

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

In the current year, the Group has adopted the revised SSAP 12 "Income Taxes" to account for deferred tax as set out in note 1(n) below.

b. Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30th June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either co-terminus with the financial statements of the Company or cover a year ended not more than six months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation.

Goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities is recognized as an asset in the balance sheet and amortized to the profit and loss account on a straight line basis over its estimated useful life. Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Upon disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of purchased goodwill not previously amortized through the profit and loss account is included in the calculation of the profit and loss on disposal. Any impairment arising on goodwill is recognized in the profit and loss account.

Minority interests in the consolidated profit and loss account and balance sheet represents the interests of third parties outside the Group in the results and net assets of subsidiaries.

c. Turnover

Turnover derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from properties letting under operating leases, revenue from hotel operation and revenue derived from other business activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, telecommunications, internet infrastructure and enabling services. It does not include the turnover of associates and jointly controlled entities.

d. Revenue recognition

Revenue of a transaction is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group which will result in increases in equity and these benefits can be measured reliably, on the following basis:

(i) Property sales

Profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sales proceeds receivable over the interest-free period.

(ii) Rental income

Rental income from properties letting under operating leases is recognized on a straight line basis over the lease terms.

(iii) Hotel operation

Revenue from hotel operation is recognized upon provision of services.

(iv) Interest income

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d. Revenue recognition (cont'd)

(v) Construction

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

(vi) Investment income

Income from securities and other investments is recognized when the right to receive payment is established.

(vii) Use of internet services centre facilities

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

(viii) Telecommunications

Revenue from telecommunication is recognized when the service is rendered.

(ix) Other income

Property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

e. Subsidiaries

A subsidiary 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. Investments in subsidiaries are carried in the balance sheet of the Company at cost less impairment.

f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less impairment.

g. Joint ventures

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

(i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less impairment.

(ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g. Joint ventures (cont'd)

(ii) Jointly controlled assets (cont'd)

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

h. Investments in securities

(i) Long-term investments

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less impairment. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities which are intended to be held to maturity are measured at amortized cost, less any impairment losses recognized, if necessary, in the balance sheet. The amortization of any discount or premium arising on acquisition is aggregated with other investment income receivable over the period from the date of acquisition to the date of maturity so as to give a constant yield on the investment. Held-to-maturity debt securities maturing within one year are classified as short-term investments under current assets.

(ii) Marketable securities

Marketable securities, which are that part of liquid assets temporarily invested in debt and equity securities, are stated at fair value, with unrealized gains and losses included in net profit or loss for the year.

i. Properties

(i) Land pending development

Land pending development, which is stated at cost less impairment made by the directors, embraces all land acquired pending any definite intention whether to develop it for long-term retention or for sale. When the intention is clear and action initiated, land to be developed for long-term retention is reclassified as fixed assets whereas land to be developed for sale and expected to be realized in the normal course of the Group's property development cycle is reclassified as stocks under current assets.

(ii) Investment properties

Investment properties are completed properties which are income producing and held for their investment potential on a long-term basis. Investment properties are included in fixed assets at open market value on the basis of an annual professional valuation related to properties on the basis that increases in valuations are credited to the investment property revaluation reserve and decreases in valuations are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to operating profit. Upon disposal of an investment property, the revaluation surplus or deficit realized is transferred to operating profit in calculating the profit or loss on disposal.

(iii) Hotel properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at open market value on the basis of an annual professional valuation related to individual hotel properties.

(iv) Properties under development

Properties under development for long-term retention are classified under fixed assets and are stated at cost less impairment. These properties are reclassified as investment properties or other properties as the case may be upon completion of the development.

Properties under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

Cost of property in the course of development comprises land cost and development costs during the development period.

(v) Stocks of completed properties

Completed properties remaining unsold at year end are stated at the lower of cost and net realizable value.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i. Properties (cont'd)

(vi) Other properties

Other properties are properties held for production or administrative purposes and are included in fixed assets at cost less accumulated depreciation and impairment losses, if any.

j. Depreciation

(i) Investment properties

No depreciation is provided on investment property except where the unexpired term of the lease of the investment property is 20 years or less, in which case the then carrying amount is amortized on a straight line basis over the remaining unexpired term of the lease.

(ii) Hotel properties

No depreciation is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of these assets and their high residual values, any depreciation would be insignificant. The related repair and maintenance expenditure is charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalized.

(iii) Properties under development

No depreciation is provided on properties under development.

(iv) Network equipment

Network equipment including assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment losses over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum. No depreciation is provided on network equipment under construction.

