1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice 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 ("SEHK"). A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment and hotel properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) 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. 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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

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 profits, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated profit and loss account.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 net assets of the associate or the jointly controlled entity, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

On disposal of an associate or a jointly controlled entity during the year, the attributable amount of capital reserve is included in the calculation of the profit or loss on disposal.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1st July, 2001, positive goodwill is written off on acquisition; and

— for acquisitions on or after 1st July, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(k)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(k)) is included in the carrying amount of the interests in associates or jointly controlled entities.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(e) Goodwill *(cont'd)*

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1st July, 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1st July, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable or when the underlying non-monetary assets are disposed. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill or as a deduction from its underlying assets; and

— for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(f) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entities are as follows: —

(i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) All other securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

(v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(g) Valuation of properties

(i) Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. A qualified valuer of the Group or external qualified valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, value the properties at each balance sheet date. The fair value are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between knowledgeable, willing parties in an arm's length transaction. Any gain or loss arising from a change in fair value is recognised in the profit and loss account.

The valuations are prepared by reference to comparable market transactions and where appropriate considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accomodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or for both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

(ii) Hotel properties are stated at their open market value based on an annual professional valuation.

(iii) Other land and buildings are stated at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(k)).

(iv) Completed properties for sale remaining unsold at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(v) Properties that is being constructed or developed for future use as investment property is classified as investment property under development and stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any impairment losses (see note 1(k)).

(vi) Properties held for development for investment are stated at fair value with any changes in fair values recognised in the profit and loss account.

(vii) Properties held for and under development for sale are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any impairment losses (see note 1(k)).

(viii) Leasehold land acquired by exchange of land exchange entitlements is stated at cost which represents the cost of land exchange entitlements surrendered, and the premium, if any, payable to the Government of the Hong Kong Special Administrative Region less impairment losses (see note 1(k)), where appropriate.

(ix) Other leasehold land is stated at cost less impairment losses (see note 1(k)), where appropriate.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(g) Valuation of properties *(cont'd)*

(x) 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 enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(xi) 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. On disposal of a fixed asset, any related valuation surplus previously taken to the revaluation reserve is also transferred to retained profits.

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(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 and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(r)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the 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 profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(i) Amortisation and depreciation of fixed assets

(i) Investment properties, investment properties under development and properties held for development for investment

No depreciation is provided in respect of investment properties, investment properties under development and properties held for development for investment.

(ii) Hotel properties

No depreciation is provided on hotel properties held on lease of more than 20 years. The directors consider that the value of the hotels do not diminish, due to the fact that hotels are maintained in a continuous state of proper repair and improvements thereto from time to time.

(iii) Other land and buildings

Leasehold land is amortised, using the straight-line method, over the unexpired terms of the leases.

Buildings are depreciated on a straight-line basis over the remaining terms of the respective leases or 40 years if shorter.

(iv) Other fixed assets

Other fixed assets are stated at cost, less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is provided on a straight-line basis over their estimated useful lives at the following rates per annum: —

Leasehold improvements, furniture and fixtures	—	20%
Toll highway operation rights and bridges	—	over the operating periods
Others	—	10% to 50%

(j) Deferred expense

Deferred expense comprises arrangement fee incurred in relation to the issue of guaranteed convertible notes and is amortised on a straight-line basis over the period from the date of issue of such convertible notes to the date of maturity. In the event that the notes are redeemed prior to the maturity date, the unamortised expenses are charged immediately to the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets (other than properties carried at revalued amounts);

— investments in subsidiaries, associates and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and (d));

— positive goodwill;

— investment properties under development;

— properties held for and under development for sale; and

— leasehold land.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently.

(ii) Reversals of impairment losses

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 reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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 profit and loss account in the year in which the reversals are recognised.

(l) Construction contracts

The accounting policy for contract revenue is set out in note 1(r)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" as an asset or "Amounts due to customers for contract work" as a liability.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Guaranteed convertible notes

Guaranteed convertible notes issued are stated in the balance sheet at their principal value.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group 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.

(ii) Contributions to the defined contribution retirement scheme and the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the profit and loss account as incurred.

(iii) When the Group grants employees options to acquire shares of the subsidiaries at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(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.

(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.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(p) Income tax *(cont'd)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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 profit 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 profit 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 asset and settle the liability 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) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or 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 expenditures 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.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(r) Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows: —

(i) Sale of properties

Revenue arising from the development of properties for sale together with the interest earned on the instalment sales of properties are recognised upon the sale of properties or the issue of an occupation permit or a completion certificate 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 forward sales deposits received.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the 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 granted are recognised in the 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

Interest income earned on loans and advances to customers and from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Income from construction contracts

When the outcome of the construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

(v) Toll fee income

Toll fee income is recognised on a cash receipt basis.

(vi) Hotel operation

Income from hotel operation is recognised when services are provided.

(vii) Sale of goods

Sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(s) Translation of foreign currencies

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

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in the 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 construction of an asset which necessarily takes a substantial period of time to get ready for their intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the assets are 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.

(u) Related parties

For the purpose 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.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

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. For example, segment assets may include inventories, trade receivables and fixed assets. 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 financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses, taxation and minority interests.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(w) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for Hong Kong Financial Reporting Standard 3 "Business combinations" which is applicable to business combinations with agreement date on or after 1st January, 2005. The new HKFRSs would therefore be effective for the Group's accounts for the year ending 30th June, 2006.

The Group has early adopted Hong Kong Accounting Standard 40 "Investment property" ("HKAS 40") and HK(SIC) Interpretation 21 "Income taxes — recovery of revalued non-depreciable assets" ("HK(SIC) Int 21") issued by the HKICPA in the preparation of the accounts for the year ended 30th June, 2005. Details of the changes in accounting policies are set out in note 2 below.

