively, and minority interests as at January 1, 2005 and January 1, 2004 were restated and decreased by HK\$632 million and HK\$569 million respectively.

The change has increased the depreciation charge and reduced the profit attributable to shareholders and minority interests for the year ended December 31, 2005 by HK\$21 million and HK\$7 million, respectively (2004: HK\$27 million and HK\$7 million respectively).

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

d. HKAS 17 "Leases"

In prior years, the Group's leasehold land and buildings were accounted for as finance leases and were stated at cost less accumulated depreciation, except for hotel properties which were stated at revalued amounts.

With effect from January 1, 2005, upon the adoption of HKAS 17, the Group's interests in leasehold land are accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be split reliably from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Where the two elements cannot be split reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation. Leasehold land under operating leases will no longer be revalued. Instead, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised on a straight line basis over the unexpired lease term. The new accounting policy has been applied retrospectively, which has resulted in reclassification of certain leasehold interests in land with a net book value of HK\$1,446 million as at January 1, 2005 previously included in "fixed assets" as "leasehold land" with the comparative figures restated to conform to the current period's presentation. This change has no significant impact on the Group's results and equity.

e. HKFRS 3 "Business Combinations"

In prior years, positive goodwill, being the excess of the cost of a business combination over the net fair value of net assets acquired, which arose on or after January 1, 2001 was capitalised and amortised on a straight line basis over the shorter of its useful life and 20 years and was subject to impairment testing when there were indications of impairment. Goodwill which arose prior to January 1, 2001 was written off to capital reserves in accordance with the transitional provisions set out in the Statement of Standard Accounting Practice 30 "Business combinations".

With effect from January 1, 2005, in order to comply with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash-generating units to which the goodwill has been allocated exceeds its recoverable amount. Also with effect from January 1, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated profit and loss account as it arises.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

e. **HKFRS 3 “Business Combinations”** *(Continued)*

This change in accounting policy has been adopted prospectively from January 1, 2005, and the cessation of amortisation of goodwill has increased the Group’s profit after taxation for the year ended December 31, 2005 by HK\$50 million. In addition, the Group’s negative goodwill of HK\$303 million previously credited to other capital reserves has been transferred to revenue reserves. The Group has furthermore transferred goodwill that arose prior to January 1, 2001 in an amount totalling HK\$3,415 million from other capital reserves to revenue reserves since such goodwill is not allowed to be restated in the balance sheet or included in the calculation of the results on disposal of relevant subsidiaries/associates. The net effect of the above transfers has reduced revenue reserves and increased other capital reserves by the same amount of HK\$3,112 million but has no impact on the Group’s equity.

f. **HKAS 32 “Financial instruments: Disclosure and Presentation”, and HKAS 39 “Financial instruments: Recognition and Measurement”**

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

The principal effects of the change on the Group are summarised as below:

i. *Classification and measurement of financial assets and financial liabilities*

From January 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “loans and receivables”, “held-to-maturity financial assets” or “available-for-sale financial assets”. Financial assets at fair value through profit or loss are initially recognised at fair value and subsequently remeasured at fair value with any changes therein being recognised in the profit and loss account. Other financial assets are generally measured at amortised cost using the effective interest method. Available-for-sale financial assets are carried at fair value and any revaluation movements are transferred to the investments revaluation reserve.

The change has resulted in reclassifications of certain financial assets and liabilities together with the corresponding comparatives and has no significant impact on the Group’s results and equity.

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

f. HKAS 32 “Financial instruments: Disclosure and Presentation”, and HKAS 39 “Financial instruments: Recognition and Measurement” (*Continued*)

ii. *Interest-bearing borrowings designated at fair value through profit or loss*

The Group has chosen to early adopt HKAS 39 (June 2005) in these financial statements. Where there is a hedging relationship between the Group’s interest-bearing borrowings and interest rate swaps, which do not qualify for hedge accounting or are not designated as hedging derivative financial instruments, the interest-bearing borrowings are initially recognised at fair value and at each balance sheet date the fair value is remeasured. Any changes in fair value are recognised in the consolidated profit and loss account to offset the change in fair value of the related derivative financial instruments. This accounting treatment has been adopted effective from January 1, 2005 with no effect on revenue reserves as the change in fair value of interest-bearing borrowings exactly matched and was set off against the fair values of the related derivative financial instruments at that date. The change in fair value of interest-bearing borrowings at December 31, 2005 of HK\$43 million has been charged to the consolidated profit and loss account and offset against the gain of HK\$43 million arising on remeasurement of the related derivative financial instruments to fair value at that date.

iii. *Derivatives and hedging*

From January 1, 2005 onwards, all derivatives are initially recognised at fair value on the date of entering into the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated profit and loss account.

In accordance with HKAS 39, there are three types of hedge relationships: fair value hedges, cash flow hedges and net investment hedges.

– Fair value hedges

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

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

f. HKAS 32 "Financial instruments: Disclosure and Presentation", and HKAS 39 "Financial instruments: Recognition and Measurement" *(Continued)*

iii. *Derivatives and hedging (Continued)*

– Cash flow hedges

Changes in the fair value of derivatives held as hedging instruments that are designated and qualify as cash flow hedges are recognised in equity to the extent that the hedge is effective. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any related cumulative gain or loss existing in equity is recognised in the consolidated profit and loss account. When a forecast transaction is no longer expected to occur, the related cumulative gain or loss in equity is immediately transferred to the consolidated profit and loss account.

– Net investment hedges

Changes in the fair value of the effective portion of hedging instruments are recognised initially in equity. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in the consolidated profit and loss account. On disposal of a foreign operation, the gain or loss on the hedging instrument remaining in equity will be transferred to the consolidated profit and loss account in the period in which the disposal takes place.