(v) Other properties

The cost of leasehold land and construction cost of buildings thereon are depreciated on a straight line basis over the term of the lease.

(vi) Other fixed assets

Other fixed assets including equipment, furniture, fixtures and vehicles are stated at cost less depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum.

k. Capitalization of borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale.

l. Materials

Materials comprising mainly building materials, hotel stocks and handsets are valued at the lower of cost, calculated on a weighted average cost basis, and net realizable value.

m. Translation of foreign currencies

Foreign currency transactions during the year are converted into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of the balance sheet. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of overseas subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of balance sheet whereas the profit and loss accounts are translated at average exchange rates for the year. Exchange differences arising on translation are dealt with as a movement in reserves.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

n. Deferred taxation

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt.

In accordance with the revised SSAP 12, deferred tax liabilities are provided in full, using the liability method, on all temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profits, while deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and the comparative figures have been restated accordingly. In adjusting prior year figures, the opening retained profits and property revaluation reserves as at 1st July 2003 have been reduced by HK\$1,002 million and HK\$68 million (2002: HK\$788 million and HK\$56 million) respectively which represented the net deferred tax liabilities for subsidiaries, jointly controlled entities and associates that should be provided for under the revised accounting policy. This change in accounting policy has resulted in a decrease of HK\$86 million and HK\$214 million in the Group's profit attributable to shareholders for the year ended 30th June 2004 and 30th June 2003 respectively. The effect on the various other balance sheet items as at 30th June 2003 is set out in Note 24.

o. Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be represented as the primary reporting format.

p. Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

q. Retirement benefits

The retirement benefit costs charged to the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution schemes and Mandatory Provident Fund Schemes.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. SEGMENT INFORMATION

(i) Segment results

(a) *The Company and its subsidiaries*

The Group's turnover and contribution to profit from operations before finance costs by business segments are analysed as follows:

	Turnover		Profit from Operations before Finance Costs	
	2004	2003	2004	2003
Property				
Property sales	10,004	12,543	2,401	2,769
Rental income	4,978	5,175	3,729	3,857
	14,982	17,718	6,130	6,626
Hotel operation	597	510	227	154
Telecommunications	3,367	1,095	492	120
Other businesses	2,818	3,622	595	530
	21,764	22,945	7,444	7,430
Other revenue			633	332
Unallocated administrative expenses			(492)	(502)
Profit from operations before impairment of properties			7,585	7,260
Impairment of properties			–	(1,229)
Profit from operations			7,585	6,031

Other business activities comprise revenue and profit derived from other activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, internet infrastructure and enabling services.

Other revenue includes mainly investment income from bonds and other investments.

Less than ten per cent of the operations of the Group in terms of turnover and operating results were carried on outside Hong Kong.

(b) *Associates and jointly controlled entities*

The Group's share of profits less losses of associates and jointly controlled entities by business segments is analysed as follows:

	Share of Profits less Losses before Taxation	
	2004	2003
Property		
Property sales	354	925
Rental income	269	243
	623	1,168
Telecommunications	–	78
Other businesses	518	590
Profit from operations	1,141	1,836
Finance costs	(169)	(249)
Profit before taxation	972	1,587

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. SEGMENT INFORMATION (cont'd)

(i) Segment results (cont'd)

(c) Combined results of the Group and its share of results of associates and jointly controlled entities by business segments

	Attributable Profit	
	2004	2003
Property		
Property sales	2,755	3,694
Rental income	3,998	4,100
	6,753	7,794
Hotel operation	227	154
Telecommunications	492	198
Other businesses	1,113	1,120
Other revenue	633	332
Unallocated administrative expenses	(492)	(502)
Impairment of properties	–	(1,229)
Net finance costs – Group	(172)	(225)
– Associates and jointly controlled entities	(169)	(249)
Profit on disposal of long-term investments less impairment	100	96
Profit before taxation	8,485	7,489

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. SEGMENT INFORMATION (cont'd)

(ii) Assets and liabilities

The Group's assets and liabilities by business segments are analysed as follows:

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Total Liabilities
At 30th June 2004				
Property				
Development	31,565	3,672	35,237	(3,581)
Investment	91,157	12,204	103,361	(1,320)
	122,722	15,876	138,598	(4,901)
Hotel operation	4,893	–	4,893	(65)
Telecommunications	2,425	–	2,425	(934)
Other businesses	5,012	5,177	10,189	(1,345)
	135,052	21,053	156,105	(7,245)
Bank balances and deposits			7,207	–
Bank and other borrowings			–	(19,948)
Unallocated corporate assets/(liabilities)			8,516	(5,062)
Deferred tax liabilities			–	(1,393)
Total assets/(liabilities)			171,828	(33,648)
At 30th June 2003				
Property				
Development	31,508	6,496	38,004	(4,461)
Investment	79,319	11,302	90,621	(1,382)
	110,827	17,798	128,625	(5,843)
Hotel operation	4,528	–	4,528	(54)
Telecommunications	1,965	–	1,965	(544)
Other businesses	5,307	4,822	10,129	(2,831)
	122,627	22,620	145,247	(9,272)
Bank balances and deposits			8,891	–
Bank and other borrowings			–	(22,127)
Unallocated corporate assets/(liabilities)			6,438	(3,596)
Deferred tax liabilities			–	(914)
Total assets/(liabilities)			160,576	(35,909)

Less than ten per cent of the Group's assets are situated outside Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. SEGMENT INFORMATION (cont'd)

(ii) Assets and liabilities (cont'd)

The Group's depreciation and capital expenditure by business segments are analysed as follows:

	Depreciation		Capital Expenditure	
	2004	2003	2004	2003
Property				
Development	3	3	2,584	281
Investment	7	26	1,470	1,492
	10	29	4,054	1,773
Hotel operation	2	9	29	14
Telecommunications	412	137	680	188
Other businesses	186	179	49	48
Unallocated corporate assets	6	8	2	9
	616	362	4,814	2,032

3. IMPAIRMENT OF PROPERTIES

The impairment made in the previous year represented the diminution in value of interest in property development projects of the Group and jointly controlled entities in the aggregate sum of HK\$1,106 million and an impairment of HK\$123 million made by SUNeVision Holdings Ltd., the Group's subsidiary, for revaluation deficit on its properties operating as internet data centres.

4. NET FINANCE COSTS

	2004	2003
Interest expenses on		
Bank loans and overdrafts	205	398
Other loans wholly repayable within five years	65	104
Other loans not wholly repayable within five years	29	58
	299	560
Less: Portion capitalized	(86)	(233)
	213	327
Interest income on bank deposits	(41)	(102)
	172	225

Interest is capitalized at an average annual rate of approximately 1.1 per cent (2003: 2.1 per cent).

5. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS LESS IMPAIRMENT

	2004	2003
Profit on disposal of interests in jointly controlled entities	–	305
Profit on disposal of long-term investments	156	43
Impairment of long-term investments	(56)	(252)
	100	96

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

6. PROFIT BEFORE TAXATION

	2004	2003
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	7,060	9,156
Cost of other inventories sold	849	204
Loss on disposal of marketable securities	–	9
Net holding loss on marketable securities	–	12
Depreciation	616	362
Impairment of goodwill	17	19
Staff costs (including directors' emoluments and retirement schemes contributions)	2,039	1,884
Auditors' remuneration	8	8
and crediting:		
Negative goodwill released	–	19
Dividend income from:		
listed investments	45	11
unlisted investments	51	17
Interest income from:		
listed debt securities	273	218
unlisted debt securities	90	29
Profit on disposal of marketable securities	33	–
Net holding gain on marketable securities	4	–

7. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

	2004	2003
Directors' emoluments:		
Fees	1	1
Salaries, allowances and benefits in kind	22	18
Bonuses	7	3
Retirement scheme contributions	1	1
	31	23

Fees paid to independent non-executive directors amounted to HK\$80,000 (2003: HK\$160,000). They received HK\$350,000 (2003: HK\$700,000) as other emoluments.

Number of directors whose emoluments fell within:

Emoluments Band		Number of Directors	Number of Directors
HK\$M	HK\$M		
0	– 1.0	7	8
1.5	– 2.0	4	4
2.5	– 3.0	–	1
3.0	– 3.5	1	1
3.5	– 4.0	2	–
4.0	– 4.5	1	2
7.5	– 8.0	1	–
		16	16

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

7. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

The above analysis included three (2003: two) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2003: three) individuals are:

	2004	2003
Salaries, allowances and benefits in kind and retirement scheme contributions	10	7
Bonuses	5	7
	15	14

Number of employees whose emoluments fell within:

Emoluments Band		Number of Employees	Number of Employees
HK\$M	HK\$M		
3.5	– 4.0	–	1
4.0	– 4.5	1	1
6.0	– 6.5	–	1
11.0	– 11.5	1	–
		2	3

8. STAFF RETIREMENT SCHEMES

The Group operates a number of defined contribution schemes for all qualified employees. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions to these schemes are made by both the employers and employees at rates ranging from five per cent to ten per cent on the employees' salary.