The Group has not early adopted any other new HKFRSs in the accounts for the year ended 30th June, 2005 but has commenced an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the HK Interpretation 2 "The appropriate policies for hotel properties" ("HK Int 2"), Hong Kong Accounting Standard 17 "Leases" ("HKAS 17"), Hong Kong Accounting Standard 36 "Impairment of assets" ("HKAS 36") and Hong Kong Financial Reporting Standard 3 "Business combinations ("HKFRS 3") would have the following impact on its result of operations and financial position:

(i) Hotel properties (HK Int 2, The appropriate policies for hotel properties)

In prior years, the Group's hotel properties were stated at their open market value based on an annual professional valuation and no deprecation is provided on hotel properties held on lease of more than 20 years as they are maintained in a continuous state of proper repair and improvements thereto from time to time.

Following the adoption of HK Int 2, all owner-operated hotel properties are stated at cost less accumulated depreciation and impairment losses.

(ii) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings were stated at cost less accumulated depreciation and impairment losses.

Following the adoption of HKAS 17, the Group's leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. If these two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and impairment losses.

Land premiums paid for acquiring of the land leases, or other lease payments, are amortised on a straight-line basis over the lease term. Any buildings held for own use which are situated on such land leases continued to be stated at cost less accumulated depreciation and impairment losses.

Had this revised accounting standard been adopted for the year ended 30th June, 2005, the leasehold interest in the land previously included in "Other land and buildings" would be shown separately as "Leasehold land" with comparative amounts restated. There is no significant impact on the Group's profit attributable to shareholders and net assets as a result of the adoption of this new policy.

1 PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(w) Recently issued accounting standards *(cont'd)*

(iii) Leasehold land held for redevelopment for sale (HKAS 17, Leases)

In prior years, leasehold land held for redevelopment for sale was stated at cost less impairment losses.

Following the adoption of HKAS 17, land premiums paid for acquiring of the land leases, or other lease payments, are amortised on a straight-line basis over the lease term. If the property is in the course of development or re-development, the amortisation charge is included as part of the costs of the property under development. In all other cases, the amortisation charge for the period is recognised in the profit and loss account immediately.

(iv) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

— positive or negative goodwill which arose prior to 1st July, 2001 was taken directly to reserves at the time it arose, and was not recognised in the consolidated profit and loss account until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1st July, 2001 was amortised on a straight-line basis over its estimated useful life and was subject to impairment testing when there were indications of impairment; and

— negative goodwill which arose on or after 1st July, 2001 was amortised over the weighted average useful life of the depreciable/amortised non-monetary assets acquired or when the underlying non-monetary assets are disposed, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the consolidated profit and loss account as those expected losses were incurred.

Following the adoption of HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also, in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated profit and loss account as it arises. Previously recognised negative goodwill as of 1st July, 2005 will be derecognised, with a corresponding adjustment to the opening balance of retained profits.

The new policy in respect of positive goodwill will be applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts will not be restated, the cumulative amount of amortisation as of 1st July, 2005 will be offset against the cost of the goodwill and no amortisation charge for goodwill will be recognised in the consolidated profit and loss account for the year ending 30th June, 2006.

Also, in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserve (i.e. goodwill which arose before 1st July, 2001) will not be recognised in the consolidated profit and loss account on disposal or impairment of the acquired business, or under any other circumstances.

The Group will be continuing its assessment of the impact of the other new HKFRSs and other significant changes may be identified as result.

2 CHANGES IN ACCOUNTING POLICIES

(a) Investment properties (HKAS 40, Investment property, and HK(SIC) Int 21, Income taxes — recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the profit and loss account

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on a portfolio basis, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account.

In addition, in prior years, land which the Group held for development for investment or an undetermined future purpose was stated at cost less impairment losses.

Following the early adoption of HKAS 40 as from 1st July, 2004:

— changes in the fair value of investment properties are recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as of 1st July, 2004 has increased by HK$11,520,049,000 (2003 — HK$7,876,093,000) to include all of the Group's previous property revaluation reserve relating to investment properties. In addition, the Group's profit attributable to shareholders for the year ended 30th June, 2005 has increased by HK$7,327,127,000 (2004 — HK$3,643,956,000). There is no impact on the Group's net assets as at the years end as a result of the adoption of this new policy.

— land held for development for investment or an undetermined future purpose is recognised as "investment property" and movements in the fair value of these properties are now recognised directly in the profit and loss account as they arise in accordance with the fair value model in HKAS 40.

This change was adopted by reducing the opening balance of retained profits as of 1st July, 2004 by HK$937,193,000. In addition, the Group's profit attributable to shareholders for the year ended 30th June, 2005 has increased by HK$434,164,000. Comparative amounts have not been restated as permitted under the transitional provisions of HKAS 40.

2 CHANGES IN ACCOUNTING POLICIES *(cont'd)*

(a) Investment properties (HKAS 40, Investment property, and HK(SIC) Int 21, Income taxes — recovery of revalued non-depreciable assets) *(cont'd)*

(ii) Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties located in Hong Kong, no deferred tax was provided in prior years.

As from 1st July, 2004, in accordance with HK(SIC) Int 21, the Group recognises deferred tax on movements in the value of an investment property using tax rate that is applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

This change in accounting policy has been adopted retrospectively. As a result of the early adoption of this new policy, the opening balance of retained profits as of 1st July, 2004 has reduced by HK$2,723,329,000 (2003 — HK$2,190,384,000) and deferred tax liabilities has increased by HK$2,475,365,000 (2003 — HK$2,054,574,000). In addition, the Group's taxation expense and profit attributable to shareholders for the year ended 30th June, 2005 has increased by HK$1,352,785,000 (2004 — HK$603,355,000) and decreased by HK$1,214,876,000 (2004 — HK$532,945,000) respectively.

Regarding the land held for development for investment, this change in accounting policy was adopted by reducing the opening balance of retained profits as of 1st July, 2004 by HK$34,980,000 and increasing deferred tax liabilities by the same amount. In addition, the Group's taxation expense and profit attributable to shareholders for the year ended 30th June, 2005 has increased by HK$72,564,000 and decreased by HK$67,677,000 respectively.

