1. General

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate information" of the Group's Annual Report. The Directors consider that the Company's ultimate holding company is Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on Hong Kong Stock Exchange.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Group's principal activities are the development, investment and operation of infrastructure businesses in Hong Kong, Mainland China , Australia and the United Kingdom.

2. Changes in Accounting Policies

In the current year, the Group has adopted a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. Moreover, the adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have material impacts on how the Group's financial position and/or results are prepared and presented:

(a) Leasehold Land

Prior to 1st January, 2005, the Group's leasehold land was included in property, plant and equipment and measured at cost less accumulated depreciation using the straight-line method over the unexpired lease terms of the land.

From 1st January, 2005 onwards, the Group's leasehold land is separated from property, plant and equipment and accounted for as prepaid operating leases pursuant to HKAS 17 "Leases", which are amortised over the unexpired lease terms using the straight-line method. The change in accounting policy has been adopted retrospectively, and the Group applied a prior year adjustment to separate leasehold land of HK$383 million from property, plant and equipment on the balance sheet as at 31st December, 2004.

2. Changes in Accounting Policies (Cont'd)

(b) Interests in Associates and Interests in Jointly Controlled Entities

Prior to 1st January, 2005, the Group discontinued recognising its share of further loss of an associate or jointly controlled entity with the applicable share of cumulative losses in excess of the Group's equity interest in the associate or jointly controlled entity.

From 1st January, 2005 onwards, the Group recognises its share of cumulative losses (if any) to the extent of the Group's equity and other long term interests in that associate or jointly controlled entity, which in substance represent the Group's investment in that associate or jointly controlled entity, pursuant to HKAS 28 "Investments in Associates" and HKAS 31 "Interests in Joint Ventures". The change in accounting policy has been adopted retrospectively and the Group has applied prior year adjustments of HK$295 million and HK$101 million to reduce retained profits and exchange translation reserve as at 31st December, 2004, respectively, for recognition of its share of relevant losses of certain associates and jointly controlled entities.

(c) Financial Instruments

In the current year, the Group has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application whereas HKAS 39, which is effective for the accounting periods beginning on or after 1st January, 2005, generally does not permit restatement of comparative information on a retrospective basis. The application of HKAS 32 has no material effect on the presentation of financial instruments in the financial statements of the Group. The principal effects resulting from the application of HKAS 39 on different categories of the Group's assets or liabilities are summarised below:

Infrastructure project investments
Prior to 1st January, 2005, the Group's interests in the infrastructure project investments were stated at cost less amortisation over the relevant contract periods on a straight-line basis from commencement of operation of the projects or from commencement of the Group's entitlement to income. The carrying amount of such interests was reduced to recognise any identified impairment losses in the values of individual investments. Income from these investments and related infrastructure project receivables were recognised when the Group's right to receive payments was established.

2. Changes in Accounting Policies (Cont'd)

(c) Financial Instruments (Cont'd)

Infrastructure project investments (Cont'd)
From 1st January, 2005 onwards, the Group's interests in the infrastructure project investments and related infrastructure project receivables are combined and classified as "loans and receivables" under HKAS 39 and are subsequently measured at amortised cost using the effective interest rate method. Accordingly, the Group applied an opening adjustment of HK$559 million to reduce the Group's retained profits as at 1st January, 2005 for restating the carrying amounts of its infrastructure project investments.

Investments in securities
Prior to 1st January, 2005, the Group's non-trading securities intended to be held long-term were stated at fair values, with gains or losses arising from changes in their fair values dealt with as movements in investment revaluation reserve. Other securities were stated at fair values in the balance sheet, with changes in their fair values dealt with in the income statement.

From 1st January, 2005 onwards, the Group's investments in securities are classified as either "financial assets at fair value through profit or loss" or "available-for-sale financial assets" in accordance with HKAS 39, and are measured at fair values. Where securities are designated as "financial assets at fair value through profit or loss", gains or losses arising from changes in fair values are dealt with in the income statement. For "available-for-sale financial assets", gains and losses arising from changes in fair value are dealt with as movements in investment revaluation reserve.

Under the relevant transitional provisions of HKAS 39, certain investments which were previously disclosed as non-trading securities were re-designated as "financial assets at fair value through profit or loss" since 1st January, 2005. Changes in fair values of these investments are now recognised in income statement. In previous years, changes in fair values of these non-trading securities were dealt with as movements in investment revaluation reserve. Such re-designation and change in accounting policy applicable to these investments have been adopted prospectively and no adjustments are applied on the Group's results for previous years or balance sheet items as at 31st December, 2004 or 1st January, 2005.

2. Changes in Accounting Policies (Cont'd)

(c) Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting
Prior to 1st January, 2005, the Group did not recognise any derivatives on balance sheet.

From 1st January, 2005 onwards, all the Group's derivatives covered by HKAS 39 are carried at fair value on balance sheet. Subsequent changes in their values are recognised in the income statement, except for derivatives which qualify as effective hedging instruments and are designated as cash flow hedges where the subsequent changes in fair values are dealt with as movements in hedging reserve. Pursuant to the relevant transitional provisions in HKAS 39, the Group has applied opening adjustments of HK$189 million and HK$356 million to reduce retained profits and hedging reserve as at 1st January, 2005, respectively, for recognition of the Group's and its share of associates' derivative financial instruments.

3. Summary of the Effects of the Changes in Accounting Policies

(a) Consolidated Income Statement Items

For the year ended 31st December

HK$ million	2005	2004
Decrease in group turnover	(29)	–
Increase in other income	71	–
Decrease in operating costs	128	7
Increase in gain on disposal of associates	271	–
Increase/(decrease) in share of results of associates	261	(308)
Decrease in share of results of jointly controlled entities	(160)	(57)
Increase/(decrease) in profit before taxation	542	(358)
(Increase)/decrease in taxation	(23)	325
Increase/(decrease) in profit attributable to shareholders	519	(33)

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

(b) Consolidated Balance Sheet Items

HK$ million	As at 31st December, 2004, as previously stated	Effect of adopting HKAS 17	Effect of adopting HKASs 28 & 31	As at 31st December, 2004, as restated	Effect of adopting HKAS 39	As at 1st January, 2005
Property, plant and equipment	2,247	(383)	–	1,864	–	1,864
Leasehold land	–	383	–	383	–	383
Interests in associates	25,657	–	(396)	25,261	(545)	24,716
Interests in infrastructure project investments						
– non-current assets	1,855	–	–	1,855	(646)	1,209
– current assets	–	–	–	–	158	158
Derivative financial instruments						
– non-current assets	–	–	–	–	369	369
– current assets	–	–	–	–	354	354
Debtors and prepayments	878	–	–	878	(68)	810
Derivative financial instruments						
– non-current liabilities	–	–	–	–	(398)	(398)
– current liabilities	–	–	–	–	(373)	(373)
Creditors and accruals	(839)	–	–	(839)	45	(794)
Total effects on assets and liabilities	**29,798**	**–**	**(396)**	**29,402**	**(1,104)**	**28,298**
Exchange translation reserve	955	–	(101)	854	–	854
Hedging reserve	–	–	–	–	(356)	(356)
Retained profits	18,008	–	(295)	17,713	(748)	16,965
Total effects on equity attributable to shareholders	**18,963**	**–**	**(396)**	**18,567**	**(1,104)**	**17,463**

As 1st January, 2004 (disclosure of impact on equity only)

HK$ million	As previously stated	Effect of adopting HKAS 28	As restated
Exchange translation reserve	814	(85)	729
Retained profits	16,075*	(262)	15,813
Total effects on equity attributable to shareholders	**16,889**	**(347)**	**16,542**

* Including balance of proposed dividend previously presented as separate item under equity.

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

The Group has not early adopted the following new HKFRSs issued by HKICPA that are effective for accounting periods beginning on or after 1st January, 2006. The Directors anticipate that the adoption of these HKFRSs will have no material impact on the Group's financial statements.