With effect from 1st December 2000, the Group sets up an employer sponsored scheme ("MPF Scheme") for other employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at specific rates. Contributions of the Group to the MPF Scheme are charged to profit and loss account as incurred.

Total contributions to the retirement schemes made by the Group during the year amounted to HK\$114 million (2003: HK\$103 million). Forfeited contributions for the year of HK\$10 million (2003: HK\$8 million) were used to reduce the existing level of contributions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

9. TAXATION

	2004	2003
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,032	854
Under/(over) provision in prior years	19	(10)
	1,051	844
China income tax	5	–
	1,056	844
Deferred taxation		
Origination and reversal of temporary differences	53	104
Effect of change in tax rate	–	67
	53	171
	1,109	1,015
Share of taxation		
Associates	94	65
Jointly controlled entities	82	53
	1,285	1,133

(a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2003: 17.5 per cent) based on the estimated assessable profits for the year. China income tax is calculated at the rates applicable in China.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rate:

	2004	2003
Profit before share of profits and losses of associates, jointly controlled entities and taxation	7,513	5,902
Tax at Hong Kong profits tax rate of 17.5% (2003: 17.5%)	1,315	1,032
Effect of change in tax rate and different tax rate of subsidiaries operating outside Hong Kong	11	67
Net effect of non-deductible expenses and non-taxable revenue	(127)	(125)
Utilization/recognition of tax losses not previously recognized	(141)	(139)
Tax losses and other temporary differences not recognized	9	159
Under/(over) provision in prior years	19	(10)
Others	23	31
	1,109	1,015
Share of taxation of associates	94	65
Share of taxation of jointly controlled entities	82	53
	1,285	1,133

10. DIVIDENDS

	2004	2003
Interim dividend of HK\$0.60 per share based on 2,401 million shares (2003: HK\$0.60 per share based on 2,401 million shares) paid	1,441	1,441
Proposed final dividend of HK\$1.05 per share based on 2,401 million shares (2003: HK\$1.00 per share based on 2,401 million shares)	2,521	2,401
	3,962	3,842

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$6,923 million (2003 (restated): HK\$6,370 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,400,917,592 (2003: 2,400,907,362). The diluted earnings per share is based on 2,400,961,425 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 43,833 shares deemed to be issued at no consideration if all outstanding options had been exercised.

No diluted earnings per share was presented for the year ended 30th June 2003 as there were no potentially dilutive shares outstanding.

The adjustment to comparative basic earnings per share, arising from the change in accounting policy shown in note 1(n) above, is as follows:

Reconciliation of 2003 basic earnings per share:	
Reported figure before adjustments	\$2.74
Adjustments arising from the adoption of the revised SSAP 12	(\$0.09)
Restated	\$2.65

12. FIXED ASSETS

The Group

	Investment Properties	Hotel Properties	Properties under Development	Network Equipment	Other Properties	Other Fixed Assets	Total
(a) Movement during year							
Cost or valuation							
At beginning of year	67,870	4,470	9,430	1,730	2,610	1,839	87,949
Additions	52	26	1,416	604	6	126	2,230
Transfer in	330	–	128	–	–	–	458
Disposals	(203)	–	–	(141)	(2)	(65)	(411)
Transfer out	–	–	(155)	–	(180)	–	(335)
Revaluation surplus	10,677	314	–	–	–	–	10,991
At end of year	78,726	4,810	10,819	2,193	2,434	1,900	100,882
Accumulated depreciation							
At beginning of year	–	–	–	121	585	921	1,627
Charge for the year	–	–	–	363	77	176	616
Disposals	–	–	–	(125)	(1)	(58)	(184)
Transfer out	–	–	–	–	(16)	–	(16)
At end of year	–	–	–	359	645	1,039	2,043
Net book value at 30/6/2004	78,726	4,810	10,819	1,834	1,789	861	98,839
Net book value at 30/6/2003	67,870	4,470	9,430	1,609	2,025	918	86,322
(b) Basis of book value							
2004 professional valuation	78,726	4,810	–	–	–	–	83,536
Cost	–	–	10,819	2,193	2,434	1,900	17,346
	78,726	4,810	10,819	2,193	2,434	1,900	100,882

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

12. FIXED ASSETS (cont'd)

(c) Net book value of properties shown above comprises:

	2004	2003
Land in Hong Kong held under Long lease (not less than 50 years)		
Investment properties	18,198	14,194
Hotel properties	1,620	1,490
Other properties	430	432
	20,248	16,116
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	58,562	51,773
Hotel properties	3,190	2,980
Properties under development	10,411	9,333
Other properties	1,359	1,593
	73,522	65,679
Land outside Hong Kong held under Long lease (not less than 50 years)		
Investment properties	585	655
Properties under development	408	97
	993	752
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	1,381	1,248
	96,144	83,795

(d) Investment properties and hotel properties revaluation

The Group's investment properties and hotel properties have been revalued as at 30th June 2004 by Messrs. Knight Frank and Chesterton Petty, Chartered Surveyors on an open market value basis.