(b) Infrastructure facilities (HK Interpretation 1, The appropriate policies for infrastructure facilities ("HK Int 1"))

In prior years, amortisation of toll highway operation rights and depreciation of bridges are provided for on the basis of calculation whereby annual amortisation and depreciation amounts compounded at a fixed rate per annum will be equal to the costs of the relevant toll highway operation rights and bridges at the expiry of the relevant operating periods.

Following the adoption of HK Int 1 as from 1st July, 2004, the Group adopted a new policy for amortisation and depreciation of infrastructure facilities, such that the amortisation of toll highway operation rights and depreciation of bridges of the Group are provided on a straight-line basis.

The new accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits as of 1st July, 2004 has reduced by HK$29,201,000 (2003 — HK$32,477,000) and the balances of the Group's other fixed assets, minority interests and deferred tax liabilities at 30th June, 2004 have decreased by HK$100,846,000, HK$48,562,000 and HK$23,083,000 respectively. In addition, the Group's profit attributable to shareholders for the year ended 30th June, 2005 has decreased by HK$5,790,000 (2004 — increased by HK$3,276,000).

2 CHANGES IN ACCOUNTING POLICIES *(cont'd)*

(c) Summary of the effect of changes in the accounting policies

The following table sets out the adjustments that have been made as a result of the adoption of new accounting policies for the year:

	Opening balance of retained profits		Opening balance of property revaluation reserves		Profit attributable to shareholders	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Effect of new policy increase/(decrease)						
Prior period adjustments:						
HKAS 40						
Investment properties	**8,796,720**	5,685,709	**(11,520,049)**	(7,876,093)	**6,112,251**	3,111,011
Leasehold land held for development for investment or an undetermined future purpose (note 2(a))	**—**	—	**—**	—	**366,487**	—
HK Int 1						
Infrastructure facilities (note 2(b))	**(29,201)**	(32,477)	**—**	—	**(5,790)**	3,276
	8,767,519	5,653,232	**(11,520,049)**	(7,876,093)	**6,472,948**	3,114,287
Opening balance adjustments:						
HKAS 40						
Leasehold land held for development for investment or an undetermined future purpose (note 2(a))	**(972,173)**	—	**—**	—	**—**	—
Total effect	**7,795,346**	5,653,232	**(11,520,049)**	(7,876,093)	**6,472,948**	3,114,287

3 TURNOVER

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, finance, building construction, infrastructure, hotel operation, department store operation, project management, investment holding and property management.

Turnover of the Group represents proceeds from the sale of properties, rental and interest income, income from construction contracts earned from third parties, income of infrastructure business, income from hotel operation, proceeds from department store operation, and others including management and sales commission, dividends from investments in securities and property management and security services income.

The major items are analysed as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Sale of properties	**1,884,793**	2,837,148
Rental income	**2,096,940**	2,017,239
Interest income	**90,151**	102,018
Building construction	**639,608**	781,457
Infrastructure	**235,524**	238,748
Hotel operation	**120,309**	116,272
Department store operation	**134,348**	122,904
Others	**631,588**	511,332
	5,833,261	6,727,118

4 OTHER REVENUE AND OTHER NET INCOME

	The Group	
	2005	2004 restated
	HK$'000	HK$'000
Other revenue: —		
Interest income	**70,535**	39,758
Others	**64,983**	39,760
	135,518	79,518
Other net income: —		
Profit/(loss) on disposal of other fixed assets	**7,720**	(30,934)
Profit on disposal of toll bridges	**—**	104,332
Profit on disposal of investments in securities	**—**	61,911
Others	**(1,270)**	23,185
	6,450	158,494

5 OTHER OPERATING (EXPENSES)/INCOME

	The Group	
	2005	2004
	HK$'000	HK$'000
Provision on property projects	**(227,903)**	(27,633)
Provision on property projects written back	**—**	788,490
Bad debts written off	**(24,737)**	(109,861)
Others	**(77,559)**	(110,902)
	(330,199)	540,094

6 NON-OPERATING INCOME

	The Group	
	2005	2004
		restated
	HK$'000	HK$'000
Premium on redemption of guaranteed convertible notes	**444,904**	—
Surplus on revaluation of investments in securities	**25,072**	48,901
(Impairment loss)/reversal of impairment loss in value of investment securities	**(10,865)**	119
Amortisation of goodwill	**(63,933)**	(31,075)
Loss on disposal of interest in subsidiaries	**—**	(6,396)
Impairment loss on positive goodwill	**—**	(4,000)
Impairment loss on other fixed assets	**—**	(435)
Others	**317**	1,926
	395,495	9,040

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The consolidated profit from ordinary activities before taxation for the year is arrived at after charging/(crediting): —

(a) Finance costs:

	The Group	
	2005	2004
	HK$'000	HK$'000
Bank interest	**193,832**	194,454
Interest on loans wholly repayable within five years	**93,616**	54,667
Finance charges on obligations under finance leases	**14**	4
Other borrowing costs	**115,227**	56,864
	402,689	305,989
Less: Amount capitalised *		
— interest	**(174,579)**	(162,618)
— other borrowing costs	**(18,652)**	(32,525)
	209,458	110,846

* The borrowing costs have been capitalised at rates ranging from 1.75% to 2.04% (2004 - from 1.68% to 1.74%) per annum.