At December 31, 2004, the Group's derivative financial instruments, mainly comprising interest rate and currency swaps, were used to manage the Group's exposure to interest rate and foreign exchange rate fluctuations. The notional amounts of derivatives were previously recorded off balance sheet. Interest flows arising on the derivatives were previously accounted for on an accruals basis.

The Group has applied the relevant transitional provisions of HKAS 39 and the amendments of HKAS 39 (June 2005) with effect from January 1, 2005. As at January 1, 2005, certain derivative financial instruments which were not designated as hedges or did not qualify for hedge accounting were stated at fair value by an opening balance adjustment which decreased revenue reserves by HK\$40 million. At December 31, 2005, the fair values of the Group's derivative financial instruments recognised in the balance sheet comprise non-current financial derivative assets totalling HK\$54 million and financial derivative liabilities totalling HK\$17 million (comprising non-current liabilities of HK\$3 million and current liabilities of HK\$14 million).

11. CHANGES IN ACCOUNTING POLICIES (*Continued*)

g. HKFRS 2 "Share-based payment"

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from January 1, 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- i. all options granted to employees on or before November 7, 2002; or
- ii. all options granted to employees after November 7, 2002 but which had vested before January 1, 2005.

No adjustments to the opening balances as at January 1, 2004 are required as all outstanding options were granted to employees before November 7, 2002.

h. HKAS 1 "Presentation of Financial Statements"

The application of the new HKFRSs has also resulted in changes in the presentation of the financial statements retrospectively with comparatives restated to conform to current period's presentation, in respect of the following:

- i. In prior years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Financial results shared by minority interests were separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from January 1, 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet as an element of total equity, separately from the equity attributable to the shareholders of the Company, and the results shared by minority interests are presented on the face of the consolidated profit and loss account as an allocation of the attributable profit between the minority interests and the shareholders of the Company.

11. CHANGES IN ACCOUNTING POLICIES *(Continued)*

h. HKAS 1 "Presentation of Financial Statements" *(Continued)*

- ii. In prior years, the Group's share of associates/jointly controlled entities' tax was presented as a component of taxation in the profit and loss account. On adoption of the HKAS 1, the Group's share of associates/jointly controlled entities' profits less losses is presented on an after-tax basis.
- iii. In prior years, amounts due from/(to) associates and minority interests are grouped under "interests in associates" and "minority interests" respectively. On adoption of the HKAS 1, the amounts due from/(to) associates and minority interests are classified as current assets and liabilities where they satisfy the conditions set out in paragraphs 57 and 60 of HKAS 1 for classification as current assets and liabilities.

i. Summary of the effect of changes in the accounting policies

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

	Shareholders' equity			Minority interests	Total equity
	Revenue reserves	Other reserves	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million	Million
At January 1, 2005					
Prior year adjustments					
HKAS 40	42,881	(42,870)	11	–	11
HKAS-INT 21	(7,380)	–	(7,380)	(48)	(7,428)
HK-INT 2	(221)	(2,629)	(2,850)	(632)	(3,482)
	35,280	(45,499)	(10,219)	(680)	(10,899)
Opening balance adjustments					
HKFRS 3	(3,112)	3,112	–	–	–
HKAS 39	(40)	–	(40)	–	(40)
Total increase/(decrease) in equity	32,128	(42,387)	(10,259)	(680)	(10,939)
At January 1, 2004					
Prior year adjustments					
HKAS 40	32,109	(32,109)	–	–	–
HKAS-INT 21	(5,545)	–	(5,545)	(39)	(5,584)
HK-INT 2	(194)	(2,333)	(2,527)	(569)	(3,096)
Total increase/(decrease) in equity	26,370	(34,442)	(8,072)	(608)	(8,680)

11. CHANGES IN ACCOUNTING POLICIES (Continued)i. **Summary of the effect of changes in the accounting policies** (Continued)ii. *Effect on profit after taxation*

	Attributable to shareholders			Attributable to shareholders		
	Minority interests	2005 Total	Minority interests	2004 Total		
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
HKAS 40	11,416	97	11,513	10,911	39	10,950
HKAS-INT 21	(2,027)	(18)	(2,045)	(1,974)	(10)	(1,984)
HK-INT 2	(21)	(7)	(28)	(27)	(7)	(34)
HKFRS 3	50	–	50	–	–	–
Total increase in profit after taxation	9,418	72	9,490	8,910	22	8,932

12. FIXED ASSETS

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & communi- cations equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
a. Cost or valuation							
Balance at January 1, 2004							
As previously reported	54,580	2,812	3,409	8,784	9,858	–	79,443
Prior year adjustment	270	(21)	(2,693)	–	(5)	–	(2,449)
Land cost adjustment	–	(331)	(86)	–	(1,263)	1,680	–
As restated	54,850	2,460	630	8,784	8,590	1,680	76,994
Additions	92	313	14	601	348	–	1,368
Disposals	(40)	–	–	(304)	(122)	–	(466)
Reclassification	475	(887)	–	(10)	368	44	(10)
Revaluation surpluses/ (deficits)	10,911	(52)	–	–	–	–	10,859
Balance at December 31, 2004 (as restated)	66,288	1,834	644	9,071	9,184	1,724	88,745
Balance at January 1, 2005							
As previously reported	66,046	2,171	3,762	9,071	10,511	–	91,561
Prior year adjustment	242	(21)	(3,032)	–	(5)	–	(2,816)
Land cost adjustment	–	(316)	(86)	–	(1,322)	1,724	–
As restated	66,288	1,834	644	9,071	9,184	1,724	88,745
Exchange adjustment	105	2	–	–	4	23	134
Additions	435	376	15	539	395	–	1,760
Disposals	(46)	–	–	(31)	(88)	–	(165)
Reclassification	(71)	(465)	–	(9)	311	(14)	(248)
Revaluation surpluses/ (deficits)	11,513	(234)	–	–	–	–	11,279
Balance at December 31, 2005	78,224	1,513	659	9,570	9,806	1,733	101,505