(e) Gross rental receivable from and loss on disposal of the Group's investment properties during the year amounted to HK\$4,664 million (2003: HK\$4,817 million) and HK\$71 million (2003: profit of HK\$18 million) respectively.

(f) The carrying amount of properties under development as at 30th June 2004 included interest capitalized in the amount of HK\$1,077 million (2003: HK\$1,080 million).

13. SUBSIDIARIES

The Company

	2004	2003
Unlisted shares, at cost	30,074	30,076

Particulars regarding principal subsidiaries are set out on pages 139 to 142.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

14. ASSOCIATES

The Group

	2004	2003
Share of net assets		
Listed in Hong Kong	1,300	1,372
Unlisted	388	306
Amounts due from associates	893	1,429
	2,581	3,107
Market value of Hong Kong listed shares	4,910	4,753

Particulars regarding principal associates are set out on page 144.

15. JOINTLY CONTROLLED ENTITIES

	2004		2003	
	The Group	The Company	The Group	The Company
Share of net assets, unlisted	1,573		975	
Amounts due from jointly controlled entities	16,899	1	18,538	–
	18,472	1	19,513	–

Particulars regarding principal jointly controlled entities are set out on page 143.

16. LONG-TERM INVESTMENTS

	2004		2003	
	The Group	The Company	The Group	The Company
Listed held-to-maturity debt securities, overseas	4,249	–	3,157	–
Listed held-to-maturity debt securities, Hong Kong	95	–	–	–
Unlisted held-to-maturity debt securities	901	–	950	–
Listed equity securities, overseas	163	–	156	–
Listed equity securities, Hong Kong	784	–	306	–
Unlisted equity securities	393	–	373	–
	6,585	–	4,942	–
Amounts due from investee companies	32	–	28	–
	6,617	–	4,970	–
Market value				
Listed overseas	4,986	–	3,843	–
Listed in Hong Kong	902	–	277	–
	5,888	–	4,120	–

17. STOCKS

The Group

	2004	2003
Properties under development	16,875	17,240
Stock of completed properties for sale	3,100	2,954
Materials	178	79
	20,153	20,273

The amount of the above stocks that are carried at net realizable value was HK\$1,056 million (2003: HK\$1,169 million).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

18. TRADE AND OTHER RECEIVABLES

	Note	2004		2003	
		The Group	The Company	The Group	The Company
Debtors, deposits and prepayments		4,295	24	2,964	24
Amounts due from customers for contract works	18a	140	–	92	–
Short-term loans		246	–	185	–
		4,681	24	3,241	24

Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rents in respect of leased properties are payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in contracts.

Included in trade and other receivables of the Group are trade debtors of HK\$2,942 million (2003: HK\$1,485 million), of which 90 per cent aged less than 60 days, two per cent between 61 to 90 days and eight per cent more than 90 days (2003: 85 per cent, five per cent and ten per cent respectively).

18a. Amounts due from/(to) customers for contract works

The Group

	Note	2004	2003
Contract costs incurred plus recognized profits less recognized losses		2,997	3,427
Less: Progress billings		(2,958)	(3,350)
		39	77
Represented by:			
Due from customers included in current assets	18	140	92
Due to customers included in current liabilities	22	(101)	(15)
		39	77

19. SHORT-TERM INVESTMENTS

The Group

	2004	2003
Marketable securities		
Equity securities, at market value		
Listed in Hong Kong	669	313
Listed overseas	17	16
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed overseas (Market value: HK\$408 million (2003: HK\$450 million))	403	438
Unlisted	229	85
	1,318	852

20. BANK BALANCES AND DEPOSITS

The Group

	2004	2003
Bank deposits	6,824	8,602
Bank balances and cash	383	289
	7,207	8,891

Certain bank deposits of the Group's subsidiary, SmarTone Telecommunications Holdings Limited, in the aggregate amount of HK\$326 million (2003: HK\$392 million) have been pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