HKAS 1 (Amendment)	"Capital Disclosures"
HKAS 19 (Amendment)	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 21 (Amendment)	"Net Investment in a Foreign Operation"
HKAS 39 (Amendment)	"Cash Flow Hedge Accounting of Forecast Intragroup Transaction"
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 - Int 4	"Determining whether an Arrangement Contains a Lease"
HKFRS - Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK (IFRIC) - Int 6	"Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipments"
HK (IFRIC) - Int 7	"Applying the Restatement Approach under HKAS 29 Financial Report in Hyperinflationary Economies"

4. Principal Accounting Policies

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange and by the Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the principal accounting policies set out below.

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December together with the Group's interests in associates and jointly controlled entities on the basis set out in (d) below.

The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisitions or up to the effective dates of disposals, as appropriate.

(b) Goodwill

Goodwill represents the excess of costs of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the subsidiaries, associates and jointly controlled entities acquired. Goodwill is recognised as an asset or included in interests in associates or jointly controlled entities (as appropriate) at cost less any identified impairment loss.

The Group has applied the relevant transitional provisions in HKFRS 3 "Business Combination". Goodwill recognised in reserves prior to 1st January, 2001 continues to be held in the reserves and are transferred to retained profits when the business to which the goodwill relates is disposed of or becomes impaired.

4. Principal Accounting Policies (Cont'd)

(b) Goodwill (Cont'd)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(c) Subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities, where appropriate, are recognised at their fair values at the acquisition date.

(d) Associates and Jointly Controlled Entities

An associate is a company, other than a subsidiary or 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.

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. A jointly controlled entity is the joint venture which involves the establishment of a separate entity.

4. Principal Accounting Policies (Cont'd)

(d) Associates and Jointly Controlled Entities (Cont'd)

The results and assets and liabilities of associates/jointly controlled entities are incorporated in the Group's financial statements using the equity method of accounting. Under the equity method, investments in associates/jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates/jointly controlled entities, less impairment in the values of individual investments.

Loss of an associate/jointly controlled entity in excess of the Group's interest in that associate/jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's investment in the associate/jointly controlled entity) are not recognised.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation of property, plant and equipment is calculated to write off their depreciable amounts over their estimated useful lives using the straight-line method, at the following rates per annum:

Buildings	$1^{1}/_{4}\%$ to $3^{1}/_{3}\%$ or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	$3^{1}/_{3}\%$ to $33^{1}/_{3}\%$
Others	5% to $33^{1}/_{3}\%$

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the income statement.

4. Principal Accounting Policies (Cont'd)

(f) Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement for the period in which they arise.

(g) Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

(h) Contract Work

When the outcome of a contract can be estimated reliably, revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date, that is the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

(i) Financial Instruments

Interests in infrastructure project investments
Investments in joint ventures are classified as infrastructure project investments, where the Group's return is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment periods.

4. Principal Accounting Policies (Cont'd)

(i) Financial Instruments (Cont'd)

Interests in infrastructure project investments (Cont'd)
The Group's interests in the infrastructure project investments are recorded at amortised cost using effective interest rate method. The carrying amount of such interests is reduced to recognise any identified impairment losses in the values of individual investments.

Investments in securities
The Group's investments in securities are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets, and are measured at fair value.

Where securities classified as financial assets at fair value through profit or loss, gains and losses arising from changes in fair values are dealt with in the income statement.

For available-for-sale financial assets, gains and losses arising from changes in fair values are dealt with as movements in investment revaluation reserve, until the assets are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in the reserve is included in the income statement for the period. Impairment losses recognised in the income statement for available-for-sale financial assets are not subsequently reversed in the income statement.

Derivative financial instruments and hedge accounting
Derivative financial instruments are initially measured at fair values on the contract dates, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair values of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in hedging reserve. Any ineffective portion is recognised immediately in the income statement.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or the hedge no longer qualifies for hedge accounting.

4. Principal Accounting Policies (Cont'd)

(i) Financial Instruments (Cont'd)

Trade debtors

Trade debtors are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

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.

Bank and other loans

Interest-bearing bank and other loans are initially measured at fair values, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade creditors

Trade creditors are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

(j) Revenue Recognition

Sales of goods

Revenue from sales of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is arrived at after deduction of any sales returns and discounts and does not include sales taxes.

4. Principal Accounting Policies (Cont'd)

(j) Revenue Recognition (Cont'd)

Return from infrastructure project investments
Return from infrastructure project investments is accrued on a time basis, by reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the infrastructure project to that project's net carrying amount at initial recognition.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income from investments in securities
Dividend and other incomes from investments in securities are recognised when the Group's right to receive payment is established.

Contract revenue
Income from long-term contracts is recognised according to the stage of completion.

(k) Foreign Currencies

The individual financial information of each group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial information, the result and financial position of each entity are expressed in Hong Kong Dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial information.

4. Principal Accounting Policies (Cont'd)

(k) Foreign Currencies (Cont'd)

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair values are included in the income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong Dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised in the income statement in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4. Principal Accounting Policies (Cont'd)

(l) Deferred Taxation

Deferred taxation is provided using balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding year. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the income statement on a straight-line basis over the respective lease terms.

(n) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases.

4. Principal Accounting Policies (Cont'd)

(n) Finance Leases (Cont'd)

The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases.

Assets held under finance leases are recognised as assets at their fair values at the dates of acquisition. The corresponding liabilities to the lessor are shown within bank and other loans in the balance sheet as obligations under finance leases. Finance costs are charged to the income statement over the terms of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(o) Employee Retirement Benefits

The Group operates defined contribution and defined benefit retirement plans for its employees.

The costs of defined contribution plans are charged to the income statement as and when the contributions fall due.

The cost of providing retirement benefits under the Group's defined benefit retirement plans is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10 per cent. of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plans. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plans.

(p) Borrowing Costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the Group's infrastructure projects up to the commencement of revenue contribution or upon commencement of operation of the projects, whichever is the earlier.

5. Key Sources of Estimation Uncertainty

The key assumption concerning the future, and other key sources of estimation uncertainty at 31st December, 2005, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Impairment of Property, Plant and Equipment

Property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value. The net book value of property, plant and equipment as at 31st December, 2005 is HK$919 million, after an impairment loss of HK$769 million is recognised for the current year.

(b) Impairment of Interests in Infrastructure Project Investments

Determining whether interests in infrastructure project investments are impaired requires an estimation of the recoverable amounts of infrastructure project investments, which represent the present values of estimated future cash flows from those investments, discounted at the original effective interest rates. The carrying amount of interests in infrastructure project investments as at 31st December, 2005 is HK$665 million, after an impairment loss of HK$95 million is recognised for the current year.

(c) Impairment of Cash-generating Units/Goodwill

Determining whether a cash-generating unit/goodwill is impaired requires an estimation of the value in use of the relevant cash-generating unit. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and suitable discount rate in order to calculate the present value. Impairment losses are recognised by the Group as follows after impairment tests conducted for various cash-generating units:

HK$ million	Impairment loss recognised for the current year	Carrying value at 31st December, 2005 after impairment loss
Interests in associates	578	26,911
Interests in jointly controlled entities	214	4,337
Goodwill	50	175

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include interests in infrastructure project investments, investments in securities, bank balances and deposits, bank and other loans and debtors and creditors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency Risk

Several subsidiaries of the Company have dividend income, bank deposits and borrowings determined in foreign currency, which expose the Group to foreign currency risk. The management considers that the foreign currency risk is offset by foreign currency income generated from foreign operations.

(b) Interest Rate Risk

The Group's interest rate risk relates primarily to floating rate bank borrowings. In relation to these floating rate borrowings, the Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against certain exposures to changes in interest rates of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective cash flow hedges of interest rate risk.

(c) Credit Risk

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, local management teams of subsidiaries are responsible for monitoring the procedures to ensure that follow-up actions are taken to recover overdue debts of the subsidiaries. In addition, the teams review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

(d) Price Risk

The Group's investment in securities are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. Turnover

Group turnover represents net sales of infrastructure materials, income from the supply of water, return and interest from infrastructure project investments, interest income from loans granted to associates, and distribution from investments in securities classified as infrastructure investments, net of withholding tax, where applicable.

