Harbour Centre Development Limited

Stock Code: 51

Annual Report 2005

Contents

Corporate Information

BOARD OF DIRECTORS

G. W. J. Li *(Chairman)*
B. S. Forsgate
T. Y. Ng
H. M. V. de Lacy Staunton
M. K. Tan

SECRETARY

W. W. S. Chan, *F.C.I.S.*

REGISTERED OFFICE

16th Floor, Ocean Centre
Harbour City
Canton Road
Kowloon
Hong Kong

REGISTRARS

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG

The tourism and hotel market in Hong Kong continued its growth in 2005. The property rental market also performed strongly during the year. The Group recorded a turnover of HK$526.8 million in 2005, an increase of 18.4 per cent compared with 2004. Group profit after taxation for the year ended 31st December, 2005 improved to HK$517.1 million from HK$371.7 million (as restated) in 2004. Earnings per share were HK$1.64 compared to HK$1.18 per share (as restated) in 2004.

To comply with the new accounting standards effective 1st January, 2005, the Group has adopted certain new accounting policies which have a significant impact on the Group's financial statements as detailed in Note 8 to the Accounts.

HOTEL OPERATIONS

Tourist arrivals in Hong Kong in 2005 reached 23.4 million, representing a year-on-year growth of 7.1 per cent. Average room occupancy at the Marco Polo Hongkong Hotel was maintained at 87 per cent during 2005, while the average room rate showed a 19 per cent increase compared with 2004.

COMMERCIAL PROPERTY

The Group's commercial area in the Marco Polo Hongkong Hotel reported solid rental revenue growth in 2005, arising from rising rental rates and an enlarged retail area following the completion of the second phase of the retail space extension in October 2005. The Group also acquired some retail units at Star House, Tsimshatsui, for a consideration (including relevant transaction costs) of HK$309.2 million in November 2005 to enhance its investment income base.

PROPERTY DEVELOPMENT PROJECTS

Superstructure work of the 60 Victoria Road residential development (total of 73 units) in Kennedy Town is scheduled for completion in August 2006. Pre-selling was launched in October 2005.

As for Sorrento (a MTRC joint-venture project above the Kowloon Station), in which the Group has a 20 per cent interest, cumulative sales reached over 99 per cent of all units as at 31st December, 2005.

PROSPECTS

The near term outlook for the tourism and hotel industry in Hong Kong remains positive despite the weaker than expected impact of the opening of Disneyland on hotel room demand. The hotel manager will continue to maximise the profitability of the Group's hotel amid intensified competition in the marketplace in 2006.

Rental revenues are expected to improve further following the acquisition of the Star House retail units and the completion of the second phase of the hotel's retail extension project.

Gonzaga W. J. Li
Chairman

Hong Kong, 8th March, 2006

Financial Highlights

	2005 **HK$ Million**	2004 HK$ Million Restated
Turnover	**526.8**	445.0
Profit Attributable to Shareholders	**517.1**	371.7
Net Asset Value Per Share	**HK$13.02**	HK$11.13
Earnings Per Share	**HK$1.64**	HK$1.18
Dividends Per Share	**17.0¢**	17.0¢

	Profit/(loss) attributable to shareholders HK$ Million	**Shareholders' funds** HK$ Million	**Earnings/ (loss) per share** HK¢	**Dividends per share** HK¢	**Distribution cover** Times
2001 #	(113.1)	4,808.2	(35.9)	17.0	N/A
2002 #	12.8	4,239.7	4.1	17.0	0.24
2003	169.4	4,686.6	53.8	17.0	3.16
2004 #	371.7	3,505.6	118.0	17.0	6.94
2005	517.1	4,101.0	164.2	17.0	9.66

Restated

SEGMENT REVIEW

The Marco Polo Hongkong Hotel ("MPHK Hotel") recorded steady occupancy and double-digit growth in average room rate during 2005. Total revenue and operating profit of the Hotel Segment in 2005 grew by 11 per cent and 9 per cent to HK$370.9 million and HK$117.0 million respectively.

Average occupancy at MPHK Hotel was maintained at 87 per cent during 2005, compared with 88 per cent in 2004. Despite the slight decline in occupancy, MPHK Hotel recorded a 19 per cent growth in average room rate. The outlook for Hong Kong's hotel industry remains positive in the wake of strong economic fundamentals and growth in tourist arrivals.

Property Segment revenue and operating profit increased by 14 per cent and 12 per cent to reach HK$94.3 million and HK$83.0 million respectively. The increase was attributable to increased rental from MPHK Hotel's retail space, which was enlarged following the completion of the second phase retail space extension in October 2005, and rental contribution from retail units at Star House, Tsimshatsui, which were acquired for a cash consideration of HK$309.2 million in November 2005.