12. FIXED ASSETS (Continued)

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & communi- cations equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
Accumulated depreciation, amortisation and impairment losses							
Balance at January 1, 2004							
As previously reported	–	–	–	4,064	4,259	–	8,323
Prior year adjustment	–	–	403	–	–	–	403
Land cost adjustment	–	–	(3)	–	(250)	253	–
As restated	–	–	400	4,064	4,009	253	8,726
Charge for the year	–	–	46	727	426	25	1,224
Impairment	–	–	–	298	–	–	298
Written back on disposals	–	–	–	(296)	(121)	–	(417)
Reclassification	–	–	–	(2)	–	–	(2)
Balance at December 31, 2004 (as restated)	–	–	446	4,791	4,314	278	9,829
Balance at January 1, 2005							
As previously reported	39	–	–	4,791	4,588	–	9,418
Prior year adjustment	(39)	–	450	–	–	–	411
Land cost adjustment	–	–	(4)	–	(274)	278	–
As restated	–	–	446	4,791	4,314	278	9,829
Charge for the year	–	–	38	694	368	25	1,125
Written back on disposals	–	–	–	(23)	(82)	–	(105)
Reclassification	–	–	–	(2)	–	–	(2)
Balance at December 31, 2005	–	–	484	5,460	4,600	303	10,847
Net book value							
At December 31, 2005	78,224	1,513	175	4,110	5,206	1,430	90,658
At December 31, 2004 (as restated)	66,288	1,834	198	4,280	4,870	1,446	78,916

b. The analysis of cost or valuation of the above assets is as follows:–

2005 valuation	78,224	–	–	–	–	–	78,224
Cost less provisions	–	1,513	659	9,570	9,806	1,733	23,281
	78,224	1,513	659	9,570	9,806	1,733	101,505
2004 valuation	66,288	–	–	–	–	–	66,288
Cost less provisions	–	1,834	644	9,071	9,184	1,724	22,457
	66,288	1,834	644	9,071	9,184	1,724	88,745

12. FIXED ASSETS (Continued)

	Group						Total HK\$ Million
	Investment properties HK\$ Million	Properties under or held for redeve- lopment HK\$ Million	Hotel and club properties HK\$ Million	Broad- casting & communi- cations equipment HK\$ Million	Other properties and fixed assets HK\$ Million	Leasehold land HK\$ Million	
c. Tenure of title to properties (at cost or valuation):-							
At December 31, 2005							
Held in Hong Kong							
Long lease	61,499	–	478	–	3	204	62,184
Medium lease	10,174	928	–	–	4,403	1,203	16,708
Short lease	1,612	–	181	–	1	–	1,794
	73,285	928	659	–	4,407	1,407	80,686
Held outside Hong Kong							
Freehold	20	–	–	–	–	–	20
Long lease	–	–	–	–	–	–	–
Medium lease	4,919	585	–	–	5	326	5,835
	78,224	1,513	659	–	4,412	1,733	86,541
At December 31, 2004							
Held in Hong Kong							
Long lease	51,122	58	461	–	3	86	51,730
Medium lease	8,545	1,267	–	–	4,110	1,321	15,243
Short lease	1,991	–	183	–	1	–	2,175
	61,658	1,325	644	–	4,114	1,407	69,148
Held outside Hong Kong							
Freehold	20	–	–	–	–	–	20
Long lease	5	–	–	–	–	–	5
Medium lease	4,605	509	–	–	5	317	5,436
	66,288	1,834	644	–	4,119	1,724	74,609

12. FIXED ASSETS (*Continued*)

d. Properties revaluation

The Group's investment properties have been revalued as at December 31, 2005 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

The surplus or deficit arising on revaluation is recognised directly in the consolidated profit and loss account.

e. Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at each balance sheet date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. As a consequence of this exercise, at December 31, 2005 revaluation deficits totalled HK\$234 million (2004: HK\$52 million) of which HK\$158 million (2004: HK\$39 million) was recognised in the consolidated profit and loss account.

f. The Group leases out properties under operating leases, which generally run for an initial period of two to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

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

	Group	
	2005	2004
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Within 1 year	3,319	3,066
After 1 year but within 5 years	3,721	3,433
After 5 years	254	107
	7,294	6,606

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$ Million	2004 HK\$ Million
Unlisted shares, at cost less provision	6,792	6,670
Amounts due from subsidiaries	31,225	31,621
	38,017	38,291
Amounts due to subsidiaries	(24,790)	(24,462)
	13,227	13,829

Details of principal subsidiaries at December 31, 2005 are shown on pages 146 to 149.

Amounts due from and to subsidiaries are unsecured, non-interest bearing and classified as non-current as these are not expected to be recoverable/payable within the next twelve months.

14. GOODWILL

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Cost		
Balance at January 1	441	441
Opening balance adjustment (note a)	(144)	–
Balance at December 31	297	441
Accumulated amortisation and impairment losses		
Balance at January 1	(144)	(94)
Eliminated against cost at January 1 (note a)	144	–
Charge for the year	–	(50)
Balance at December 31	–	(144)
Carrying amount		
Balance at December 31	297	297

- a. The opening balance adjustment is to eliminate the corresponding brought forward accumulated amortisation in compliance with the HKFRS 3.
- b. Goodwill is related to the Group's terminals business. As at December 31, 2005, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the terminals business is based on fair value less costs to sell, which is determined by the latest transaction price. No impairment was recorded.