In addition, the Group also accounts for its proportionate share of turnover of jointly controlled entities. Turnover of associates is not included.

The turnover for the current year is analysed as follows:

HK$ million	2005	2004
Sales of infrastructure materials	992	1,243
Income from the supply of water	237	149
Return from infrastructure project investments	138	178
Interest income from loans granted to associates	856	863
Distribution from investments in securities	24	74
Group turnover	2,247	2,507
Share of turnover of jointly controlled entities	2,503	1,953
Total	4,750	4,460

8. Other Income

Other income includes the following:

HK$ million	2005	2004
Interest income from banks	259	132
Interest income from investments in securities	–	42
Finance lease income	2	3
Gain on disposal of infrastructure project investment	14	–
Change in fair values of investment properties	3	–
Change in fair values of investments in securities	16	–
Change in fair values of derivative financial instruments	26	–
Gain on disposals of subsidiaries	–	22
Gain on disposals of listed securities	1	85

9. Operating Costs

HK$ million	2005	2004
Staff costs including directors' emoluments	311	326
Depreciation of property, plant and equipment	134	160
Amortisation of prepayment for leasehold land	11	11
Amortisation of costs of infrastructure project investments	–	85
Raw materials and consumables used	347	505
Changes in inventories of finished goods and work-in-progress	(10)	–
Change in fair values of investments in securities	–	61
Other operating expenses	936	719
Total	1,729	1,867

10. Finance Costs

HK$ million	2005	2004
Interest and other finance costs on		
Bank borrowings wholly repayable within 5 years	658	566
Notes repayable after 5 years	74	78
Total	732	644

11. Gain on Disposals of Associates

HK$ million	2005	2004
Disposal of 49% interests in ETSA Utilities, Powercor and CitiPower	3,699	–
Disposal of 9.9% interest in Northern Gas Networks Holdings Limited	64	–
Total	3,763	–

Prior to December 2005, the Group and Hongkong Electric Holdings Limited (an associate of the Group) held 100% interests, on a 50/50 basis, in 3 associate groups of companies, ETSA Utilities, Powercor and CitiPower, which operate and manage various electricity distribution businesses in Australia. In December 2005, the Group sold its 49% interests in these associate groups to Spark Infrastructure Fund, a stapled group listed in the Australian Stock Exchange Limited, at a consideration of approximately A$2.2 billion.

12. Impairment Losses

During the current year, the Group recognised impairment losses of the following assets:

HK$ million	2005	2004
Property, plant and equipment (note 18)	769	230
Leasehold land (note 20)	21	–
Interests in associates (note 21)	578	–
Interests in jointly controlled entities (note 22)	214	–
Interests in infrastructure project investments (note 23)	95	–
Investments in securities	–	20
Goodwill (note 26)	50	–
Total	1,727	250

13. Profit Before Taxation

HK$ million	2005	2004
Profit before taxation is arrived at after (crediting)/charging:		
Contract revenue	(172)	(139)
Gain on disposals of property, plant and equipment	(9)	(3)
Net exchange (gain)/loss	(168)	1
Operating lease rental for land and buildings	12	16
Directors' emoluments (note 36)	32	28
Auditors' remuneration	5	3
Share of tax of associates (included in share of results of associates)	(65)	326
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	153	50

14. Taxation

Hong Kong Profits Tax is provided for at the rate of 17.5 per cent. (2004: 17.5 per cent.) on the estimated assessable profits less available tax losses. Overseas tax is provided for at the applicable tax rate on the estimated assessable profits less available tax losses.

HK$ million	2005	2004
Current taxation		
– Hong Kong Profits Tax	5	5
– Overseas tax	15	6
Deferred taxation (note 32)	47	(9)
Total	67	2

Reconciliation between tax charge and accounting profit at Hong Kong Profits Tax Rate:

HK$ million	2005	2004
Profit before taxation	5,908	3,522
Less: share of results of associates	(3,183)	(2,842)
share of results of jointly controlled entities	(311)	(573)
Total	2,414	107
Tax at 17.5% (2004: 17.5%)	422	19
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	230	(81)
Income not subject to tax	(1,148)	(30)
Expenses not deductible for tax purpose	294	89
Tax losses and other temporary differences not recognised	245	24
Utilisation of previously unrecognised tax losses	–	(9)
Others	24	(10)
Tax charge	67	2

15. Profit for the Year and Segment Information

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographic regions as the secondary reporting format.

By business segment

for the year ended 31st December

	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
HK$ million	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Turnover										
Group turnover	–	–	1,255	1,264	992	1,243	–	–	2,247	2,507
Share of turnover of jointly controlled entities	–	–	1,996	1,953	507	–	–	–	2,503	1,953
	–	–	3,251	3,217	1,499	1,243	–	–	4,750	4,460
Segment revenue										
Group turnover	–	–	1,255	1,264	992	1,243	–	–	2,247	2,507
Others	–	–	33	25	70	52	–	–	103	77
	–	–	1,288	1,289	1,062	1,295	–	–	2,350	2,584
Segment result	–	–	1,037	1,045	(253)	(143)	–	–	784	902
Net gain on disposals of infrastructure project investment, subsidiaries and listed securities	–	–	14	–	1	22	–	85	15	107
Change in fair values of investments in securities and derivative financial instruments	–	–	75	–	(23)	–	(10)	(61)	42	(61)
Interest and finance lease income	–	–	1	1	102	77	158	99	261	177
Exchange gain/(loss)	–	–	–	–	–	–	168	(1)	168	(1)
Corporate overheads and others	–	–	–	–	–	–	(160)	(123)	(160)	(123)
Finance costs	–	–	(21)	(6)	–	–	(711)	(638)	(732)	(644)
Gain on disposals of associates	–	–	3,763	–	–	–	–	–	3,763	–
Impairment losses	–	–	(937)	–	(790)	(250)	–	–	(1,727)	(250)
Share of results of associates and jointly controlled entities	2,492	2,396	1,046	1,024	(44)	(5)	–	–	3,494	3,415
Profit/(loss) before taxation	2,492	2,396	4,978	2,064	(1,007)	(299)	(555)	(639)	5,908	3,522
Taxation	–	–	(58)	(14)	(4)	17	(5)	(5)	(67)	(2)
Profit/(loss) for the year	2,492	2,396	4,920	2,050	(1,011)	(282)	(560)	(644)	5,841	3,520
Attributable to:										
Shareholders of the Company	2,492	2,396	4,920	2,050	(845)	(279)	(560)	(644)	6,007	3,523
Minority interests	–	–	–	–	(166)	(3)	–	–	(166)	(3)
	2,492	2,396	4,920	2,050	(1,011)	(282)	(560)	(644)	5,841	3,520
Other information										
Capital expenditure	–	–	41	41	36	36	–	–	77	77
Depreciation and amortisation	–	–	25	101	119	154	1	1	145	256

15. Profit for the Year and Segment Information (Cont'd)

By business segment (Cont'd)

as at 31st December

HK$ million	Investment in Hongkong Electric* 2005	2004	Infrastructure investments 2005	2004	Infrastructure related business 2005	2004	Unallocated items 2005	2004	Consolidated 2005	2004
Assets										
Segment assets	–	–	3,585	4,339	2,336	3,296	–	–	5,921	7,635
Interests in associates and jointly controlled entities	17,682	16,037	13,352	13,759	214	266	–	–	31,248	30,062
Unallocated corporate assets	–	–	–	–	–	–	7,386	7,996	7,386	7,996
Total assets	17,682	16,037	16,937	18,098	2,550	3,562	7,386	7,996	44,555	45,693
Liabilities										
Segment liabilities	–	–	819	513	250	265	–	–	1,069	778
Taxation, deferred taxation and unallocated corporate liabilities	–	–	319	304	147	57	9,484	13,574	9,950	13,935
Total liabilities	–	–	1,138	817	397	322	9,484	13,574	11,019	14,713

* During the year, the Group has a 38.87 per cent. equity interest in Hongkong Electric Holdings Limited ("Hongkong Electric"), which is listed on Hong Kong Stock Exchange.