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(cont'd)*

(b) Items other than those separately disclosed in notes 3 to 7(a): —

	The Group 2005 HK$'000	The Group 2004 restated HK$'000
Amortisation and depreciation		
— owned assets	**125,556**	113,232
— assets held under finance leases	**77**	—
	125,633	113,232
Less: Amount capitalised	**(58)**	(443)
	125,575	112,789
Staff costs — including retirement costs of HK$33,345,000 (2004 — HK$32,292,000)	**854,703**	756,373
Less: Amount capitalised (including retirement costs of HK$823,000 (2004 — HK$776,000))	**(30,480)**	(20,521)
	824,223	735,852
Cost of sales		
— completed properties for sale	**1,210,377**	2,237,049
— inventories	**136,817**	149,616
Amortisation of deferred expense	**78,955**	19,845
Auditors' remuneration	**13,869**	10,494
Rentals receivable from investment properties net of outgoings of HK$633,726,000 (2004 — HK$679,466,000)*	**(1,047,005)**	(958,532)
Other rental income less outgoings	**(267,876)**	(240,662)
Dividends from investments in securities		
— listed	**(5,436)**	(11,032)
— unlisted	**(29,966)**	(39,848)

* Included contingent rental income of HK$132,142,000 (2004 — HK$105,867,000)

8 SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	The Group 2005 HK$'000	The Group 2004 restated HK$'000
Listed associates	**2,666,158**	1,698,356
Unlisted associates	**649,173**	88,406
	3,315,331	1,786,762

9 INCOME TAX

(a) Income tax in the consolidated profit and loss account represents: —

	The Group 2005 HK$'000	2004 restated HK$'000
Current tax — Provision for Hong Kong Profits Tax		
Tax for the year	**262,848**	193,797
(Over)/under-provision in respect of prior years	**(8,272)**	979
	254,576	194,776
Current tax — Provision for taxation outside Hong Kong		
Tax for the year	**28,511**	26,492
Under/(over)-provision in respect of prior years	**4,650**	(162)
	33,161	26,330
Deferred tax		
Origination and reversal of temporary differences	**1,077,237**	410,467
Share of associates' taxation	**573,773**	324,357
Share of jointly controlled entities' taxation	**462,595**	162,954
	2,401,342	1,118,884

Provision for Hong Kong Profits Tax has been made at 17.5% on the estimated assessable profits for the year.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: —

	2005 HK$'000	2004 restated HK$'000
Profit from ordinary activities before taxation	**14,732,414**	8,168,096
Notional tax on profit from ordinary activities before taxation, calculated at the rates applicable to profits in the countries concerned	**2,507,823**	1,437,794
Tax effect of non-deductible expenses	**80,353**	55,136
Tax effect of non-taxable revenue	**(175,824)**	(246,705)
Tax effect of current year's tax losses not recognised	**53,259**	47,511
Tax effect of prior year's tax losses utilised	**(29,669)**	(64,527)
Tax effect of unused tax losses not recognised in prior years but recognised in the current year	**(30,978)**	(114,364)
Tax effect of temporary differences not recognised	**—**	3,222
(Over)/under-provision in prior years	**(3,622)**	817
Actual tax expense	**2,401,342**	1,118,884

9 INCOME TAX *(cont'd)*

(c) Deferred tax assets and liabilities recognised: —

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

Deferred tax arising from:

	Depreciation allowances in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Elimination and capitalisation of expenses HK$'000	Fair value adjustment on business combination HK$'000	Gain on disposal of property, plant and equipment HK$'000	Tax losses HK$'000	Total HK$'000
At 1st July, 2003							
— as previously reported	404,464	32,000	370,361	166,800	—	(87,432)	886,193
— prior period adjustment	(13,805)	2,168,060	(62,187)	—	—	(57,179)	2,034,889
— as restated	390,659	2,200,060	308,174	166,800	—	(144,611)	2,921,082
Charged/(credited) to profit and loss account	72,393	414,565	(14,868)	—	15,212	(76,835)	410,467
At 30th June, 2004 (restated)	463,052	2,614,625	293,306	166,800	15,212	(221,446)	3,331,549
At 1st July, 2004							
— as previously reported	**473,554**	**32,000**	**353,493**	**166,800**	**15,212**	**(161,792)**	**879,267**
— prior period adjustment	**(10,502)**	**2,582,625**	**(60,187)**	**—**	**—**	**(59,654)**	**2,452,282**
— as restated	**463,052**	**2,614,625**	**293,306**	**166,800**	**15,212**	**(221,446)**	**3,331,549**
Opening balance adjustment	**—**	**38,452**	**—**	**—**	**—**	**(3,472)**	**34,980**
Charged/(credited) to profit and loss account	**69,501**	**1,097,788**	**(38,440)**	**820**	**(625)**	**(51,807)**	**1,077,237**
At 30th June, 2005	**532,553**	**3,750,865**	**254,866**	**167,620**	**14,587**	**(276,725)**	**4,443,766**

	The Group 2005 HK$'000	The Group 2004 restated HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	**(235,618)**	(208,675)
Net deferred tax liabilities recognised in the consolidated balance sheet	**4,679,384**	3,540,224
	4,443,766	3,331,549

9 INCOME TAX *(cont'd)*

(d) Deferred tax assets not recognised: —

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

	2005		2004	
	Deductible temporary differences/ tax losses	**Deferred tax asset**	Deductible temporary differences/ tax losses restated	Deferred tax asset restated
	HK$'000	HK$'000	HK$'000	HK$'000
Deductible temporary differences	**105,312**	**18,430**	208,498	36,487
Future benefits of tax losses				
— Hong Kong (note (a))				
— Assessed by the Inland Revenue Department	**1,025,928**	**179,537**	1,115,378	195,191
— Not yet assessed by the Inland Revenue Department	**1,641,810**	**287,317**	1,974,953	345,617
— Outside Hong Kong (note (b))	**509,480**	**158,660**	443,450	141,750
	3,282,530	**643,944**	3,742,279	719,045

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Notes:

(a) The tax losses do not expire under current tax legislation.

(b) The tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they were incurred.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK$865,053,000 (2004 — HK$944,607,000) which has been dealt with in the accounts of the Company.

11 DIVIDENDS

(a) Dividends attributable to the year

	2005 HK$'000	2004 HK$'000
Interim dividend declared and paid of HK$0.4 per share (2004 — HK$0.35 per share)	**725,832**	635,103
Final dividend proposed after the balance sheet date of HK$0.6 per share (2004 — HK$0.55 per share)	**1,088,748**	998,019
	1,814,580	1,633,122

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$'000	2004 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.55 per share (2004 — HK$0.45 per share)	**998,019**	816,561

12 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK$10,853,521,000 (2004 (restated) — HK$6,173,343,000) and on 1,814,580,000 ordinary shares (2004 — weighted average number of 1,786,544,918 ordinary shares) in issue during the year. Diluted earnings per share for the year is not presented because the existence of outstanding guaranteed convertible notes during the years ended 30th June, 2004 and 2005 has an anti-dilutive effect on the calculation of diluted earnings per share.