15. INTEREST IN ASSOCIATES

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Share of net tangible assets	334	27
Goodwill	61	–
Amounts due from associates	1,250	1,621
Amounts due to associates	(7)	(65)
	1,638	1,583

Details of principal associates at December 31, 2005 are shown on page 149.

Included in the amounts due from associates are loans totalling HK\$1,153 million (2004: HK\$1,494 million) advanced to certain associates involved in the Sorrento and Bellagio property development projects, of which HK\$1,153 million (2004: HK\$1,420 million) is interest-free. Interest-bearing loans of HK\$74 million outstanding as at December 31, 2004 were fully repaid during the year ended December 31, 2005. The loans are unsecured and are repayable as may from time to time be agreed among the shareholders.

Summary financial information on associates

	2005		2004	
	Total <i>HK\$ Million</i>	Attributable interest <i>HK\$ Million</i>	Total <i>HK\$ Million</i>	Attributable interest <i>HK\$ Million</i>
Assets	10,906	1,989	11,956	2,909
Liabilities	(6,959)	(1,655)	(10,603)	(2,882)
Equity	3,947	334	1,353	27
Revenues	5,465	1,206	5,232	1,172
Profit before taxation	2,418	449	3,061	748
Taxation	(98)	(24)	(68)	(12)
Profit after taxation	2,320	425	2,993	736

16. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Share of net assets	842	294
Goodwill	54	54
	896	348

Details of principal jointly controlled entities at December 31, 2005 are shown on page 149. The Group's interest in jointly controlled entities mainly represents:-

a. Taicang International Container Terminals Company Limited ("TICT JV")

TICT JV is a Sino-foreign joint venture enterprise established with the approval of the Jiang Su Provincial People's Government for a period of 50 years up to 2048, is 51.0%-owned by Modern Terminals Limited, a 67.6%-owned subsidiary of the Group.

b. Suzhou Modern Terminals Limited ("SMTL JV")

SMTL JV is a Sino-foreign joint venture enterprise established with the approval of the Jiang Su Provincial People's Government for a period of 50 years up to 2055, is 70.0%-owned by Modern Terminals Limited.

Notwithstanding the contribution of 51% and 70% of the registered capital by Modern Terminals Limited, the joint venture agreements relating to the establishment of TICT JV and SMTL JV stipulates that all significant financial and operating decisions of TICT JV and SMTL JV must be approved by all of its directors. As neither the Group nor the joint venture partner have the ability to control the boards of directors and the economic activities of TICT JV and SMTL JV, the Group accounts for its investments in TICT JV and SMTL JV as jointly controlled entities.

The Group's effective interest in the results, assets and liabilities of its jointly controlled entities are summarised below:-

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Non-current assets	1,644	470
Current assets	43	44
Non-current liabilities	(825)	(59)
Current liabilities	(20)	(161)
Net assets	842	294
Revenue	50	2
Loss for the year	(13)	(2)

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Available-for-sale investments		
Equity securities		
Listed in Hong Kong	735	695
Listed outside Hong Kong	890	868
	1,625	1,563
Unlisted	52	91
	1,677	1,654
Market value of listed securities	1,625	1,563

18. LONG TERM RECEIVABLES

Long term receivables represent receivables due after more than one year.

19. INVENTORIES

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Properties under development for sale	3,398	2,238
Properties held for sale	972	677
Spare parts and consumables	118	110
	4,488	3,025

- a. The properties under development for sale are expected to be substantially completed and recovered after more than one year.
- b. Properties under development for sale/held for sale are stated at lower of cost and net realisable value. The total carrying value of properties stated at net realisable value at December 31, 2005 was HK\$1,757 million (2004: HK\$1,288 million).

19. INVENTORIES *(Continued)*

- c. In 2005, net provisions totalling HK\$205 million (2004: HK\$166 million) charged to the consolidated profit and loss account in prior years for properties under development for sale/held for sale were written back as a result of the increase in net realisable value of certain properties.
- d. The carrying value of leasehold land included in properties under development for sale/held for sale is summarised as follows:–

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Held in Hong Kong		
Long lease	155	–
Medium lease	1,642	1,688
	1,797	1,688
Held outside Hong Kong		
Medium lease	1,013	240
	2,810	1,928

20. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at December 31, 2005 as follows:–

	Group		Company	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Trade debtors				
0 – 30 days	346	159	–	–
31 – 60 days	220	328	–	–
61 – 90 days	45	124	–	–
Over 90 days	61	32	–	–
	672	643	–	–
Other receivables	433	605	1	1
	1,105	1,248	1	1

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are receivable upon completion of the properties under development. Included in trade and other receivables are mainly denominated in Hong Kong Dollars.

21. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at December 31, 2005 as follows:–

	Group		Company	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Trade creditors				
0 – 30 days	281	229	–	–
31 – 60 days	373	132	–	–
61 – 90 days	57	93	–	–
Over 90 days	168	193	–	–
	879	647	–	–
Other payables	3,969	3,971	23	20
	4,848	4,618	23	20

Included in above are trade and other payables denominated in Renminbi of RMB615 million (2004: RMB359 million).

Included in other payables are amounts due to associates totalling HK\$50 million (2004: HK\$Nil). These amounts are unsecured, interest free and repayable on demand.

22. SHARE CAPITAL

	2005	2004	2005	2004
	<i>No. of shares Million</i>	<i>No. of shares Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Authorised				
Ordinary shares of HK\$1 each	3,600	3,600	3,600	3,600
Issued and fully paid				
Balance at January 1	2,447	2,447	2,447	2,447
Exercise of share options	1	–	1	–
Balance at December 31	2,448	2,447	2,448	2,447

Executive share incentive scheme

As at December 31, 2005, options to subscribe for 200,000 (2004: 400,000) ordinary shares of the Company at a price of HK\$25.0 (2004: HK\$25.0) per share granted to a number of executives under the Company's executive share incentive scheme were unexercised. These options are exercisable before July 31, 2006.