15. Profit for the Year and Segment Information (Cont'd)

By geographic region

for the year ended 31st December

HK$ million	Hong Kong 2005	Hong Kong 2004	Mainland China 2005	Mainland China 2004	Australia 2005	Australia 2004	Others 2005	Others 2004	Unallocated items 2005	Unallocated items 2004	Consolidated 2005	Consolidated 2004
Turnover												
Group turnover	699	890	421	531	880	937	247	149	–	–	2,247	2,507
Share of turnover of jointly controlled entities	401	–	2,102	1,953	–	–	–	–	–	–	2,503	1,953
	1,100	890	2,523	2,484	880	937	247	149	–	–	4,750	4,460
Segment revenue												
Group turnover	699	890	421	531	880	937	247	149	–	–	2,247	2,507
Others	40	51	32	17	–	–	31	9	–	–	103	77
	739	941	453	548	880	937	278	158	–	–	2,350	2,584
Segment result	(133)	(51)	(24)	13	880	937	61	3	–	–	784	902
Net gain on disposals of infrastructure project investment, subsidiaries and listed securities	–	22	14	–	–	–	1	–	–	85	15	107
Change in fair values of investments in securities and derivative financial instruments	–	–	–	–	75	–	(23)	–	(10)	(61)	42	(61)
Interest and finance lease income	102	77	–	–	–	–	1	1	158	99	261	177
Exchange gain/(loss)	–	–	–	–	–	–	–	–	168	(1)	168	(1)
Corporate overheads and others	–	–	–	–	–	–	–	–	(160)	(123)	(160)	(123)
Finance costs	–	–	–	–	–	–	(21)	(6)	(711)	(638)	(732)	(644)
Gain on disposals of associates	–	–	–	–	3,699	–	64	–	–	–	3,763	–
Impairment losses	(308)	(140)	(774)	(90)	(578)	–	(67)	(20)	–	–	(1,727)	(250)
Share of results of associates and jointly controlled entities	2,549	2,405	272	580	685	429	(12)	1	–	–	3,494	3,415
Profit/(loss) before taxation	2,210	2,313	(512)	503	4,761	1,366	4	(21)	(555)	(639)	5,908	3,522
Taxation	(4)	17	–	–	(23)	(1)	(35)	(13)	(5)	(5)	(67)	(2)
Profit/(loss) for the year	2,206	2,330	(512)	503	4,738	1,365	(31)	(34)	(560)	(644)	5,841	3,520
Attributable to:												
Shareholders of the Company	2,206	2,330	(346)	506	4,738	1,365	(31)	(34)	(560)	(644)	6,007	3,523
Minority interests	–	–	(166)	(3)	–	–	–	–	–	–	(166)	(3)
	2,206	2,330	(512)	503	4,738	1,365	(31)	(34)	(560)	(644)	5,841	3,520
Other information												
Capital expenditure	30	15	6	21	–	–	41	41	–	–	77	77

15. Profit for the Year and Segment Information (Cont'd)

By geographic region (Cont'd)

as at 31st December

HK$ million	Hong Kong 2005	Hong Kong 2004	Mainland China 2005	Mainland China 2004	Australia 2005	Australia 2004	Others 2005	Others 2004	Unallocated items 2005	Unallocated items 2004	Consolidated 2005	Consolidated 2004
Assets												
Segment assets	1,987	2,328	911	3,218	1,977	885	1,046	1,204	–	–	5,921	7,635
Interests in associates and jointly controlled entities	18,022	16,330	4,154	4,650	5,950	8,978	3,122	104	–	–	31,248	30,062
Unallocated corporate assets	–	–	–	–	–	–	–	–	7,386	7,996	7,386	7,996
Total assets	20,009	18,658	5,065	7,868	7,927	9,863	4,168	1,308	7,386	7,996	44,555	45,693

16. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$6,007 million (2004: HK$3,523 million) and on 2,254,209,945 shares (2004: 2,254,209,945 shares) in issue during the year.

17. Dividends

HK$ million	2005	2004
Interim dividend paid of HK$0.24 (2004: HK$0.22) per share	541	496
Proposed final dividend of HK$0.708 (2004: HK$0.57) per share	1,596	1,285
Total	2,137	1,781

18. Property, Plant and Equipment

HK$ million	Freehold land and buildings outside Hong Kong	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings outside Hong Kong	Buildings	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
Cost							
At 1st January, 2004, as previously reported	–	866	386	–	2,047	164	3,463
Prior year adjustments	–	(866)	(386)	749	–	–	(503)
At 1st January, 2004, as restated	–	–	–	749	2,047	164	2,960
Additions	–	–	–	3	71	3	77
Disposals	(7)	–	–	(10)	(166)	(45)	(228)
Relating to subsidiaries acquired	11	–	–	–	964	3	978
Relating to subsidiaries disposed of	–	–	–	–	(72)	(9)	(81)
Exchange translation differences	1	–	–	–	75	–	76
Transfers	–	–	–	5	(5)	–	–
At 31st December, 2004	5	–	–	747	2,914	116	3,782
Additions	–	–	–	7	62	1	70
Disposals	–	–	–	(4)	(100)	(76)	(180)
Exchange translation differences	–	–	–	8	(93)	1	(84)
Transfers*	(2)	–	–	(18)	5	(4)	(19)
At 31st December, 2005	3	–	–	740	2,788	38	3,569
Accumulated depreciation and impairment							
At 1st January, 2004, as previously reported	–	328	97	–	1,116	118	1,659
Prior year adjustments	–	(328)	(97)	316	–	–	(109)
At 1st January, 2004, as restated	–	–	–	316	1,116	118	1,550
Charge for the year	–	–	–	26	120	14	160
Impairment loss	–	–	–	30	190	10	230
Disposals	–	–	–	(5)	(150)	(41)	(196)
Relating to subsidiaries acquired	–	–	–	–	229	2	231
Relating to subsidiaries disposed of	–	–	–	–	(68)	(8)	(76)
Exchange translation differences	–	–	–	–	19	–	19
At 31st December, 2004	–	–	–	367	1,456	95	1,918
Charge for the year	–	–	–	24	104	6	134
Impairment loss	–	–	–	275	485	9	769
Disposals	–	–	–	(3)	(70)	(69)	(142)
Exchange translation differences	–	–	–	3	(25)	1	(21)
Transfers	–	–	–	14	(18)	(4)	(8)
At 31st December, 2005	–	–	–	680	1,932	38	2,650
Net book value							
At 31st December, 2005	**3**	**–**	**–**	**60**	**856**	**–**	**919**
At 31st December, 2004	5	–	–	380	1,458	21	1,864

* During the year, certain properties of the Group were transferred to investment properties with revaluation surplus of HK$5 million.

18. Property, Plant and Equipment (Cont'd)

The net book value of the Group's mains, pipes, other plant and machinery includes an amount of HK$199 million (2004: HK$220 million) in respect of assets held under finance leases.

The Directors reviewed the Group's property, plant and equipment based on value in use calculation. The discount rate used was 8.5 per cent. Moreover, certain part of the Group's property, plant and equipment were revaluated by GZAA Incorporated, an independent qualified professional valuer not connected with the Group. GZAA Incorporated is a member of the China Appraisal Society with appropriate qualifications and recent experiences in the valuation of similar location. The valuation, which conforms to International Valuation Standards, was completed by reference to market evidence of transaction prices for similar location.

Accordingly, an aggregate impairment loss of HK$769 million has been recognised for the property, plant and equipment due to physical damage and technical obsolescence. The recoverable amounts of the impaired items are the higher of their fair values less costs to sell and values in use.