During 2005, the office and retail areas of MPHK Hotel were respectively 100% and 91% occupied, while the newly acquired Star House units were 99% occupied at the end of 2005. Lane Crawford remains the anchor tenant at MPHK Hotel's retail area, which blends well with the patronage of the hotel.

The Group's investment property, comprising the office and retail areas in MPHK Hotel and the Star House units, were revalued by an independent valuer at 31st December, 2005 which gave rise to a net revaluation surplus (after deferred tax) of HK$223.7 million. This surplus has been included as part of the profit for the year under review in accordance with the new Hong Kong accounting standards.

On property development, superstructure work for the 60 Victoria Road development at Kennedy Town is in progress and is scheduled for completion in August 2006. Pre-selling of the residential units was launched in October 2005 and has met with favourable market response. As at the end of 2005, cumulative pre-sales had reached 21 per cent of the 73 units, realising approximately HK$70 million in proceeds. In accordance with current accounting standards, these sales will only be recognised in the profit and loss account on completion of the development.

For the Sorrento development (Kowloon Station Package II), in which the Group has a 20 per cent interest, cumulative sales of Phase II reached 851 units (99 per cent sold) at the end of 2005.

FINANCIAL REVIEW

(I) Review of 2005 Results

In preparing the Accounts for the year under review, the Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), including all Hong Kong Accounting Standards ("HKASs") and relevant Interpretations ("HKAS-INTs" and "HK-INTs"), which took effect on 1st January, 2005. The resultant significant changes in accounting treatment and presentation are detailed in Note 8 to the Accounts.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders for the year amounted to HK$517.1 million, representing an increase of HK$145.4 million or 39.1 per cent from the HK$371.7 million in 2004 (as restated). Earnings per share were HK$1.64 (2004 restated: HK$1.18).

In compliance with the new HKFRSs, the Group's investment properties were revalued as at 31st December, 2005 resulting in a net surplus after deferred tax of HK$223.7 million being recorded in the profit and loss account for the year under review. Excluding this surplus, profit for the year would have been HK$293.4 million, an increase of 17.8 per cent over 2004. The improvement is mainly due to the increase in the Group's operating profit by HK$58.6 million, offset partially by the decrease in contribution from associates by HK$32.0 million (primarily due to the reduction in sales of Sorrento units held by an associate).

Turnover

The Group's turnover for the year under review was HK$526.8 million, an increase by 18.4 per cent from the HK$445.0 million achieved in 2004. Against the backdrop of the improving economic conditions in Hong Kong and fuelled by the favourable performance of The Marco Polo Hongkong Hotel and its retail space, the Group's hotel revenue and property investment income increased by 11 per cent and 14 per cent to HK$370.9 million and HK$94.0 million, respectively. The growth was also aided by higher interest income generated from the Group's surplus cash as a result of interest rate hikes during the year.

Operating Profit

The Group's operating profit for 2005 amounted to HK$259.3 million, representing an increase of HK$58.6 million or 29 per cent from the HK$200.7 million in 2004 (as restated) as all segments of the Group reported revenue increases.

Performance of the Group's business segments is covered in detail under the Segment Review Section.

Other Items

Included in the Group's profit is a surplus of HK$271.1 million (2004: HK$148.7 million) on revaluation of the Group's investment properties and other net income of HK$42.6 million (2004: HK$20.9 million). Other net income included deferred interest income of HK$3.9 million (2004: HK$20.9 million), which was earned from a loan advanced to an associate undertaking the Sorrento project and recognised on the basis of the sales progress of the project, and a write-back of provision for impairment totalling HK$40.7 million for the Victoria Road development project based on prevailing market conditions.

Share of Profits of Associates

Share of profits of associates in 2005 was HK$24.4 million, compared to HK$56.4 million in 2004. This was caused by the reduction in attributable profit by HK$33.1 million from the Sorrento project as less residential units were sold during the year under review. As over 99 per cent of the units of Sorrento had been sold by the end of 2005, further profit contributions from this project will be insignificant in the coming years.

Taxation

The taxation charge for the year was HK$80.3 million, compared to HK$55.0 million in the last year. Included in the current year's taxation charge was a deferred tax provision of HK$47.4 million (2004: HK$26.0 million) in relation to investment property revaluations in accordance with the HKAS 12 "Income taxes" and HKAS-INT 21 "Income taxes – recovery of revalued non-depreciable assets".

(II) Liquidity and Financial Resources

As of 31st December, 2005, the Group's shareholders' equity was HK$4,101.0 million or HK$13.02 per share based on the currently adopted HKFRSs.