During the year, 200,000 options were exercised (2004: Nil) (Note 29(a)).

23. CAPITAL AND RESERVES

	Shareholders' equity									
	Share capital	Share premium	Capital redemption reserves	Investment	Investments revaluation reserves	Other capital reserves	Revenue reserves	Total shareholders' equity	Minority interests	Total equity
				properties revaluation reserves						
				HK\$						
Million	Million	Million	Million	Million	Million	Million	Million	Million		
a. The Group										
i. Company and subsidiaries										
Balance at January 1, 2004										
– as previously reported	2,447	7,742	7	32,109	229	(686)	10,469	52,317	4,021	56,338
Prior year adjustments for (Note 11):										
HKAS 40 & HKAS-INT 21	–	–	–	(32,109)	–	–	26,564	(5,545)	(39)	(5,584)
HK-INT 2	–	–	–	–	–	(2,333)	(194)	(2,527)	(569)	(3,096)
As restated	2,447	7,742	7	–	229	(3,019)	36,839	44,245	3,413	47,658
Surplus on revaluation of investment properties	–	–	–	10,900	–	–	–	10,900	39	10,939
Prior year adjustment for HKAS 40	–	–	–	(10,900)	–	–	–	(10,900)	(39)	(10,939)
Surplus on revaluation of investment properties as restated	–	–	–	–	–	–	–	–	–	–
Surplus on revaluation of hotel and club properties	–	–	–	–	–	283	–	283	56	339
Prior year adjustment for HK-INT 2	–	–	–	–	–	(296)	–	(296)	(56)	(352)
Deficit on revaluation of hotel and club properties as restated	–	–	–	–	–	(13)	–	(13)	–	(13)
Deferred tax on revaluation of certain investment properties	–	–	–	(139)	–	–	–	(139)	(1)	(140)
Prior year adjustment for HK-INT 21	–	–	–	139	–	–	–	139	1	140
Deferred tax on revaluation of certain investment properties as restated	–	–	–	–	–	–	–	–	–	–
Surplus on revaluation of available-for-sale investments	–	–	–	–	232	–	–	232	87	319
Advances to minority interests	–	–	–	–	–	–	–	–	(3)	(3)
Others	–	–	–	–	–	45	(40)	5	5	10
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(22)	–	–	(22)	–	(22)
Profit for the year (restated)	–	–	–	–	–	–	11,943	11,943	871	12,814
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	–	(685)	(685)	–	(685)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	–	(802)	(802)	–	(802)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(698)	(698)
Balance at December 31, 2004 (as restated)	2,447	7,742	7	–	439	(2,987)	47,255	54,903	3,675	58,578

23. CAPITAL AND RESERVES (Continued)

	Shareholders' equity									
	Share capital HK\$ Million	Share premium HK\$ Million	Capital redemption reserves HK\$ Million	Investment properties revaluation reserves HK\$ Million	Investments revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total shareholders' equity HK\$ Million	Minority interests HK\$ Million	Total equity HK\$ Million
Balance at January 1, 2005 – as previously reported	2,447	7,742	7	42,870	439	(358)	11,975	65,122	4,355	69,477
Prior year adjustments for (Note 11):										
HKAS 40 & HKAS-INT 21	–	–	–	(42,870)	–	–	35,501	(7,369)	(48)	(7,417)
HK-INT 2	–	–	–	–	–	(2,629)	(221)	(2,850)	(632)	(3,482)
As restated	2,447	7,742	7	–	439	(2,987)	47,255	54,903	3,675	58,578
Opening balance adjustments										
HKFRS 3	–	–	–	–	–	3,112	(3,112)	–	–	–
HKAS 39	–	–	–	–	–	–	(40)	(40)	–	(40)
	2,447	7,742	7	–	439	125	44,103	54,863	3,675	58,538
Surplus on revaluation of available-for-sale investments	–	–	–	–	103	–	–	103	63	166
Advances from minority interests	–	–	–	–	–	–	–	–	7	7
Reserve utilised for acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(1,788)	(1,788)	(1,043)	(2,831)
Others	–	–	–	–	–	(62)	55	(7)	9	2
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(40)	–	–	(40)	–	(40)
Profit for the year	–	–	–	–	–	–	13,476	13,476	942	14,418
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	–	(881)	(881)	–	(881)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	–	(881)	(881)	–	(881)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	(537)	(537)
Exercise of share options	1	4	–	–	–	–	–	5	–	5
Balance at December 31, 2005	2,448	7,746	7	–	502	63	54,084	64,850	3,116	67,966
ii. Associates/Jointly controlled entities										
Balance at January 1, 2004	–	–	–	–	1	–	(690)	(689)	–	(689)
Profit for the year	–	–	–	–	–	–	734	734	–	734
Surplus on revaluation of available-for-sale investments	–	–	–	–	1	–	–	1	–	1
Balance at December 31, 2004	–	–	–	–	2	–	44	46	–	46
Balance at January 1, 2005	–	–	–	–	2	–	44	46	–	46
Profit for the year	–	–	–	–	–	–	412	412	–	412
Transfer to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	–	–	(2)	–	–	(2)	–	(2)
Others	–	–	–	–	–	7	–	7	–	7
Balance at December 31, 2005	–	–	–	–	–	7	456	463	–	463
Total reserves										
At December 31, 2005	2,448	7,746	7	–	502	70	54,540	65,313	3,116	68,429
At December 31, 2004 (restated)	2,447	7,742	7	–	441	(2,987)	47,299	54,949	3,675	58,624