19. Investment Properties

HK$ million	
Fair values, medium term leases in Hong Kong	
Transfer from property, plant and equipment and leasehold land	56
Change in fair values	3
At 31st December, 2005	**59**

The fair values of the Group's investment properties at 31st December, 2005 are determined based on a valuation carried out by DTZ Debenham Tie Leung, an independent qualified professional valuer not connected with the Group. DTZ Debenham Tie Leung is a member of the Institute of Valuers with appropriate qualifications and recent experiences in the valuation of similar locations. The valuation, which conforms to International Valuation Standards, was completed by reference to market evidence of transaction prices for similar properties.

20. Leasehold Land

HK$ million	Medium term leasehold land in Hong Kong	Medium term leasehold land outside Hong Kong	Total
Operating lease prepayment			
At 1st January, 2004, as previously reported	–	–	–
Prior year adjustments	458	45	503
At 31st December, 2004, as restated	458	45	503
Additions	7	–	7
Transfers*	(35)	–	(35)
Exchange translation differences	–	1	1
At 31st December, 2005	430	46	476
Accumulated amortisation and impairment			
At 1st January, 2004, as previously reported	–	–	–
Prior year adjustments	100	9	109
At 1st January, 2004, as restated	100	9	109
Charge for the year	10	1	11
At 31st December, 2004	110	10	120
Charge for the year	10	1	11
Impairment loss	–	21	21
Transfers	(2)	–	(2)
At 31st December, 2005	118	32	150
Net book value			
At 31st December, 2005	**312**	**14**	**326**
At 31st December, 2004	348	35	383

* During the year, certain leasehold land of the Group was transferred to investment properties with revaluation surplus of HK$7 million.

An impairment loss of HK$21 million was recognised for the Group's leasehold land outside Hong Kong based on a valuation at 31st December, 2005 carried out by GZAA Incorporated, an independent qualified professional valuer not connected with the Group. GZAA Incorporated is a member of the China Appraisal Society with appropriate qualifications and recent experiences in the valuation of similar location. The valuation, which conforms to International Valuation Standards, was completed by reference to market evidence of transaction prices for similar location.

21. Interests in Associates

HK$ million	2005	2004
Investment costs	14,937	8,931
Share of post-acquisition reserves	8,704	8,436
	23,641	17,367
Impairment loss	(578)	–
	23,063	17,367
Amounts due by unlisted associates	3,848	7,894
At 31st December	**26,911**	25,261
Market value of investment in a listed associate	**31,857**	29,451

Included in the amounts due by unlisted associates are subordinated loans of HK$3,369 million (2004: HK$6,589 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

The Directors reviewed certain associates' operations and financial positions as at 31st December, 2005 based on value in use calculation. An impairment loss of HK$578 million against interests in associates, which operated the Cross City Tunnel in Sydney, Australia, was recognised in view of lower projected toll revenue. A discount rate of 9.5 per cent. was applied on projected cash flows for value in use calculation in respect of this investment.

Summarised financial information in respect of the Group's associates is set out below:

HK$ million	2005	2004
Total assets	153,621	132,039
Total liabilities	(91,663)	(87,458)
Net assets	61,958	44,581
Total turnover	25,445	22,620
Total profit for the year	11,033	7,211
Shared by the Group:		
Net assets of the associates	23,641	17,367
Profit of the associates for the year	3,183	2,842

Particulars of the principal associates are set out in Appendix 2 on pages 152 to 154.

22. Interests in Jointly Controlled Entities

HK$ million	2005	2004
Investment costs	3,385	2,497
Share of post-acquisition reserves	(458)	204
	2,927	2,701
Impairment loss	(214)	–
	2,713	2,701
Shareholders' loans to jointly controlled entities	1,624	2,100
At 31st December	4,337	4,801

The Group's interests in a jointly controlled entity with carrying value of HK$1,736 million as at 31st December, 2005 (2004: HK$1,896 million) have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity.

The Directors reviewed certain jointly controlled entities' operations and financial positions as at 31st December, 2005 based on value in use calculation. An impairment loss of HK$214 million against interests in jointly controlled entities, which operated the National Highway 107 (Zhumadian Sections) in Henan, Mainland China, was recognised in view of significant drop in projected toll revenue. A discount rate of 9 per cent. was applied on projected cash flows for value in use calculation in respect of this infrastructure project.

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

HK$ million	2005	2004
Total assets	18,687	16,191
Total liabilities	(13,019)	(12,182)
Net assets	5,668	4,009
Total turnover	5,844	4,980
Total profit for the year	1,157	1,007
Shared by the Group:		
Net assets of the jointly controlled entities	2,927	2,701
Profit of jointly controlled entities for the year	311	573

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 155.

23. Interests in Infrastructure Project Investments

HK$ million	2005	2004
Investments	760	2,550
Accumulated amortisation	–	(709)
Infrastructure project receivables	–	148
	760	1,989
Allowance	–	(134)
	760	1,855
Impairment loss	(95)	–
At 31st December	**665**	1,855
Portion classified as:		
Non-current assets	579	1,855
Current assets	86	–
At 31st December	**665**	1,855

The Directors reviewed certain infrastructure projects' operations and financial positions as at 31st December, 2005 based on the present values of estimated future cash flows from those investments, discounted at the original effective interest rates. An impairment loss of HK$47 million against the investment in Qinyang Power Plants, Henan in Mainland China was recognised in view of the close-down of the power plant as at 31st December, 2005, and an impairment loss of HK$48 million against the investment in Fushun Cogen Power Plants, Liaoning in Mainland China was recognised in view of continuing loss in operation.

24. Investments in Securities

HK$ million	2005	2004
Financial assets at fair value through profit or loss		
Stapled securities, listed overseas	867	–
Unlisted equity securities	200	–
Equity investments, listed overseas	44	–
Available-for-sale financial assets		
Stapled securities, listed overseas	981	–
Non-trading securities		
Stapled securities, listed overseas	–	885
Equity investments, listed overseas	–	67
Other securities		
Unlisted equity securities	–	236
Total	2,092	1,188

A stapled security comprises various subordinated loan notes and fully paid ordinary shares. It is quoted at a single combined price and cannot be traded separately.

25. Derivative Financial Instruments

HK$ million	At 31st December, 2005 Assets	 Liabilities
Forward foreign exchange contracts	459	(360)
Interest rate swaps	–	(10)
	459	(370)
Portion classified as:		
Non-current	447	(370)
Current	12	–
	459	(370)

Currency Derivatives

During the current year, the Group utilised currency derivatives to hedge significant future transactions and cash flows. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures.

The total notional amount of outstanding forward foreign exchange contracts committed by the Group are as follows:

HK$ million	At 31st December, 2005
Forward foreign exchange contracts	
Buy	5,115
Sell	4,904

At 31st December, 2005, the total fair value of the Group's currency derivatives is estimated to be approximately HK$99 million (net assets to the Group). These amounts are based on quoted market prices for equivalent instruments at 31st December, 2005, comprising HK$459 million assets and HK$360 million liabilities.

The fair values of the above currency derivatives that are designated and effective as cash flow hedges totalling HK$77 million (net assets to the Group) have been deferred in equity at 31st December, 2005.

Change in fair values of non-hedging currency derivatives amounting to HK$26 million has been credited to the income statement for the current year.

25. Derivative Financial Instruments (Cont'd)

Interest Rate Swaps

During the current year, the Group utilised interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The notional principal amounts of the interest rate swap contracts outstanding as at 31st December, 2005, their remaining terms and estimated total fair value are as follows:

HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount	Estimated fair value
Contracts maturing in 2010	BBSW or LIBOR*	5.63%	1,560	(10)
Fair value deferred in equity at 31st December, 2005				**(10)**

* BBSW – Australian Bank Bill Swap Reference Rate
LIBOR – London Interbank Offered Rate

The fair value estimation covering the above interest rate swap contracts is based on quoted market prices for equivalent instruments at 31st December, 2005. All of the above interest rate swaps are designated and effective as cash flow hedges and the fair values (net liabilities to the Group) have been deferred in equity.

26. Goodwill

HK$ million	2005	2004
At 1st January	257	–
Relating to a subsidiary acquired	–	238
Impairment loss	(50)	–
Exchange difference	(32)	19
At 31st December	**175**	257

26. Goodwill (Cont'd)

The goodwill was recognised on acquisition of 100 per cent. interest in Cambridge Water PLC ("Cambridge Water"), the water supplier in South Cambridgeshire of the United Kingdom.