In compliance with the new and revised HKFRSs, which are effective from 1st January 2005 and have been adopted retrospectively as detailed in the notes to the Accounts, the Group's shareholders' equity as at 31st December, 2004 has been restated to HK$3,505.6 million or HK$11.13 per share from HK$5,462.7 million or HK$17.34 per share respectively, a decrease of HK$1,957.1 million or HK$6.21 per share. The reduction mainly represents the reversal of the revaluation reserve for the Group's hotel property of HK$1,813.0 million on restating it at cost (less depreciation) instead of at valuation as previously adopted, and the provision for deferred tax of HK$144.1 million on investment property revaluations, both in compliance with the new HKFRSs. Details of these adjustments are presented in Note 8 to the Accounts.

As at 31st December, 2005, the Group had a net cash balance of HK$1,519.6 million, HK$217.9 million lower than at 31st December, 2004. The decrease was mainly due to the acquisition of the Star House units in November 2005. Our cash surplus was mostly placed as bank deposits. In addition, the Group maintained a portfolio of investments primarily consisting of blue chip securities, with a market value aggregating HK$922.8 million as at 31st December, 2005 (2004: HK$820.4 million). The performance of the portfolio was in line with the general stock markets.

As at 31st December, 2005, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Human Resources

The Group has approximately 452 employees working at the Group's hotel. Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for year ended 31st December, 2005 amounted to HK$92.9 million (2004: HK$84.2 million).

(A) CORPORATE GOVERNANCE PRACTICES

During the year ended 31st December, 2005, all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Code") which became applicable to the Company in respect of the year under review were applied by the Company, and the relevant Code provisions in the Code were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, they have confirmed that they have complied with the Model Code.

(C) BOARD OF DIRECTORS

(i) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board comprises high calibre individuals with extensive experience in various business sectors. Four Board meetings were held during the financial year ended 31st December, 2005. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
Chairman	
Mr. Gonzaga W J Li	4
Non-executive Director	
Mr. T Y Ng	4
Independent Non-executive Directors	
Mr. Brian S Forsgate	0
Mr. C C Haung (retired on 9th May, 2005)	0
Mr. H M V de Lacy Staunton	3
Mr. M K Tan	3

Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his/her potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring board approval were arranged by means of circulation of written resolutions.

(C) BOARD OF DIRECTORS (continued)

(ii) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted an appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Gonzaga W J Li serves as the Chairman and also as the *de facto* chief executive officer of the Company. This is a deviation from the Code provision with respect to the roles of chairman and chief executive officer to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial number thereof being independent Non-executive Directors.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors.

(F) REMUNERATION OF DIRECTORS

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two other independent Non-executive Directors.

One Remuneration Committee meeting was held during the financial year ended 31st December, 2005. Attendance of the Members is set out below:

Members	Attendance at Meeting
Mr. Gonzaga W J Li, *Chairman*	1
Mr. Brian S Forsgate	1
Mr. M K Tan	1

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Given below are the main duties of the Remuneration Committee:

(a) to consider the Company's policy and structure for all remuneration of Directors and senior management;

(b) to determine the specific remuneration packages of all executive Directors and senior management;

(c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and

(e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended 31st December, 2005 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and senior management;

(b) consideration of the emoluments for all Directors and senior management; and

(c) review of the level of fees for Directors and Audit Committee Members.

(F) REMUNERATION OF DIRECTORS (continued)

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK$30,000 per annum per Director, payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK$10,000 per annum per member, payable to those Directors of the Company who are also members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee have already been performed by the Board.

The Board is responsible for the formulation of nomination policies, making recommendations to shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management. He also identifies and nominates qualified individuals for appointment as new Directors of the Company. New Directors of the Company will be appointed by Board. Any and all new Directors are subject to retirement from the Board at the Annual General Meeting of the Company immediately following his or her appointment and may stand for re-election at the Annual General Meeting.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit for the year 2005 provided by KPMG amounted to HK$0.5 million. No non-audit service was provided by KPMG during the year.

(I) AUDIT COMMITTEE

The Audit Committee of the Company consists of one Non-executive Director and two independent Non-executive Directors.

All members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required.

Two Audit Committee meetings were held during the financial year ended 31st December, 2005. Attendance of the Members is set out below:

Members	Attendance at Meetings
Mr. Brian S Forsgate, *Chairman*	0
Mr. C C Haung (retired on 9th May, 2005)	0
Mr. M K Tan	2
Mr. T Y Ng	2

(i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(a) to consider the appointment of the external auditor and any questions of resignation or dismissal;

(b) to discuss with the external auditor before the audit commences, the nature and scope of the audit;

(c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

(vi) compliance with stock exchange and legal requirements;

(I) AUDIT COMMITTEE (continued)

(d) to discuss problems and reservations arising from the audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary); and

(e) to review the audit programme, and ensure co-ordination with external auditors, of the internal audit function.