21. BANK AND OTHER BORROWINGS

The Group

	Note	2004	2003
Unsecured bank overdrafts		58	52
Non-current bank and other borrowings due within one year	23	1,020	882
		1,078	934

22. TRADE AND OTHER PAYABLES

	Note	2004		2003	
		The Group	The Company	The Group	The Company
Creditors and accrued expenses		8,458	213	8,051	219
Amounts due to customers for contract works	18a	101	–	15	–
		8,559	213	8,066	219

Included in trade and other payables of the Group are trade creditors of HK\$625 million (2003: HK\$652 million), of which 50 per cent aged less than 60 days, five per cent between 61 to 90 days and 45 per cent more than 90 days (2003: 40 per cent, six per cent and 54 per cent respectively).

23. BANK AND OTHER BORROWINGS

The Group

	Note	2004	2003
Unsecured bank loans repayable			
Within one year		220	82
After one year, but within two years		2,522	945
After two years, but within five years		9,662	5,262
After five years		4,000	11,500
		16,404	17,789
Other unsecured loans repayable			
Within one year		800	800
After one year, but within two years		702	800
After two years, but within five years		1,350	1,652
After five years		634	1,034
		3,486	4,286
Less: Amount due within one year included under current liabilities	21	19,890 (1,020)	22,075 (882)
		18,870	21,193

(a) The above other unsecured loans are repayable on various dates up to July 2012 at commercial market rates.

(b) Bank loans shown above that are not wholly repayable within five years amounted to HK\$4,000 million (2003: HK\$11,500 million).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

24. DEFERRED TAXATION

The Group

	2004	2003
Deferred tax assets	(105)	(16)
Deferred tax liabilities	1,498	930
	1,393	914

The components of deferred tax assets and liabilities recognized in the consolidated balance sheet and the movements during the year are as follows:

	Accelerated Tax Depreciation	Revaluation of Properties	Provisions	Tax Losses	Others	Total
At 1st July 2002						
– as originally stated	–	–	–	–	–	–
– change in accounting policy for deferred tax	674	75	15	(82)	10	692
– as restated	674	75	15	(82)	10	692
Purchase of subsidiaries	113	–	–	(78)	–	35
Charged/(credited) to profit and loss account	172	–	2	(7)	4	171
Charged/(credited) to reserves	–	16	–	–	–	16
At 30th June 2003 and 1st July 2003, restated	959	91	17	(167)	14	914
Charged/(credited) to profit and loss account	142	–	2	6	(97)	53
Charged/(credited) to reserves	–	426	–	–	–	426
At 30th June 2004	1,101	517	19	(161)	(83)	1,393

At the balance sheet date, the Group has unrecognized tax losses and deductible temporary differences of HK\$5,404 million (2003: HK\$6,157 million), of which HK\$117 million (2003: HK\$122 million) will expire at various dates up to 2009. Recognition of these unrecognized tax losses depends on future taxable profits available and losses agreed with the relevant tax authorities.

As noted in principal accounting policy 1(n), the Group adopted the revised SSAP 12 for deferred taxation. This change in accounting policy has been applied retrospectively and the comparatives have been restated. The adjustments to the consolidated balance sheet at 30th June 2003 are as follows:

Decrease in associates	(194)
Decrease in jointly controlled entities	(9)
Increase in deferred tax liabilities	(914)
Decrease in minority interests	47
Decrease in reserves	(1,070)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

25. MINORITY INTERESTS

The Group

	2004	2003
Share of equity and reserves in subsidiaries	2,313	3,134
Amounts due to minority shareholders	628	882
	2,941	4,016

26. SHARE CAPITAL

	2004		2003	
	Number of Shares in Million	Amount	Number of Shares in Million	Amount
Authorized:				
Ordinary shares of \$0.50 each				
At beginning and end of year	2,900	1,450	2,900	1,450
Issued and fully paid:				
Ordinary shares of \$0.50 each				
At beginning of year	2,401	1,201	2,401	1,201
24,000 shares issued on exercise of share options	–	–	–	–
At end of year	2,401	1,201	2,401	1,201

27. SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 5th December 2002 ("the New Scheme") to replace a former scheme previously adopted on 20th November 1997 ("the Old Scheme"), whereby the directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Details of the share option schemes are set out in the Directors' Report on pages 85 to 86.

The Old Scheme

Upon the termination of the Old Scheme, no further options could be offered but the outstanding options granted shall continue to be valid and exercisable in accordance with its provisions. At 30th June 2004, the number of shares in respect of which options had been granted and remained outstanding was 2,760,000 (2003: 2,820,000), representing 0.11 per cent (2003: 0.12 per cent) of the shares of the Company in issue at that date.