13 SEGMENTAL INFORMATION

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.

Business segments:

The Group comprises the following main business segments:—

Property development	—	development and sale of properties
Property leasing	—	leasing of properties
Finance	—	provision of financing
Building construction	—	construction of building works
Infrastructure	—	investment in infrastructure projects
Hotel operation	—	hotel operations and management
Department store operation	—	department store operations and management
Others	—	investment holding, project management, property management, agency services, provision of cleaning and security guard services and provision of information technology services.

13 SEGMENTAL INFORMATION *(cont'd)*

Business segments: *(cont'd)*

	Property development HK$'000	Property leasing HK$'000	Finance HK$'000	Building construction HK$'000	Infrastructure HK$'000	Hotel operation HK$'000	Department store operation HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
For the year ended 30th June, 2005										
Turnover	1,884,793	2,096,940	90,151	639,608	235,524	120,309	134,348	631,588	—	5,833,261
Other revenue (excluding bank interest income)	237	4,274	2,217	37,691	1,907	117	1,244	41,807	—	89,494
External revenue	1,885,030	2,101,214	92,368	677,299	237,431	120,426	135,592	673,395	—	5,922,755
Inter-segment revenue	—	198,261	1,336	377,439	—	—	3	31,428	(608,467)	—
Total revenue	1,885,030	2,299,475	93,704	1,054,738	237,431	120,426	135,595	704,823	(608,467)	5,922,755
Segment results	444,328	1,406,589	90,248	92,045	152,056	4,662	7,755	89,951		2,287,634
Inter-segment transactions	10,660	(87,434)	(1,335)	(25,408)	—	49,848	16,706	17,867		(19,096)
Contribution from operations	454,988	1,319,155	88,913	66,637	152,056	54,510	24,461	107,818		2,268,538
Provision on property projects	(227,903)	—	—	—	—	—	—	—		(227,903)
Bank interest income										46,024
Unallocated operating expenses net of income										(322,825)
Profit from operations										1,763,834
Increase in fair value of investment properties	188,960	6,564,911	—	—	—	—	—	—		6,753,871
Finance costs										(209,458)
Non-operating income										395,495
										8,703,742
Share of profits less losses of associates										3,315,331
Share of profits less losses of jointly controlled entities	1,299,012	1,385,584	12,019	8,276	—	—	—	8,450		2,713,341
Income tax										(2,401,342)
Minority interests										(1,477,551)
Profit attributable to shareholders										10,853,521
Depreciation and amortisation for the year	(680)	(5,843)	—	(553)	(55,401)	(752)	(13,687)	(48,659)		
Segment assets	25,078,942	41,827,597	1,284,491	144,268	1,253,565	1,312,739	52,535	721,772	(160,149)	71,515,760
Investments in associates										15,700,924
Investments in jointly controlled entities	3,443,383	7,533,636	235,882	43,985	—	2,094,564	—	48,348		13,399,798
Unallocated assets										5,478,470
Total assets										106,094,952
Segment liabilities	796,491	569,571	53,710	264,233	20,112	58,972	114,026	284,873	(160,149)	2,001,839
Unallocated liabilities										22,929,218
Total liabilities										24,931,057
Capital expenditure incurred during the year	2,878,837	823,450	—	705	1,635	1,905	12,795	7,639		

13 SEGMENTAL INFORMATION *(cont'd)*

Business segments: *(cont'd)*

	Property development HK$'000	Property leasing HK$'000	Finance HK$'000	Building construction HK$'000	Infrastructure HK$'000	Hotel operation HK$'000	Department store operation HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
For the year ended 30th June, 2004 (restated)										
Turnover	2,837,148	2,017,239	102,018	781,457	238,748	116,272	122,904	511,332	—	6,727,118
Other revenue (excluding bank interest income)	10	3,159	5,463	1,550	3,363	24	799	52,580	—	66,948
External revenue	2,837,158	2,020,398	107,481	783,007	242,111	116,296	123,703	563,912	—	6,794,066
Inter-segment revenue	—	196,686	2,296	438,976	—	1,704	—	36,796	(676,458)	—
Total revenue	2,837,158	2,217,084	109,777	1,221,983	242,111	118,000	123,703	600,708	(676,458)	6,794,066
Segment results	272,317	1,294,692	78,432	73,901	150,387	2,607	4,611	64,851		1,941,798
Inter-segment transactions	38,840	(90,859)	(2,285)	(39,096)	—	42,709	17,540	25,953		(7,198)
Contribution from operations	311,157	1,203,833	76,147	34,805	150,387	45,316	22,151	90,804		1,934,600
Provision on property projects	(27,633)	—	—	—	—	—	—	—		(27,633)
Provision on property projects written back	788,490	—	—	—	—	—	—	—		788,490
Bank interest income										12,570
Unallocated operating expenses net of income										(263,208)
Profit from operations										2,444,819
Increase in fair value of investment properties	—	3,064,202	—	—	—	—	—	—		3,064,202
Finance costs										(110,846)
Non-operating income										9,040
										5,407,215
Share of profits less losses of associates										1,786,762
Share of profits less losses of jointly controlled entities	66,568	890,812	8,003	(12,252)	—	—	—	20,988		974,119
Income tax										(1,118,884)
Minority interests										(875,869)
Profit attributable to shareholders										6,173,343
Depreciation and amortisation for the year	(1,212)	(5,276)	(57)	(595)	(55,188)	(3,615)	(11,839)	(35,007)		
Impairment loss for the year	—	—	—	—	—	—	—	(435)		
Segment assets	21,018,953	36,771,861	1,789,422	258,244	1,225,854	1,226,633	48,277	660,563	(295,138)	62,704,669
Investments in associates										14,248,887
Investments in jointly controlled entities	3,756,419	6,233,514	379,820	21,478	—	1,584,041	—	43,958		12,019,230
Unallocated assets										4,802,817
Total assets										93,775,603
Segment liabilities	974,140	531,172	48,928	346,254	12,575	29,881	88,574	201,031	(295,138)	1,937,417
Unallocated liabilities										20,231,329
Total liabilities										22,168,746
Capital expenditure incurred during the year	763,998	123,009	—	40	1,223	1,143	9,818	8,159		