(ii) The work performed by the Audit Committee for the financial year ended 31st December, 2005 is summarised below:

(a) approval of the remuneration and terms of engagement of the external auditor;

(b) review of the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;

(d) discussion with the external auditor before the audit commences, the nature and scope of the audit;

(e) review of the audit programme and co-ordination between the external auditors and the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems; and

(g) meeting with the external auditors without executive Board members present.

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for the financial year ended 31st December, 2005, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended of the Group and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the accounts for the financial year ended 31st December, 2005:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgements and estimates are made;

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(K) COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all shareholders. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

The Company keeps shareholders informed of the procedure for voting by poll in all circulars to shareholders which are from time to time despatched to shareholders together with notices of general meetings of the Company.

(L) SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Hong Kong Companies Ordinance, on requisition of one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

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

PRINCIPAL ACTIVITIES AND OPERATIONS

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

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

RESULTS, APPROPRIATIONS AND RESERVES

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

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

DIVIDENDS

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

FIXED ASSETS

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

DONATIONS

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

DIRECTORS

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

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

INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

AUDITORS

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

By Order of the Board
Wilson W. S. Chan
Secretary

Hong Kong, 8th March, 2006

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(I) Directors

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

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

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

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

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

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

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

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

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

(I) Directors (continued)

Man Kou TAN, *Director (Age: 70)*

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

Notes:

(1) Wheelock, Wharf, WF Investment Partners Limited and Wharf Estates Limited (of which Mr. G. W. J. Li and/or Mr. T. Y. Ng is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(2) The Company confirms that it has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and the Company still considers the independent Non-executive Directors to be independent.

(II) Senior Managers

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(B) Directors' Interests in Shares

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

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

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

(i) there were no interests, both long and short positions, held as at 31st December, 2005 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and

(ii) there existed during the financial year no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial year of any such rights by any of them.

(C) Substantial Shareholders' Interests

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

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

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

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(D) Directors' Interests in Competing Business

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

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

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

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

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

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(E) Major Customers and Suppliers

For the year ended 31st December, 2005:

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

(II) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(F) Bank Loans, Overdrafts and Other Borrowings

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

(G) Interest Capitalised

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

(H) Purchase, Sale or Redemption of Shares

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

(I) Public Float

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

(J) Disclosure regarding Continuing Connected Transaction

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

(I) Tenancy Agreement with the Wharf Group

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

SUPPLEMENTARY CORPORATE INFORMATION (continued)

(J) Disclosure regarding Continuing Connected Transaction (continued)

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

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

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

(II) Confirmation from Directors, etc.

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

(a) by the Group in the ordinary and usual course of its business;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing such continuing connected transaction on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

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

(1) the Transaction had been approved by the Company's Board of Directors;

(2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transaction was not entered into in accordance with the terms of the related agreement governing the Transaction; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and

(3) the relevant cap amount has not been exceeded during the year ended 31st December, 2005.

To the Shareholders of Harbour Centre Development Limited

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 24 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 8th March, 2006

Consolidated Profit and Loss Account

For the year ended 31st December, 2005

	Note	**2005 HK$ Million**	2004 HK$ Million Restated
Turnover	*1*	**526.8**	445.0
Direct costs and operating expenses		**(217.8)**	(207.1)
Selling and marketing expenses		**(19.1)**	(16.6)
Depreciation and amortisation		**(25.2)**	(15.9)
Administrative and corporate expenses		**(5.4)**	(4.7)
Operating profit	*2*	**259.3**	200.7
Increase in fair value of investment properties		**271.1**	148.7
Other net income	*3*	**42.6**	20.9
		573.0	370.3
Share of profits less losses of associates		**24.4**	56.4
Profit before taxation	*1*	**597.4**	426.7
Taxation	*4(b)*	**(80.3)**	(55.0)
Profit attributable to shareholders	*5*	**517.1**	371.7
Dividends attributable to the year	*6*		
Interim dividend declared during the year		**15.8**	15.8
Final dividend proposed after the balance sheet date		**37.8**	37.8
		53.6	53.6
Earnings per share	*7*	**HK$1.64**	HK$1.18

The notes on pages 29 to 66 form part of these accounts.