23. CAPITAL AND RESERVES (Continued)

	Share capital	Share premium	Capital redemption reserve	Other capital reserves	Revenue reserves	Total
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
b. The Company						
Balance at January 1, 2004	2,447	7,742	7	306	3,501	14,003
Profit for the year	–	–	–	–	1,487	1,487
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	(685)	(685)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	(802)	(802)
Balance at December 31, 2004 and January 1, 2005	2,447	7,742	7	306	3,501	14,003
Exercise of share options	1	4	–	–	–	5
Transfers	–	–	–	(306)	306	–
Profit for the year	–	–	–	–	1,455	1,455
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	(881)	(881)
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	(881)	(881)
Balance at December 31, 2005	2,448	7,746	7	–	3,500	13,701

Included in the Company's revenue reserves was the transfer of HK\$306 million related to intragroup transactions in prior years which are considered by management to be realised and distributable.

Reserves of the Company available for distribution to shareholders at December 31, 2005 amounted to HK\$3,500 million (2004: HK\$3,501 million).

The application of the share premium account and capital redemption reserve are governed by Section 48B and Section 49 of the Hong Kong Companies Ordinance respectively. The investments revaluation reserves have been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of available-for-sale investments. The other capital reserves mainly comprise exchange differences arising from the translation of the financial statements of foreign operations.

After the balance sheet date the Directors proposed a final dividend of 44 cents per share (2004: 36 cents per share) amounting to HK\$1,077 million (2004: HK\$881 million). This dividend has not been recognised as a liability at the balance sheet date.

24. LONG TERM LOANS

	Group		Company	
	2005 HK\$ Million	2004 HK\$ Million	2005 HK\$ Million	2004 HK\$ Million
Bonds and notes (unsecured)				
HK dollar fixed rate notes due 2005	–	300	–	–
HK dollar fixed rate notes due 2006	1,193	600	–	–
HK dollar fixed rate notes due 2007	247	–	–	–
HK dollar fixed rate notes due 2008	302	–	–	–
HK dollar fixed rate notes due 2009	101	100	–	–
HK dollar floating rate notes due 2006	340	340	–	–
HK dollar floating rate notes due 2008	100	100	–	–
HK dollar floating rate notes due 2010	200	200	–	–
US dollar fixed rate notes due 2007	2,851	2,412	–	–
	5,334	4,052	–	–
Bank loans (secured)				
Due within 1 year	85	–	–	–
Due after more than 2 years but not exceeding 5 years	–	34	–	–
	85	34	–	–
Bank loans (unsecured)				
Due within 1 year	2,785	2,936	–	190
Due after more than 1 year but not exceeding 2 years	–	1,327	–	–
Due after more than 2 years but not exceeding 5 years	9,254	6,362	–	–
Due after more than 5 years	1,100	1,731	–	–
	13,139	12,356	–	190
Total loans	18,558	16,442	–	190
Less: Amounts due within 1 year	(4,403)	(3,236)	–	(190)
Total long term loans	14,155	13,206	–	–

24. LONG TERM LOANS (Continued)

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:–

	Group		Company	
	2005 Million	2004 Million	2005 Million	2004 Million
United States dollar ("USD")	21	155	–	–
Renminbi ("RMB")	–	39	–	–

- a. As at December 31, 2005, the Group's net debts, representing the total loans less deposits and cash, are analysed as follows:–

	2005 HK\$ Million	2004 HK\$ Million
Secured	85	34
Bank loans	85	34
Unsecured	18,473	16,408
Bonds and notes	5,334	4,052
Bank loans	13,139	12,356
Total loans	18,558	16,442
Long term deposit (due to mature in May 2006)	–	(156)
Deposits and cash*	(2,508)	(2,209)
	16,050	14,077

* Short term cash deposits totalling HK\$38 million at December 31, 2005 were pledged as security for a bank credit facility.

- b. As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have fully been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

24. LONG TERM LOANS (Continued)

- c. Over 90% of the bonds and notes either bear interest at floating rates or have been swapped to floating rates determined by reference to the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate. Their effective interest rates at the balance sheet date and the maturity dates are summarised as follows:–

	2005					
	Effective interest rate %	Total HK\$ Million	One year or less HK\$ Million	1-2 years HK\$ Million	2-5 years HK\$ Million	More than 5 years HK\$ Million
Bonds and notes						
HK\$1,850 million fixed rate notes	3.8	1,843	1,193	247	403	–
HK\$640 million floating rate notes	3.3	640	340	–	300	–
US\$359 million fixed rate notes	7.2	2,851	–	2,851	–	–
	5.5	5,334	1,533	3,098	703	–
Bank loans	3.2	13,224	2,870	–	9,254	1,100

- d. Included in the Group's total loans are bank loans totalling HK\$3,227 million (2004: HK\$1,597 million) borrowed by a non wholly-owned subsidiary, Modern Terminals Limited. The loans are without recourse to the Company and other subsidiaries.
- e. Certain banking facilities of the Group are secured by mortgages over a property under development for sale with a carrying value of HK\$345 million as at December 31, 2005.
- f. Certain Group's borrowings are attached with financial covenants which require, at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required level.