The Group tests goodwill annually for impairment, or more frequently if there are indications that the goodwill might be impaired.

The recoverable amount of Cambridge Water, which covers the above goodwill, are determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates, and expected changes to selling prices and direct costs during the period. The Group estimates discount rate using the rate that reflect current market assessments of the time value of money and the risks specific to Cambridge Water. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the relevant markets.

The Group prepares cash flow forecasts derived from Cambridge Water's approved budget for 2006 to 2010 and extrapolates cash flows for the subsequent 10 years using same cashflow as that in 2010. The rate used to discount the forecast cash flows is 8 per cent. per annum.

As Cambridge Water's principal operation is supply of water which is regulated in nature, the Group considers that cash flow projection for 15 years and low growth rates are appropriate for the impairment test review.

Due to higher operating costs, more capital expenditure and lower profitability anticipated, the recoverable value of Cambridge Water was reduced through recognition of an impairment loss of HK$50 million against its goodwill at 31st December, 2005.

27. Other Non-current Assets

HK$ million	2005	2004
Finance lease debtors – non-current portion	–	6
Employee retirement benefit assets (note 33(b))	9	8
At 31st December	9	14

Details of finance lease debtors are shown below:

HK$ million	2005	2004
Gross investment in leases receivable:		
Within 1 year	7	9
In the 2nd to 5th year, inclusive	–	8
	7	17
Unearned finance lease income	(1)	(3)
Present value of finance lease debtors	6	14
Portion receivable:		
Within 1 year – current portion	6	8
In the 2nd to 5th year, inclusive – non-current portion	–	6
Total	6	14

28. Inventories

HK$ million	2005	2004
Raw materials	44	38
Work-in-progress	6	3
Stores, spare parts and supplies	11	93
Finished goods	30	23
	91	157
Contract work-in-progress	14	6
Total	105	163
Contract work-in-progress		
Costs plus recognised profits less recognised losses	140	94
Progress billing	(126)	(88)
Net amount	14	6

The cost of inventories charged to the Group's income statement during the year was HK$928 million (2004: HK$1,082 million).

29. Debtors and Prepayments

HK$ million	2005	2004
Trade debtors	217	301
Infrastructure project receivables	–	78
Prepayments, deposits and other receivables	171	499
Total	388	878

29. Debtors and Prepayments (Cont'd)

The aging analysis of the Group's trade debtors is as follows:

HK$ million	2005	2004
Current	85	114
1 month	60	78
2 to 3 months	24	28
Over 3 months	175	187
Gross total	344	407
Allowance	(127)	(106)
Total after allowance	217	301

Trade with customers for infrastructure materials is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. Trade with metered customers for water supply is carried out largely on credit and with unmetered customers largely by payment in advance. Invoices are normally payable within 1 month of issuance, except for certain well-established customers, where the terms are extended to 2 months, and certain customers with disputed items, where the terms are negotiated individually. Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures.

The Directors consider that the carrying amount of debtors and prepayments approximates their fair values.

30. Bank and Other Loans

HK$ million	2005	2004
Unsecured bank and other loans repayable:		
Within 1 year	–	357
In the 2nd year	3,800	2,414
In the 3rd to 5th year, inclusive	3,223	7,972
After 5 years	3	369
	7,026	11,112
Obligations under finance leases repayable:		
Within 1 year	11	14
In the 2nd year	12	13
In the 3rd to 5th year, inclusive	9	21
After 5 years	3	7
	35	55
Unsecured notes, 3.5%, repayable after 5 years	1,995	2,244
Total	9,056	13,411
Portion classified as:		
Current liabilities	11	371
Non-current liabilities	9,045	13,040
Total	9,056	13,411

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

	HK$		RMB		AU$		GBP		JPY		Total	
HK$ million	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Bank and other loans	3,800	3,800	–	357	2,886	6,586	340	369	–	–	7,026	11,112
Finance leases	–	–	–	–	–	–	35	55	–	–	35	55
Notes	–	–	–	–	–	–	–	–	1,995	2,244	1,995	2,244
Total	3,800	3,800	–	357	2,886	6,586	375	424	1,995	2,244	9,056	13,411

The average interest rate of the Group's loan portfolio is 4.76 per cent. (2004: 4.58 per cent.) for the current year.

30. Bank and Other Loans (Cont'd)

The Group's notes of HK$1,995 million (2004: HK$2,244 million) as at 31st December, 2005 were arranged at fixed interest rate and expose the Group to fair value interest rate risk. Other borrowings were arranged at floating rates, thus exposed the Group to cash flow interest rate risk.

At 31st December, 2005, interest rates on the bank and other loans (except for the fixed rate notes) were floating and determined with reference to Hong Kong Interbank Offered Rate, Australian Bank Bill Swap Reference Rate or London Interbank Offered Rate.

Details of the present value of the minimum finance lease payments are shown below:

HK$ million	2005	2004
Minimum lease payments:		
Within 1 year	13	16
In the 2nd year	13	15
In the 3rd to 5th year, inclusive	11	23
After 5 years	4	8
	41	62
Less: future finance charges	(6)	(7)
Present value of lease payments	35	55

At 31st December, 2005, the remaining weighted average lease term was 3.2 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

The Directors consider that the carrying amount of the bank and other loans approximates their fair values.

31. Creditors and Accruals

HK$ million	2005	2004
Trade creditors	149	160
Amount due to an unlisted associate	140	135
Other payables and accruals	816	544
Total	1,105	839

The aging analysis of the Group's trade creditors is as follows:

HK$ million	2005	2004
Current	83	66
1 month	31	17
2 to 3 months	15	19
Over 3 months	20	58
Total	149	160

The Directors consider that the carrying amount of creditors and accruals approximates their fair values.

32. Deferred Tax Liabilities

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years:

HK$ million	Accelerated tax depreciation	Tax losses	Fair value changes in securities	Others	Total
At 1st January, 2004	114	(50)	87	–	151
Credit to profit for the year	(3)	(6)	–	–	(9)
Charge against investment revaluation reserve	–	–	39	–	39
Relating to subsidiaries acquired and disposed of	152	–	–	(3)	149
Exchange translation differences	11	–	3	–	14
At 31st December, 2004	274	(56)	129	(3)	344
(Credit)/Debit to profit for the year	(26)	55	22	(4)	47
Exchange translation differences	(24)	–	(6)	1	(29)
At 31st December, 2005	**224**	**(1)**	**145**	**(6)**	**362**

For the purpose of balance sheet presentation, all deferred tax assets have been offset against deferred tax liabilities.

Apart from the unused tax losses of which the deferred tax assets were recognised as presented above, the Group had unused tax losses and other unused tax credits totalling HK$1,504 million (2004: HK$490 million) at 31st December, 2005. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits. An analysis of the expiry dates of the tax losses and tax credits is as follows:

HK$ million	2005	2004
Within 1 year	41	45
In the 2nd year	39	41
In the 3rd to 5th year, inclusive	89	88
No expiry date	1,335	316
Total	**1,504**	490

NOTES TO THE FINANCIAL STATEMENTS

33. Retirement Plans

(a) Defined Contribution Retirement Plans

The Group provides defined contribution retirement plans for its eligible employees except for 2 defined benefit plans for the employees of certain subsidiaries as detailed in (b) and (c) below.

Contributions to the defined contribution plans are made by either the employer only at 10 per cent. of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent. of the employees' monthly basic salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent. of the employees' monthly relevant income each capped at HK$20,000.

As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned in (b) below, are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), except for certain subsidiaries of which the new Hong Kong employees have to join the MPF schemes, the Group offers an option to its new Hong Kong employees to elect between the ORSO schemes and the MPF schemes.

The Group's costs in respect of defined contribution plans for the year amounted to HK$11 million (2004: HK$9 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK$1 million (2004: HK$1 million) were used to reduce the existing level of contributions. At 31st December, 2005, there was no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2004: nil).