Consolidated Balance Sheet

As at 31st December, 2005

	Note	2005 HK$ Million		2004 HK$ Million Restated	
Non-current assets					
Fixed assets	*9*				
– Investment properties			**1,561.0**		973.0
– Other properties, plant and equipment			**61.0**		103.8
– Leasehold land			**15.3**		15.3
Interest in associates	*11*		**14.6**		42.4
Available-for-sale investments	*12*		**922.8**		820.4
Employee benefits	*13*		**9.1**		8.7
			2,583.8		1,963.6
Current assets					
Inventories	*14*	**243.5**		3.4	
Trade and other receivables	*15*	**105.8**		51.4	
Cash and cash equivalents		**1,519.6**		1,737.5	
		1,868.9		1,792.3	
Current liabilities					
Trade and other payables	*16*	**134.0**		67.6	
Taxation payable	*4(d)*	**9.1**		19.0	
		143.1		86.6	
Net current assets			**1,725.8**		1,705.7
Total assets less current liabilities			**4,309.6**		3,669.3
Non-current liabilities					
Deferred income	*19*	**1.6**		5.2	
Deferred taxation	*20*	**207.0**		158.5	
			208.6		163.7
NET ASSETS			**4,101.0**		3,505.6
Capital and reserves					
Share capital	*17*		**157.5**		157.5
Reserves	*18(a)*		**3,943.5**		3,348.1
TOTAL EQUITY			**4,101.0**		3,505.6

The notes on pages 29 to 66 form part of these accounts.

Gonzaga W. J. Li
Chairman

T. Y. Ng
Director

Company Balance Sheet

As at 31st December, 2005

	Note	2005 HK$ Million	2004 HK$ Million
Non-current asset			
Interest in associates	*11*	**–**	36.8
Current assets			
Amounts due from subsidiaries	*10*	**330.4**	49.9
Trade and other receivables	*15*	**1.0**	0.3
Taxation recoverable		**0.4**	–
Cash and cash equivalents		**1,446.3**	1,733.3
		1,778.1	1,783.5
Current liabilities			
Amounts due to subsidiaries	*10*	**786.7**	945.6
Trade and other payables	*16*	**0.6**	0.7
Taxation payable		**–**	0.2
		787.3	946.5
Net current assets		**990.8**	837.0
Total assets less current liabilities		**990.8**	873.8
Non-current liability			
Deferred income	*19*	**1.6**	5.2
NET ASSETS		**989.2**	868.6
Capital and reserves			
Share capital	*17*	**157.5**	157.5
Reserves	*18(b)*	**831.7**	711.1
TOTAL EQUITY		**989.2**	868.6

The notes on pages 29 to 66 form part of these accounts.

Gonzaga W. J. Li
Chairman

T. Y. Ng
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Note	2005 HK$ Million	2004 HK$ Million Restated
Total equity as at 1st January			
As previously reported		**5,462.7**	4,686.6
Prior year adjustments arising from changes in accounting policies		**(1,957.1)**	(1,762.4)
As restated		**3,505.6**	2,924.2
Surplus on revaluation of investment properties	*18*		
As previously reported			148.7
Prior year adjustment for investment properties			(148.7)
As restated		**–**	–
Surplus on revaluation of hotel property	*18*		
As previously reported			167.0
Prior year adjustment for hotel property			(167.0)
As restated		**–**	–
Surplus on revaluation of available-for-sale investments	*18*		
– by Company/subsidiaries		**133.4**	262.6
– by associates		**–**	0.7
Net gains and losses not recognised in the consolidated profit and loss account		**133.4**	263.3
Profit attributable to shareholders	*5*		
As previously reported			250.7
Prior year adjustments for			
– Investment properties			148.7
– Depreciation of hotel property			(1.7)
– Deferred tax on investment properties			(26.0)
As restated		**517.1**	371.7
Final dividend approved in respect of the previous year	*6(b) &18*	**(37.8)**	(37.8)
Interim dividend approved in respect of the current year	*6(a) &18*	**(15.8)**	(15.8)
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of available-for-sale investments – by associates	*18*	**(1.5)**	–
Total equity as at 31st December		**4,101.0**	3,505.6