25. DEFERRED TAXATION

- a. Net deferred tax (assets)/liabilities recognised in the consolidated balance sheet:–

	Group	
	2005 HK\$ Million	2004 HK\$ Million (restated)
Deferred tax liabilities	11,672	9,447
Deferred tax assets	(468)	(118)
Net deferred tax liabilities	11,204	9,329

25. DEFERRED TAXATION (Continued)

The components of deferred tax assets and liabilities and the movements during the year are as follows:–

	Depreciation allowances in excess of the related depreciation HK\$ Million	Revaluation of investment properties HK\$ Million	Others HK\$ Million	Future benefit of tax losses HK\$ Million	Total HK\$ Million
Balance at January 1, 2004					
– as previously reported	1,866	364	2	(596)	1,636
Prior year adjustment	–	5,584	–	–	5,584
As restated	1,866	5,948	2	(596)	7,220
Charged/(credited) to the consolidated profit and loss account	114	1,984	(2)	13	2,109
Balance at December 31, 2004 (as restated)	1,980	7,932	–	(583)	9,329
Balance at January 1, 2005					
– as previously reported	1,980	504	–	(583)	1,901
Prior year adjustment	–	7,428	–	–	7,428
As restated	1,980	7,932	–	(583)	9,329
Charged/(credited) to the consolidated profit and loss account	136	2,045	(2)	(304)	1,875
Balance at December 31, 2005	2,116	9,977	(2)	(887)	11,204

b. Deferred tax assets unrecognised

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

	Group	
	2005 HK\$ Million	2004 HK\$ Million
Deductible temporary differences	(1)	(2)
Future benefit of tax losses	(1,028)	(1,457)
Net deferred tax assets unrecognised	(1,029)	(1,459)

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at December 31, 2005. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations expire five years after the relevant accounting year end date.

26. OTHER DEFERRED LIABILITIES

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Club debentures issued (non-interest bearing)	220	222
Deferred revenue	38	25
Others	5	10
	263	257

27. DEFINED BENEFIT PENSION SCHEMES

	Group	
	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Defined benefit pension scheme assets	53	31

The Group makes contributions to six defined benefit pension schemes that provide pension benefits for employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions from employers, which are in accordance with recommendations made by actuaries based on their valuation of the schemes. The latest valuations of the schemes as at December 31, 2005 were performed either by HSBC Life (International) Limited, Watson Wyatt Hong Kong Limited, who are independent qualified actuaries or internally, using the projected unit credit method. The funding ratios of the principal schemes were 102% and 132% respectively.

- a. The amount recognised in the consolidated balance sheet is as follows:–

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Present value of funded obligations	(712)	(719)
Fair value of plan assets	855	805
Net unrecognised actuarial gains	(97)	(70)
Unrecognised transitional liability	7	15
	53	31

- b. Movements in the net asset in the consolidated balance sheet are as follows:–

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
At January 1	31	15
Contributions paid	35	37
Expenses recognised in the consolidated profit and loss account	(13)	(21)
At December 31	53	31

27. DEFINED BENEFIT PENSION SCHEMES *(Continued)*

c. Expenses recognised in the consolidated profit and loss account are as follows:–

	2005 <i>HK\$ Million</i>	2004 <i>HK\$ Million</i>
Current service cost	31	31
Interest cost	33	31
Expected return on scheme assets	(57)	(48)
Net actuarial losses recognised	(2)	–
Net transitional liability recognised	8	7
	13	21

The expenses are recognised in the following line items in the consolidated profit and loss account:–

Direct costs and operating expenses	13	20
Administrative and corporate expenses	–	1
	13	21
Actual return on scheme assets	(64)	(91)

d. The principal actuarial assumptions used as at December 31, 2005 (expressed as a range) are as follows:–

	2005	2004
Discount rate at December 31	4.25% – 5.0%	4.0% – 5.0%
Expected rate of return on scheme assets	5.0% – 8.0%	5.0% – 8.0%
Future salary increases – 2005	N/A	2.0% – 5.0%
– 2006	2.0% – 4.0%	2.0% – 3.0%
– thereafter	2.0% – 4.0%	2.0% – 4.0%

28. FINANCIAL INSTRUMENTS

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

a. Interest rate risk

The Group's exposure to interest rate risk relates principally to the Group's short and long term loans. The Group is most vulnerable to changes in Hong Kong dollar interest rates. Interest rate risk is managed by the Group's senior management in accordance with defined policies.

At December 31, 2005, the Group has a number of fixed rate interest bearing notes. The Group's overall risk management strategy is to have a floating rate funding. Accordingly, the Group has entered into a number of interest rate swaps ("IRS") with notional amounts matching exactly the principal amounts of the respective loans. Effectively, the Group pays interest at floating rates on these borrowings. In each of the IRS entered into by the Group, the timing of IRS cash flows equals those of the loan's interest expenses. The fair value of the IRS at inception is considered to be zero.

The notional amount and expiry dates of the IRS outstanding at December 31, 2005 were as follows:–

	2005 HK\$ Million
Expiring within 1 year	1,200
Expiring after more than 1 year but not exceeding 5 years	2,990
	4,190

For the year ended December 31, 2005, the average interest rate of the IRS is 3.9%.

The fair value of the IRS is calculated as the present value of the estimated future cash flows. The net fair values of the IRS at December 31, 2005 were as follows:–

	2005	
	Positive fair value HK\$ Million	Negative fair value HK\$ Million
Expiring within 1 year	–	7
Expiring after more than 1 year but not exceeding 5 years	54	3
	54	10

28. FINANCIAL INSTRUMENTS (Continued)

a. Interest rate risk (Continued)

Profit/(loss) recognised in the consolidated profit and loss account is as follows:–

	2005 HK\$ Million
Included in borrowing costs	
– profit on revaluation of IRS	43
– loss on remeasurement of fair value of interest-bearing borrowings	(43)
	–

b. Foreign currency risk

The Group owns assets and conducts its business primarily in Hong Kong with its cash flows substantially denominated in Hong Kong dollars.

The Group's primary foreign currency exposures arise from its direct property investment and port-related equity investments in China. Where appropriate and cost-efficient, the Group seeks to finance these investments by RMB borrowings with reference to the future RMB funding requirements from the investment and related returns.