(b) Defined Benefit Retirement Plan operating in Hong Kong

Certain subsidiaries of the Group operate a defined benefit retirement plan in Hong Kong for their eligible employees. Contributions to the defined benefit plan are made by the employees at either 5 or 7 per cent. of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

33. Retirement Plans (Cont'd)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

Actuarial valuation of the defined benefit plan according to HKAS 19 "Employee Benefits" was carried out at 31st December, 2005, by Mr. Billy Y.L. Wong of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

HK$ million	2005	2004
Discount rate at 31st December	4.25% per annum	3.25% per annum
Expected return on plan assets	6.5% per annum	7% per annum
Expected rate of salary increase	5% per annum	3% per annum for the next year and 5% per annum thereafter

The following amounts in respect of the defined benefit plan have been charged/(credited) to the consolidated income statement under operating costs:

HK$ million	2005	2004
Current service cost	2	5
Interest cost	2	4
Expected return on plan assets	(4)	(7)
Net actuarial loss recognised	–	2
Amortisation of transitional liability	1	2
Loss on curtailment and settlement	–	15
Reduction of net asset due to limit per paragraph 58(b) of HKAS 19	1	–
Net amount charged to consolidated income statement	**2**	21

During the year 2004, more than 40 per cent. of the participating employees left the plan due to reorganisation. This triggered a curtailment and settlement event which resulted in a charge of HK$15 million as included above.

The actual return on plan assets for the year ended 31st December, 2005 is a gain of HK$5 million (2004: HK$9 million).

33. Retirement Plans (Cont'd)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

The amount included in the consolidated balance sheet at 31st December, 2005 and 2004 arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows:

HK$ million	2005	2004
Present value of defined benefit obligations	56	62
Unrecognised actuarial losses	(3)	(8)
Fair value of plan assets	(62)	(60)
Unrecognised transitional liability	(1)	(2)
Reduction of net asset due to limit per paragraph 58(b) of HKAS 19	1	–
Employee retirement benefit assets included in the consolidated balance sheet (note 27)	**(9)**	(8)

Movements in the Group's assets in respect of the defined benefit plan recognised in the consolidated balance sheet are as follows:

HK$ million	2005	2004
At 1st January	(8)	(23)
Employers' contributions	(3)	(6)
Amount charged to consolidated income statement	2	21
At 31st December	**(9)**	(8)

On 1st January, 2002, the Group adopted Statement of Standard Accounting Practice 34 "Employee Benefits" and determined the transitional liability for its defined benefit plan to be HK$13 million. This amount is being recognised on a straight-line basis over a period of 5 years from 1st January, 2002. A charge of HK$1 million (2004: HK$2 million) was recognised in the current year. An additional charge of HK$4 million was recognised for the year ended 31st December, 2004 and included in the above loss on curtailment and settlement cost. As at 31st December, 2005, the transitional liability of HK$1 million (2004: HK$2 million) remained unrecognised.

33. Retirement Plans (Cont'd)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

Another actuarial valuation was completed at 1st January, 2006 by Mr. Billy Y.L. Wong, the same actuary as mentioned above, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance. The actuarial method adopted was Attained Age Funding Method. The major assumptions used were the long-term average annual rate of investment return on the plan assets at 6 per cent. per annum, and the average annual salary increases at 5 per cent. per annum. The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$62 million at 31st December, 2005 represents 119 per cent. of the present value of the obligations as at that date. Contributions to fund the obligations are based upon the recommendations of actuary to fully fund the retirement plan on an ongoing basis. The funding rates are subject to annual review.

(c) Defined Benefit Retirement Plan operating in the United Kingdom

Cambridge Water PLC, a wholly-owned subsidiary acquired by the Group on 28th April, 2004, operates a defined benefit retirement plan in the United Kingdom. The retirement plan is covered under the Water Companies Pension Scheme of which the Company is a member. Contributions to the defined benefit plan are made by the employees at 6 per cent. of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

Actuarial valuation of the defined benefit plan was updated to 31st December, 2005, by Mr. Stephen J Davies FIA of Lane Clark & Peacock LLP, who is a Fellow of the Institute of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

	2005	2004
Discount rate at 31st December	**4.9% per annum**	5.3% per annum
Expected return on plan assets	**6.3% per annum**	6.3% per annum
Expected rate of pension increase	**2.8% per annum**	2.9% per annum
Expected rate of salary increase	**4.8% per annum**	4.9% per annum

33. Retirement Plans (Cont'd)

(c) Defined Benefit Retirement Plan operating in the United Kingdom (Cont'd)

The following amounts in respect of the defined benefit plan have been charged/(credited) to the consolidated income statement under operating costs:

HK$ million	2005	2004
Current service cost	8	7
Interest cost	19	19
Expected return on plan assets	(21)	(21)
Net actuarial gain/(loss) not recognised	6	(2)
Net amount charged to consolidated income statement	12	3

The actual return on plan assets for year ended 31st December, 2005 is a gain of HK$55 million (for the period from 28th April to 31st December, 2004 : HK$24 million).

The amount included in the consolidated balance sheet at 31st December, 2005 arising from the Group's obligations in respect of its defined benefit plan in the United Kingdom is as follows:

HK$ million	2005	2004
Present value of defined benefit obligations	395	388
Unrecognised actuarial losses	–	(10)
Fair value of plan assets	(374)	(363)
Employee retirement benefit liabilities classified as other non-current liabilities included in the consolidated balance sheet	21	15

33. Retirement Plans (Cont'd)

(c) Defined Benefit Retirement Plan operating in the United Kingdom (Cont'd)

Movements in the Group's liabilities in respect of the defined benefit plan recognised in the consolidated balance sheet are as follows:

HK$ million	2005	2004
At 1st January/acquisition date	15	14
Exchange translation differences	(1)	1
Employers' contributions	(5)	(3)
Amount charged to consolidated income statement	12	3
At 31st December	**21**	15

The above actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK$374 million at 31st December, 2005 represents 94.7 per cent. of the present value of the obligations as at that day. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st April, 2005. The funding rates are subject to annual review.

34. Share Capital

HK$ million	2005	2004
Authorised:		
4,000,000,000 shares of HK$1 each	**4,000**	4,000
Issued and fully paid:		
2,254,209,945 shares of HK$1 each	**2,254**	2,254

35. Notes to Consolidated Cash Flow Statement

(a) Cash generated from operations

HK$ million	2005	2004
Profit before taxation	5,908	3,522
Gain on disposals of associates	(3,763)	–
Impairment losses	1,727	250
Share of results of associates	(3,183)	(2,842)
Share of results of jointly controlled entities	(311)	(573)
Interest income from loans granted to associates	(856)	(863)
Other interest income	(283)	(174)
Finance lease income	(2)	(3)
Return from infrastructure project investments	(138)	(178)
Finance costs	732	644
Depreciation of property, plant and equipment	134	160
Amortisation of prepayment for leasehold land	11	11
Change in fair values of investment properties	(3)	–
Gain on disposals of property, plant and equipment	(9)	(3)
Gain on disposal of infrastructure project investment	(14)	–
Gain on disposals of subsidiaries	–	(22)
Allowance for amounts due by unlisted associates	–	30
Allowance for investment in an associate	–	1
Amortisation of costs of infrastructure project investments	–	85
Gain on disposals of listed securities	(1)	(85)
Change in fair values of investments in securities	(16)	61
Pension costs of defined benefit retirement plans	14	24
Unrealised exchange (gain)/loss	(249)	113
Returns received from jointly controlled entities	924	751
Returns received from infrastructure project investments	346	188
Interest received from associates	443	406
Contributions to defined benefit retirement plans	(8)	(9)
Net cash paid at close of derivative financial instruments	(43)	–
Operating cash flows before changes in working capital	1,360	1,494
Decrease/(increase) in inventories	58	(3)
Decrease/(increase) in debtors and prepayments	506	(138)
Increase in creditors and accruals	101	5
Exchange translation differences	(15)	(29)
Cash generated from operations	**2,010**	**1,329**

35. Notes to Consolidated Cash Flow Statement (Cont'd)

(b) Acquisitions of subsidiaries during the year 2004

HK$ million	At fair value
Net assets acquired:	
Property, plant and equipment	747
Inventories	2
Debtors and prepayments	108
Bank balances and deposits	19
Creditors and accruals	(129)
Taxation	(5)
Bank and other loans	(92)
Deferred taxation	(150)
Other non-current liabilities	(14)
	486
Goodwill	238
Total consideration	724
Satisfied by:	
Cash	724

The values of the assets and liabilities presented above represent their respective book values at acquisition dates, except for the fair value of property, plant and equipment in which a surplus of HK$135 million is accounted for.