The notes on pages 29 to 66 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 HK$ Million		2004 HK$ Million Restated	
Operating activities				
Operating profit		**259.3**		200.7
Depreciation and amortisation		**25.2**		15.9
Dividend income from listed investments		**(20.5)**		(25.3)
Interest income		**(41.1)**		(3.2)
Operating profit before changes in working capital		**222.9**		188.1
Increase in deferred income		**0.3**		0.8
Increase in employee benefits		**(0.4)**		(0.1)
(Increase)/decrease in inventories		**(0.1)**		0.1
Increase in trade and other receivables		**(32.9)**		(17.2)
Increase/(decrease) in trade and other payables		**31.0**		(0.5)
Decrease in amounts due to fellow subsidiaries (net)		**(7.7)**		(1.6)
Cash generated from operations		**213.1**		169.6
Interest received		**40.4**		3.2
Dividends received from associates		**12.1**		73.1
Dividend income from listed investments		**20.5**		25.3
Hong Kong profits tax paid		**(41.7)**		(17.4)
Net cash generated from operating activities		**244.4**		253.8
Investing activities				
Purchase of fixed assets	**(476.4)**		(61.8)	
Net repayment from associates	**38.7**		329.5	
Purchase of available-for-sale investments	**–**		(7.8)	
Proceeds from sale of available-for-sale investments	**29.0**		–	
Net cash (used in)/generated from investing activities		**(408.7)**		259.9
Financing activities				
Dividends paid	**(53.6)**		(53.6)	
Net cash used in financing activities		**(53.6)**		(53.6)
Net (decrease)/increase in cash and cash equivalents		**(217.9)**		460.1
Cash and cash equivalents at 1st January		**1,737.5**		1,277.4
Cash and cash equivalents at 31st December		**1,519.6**		1,737.5

1. SEGMENT REPORTING

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

(a) Business segments

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

1. SEGMENT REPORTING (continued)

(b) Geographical segments

	Turnover		Operating results	
	2005 HK$ Million	2004 HK$ Million	**2005 HK$ Million**	2004 HK$ Million Restated
Hong Kong	**507.4**	428.4	**239.9**	184.1
Singapore	**19.4**	16.6	**19.4**	16.6
	526.8	445.0	**259.3**	200.7

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

2. OPERATING PROFIT

(a) Operating profit is arrived at:

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

2. OPERATING PROFIT (continued)

(b) Directors' emoluments

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

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

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

2. OPERATING PROFIT (continued)

(c) Emoluments of the highest paid employees

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

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

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

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

3. OTHER NET INCOME

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

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

4. TAXATION

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

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

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

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

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

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

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

6. DIVIDENDS

(a) Dividends attributable to the year

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

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

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

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

7. EARNINGS PER SHARE

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

8. CHANGES IN ACCOUNTING POLICIES

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

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

HKAS 40 "Investment property"

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

8. CHANGES IN ACCOUNTING POLICIES (continued)

HKAS 40 "Investment property" (continued)

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

HKAS – INT 21 "Income taxes – recovery of revalued non-depreciable assets"

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

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

HK – INT 2 "The appropriate accounting policies for hotel properties" and HKAS 17 "Leases"

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

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

8. CHANGES IN ACCOUNTING POLICIES (continued)

HKAS 1 "Presentation of financial statements"

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

Summary of the effect of changes in the accounting policies

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

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

(ii) Effect on profit after taxation

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

9. FIXED ASSETS

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

9. FIXED ASSETS (continued)

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

9. FIXED ASSETS (continued)

(d) Properties valuation

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

(e) Properties schedule at 31st December, 2005

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

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

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

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

9. FIXED ASSETS (continued)

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

	2005 **HK$ Million**	2004 HK$ Million
Within 1 year	**80.2**	56.0
After 1 year but within 5 years	**126.1**	142.9
After 5 years	**–**	–
	206.3	198.9

10. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

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

11. INTEREST IN ASSOCIATES

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

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

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

11. INTEREST IN ASSOCIATES (continued)

(b) Summary financial information on associates:

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

12. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

13. EMPLOYEE BENEFITS

(a) Defined benefit pension schemes

	Group	
	2005	2004
	HK$ Million	HK$ Million
Defined benefit pension schemes	**9.1**	8.7

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

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

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

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

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

13. EMPLOYEE BENEFITS (continued)

(a) Defined benefit pension schemes (continued)

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

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

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

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

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

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

(b) Defined contribution pension schemes

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

14. INVENTORIES

	Group	
	2005	2004
	HK$ Million	HK$ Million
Property under development for sale	**240.0**	–
Hotel consumables	**3.5**	3.4
	243.5	3.4

(a) Property under development for sale is stated at the lower of cost and net realisable value. The total carrying value of property stated at net realisable value at 31st December, 2005 was HK$240.0 million.

(b) At 31st December, 2005, the carrying value of long term leasehold land situated in Hong Kong included in property under development for sale was HK$158.5 million.

15. TRADE AND OTHER RECEIVABLES

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

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

16. TRADE AND OTHER PAYABLES

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

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

17. SHARE CAPITAL

	2005		2004	
	No. of shares		No. of shares	
	Million	**HK$ Million**	Million	HK$ Million
Authorised				
Ordinary shares of HK$0.50 each	**380.0**	**190.0**	380.0	190.0
Issued and fully paid				
Ordinary shares of HK$0.50 each	**315.0**	**157.5**	315.0	157.5

18. RESERVES

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

18. RESERVES (continued)

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

18. RESERVES (continued)

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

Notes:

(i) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The investments revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of available-for-sale investments.