13 SEGMENTAL INFORMATION *(cont'd)*

Geographical segments:

	Hong Kong HK$'000	The People's Republic of China ("PRC") HK$'000	Consolidated HK$'000
For the year ended 30th June, 2005			
Turnover	**5,521,612**	**311,649**	**5,833,261**
Other revenue (excluding bank interest income)	**76,934**	**12,560**	**89,494**
External revenue	**5,598,546**	**324,209**	**5,922,755**
Segment assets	**59,993,877**	**11,682,032**	
Capital expenditure incurred during the year	**3,272,954**	**454,012**	
For the year ended 30th June, 2004 (restated)			
Turnover	6,364,676	362,442	6,727,118
Other revenue (excluding bank interest income)	60,120	6,828	66,948
External revenue	6,424,796	369,270	6,794,066
Segment assets	50,606,458	12,393,349	
Capital expenditure incurred during the year	899,302	8,088	

14 FIXED ASSETS

(a) The Group:

	Investment properties HK$'000	Investment properties under development HK$'000	Hotel properties HK$'000	Other land and buildings HK$'000	Properties under development for own use HK$'000	Toll highway operation rights HK$'000	Bridges HK$'000	Others HK$'000	Total HK$'000
Cost or valuation:									
At 1st July, 2004									
— as previously reported	32,394,678	—	1,209,000	508,310	—	789,529	560,929	694,503	36,156,949
— reclassification (note i)	5,226,089	206,862	—	—	504,729	—	—	—	5,937,680
— balance before opening balance adjustment	37,620,767	206,862	1,209,000	508,310	504,729	789,529	560,929	694,503	42,094,629
— opening balance adjustment (note ii)	(984,277)	—	—	—	—	—	—	—	(984,277)
— balance after opening balance adjustment	36,636,490	206,862	1,209,000	508,310	504,729	789,529	560,929	694,503	41,110,352
Additions	945,150	146,039	—	—	23,169	—	48	118,824	1,233,230
Acquisition of subsidiaries	10,446	—	—	—	—	—	—	—	10,446
Transfer from properties under development included under current assets	46,095	—	—	—	—	—	—	—	46,095
Disposals	(66,169)	—	—	—	—	—	(11,665)	(30,791)	(108,625)
Surplus on revaluation	6,753,871	—	62,800	—	—	—	—	—	6,816,671
At 30th June, 2005	44,325,883	352,901	1,271,800	508,310	527,898	789,529	549,312	782,536	49,108,169
Amortisation and depreciation:									
At 1st July, 2004									
— as previously reported	—	—	—	71,023	—	163,176	62,349	591,043	887,591
— prior period adjustment (note 2(b))	—	—	—	—	—	30,067	70,779	—	100,846
— as restated	—	—	—	71,023	—	193,243	133,128	591,043	988,437
Charge for the year	—	—	—	7,099	—	34,691	19,097	64,746	125,633
Impairment loss (note iii)	—	—	—	—	204,043	—	—	—	204,043
Written back on disposal	—	—	—	—	—	—	(9,690)	(30,160)	(39,850)
At 30th June, 2005	—	—	—	78,122	204,043	227,934	142,535	625,629	1,278,263
Net book value:									
At 30th June, 2005	44,325,883	352,901	1,271,800	430,188	323,855	561,595	406,777	156,907	47,829,906
At 30th June, 2004 (restated)	37,620,767	206,862	1,209,000	437,287	504,729	596,286	427,801	103,460	41,106,192
Cost or valuation at 30th June, 2005 representing:									
Cost	—	352,901	—	442,230	527,898	789,529	549,312	782,536	3,444,406
Valuation									
— 30th June, 1992	—	—	—	20,110	—	—	—	—	20,110
— 30th June, 1994	—	—	—	45,970	—	—	—	—	45,970
— 30th June, 2005	44,325,883	—	1,271,800	—	—	—	—	—	45,597,683
	44,325,883	352,901	1,271,800	508,310	527,898	789,529	549,312	782,536	49,108,169

Notes:

(i) Following the early adoption of HKAS 40 as from 1st July, 2004, certain properties to be developed for investment or for an undetermined future purpose have been reclassified from "Properties under development" and "Properties held for development" to "Investment properties" and "Investment properties under development" in accordance with the requirements of HKAS 40. In addition, certain properties have been reclassified to "Properties under development for own use" in order to better reflect the intended use of the properties held by the Group.

(ii) The opening balance adjustment represents the decrease in the fair value as at 1st July, 2004 of those properties to be developed for investment or for an undetermined future purpose as set out in note (i). No prior period adjustment to restate the comparative figures is required as permitted under the transitional provisions of HKAS 40.

(iii) During the year, based on the Group's assessment of the recoverable amount of a project site intended for hotel development purpose, impairment loss of HK$204,043,000 is recognised in the profit and loss account.

14 FIXED ASSETS *(cont'd)*

(b) The analysis of net book value of properties is as follows:—

	The Group	
	2005	2004 restated
	HK$'000	HK$'000
In Hong Kong		
— under long leases	**4,802,776**	3,426,226
— under medium-term leases	**38,928,427**	33,320,922
	43,731,203	36,747,148
Outside Hong Kong		
— under long leases	**393**	436
— under medium-term leases	**3,941,403**	4,255,148
	3,941,796	4,255,584
	47,672,999	41,002,732

The Group's investment and hotel properties located in Hong Kong were revalued as at 30th June, 2005 by an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited, whereas the investment properties located in the PRC were revalued by Mr Augustine Wong, the Group's professional valuer who is a Fellow Member of The Hong Kong Institute of Surveyors, on an open market value basis in their existing state by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential.