Analysis of the net cash flow arising on the acquisitions:

HK$ million	
Cash consideration	(716)
Other transaction costs paid	(8)
Bank balances and deposits acquired	19
Net cash outflow arising from the acquisitions	(705)

35. Notes to Consolidated Cash Flow Statement (Cont'd)

(c) Disposals of subsidiaries during the year 2004

HK$ million	
Net assets disposed of :	
Property, plant and equipment	5
Inventories	6
Debtors and prepayments	18
Bank balances and deposits	30
Creditors and accruals	(22)
Deferred taxation	(1)
	36
Allowance for interest in a jointly controlled entity	22
Gain on disposals of subsidiaries	22
Total consideration	80
Satisfied by:	
Cash	80

Analysis of the net cash flow arising on the disposals:

HK$ million	
Cash consideration	80
Bank balances and deposits disposed of	(30)
Net cash inflow arising from the disposals	50

36. Emoluments of Directors and Five Highest Paid Individuals

Directors' emoluments comprise payments to the Company's directors by the Group in connection with the management of the affairs of the Group. The emoluments of each of the Company's directors for the current year, excluding emoluments received from the Group's associates, are as follows:

HK$ million	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2005	Total Emoluments 2004
Li Tzar Kuoi, Victor(1)	0.07	–	8.00	–	–	**8.07**	6.31
Kam Hing Lam(1)	0.07	4.20	3.87	–	–	**8.14**	6.91
Ip Tak Chuen, Edmond	0.07	1.80	3.50	–	–	**5.37**	4.84
Fok Kin Ning, Canning(1)	0.07	–	–	–	–	**0.07**	0.07
Kwan Bing Sing, Eric	0.07	6.74	1.60	0.67	–	**9.08**	8.56
Chow Woo Mo Fong, Susan(1)	0.07	–	–	–	–	**0.07**	0.07
Frank John Sixt(1)	0.07	–	–	–	–	**0.07**	0.07
Tso Kai Sum(1)	0.07	–	–	–	–	**0.07**	0.07
Cheong Ying Chew, Henry(3)	0.16	–	–	–	–	**0.16**	0.14
Lee Pui Ling, Angelina	0.07	–	–	–	–	**0.07**	0.12
Barrie Cook(2)	0.07	0.32	–	–	–	**0.39**	0.39
Kwok Eva Lee(3)	0.14	–	–	–	–	**0.14**	0.04
Sng Sow-Mei(3)	0.14	–	–	–	–	**0.14**	0.04
Colin Stevens Russel(3)	0.16	–	–	–	–	**0.16**	–
Lan Hong Tsung, David(3)	0.12	–	–	–	–	**0.12**	–
George Colin Magnus(1) & (2)	0.07	–	–	–	–	**0.07**	0.07
Total for the year 2005	**1.49**	**13.06**	**16.97**	**0.67**	**–**	**32.19**	
Total for the year 2004	1.04	11.31	14.85	0.50	–		27.70

Notes:

(1) During the current year, Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt and Mr. Tso Kai Sum each received directors' fees of HK$70,000 (2004: HK$70,000), Mr. Fok Kin Ning, Canning received director's fees of HK$78,334 (2004: HK$70,000) and Mr. George Colin Magnus received director's fees of HK$111,667 (2004: HK$120,000) from Hongkong Electric. Except for HK$11,667 received by Mr. George Colin Magnus for acting a non-executive director of Hongkong Electric for the period from 1st November, 2005 to 31st December, 2005, the directors' fees totalling HK$528,334 (2004: HK$540,000) were then paid back to the Company.

(2) Directors' fees received by these directors from a subsidiary of the Company were paid back to the Company and are not included in the amounts above.

(3) Independent non-executive directors ("INED"), audit committee members ("ACM") and remuneration committee members ("RCM") - During the current year, Mr. Cheong Ying Chew, Henry, Ms. Kwok Eva Lee and Ms. Sng Sow-Mei have acted as an INED and ACM of the Company. Mr. Colin Stevens Russel and Mr. David Lan have been appointed as INED and ACM of the Company since 1st January, 2005 and 21st February, 2005, respectively. Mr. Cheong Ying Chew, Henry and Mr. Colin Stevens Russel have been appointed as RCM of the Company since 1st January, 2005. The total emoluments paid to these INED, ACM and RCM during the current year are HK$720,440 (2004: HK$318,254).

36. Emoluments of Directors and Five Highest Paid Individuals (Cont'd)

Of the 5 individuals with the highest emoluments in the Group, 4 (2004: 4) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining 1 (2004: 1) individual falls within the band of HK$4,500,001 to HK$5,000,000, details of which is set out below:

HK$ million	2005	2004
Salaries and benefits in kind	2	2
Contributions to retirement plan	1	1
Bonuses	2	2
Total	5	5

37. Commitments

(a) The Group's capital commitments outstanding at 31st December and not provided for in the financial statements are as follows:

	Contracted but not provided for		Authorised but not contracted for	
HK$ million	2005	2004	2005	2004
Investments in associates and jointly controlled entities	1,328	6,299	–	–
Plant and machinery	8	10	39	71
Others	–	–	–	19
Total	1,336	6,309	39	90

(b) At 31st December, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

HK$ million	2005	2004
Within 1 year	5	4
In the 2nd to 5th year, inclusive	7	5
After 5 years	–	7
Total	12	16

38. Contingent Liabilities

HK$ million	2005	2004
Guarantee in respect of bank loans drawn by a jointly controlled entity	644	685
Guarantee in respect of bank loans drawn by an associate	–	1,257
Guarantee in respect of performance bonds	20	–
Guarantee in respect of standby letter of credit	–	3
Total	664	1,945

39. Material Related Party Transactions

During the year, the Group advanced HK$81 million (2004: HK$42 million) to its unlisted associates. The Group received repayments totalling HK$1 million (2004: Nil) from unlisted associates. The total outstanding loan balances as at 31st December, 2005 amounted to HK$3,848 million (2004: HK$7,894 million), of which HK$3,394 million (2004: HK$7,370 million) bore interest with reference to Australian Bank Bill Swap Reference Rate or at fixed rates, and HK$454 million (2004: HK$524 million) was interest-free. As stated in note 7, interest from loans granted to associates during the year amounted to HK$856 million (2004: HK$863 million). Except for a loan of HK$94 million (2004: HK$94 million) which was repayable within sixteen years (2004: seventeen years), the loans had no fixed terms of repayment.

In the prior year, the Group advanced HK$179 million to a jointly controlled entity. During the current year, the Group received repayments totalling HK$453 million (2004: HK$15 million) from jointly controlled entities. The total outstanding loan balances as at 31st December, 2005 amounted to HK$1,624 million (2004: HK$2,100 million), of which HK$444 million (2004: HK$1,050 million) bore interest with reference to Hong Kong dollar prime rate, and HK$1,180 million (2004: HK$1,050 million) was interest-free. The loans had no fixed terms of repayment.

Moreover, the Group's sales and purchases of infrastructure materials to/from a jointly controlled entity for the current year amounted to HK$174 million (2004: HK$136 million) and HK$149 million (2004: HK$202 million), respectively.

The emoluments of key management have been presented in note 36 above.

40. Approval of Financial Statements

The financial statements set out on pages 90 to 155 were approved by the Board of Directors on 16th March, 2006.