(ii) Reserves of the Company available for distribution to shareholders at 31st December, 2005 amounted to HK$289.7 million (2004: HK$169.1 million).

19. DEFERRED INCOME

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

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

20. DEFERRED TAXATION

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

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

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

21. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK$28.1 million (2004: HK$25.0 million) which included management fees of HK$23.2 million (2004: HK$20.5 million) and marketing fees of HK$4.9 million (2004: HK$4.5 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such a management agreement, entered into on 2nd January, 2004, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules but are exempted under the provisions of the Listing Rules which were in force prior to 31st March, 2004 from the requirements relating to connected transactions.

(b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11th April, 2003 to 10th April, 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK$61.7 million (2004: HK$57.3 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

22. CONTINGENT LIABILITIES

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

23. COMMITMENTS

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

	Group	
	2005	2004
	HK$ Million	HK$ Million
Contracted but not provided for	**27.4**	217.1
Authorised but not contracted for	**6.2**	9.8
	33.6	226.9

24. POST BALANCE SHEET EVENTS

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

25. COMPARATIVE FIGURES

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

26. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

(b) Liquidity risk

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

(c) Foreign currency risk

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

(d) Fair value

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

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

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

– *Valuation of investment properties*

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

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

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

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

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

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

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

27. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Key sources of estimation uncertainty (continued)

– *Assessment of provision for properties under development for sale*

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

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

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

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

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

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

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

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

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

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

29. PARENT AND ULTIMATE HOLDING COMPANY

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

30. APPROVAL OF ACCOUNTS

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

(A) STATEMENT OF COMPLIANCE

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1st January, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in Note 8.

(B) BASIS OF PREPARATION OF THE ACCOUNTS

The consolidated accounts for the year ended 31st December, 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the accounts is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment are discussed in Note 27.

(C) BASIS OF CONSOLIDATION

(i) Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(ii) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, an investment in an associate is stated at cost less impairment losses.

(C) BASIS OF CONSOLIDATION (continued)

(iii) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the consolidated profit and loss account.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(D) FIXED ASSETS

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated profit and loss account. Rental income from investment properties is accounted for as described in Note (N)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in Note (G).

(ii) Hotel property

Hotel property is stated at cost less accumulated depreciation and impairment losses.

(D) FIXED ASSETS (continued)

(iii) Other fixed assets

Other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(E) DEPRECIATION OF FIXED ASSETS

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel property

Depreciation is provided on the cost of the leasehold land of hotel property over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of 40 years.

(iii) Other fixed assets

Other assets comprising plant, machinery, furniture, fixtures and equipment are depreciated at annual rates of 10% to 20% on a straight line basis on cost.

(F) IMPAIRMENT OF ASSETS

(i) Impairment of financial assets

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(F) IMPAIRMENT OF ASSETS (continued)

(i) Impairment of financial assets (continued)

– For available-for-sale investments, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated profit and loss account. The amount of the cumulative loss that is recognised in the consolidated profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated profit and loss account.

  Impairment losses recognised in the consolidated profit and loss account in respect of available-for-sale equity investments are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in the investments revaluation reserve in equity.

(ii) The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated profit and loss account. The recoverable amount of an asset is the greater of its net selling price and value in use. In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

(G) LEASED ASSETS

(i) Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that 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.

(G) LEASED ASSETS (continued)

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note (N)(ii).

(iii) Operating lease charges

(a) Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

(b) The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property. Information on accounting policies for land held under operating leases for development for sale is provided in Note (G)(i).

(H) AVAILABLE-FOR-SALE INVESTMENTS

Investments in securities classified as available-for-sale investments are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investments revaluation reserves in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised, the cumulative gain or loss previously recognised directly in the investments revaluation reserves in equity is recognised in the consolidated profit and loss account.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(I) INVENTORIES

(i) Property under development for sale

Property under development for sale is classified as a current asset and stated at the lower of cost and net realisable value. Cost includes the aggregate costs of development, borrowing costs capitalised and other direct expenses. Net realisable value is estimated by the management, taking into account the expected price ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion.

(I) INVENTORIES (continued)

(i) Property under development for sale (continued)

The amount of any write-down of or provision for properties under development for sale is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

(ii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost, calculated on weighted average basis, and net realisable value. Net realisable value represents the estimated selling price less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(J) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(K) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(L) CASH AND CASH EQUIVALENTS

The Group defines cash and cash equivalents as cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition.

(M) FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange differences arising from the above are dealt with in the consolidated profit and loss account.

(N) RECOGNITION OF REVENUE

(i) Income from hotel operations is recognised at the time when the services are rendered.