The New Scheme

The New Scheme was adopted by the Company in order to comply with the new requirements under Chapter 17 of the Listing Rules. No option shares have been granted to any person since its adoption.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

27. SHARE OPTION SCHEME (cont'd)

Movements in share options to subscribe for ordinary shares in the Company under the Old Scheme during the year are as follows:

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options				At 30th June 2004
			At 1st July 2003	Granted During the Year	Exercised During the Year	Lapsed During the Year	
15th February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	-	-	-	810,000
16th July 2001	HK\$70	16.7.2002 to 15.7.2006	2,010,000	-	(24,000)	(36,000)	1,950,000
			2,820,000	-	(24,000)	(36,000)	2,760,000

During the year ended 30th June 2004, options were exercised on 27th January 2004 to subscribe for 24,000 shares in the Company at the exercised price of HK\$70.00. The market value per share on the exercise date was HK\$78.50. No share options were exercised during the year ended 30th June 2003.

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options				At 30th June 2003
			At 1st July 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	
15th February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	-	-	-	810,000
16th July 2001	HK\$70	16.7.2002 to 15.7.2006	2,121,000	-	-	(111,000)	2,010,000
			2,931,000	-	-	(111,000)	2,820,000

28. SHARE PREMIUM AND RESERVES

	2004		2003	
	The Group	The Company	The Group	The Company
Share premium				
At beginning of year	17,000	17,000	17,000	17,000
Premium arising from exercise of share options	2	2	-	-
At beginning of year and end of year	17,002	17,002	17,000	17,000
Capital reserve				
At beginning of year	766	5,281	694	5,281
Goodwill adjustments	-	-	72	-
At end of year	766	5,281	766	5,281

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

28. SHARE PREMIUM AND RESERVES (cont'd)

	2004		2003	
	The Group	The Company	The Group	The Company
Property revaluation reserves				
At beginning of year, as originally stated	37,558	–	45,808	–
– change in accounting policy for deferred tax	(68)	–	(56)	–
– as restated	37,490	–	45,752	–
Surplus/(deficit) on revaluation of properties held by subsidiaries attributable to the Group				
– Investment properties	10,556	–	(7,858)	–
– Hotel properties	314	–	(11)	–
Deficit/(surplus) realized on disposal of investment properties held by subsidiaries	35	–	(14)	–
Surplus realized on disposal of jointly controlled entities	–	–	(305)	–
Share of surplus/(deficit) on revaluation of investment properties held by jointly controlled entities	979	–	(45)	–
Share of surplus/(deficit) on revaluation of investment properties held by associates	15	–	(17)	–
Deferred tax charged	(397)	–	(12)	–
At end of year	48,992	–	37,490	–
Exchange reserve				
At beginning of year	7	–	7	–
Exchange difference arising on translation of financial statements of				
– Subsidiaries	2	–	–	–
– Jointly controlled entities	1	–	–	–
At end of year	10	–	7	–
Retained profits				
At beginning of year, as originally stated	62,788	59,094	60,046	57,934
– change in accounting policy for deferred tax	(1,002)	–	(788)	–
– as restated	61,786	59,094	59,258	57,934
Profit attributable to shareholders	6,923	4,110	6,370	5,002
Interim dividend paid	(1,441)	(1,441)	(1,441)	(1,441)
Proposed final dividend	(2,521)	(2,521)	(2,401)	(2,401)
At end of year	64,747	59,242	61,786	59,094
Total share premium and reserves	131,517	81,525	117,049	81,375

At the balance sheet date, retained profits of the Group included HK\$1,036 million (2003(restated): HK\$1,023 million) retained by associates and losses of HK\$1,437 million (2003(restated): losses of HK\$660 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30th June 2004 including the proposed dividends amounted to HK\$61,763 million (2003: HK\$61,495 million).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2004	(Restated) 2003
Profit from operations	7,585	6,031
Depreciation	616	362
Release of negative goodwill	–	(19)
Impairment of goodwill	17	19
Loss/(profit) on disposal of investment properties	71	(18)
Loss on disposal of other fixed assets	13	2
Dividends received from investments	(96)	(28)
Interest income	(407)	(300)
Exchange difference	(26)	–
Impairment of investments	–	44
Impairment of properties	–	1,229
Operating profit before changes in working capital	7,773	7,322
Decrease in stocks	3,769	5,757
(Increase)/decrease in trade and other receivables	(1,380)	3,389
(Increase)/decrease in marketable securities	(235)	74
Increase/(decrease) in trade and other payables	516	(749)
Decrease in deposits received on sale of properties	(1,122)	(2,601)
Cash generated from operations	9,321	13,192