The gross carrying amounts of investment and hotel properties of the Group held for use in operating leases were HK$39,293,567,000 (2004 — HK$32,394,678,000) and HK$1,271,800,000 (2004 — HK$1,209,000,000) respectively.

The Group entered into finance leasing arrangements for certain of its equipment. The average term of finance leases entered into is five years. At the end of the lease terms, the Group has the option to purchase the assets at a price deemed to be a bargain purchase option. The net book value of assets held under finance leases of the Group was HK$524,000 (2004 — HK$ Nil).

The Group's toll highway operation rights are pledged as securities for certain bank loans.

15 INTEREST IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**2,355,074**	2,355,074
Amounts due from subsidiaries	**39,066,829**	39,400,186
	41,421,903	41,755,260
Less: Impairment loss	**(93,296)**	(83,000)
	41,328,607	41,672,260
Amounts due to subsidiaries	**(2,191,673)**	(1,856,310)
	39,136,934	39,815,950

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into these accounts.

Details of principal subsidiaries are shown on pages 137 to 145.

16 INTEREST IN ASSOCIATES

	The Group 2005 HK$'000	The Group 2004 restated HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Unlisted				
Shares, at cost	—	—	**166,367**	168,367
Share of net assets	**504,902**	65,043	—	—
Amounts due from associates	**1,671,670**	1,929,636	**513,114**	750,305
	2,176,572	1,994,679	**679,481**	918,672
Less: Impairment loss	—	—	**(49,038)**	(49,038)
	2,176,572	1,994,679	**630,443**	869,634
Amounts due to associates	**(34,660)**	(19,105)	**(19,926)**	(62,241)
	2,141,912	1,975,574	**610,517**	807,393
Listed in Hong Kong				
Share of net assets	**12,303,859**	11,209,859	—	—
Goodwill	**1,153,210**	936,577	—	—
Amounts due from associates	**122,434**	145,924	—	—
	13,579,503	12,292,360	—	—
Amounts due to associates	**(20,491)**	(19,047)	—	—
	13,559,012	12,273,313	—	—
	15,700,924	14,248,887	**610,517**	807,393
Market value of listed shares	**36,845,509**	29,372,248	—	—

Details of principal associates are shown on page 146.

17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group 2005 HK$'000	The Group 2004 restated HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
Unlisted shares, at cost	—	—	**10**	10
Share of net assets	**4,321,070**	2,074,643	—	—
Amounts due from jointly controlled entities	**9,101,934**	9,973,414	**119,530**	114,253
	13,423,004	12,048,057	**119,540**	114,263
Amounts due to jointly controlled entities	**(23,206)**	(28,827)	**(5,209)**	(6,121)
	13,399,798	12,019,230	**114,331**	108,142

Details of principal jointly controlled entities are shown on page 147.

18 INVESTMENTS IN SECURITIES

The Group:

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Equity securities								
Listed in Hong Kong	**—**	—	**—**	—	**276,947**	167,304	**276,947**	167,304
Listed outside Hong Kong	**—**	—	**21,203**	20,314	**—**	—	**21,203**	20,314
Unlisted	**—**	—	**85,769**	96,655	**21,882**	30,181	**107,651**	126,836
	—	—	**106,972**	116,969	**298,829**	197,485	**405,801**	314,454
Debt securities								
Listed outside Hong Kong	**11,465**	11,699	**—**	—	**—**	—	**11,465**	11,699
Unlisted	**—**	41,096	**—**	—	**—**	—	**—**	41,096
	11,465	52,795	**—**	—	**—**	—	**11,465**	52,795
	11,465	52,795	**106,972**	116,969	**298,829**	197,485	**417,266**	367,249
Market value of listed securities	**11,088**	11,936	**22,113**	28,966	**276,947**	167,304	**310,148**	208,206
Carrying amount analysed for reporting purposes as:								
Non-current	**11,465**	11,699	**106,972**	116,969	**298,829**	197,485	**417,266**	326,153
Current	**—**	41,096	**—**	—	**—**	—	**—**	41,096
	11,465	52,795	**106,972**	116,969	**298,829**	197,485	**417,266**	367,249

19 INSTALMENTS RECEIVABLE

(a) This represents the principal content of instalments receivable from the sale of flats after twelve months from the balance sheet date. The amounts receivable within twelve months from the balance sheet date are included under current assets.

(b) The ageing analysis of instalments receivable within twelve months from the balance sheet date (net of provision for bad debts) is as follows:—

	The Group	
	2005	2004
	HK$'000	HK$'000
Under 1 month overdue	**476,590**	228,492
More than 1 month overdue and up to 3 months overdue	**2,400**	4,225
More than 3 months overdue and up to 6 months overdue	**1,784**	3,190
More than 6 months overdue	**16,488**	21,973
	497,262	257,880

20 DEFERRED EXPENSE

This represents arrangement fee incurred in connection with the issuance of the guaranteed convertible notes and is amortised on a straight-line basis over the term of the notes.

21 LONG TERM RECEIVABLE

The amount represents the non-current portion of the discounted value of the instalments receivable in the future arising from the disposal of toll collection right of certain toll bridges. The portion of HK$22,530,000 (2004 — HK$38,110,000) expected to be received within one year is classified under "Debtors, prepayments and deposits".

22 PROPERTIES HELD FOR/UNDER DEVELOPMENT FOR SALE

	The Group	
	2005	2004
	HK$'000	HK$'000
In Hong Kong	**3,719,087**	4,042,361
In other areas of the PRC	**5,126,840**	4,690,563
	8,845,927	8,732,924

The amount of properties held for/under development for sale expected to be completed after more than one year is HK$7,710,843,000 (2004 — HK$7,901,975,000).

23 COMPLETED PROPERTIES FOR SALE

The completed properties for sale of the Group include properties of HK$1,551,752,000 (2004 — HK$1,528,643,000) carried at net realisable value.

The amount of provision for a write-down of completed properties for sale to estimated net realisable value, recognised in the consolidated profit and loss account during the year, is HK$23,860,000 (2004 — reversal of a write-down of HK$425,884,000).