(ii) Rental income under operating leases is recognised in the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income from bank deposits is recognised as it accrues using the effective interest method.

(iv) Interest on a loan advanced to an associate involved in a property development project is deferred and is recognised when the associate starts to generate profit from the property development project based on the percentage of total area sold to the total area available for sale.

(v) Dividend income from investments is recognised when the shareholder's right to receive the payment is established.

(vi) Income arising from the sale of properties held for sale is recognised upon the execution of the formal sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under other payables.

(O) BORROWING COSTS

Borrowing costs are expensed in the consolidated profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(P) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(P) INCOME TAX (continued)

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(Q) EMPLOYEE BENEFITS

(i) Defined contribution pension scheme

Contributions to the scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(ii) Defined benefit pension schemes

The Group's net obligation in respect of the defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation or the fair value of scheme assets, that portion is recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

(iii) Mandatory Provident Fund

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

(iv) Salaries, annual bonuses, paid annual leave, leave passage and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(R) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise corporate assets, borrowings and corporate and financing expenses.

(S) RELATED PARTIES

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(T) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Principal Subsidiaries and Associates

As at 31st December, 2005

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)	Percentage of equity attributable to the Group	Principal activities
# Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US$1 shares	100	Holding company
# Ocean New Investments Limited	British Virgin Islands	500 US$1 shares	100	Holding company
Algebra Assets Limited	British Virgin Islands	500 US$1 shares	100	Investment
Insight Ever International Limited	British Virgin Islands	500 US$1 shares	100	Investment
Mandelson Investments Limited	British Virgin Islands	500 US$1 shares	100	Investment
Manniworth Company Limited	Hong Kong	10,000 HK$1 shares	100	Property development & investment
The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	100	Hotel operation

Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to the Group	Principal activities
Hopfield Holdings Limited	British Virgin Islands	Ordinary	20	Holding company
Kowloon Properties Company Limited	Hong Kong	Ordinary	20	Property development

Notes:

(i) All the subsidiaries listed above were, as at 31st December, 2005, indirectly held by the Company except where marked #.

(ii) The above list gives the principal subsidiaries and associates of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

Subsidiaries held directly by the Company

	2001 HK$ Million Restated	2002 HK$ Million Restated	2003 HK$ Million	2004 HK$ Million Restated	**2005 HK$ Million**
Consolidated profit and loss account					
Turnover *(note 1)*	404.1	335.2	308.7	445.0	**526.8**
Group profit/(loss) attributable to shareholders	(113.1)	16.2	169.4	250.7	**517.1**
Prior year adjustment *(notes 3 & 4)*	–	(3.4)	–	121.0	**–**
Restated amount	(113.1)	12.8	169.4	371.7	**517.1**
Consolidated balance sheet					
Fixed assets *(note 4)*	2,774.1	2,404.6	2,541.8	1,092.1	**1,637.3**
Interest in associates	897.0	884.2	387.9	42.4	**14.6**
Available-for-sale investments	851.5	523.0	550.0	820.4	**922.8**
Employee benefits *(note 2)*	9.7	9.3	8.6	8.7	**9.1**
Current assets	901.3	601.3	1,313.0	1,792.3	**1,868.9**
Current liabilities *(note 2)*	(483.6)	(77.6)	(76.5)	(86.6)	**(143.1)**
Deferred income	(135.9)	(95.8)	(25.3)	(5.2)	**(1.6)**
Deferred taxation *(notes 3 & 4)*	(5.9)	(9.3)	(12.9)	(158.5)	**(207.0)**
	4,808.2	4,239.7	4,686.6	3,505.6	**4,101.0**
Representing:					
Share capital	157.5	157.5	157.5	157.5	**157.5**
Reserves *(notes 2 to 4)*	4,650.7	4,082.2	4,529.1	3,348.1	**3,943.5**
Shareholders' equity	4,808.2	4,239.7	4,686.6	3,505.6	**4,101.0**

Notes:

(1) Turnover figures for the year ended 31st December, 2001 have been restated in order to present better the results and financial condition of the Group.

(2) Employee benefits and trade and other payables figures for year ended 31st December, 2001 onwards have been reclassified as set out in note 14 to the 2002 Accounts.

(3) The figures for 2002 have been restated pursuant to the adoption of SSAP 12 (revised) "Income taxes" as explained in note 9 to the 2003 Accounts.

(4) The figures for 2004 have been restated pursuant to the adoption of HKAS 40, HKAS-INT 21 and HK-INT 2 as explained in note 8 to the Accounts.

(5) The figures for the years ended 31st December, 2001, 2002 and 2003 have not been restated pursuant to the adoption of HKAS 40, HKAS-INT 21 and HK-INT 2.