(b) Purchase of subsidiaries

	2004	(Restated) 2003
Net assets acquired:		
Deferred tax assets	–	4
Fixed assets	–	1,653
Associates	–	20
Long-term investments	–	995
Stocks	–	38
Trade and other receivables	–	349
Pledged bank deposits	–	392
Cash and bank balances	–	2,513
Trade and other payables	–	(575)
Deferred tax liabilities	–	(39)
Minority interests	–	(2,627)
	–	2,723
Less:		
Associates	–	(1,646)
Negative goodwill on acquisition	–	(19)
	–	1,058
Satisfied by:		
Cash paid	–	1,058
Analysis of net cash inflow in respect of the purchase of subsidiaries:		
Cash consideration paid	–	1,058
Cash and bank balances acquired	–	(2,513)
	–	(1,455)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Analysis of the balances of cash and cash equivalents at end of year

	2004	2003
Bank deposits	6,824	8,602
Bank balances and cash	383	289
Bank overdrafts	(58)	(52)
	7,149	8,839
Less: Pledged bank deposits	(326)	(392)
	6,823	8,447

30. JOINTLY CONTROLLED ASSETS

At the balance sheet date, the aggregate amounts of assets and liabilities recognized in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2004	2003
Investment properties	5,340	4,620
Land pending development	132	71
Land under development	–	1,530
Stocks of completed properties for sale	151	422
	5,623	6,643
Creditors and accrued expenses	235	203

31. RELATED PARTY TRANSACTIONS

During the year, the Group undertook various transactions with related parties for provision of finance, lease of premises, purchasing of goods and rendering of certain services related to property construction, management and marketing activities. The following is a summary of significant transactions between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates		Jointly Controlled Entities	
	2004	2003	2004	2003
Interest income	5	20	65	105
Rental income	6	28	3	1
Rental expenses	–	–	17	7
Other revenue from services rendered	211	126	322	984
Purchase of goods and services	–	–	198	574

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in Notes (14) and (15).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

32. CONTINGENT LIABILITIES AND COMMITMENTS

The Group

At the balance sheet date, the Group had contingent liabilities and commitments, so far as not provided for in the consolidated financial statements, as follows:

	2004	2003
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	3,015	1,426
Authorized but not contracted for	746	437
(b) Capital commitments in respect of investments		
Contracted but not provided for	129	152
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	852	1,097
Authorized but not contracted for	271	312
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$4,705 million (2003: HK\$3,819 million) and other guarantees of HK\$152 million (2003: HK\$202 million).		

The Company

At the balance sheet date, the Company had contingent liabilities, not included in the Company's financial statements, in respect of guarantees for bank and other borrowings drawn by:

	2004	2003
Subsidiaries	19,703	22,011
Jointly controlled entities	4,401	3,588
	24,104	25,599

33. OPERATING LEASE

At the balance sheet date, the future aggregate minimum lease income receivable by the Group under non-cancellable operating leases for land and buildings is analysed as follows:

	2004	2003
Not later than one year	3,581	3,491
Later than one year but not later than five years	2,676	2,960
Later than five years	65	12
	6,322	6,463

At the balance sheet date, the future aggregate minimum lease charges payable by the Group under non-cancellable operating leases is analysed as follows:

	2004	2003
Not later than one year	212	207
Later than one year but not later than five years	145	120
Later than five years	14	17
	371	344

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

34. FINANCIAL INSTRUMENTS

At the balance sheet date, the Group had outstanding interest rate swaps (to swap fixed rate into floating rate debt) and currency swap (to hedge principal repayment of USD debt) analysed as follows:

	Notional Principal Amount	
	2004	2003
Interest rate swaps		
– Less than one year	800	600
– One to five years	1,250	1,650
– After five years	400	800
	2,450	3,050
Currency swap		
– After five years	234	234

Counterparties to swap transactions are reputable international financial institutions with strong credit ratings. The Group has established treasury policies and control procedures to assess and monitor the counterparty limits and exposure. The Group does not consider that it has any significant exposure to any individual counterparty, nor does it anticipate non-performance by any of its counterparties.

35. COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of adoption of the requirements of SSAP 12 (Revised) "Income Taxes".

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 109 to 144 were approved by the board of directors on 23rd September 2004.