The Group is also exposed to foreign currency risk in respect of its USD denominated long term borrowings. Anticipated foreign exchange payments relate primarily to interest expense payments, repayment of principal and capital expenditure. Based on the Group's estimate of future foreign exchange rates, it may enter into forward foreign exchange contracts to reduce fluctuations in foreign currency cash flows related to these anticipated payments.

The contract amounts of the outstanding forward exchange contracts at December 31, 2005 was HK\$3,025 million (2004: HK\$4,238 million).

The net fair values of forward foreign exchange contracts at December 31, 2005 were as follows:–

	2005 Negative fair value HK\$ Million
Forward foreign exchange contracts designated at fair value through profit or loss	7

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

The revaluation loss on forward foreign exchange contracts of HK\$7 million is recognised as within direct costs and operating expenses in the consolidated profit and loss account.

28. FINANCIAL INSTRUMENTS (*Continued*)

c. **Liquidity risk**

Cash management of the Company and wholly-owned subsidiaries of the Group are centralised at the Group level. The non wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

d. **Credit risk**

The Group's credit risk is primarily attributable to rental, other trade and service receivables. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies in each of its core businesses.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. There are no significant concentrations of credit risk within the Group.

e. **Fair values**

Listed investments are stated at market prices. Unlisted investments for which fair values cannot be reliably measured are stated at cost.

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2005.

f. **Comparative information for 2004 is not disclosed as such information is not required to be restated when HKAS 32 is first applied.**

29. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on June 30, 1998, to replace a former scheme previously adopted on September 29, 1988, whereby the Directors of the Company are authorised, at their discretion, to invite employees, including Directors, of the Company and/or any of its subsidiaries to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. Options under the share option scheme are exercisable during such period as determined by the Directors prior to the grant of the option provided that no option may be granted which is exercisable earlier than one year from the date of grant or later than 10 years after such date.

a. Movement in share options

	2005 Number	2004 Number
At January 1	400,000	400,000
Exercised	(200,000)	–
At December 31	200,000	400,000
Options vested at December 31	200,000	–

- b. During the year ended December 31, 2005 and 2004, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme.

During the year ended December 31, 2005, 200,000 options were exercised to subscribe for ordinary shares under the Company's Executive Share Incentive Scheme (2004: Nil).

c. Terms of share options at the balance sheet date

Exercise period	Exercise price	2005 Number	2004 Number
8/1/2005 – 7/31/2006	HK\$25.00	200,000	400,000

29. EQUITY COMPENSATION BENEFITS (Continued)**d. Details of share options exercised**

Exercise date	Exercise Price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	2005 No. of shares	2004 No. of shares
August 31, 2005	25.00	28.55	250,000	10,000	–
September 2, 2005	25.00	29.95	1,625,000	65,000	–
September 7, 2005	25.00	30.60	250,000	10,000	–
September 8, 2005	25.00	30.10	500,000	20,000	–
September 9, 2005	25.00	30.50	500,000	20,000	–
September 13, 2005	25.00	30.15	875,000	35,000	–
September 27, 2005	25.00	30.10	1,000,000	40,000	–
				200,000	–

30. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the year ended December 31, 2005:

- a. As disclosed in Note 15, loans totalling HK\$1,153 million (2004: HK\$1,494 million) advanced by the Group to an associate involved in the Bellagio property development project are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loans during the year is not material in the context of these financial statements.
- b. In respect of the year ended December 31, 2005, the Group earned rental income totalling HK\$239 million (2004: HK\$135 million) from various tenants which are wholly-owned by, or are non wholly-owned subsidiaries of, companies which in turn are wholly-owned by the family interests of, or by a trust the settlor of which is, the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.
- c. In respect of the year ended December 31, 2005, the Group purchased 125.2 million shares in i-CABLE Communications Limited for HK\$0.3 billion from two subsidiaries of its principal shareholder. The transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

31. CONTINGENT LIABILITIES

As at December 31, 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK\$24,216 million (2004: HK\$23,128 million).

32. COMMITMENTS

	Group	
	2005 HK\$ Million	2004 HK\$ Million
a. Capital commitments		
Authorised and contracted for	1,143	1,236
Authorised but not contracted for	3,099	1,413
	4,242	2,649
b. Programming and other commitments		
Authorised and contracted for	581	747
Authorised but not contracted for	80	148
	661	895
c. Properties under development for sale		
Authorised and contracted for	855	280
Authorised but not contracted for	2,654	1,430
	3,509	1,710
d. Commitment for acquisition of investments		
Authorised and contracted for	1,874	–

The above commitment for acquisition of investments of HK\$1,874 million at December 31, 2005 mainly represented Modern Terminals' equity investment commitment for Taicang and Dachan Bay port projects.

33. POST BALANCE SHEET EVENTS

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in note 9.

34. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 11.

In addition, the presentation of certain comparative figures in the segment reporting as disclosed in note 1 to the financial statements has been reclassified to conform for the current year's presentation which management consider gives a better indication of the results of the Group for the year.

35. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new statements have not been adopted since they are only effective after December 31, 2005:–

	Effective for accounting periods beginning on or after
HK(IFRIC) 4, Determining whether an arrangement contains a lease	January 1, 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	December 1, 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	January 1, 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	January 1, 2006
– Cash flow hedge accounting of forecast intragroup transactions	January 1, 2006
– Financial guarantee contracts	January 1, 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	January 1, 2006
– HKAS 27, Consolidated and separate financial statements	January 1, 2006
– HKFRS 3, Business combinations	January 1, 2006
HKFRS 7, Financial instruments: disclosures	January 1, 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	January 1, 2007

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

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on March 15, 2006.