24 INVENTORIES

The Group's inventories of HK$901,000 (2004 — HK$1,093,000) are carried at net realisable value.

25 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	The Group	
	2005	2004
	HK$'000	HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less anticipated losses	**1,270,478**	647,138
Progress billings	**(1,215,722)**	(655,787)
Net contract work	**54,756**	(8,649)
Represented by:		
Amounts due from customers for contract work	**63,001**	25,684
Amounts due to customers for contract work	**(8,245)**	(34,333)
	54,756	(8,649)

The amounts due from customers for contract work expected to be recovered after more than one year is HK$661,000 (2004— HK$4,100,000).

26 DEPOSITS FOR ACQUISITION OF PROPERTIES

Deposits for acquisition of properties include HK$1,177,406,000 (2004 — HK$1,177,406,000) paid for the acquisition of a property located in the PRC and HK$561,000,000 (2004 — HK$Nil) paid for the acquisition of certain pieces of land located in Macau.

27 DEBTORS, PREPAYMENTS AND DEPOSITS

The Group maintains a defined credit policy. 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 leasing properties are payable in advance by tenants. Housing instalment and other trade debtors settle their accounts according to the payment terms as stated in the contracts. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The ageing analysis of trade debtors (net of provision for bad debts) is as follows:—

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Under 1 month overdue	**206,696**	120,413	**—**	—
More than 1 month overdue and up to 3 months overdue	**31,502**	29,149	**—**	—
More than 3 months overdue and up to 6 months overdue	**14,069**	14,716	**—**	—
More than 6 months overdue	**142,383**	115,651	**—**	—
	394,650	279,929	**—**	—
Prepayments, deposits and other receivables	**941,787**	817,119	**35,340**	24,928
	1,336,437	1,097,048	**35,340**	24,928

The debtors, prepayments and deposits of the Group include HK$659,863,000 (2004 — HK$543,010,000) which is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered within one year.

28 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Deposits with banks and other financial institutions	**4,023,276**	3,481,601	**—**	—
Cash at bank and in hand	**312,182**	301,249	**336**	291
Cash and cash equivalents in the balance sheets	**4,335,458**	3,782,850	**336**	291
Bank overdrafts	**(104,285)**	(229,135)		
Cash and cash equivalents in the cash flow statement	**4,231,173**	3,553,715		

29 BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	The Group 2005 HK$'000	The Group 2004 HK$'000
Bank loans and overdrafts (note a)		
— Secured	**228,806**	237,664
— Unsecured	**15,782,957**	4,972,867
	16,011,763	5,210,531
Unsecured other loans (note b)	**—**	38,647
	16,011,763	5,249,178

	The Group 2005 HK$'000	The Group 2004 HK$'000
(a) **Bank loans and overdrafts are repayable as follows:—**		
Within 1 year and included in current liabilities	**3,097,364**	1,222,733
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	**4,920,139**	2,808,744
After 2 years but within 5 years	**6,744,260**	1,179,054
After 5 years	**1,250,000**	—
	12,914,399	3,987,798
	16,011,763	5,210,531

	The Group 2005 HK$'000	The Group 2004 HK$'000
(b) **Unsecured other loans are repayable as follows: —**		
Within 1 year and included in current liabilities	**—**	26,320
After 2 years but within 5 years and included in non-current liabilities	**—**	12,327
	—	38,647

30 RENTAL AND OTHER DEPOSITS

The rental and other deposits of the Group include HK$195,587,000 (2004 — HK$182,343,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

31 CREDITORS AND ACCRUED EXPENSES

The creditors and accrued expenses of the Group include HK$340,571,000 (2004 — HK$212,866,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

The ageing analysis of trade creditors is as follows: —

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Due within 1 month and on demand	**353,405**	453,807	**—**	—
Due after 1 month but within 3 months	**121,949**	139,579	**—**	—
Due after 3 months but within 6 months	**40,607**	37,539	**—**	—
Due after 6 months	**591,243**	441,568	**—**	—
	1,107,204	1,072,493	**—**	—
Other payables and accrued expenses	**620,230**	574,278	**89,721**	90,169
	1,727,434	1,646,771	**89,721**	90,169

32 GUARANTEED CONVERTIBLE NOTES

(i) On 9th February, 2004, a subsidiary of the Group issued guaranteed convertible notes (the "Notes") with an aggregate principal amount of HK$5,750,000,000 at an issue price equal to 100% of the principal amount of the Notes. The Notes bear interest at the rate of 1% per annum, payable semi-annually in arrears on 9th August and 9th February of each year commencing 9th August, 2004. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 82% of the principal amount plus any accrued interest on 9th February, 2006, or at the option of the holder at 92% of the principal amount plus any accrued interest on 8th February, 2005. The Notes are guaranteed by the Company.

(ii) The Notes are convertible after 9th March, 2004 up to and including 10th January, 2006 into fully paid ordinary shares with a par value of HK$2 each of the Company at an initial conversion price, subject to certain events, of HK$48.96 per share.

(iii) During the year, HK$5,561,300,000 of the Notes were redeemed at 92% of the principal amount plus the accrued interest and no Notes were converted into any ordinary shares of the Company.

33 OBLIGATIONS UNDER FINANCE LEASES

At 30th June 2005, the Group had obligations under finance leases repayable as follows: —

		2005			2004	
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Within 1 year and included in current liabilities	**114**	**18**	**132**	—	—	—
After 1 year and included in non-current liabilities						
After 1 year but within 2 years	**118**	**13**	**131**	—	—	—
After 2 years but within 5 years	**298**	**14**	**312**	—	—	—
	416	**27**	**443**	—	—	—
	530	**45**	**575**	—	—	—

34 SHARE CAPITAL

	The Group and the Company			
	No. of shares		Nominal value	
	2005	2004	**2005**	2004
	'000	'000	**HK$'000**	HK$'000
Authorised				
Ordinary shares of HK$2.00 each	**2,600,000**	2,000,000	**5,200,000**	4,000,000
Issued and fully paid				
Ordinary shares of HK$2.00 each				
At 1st July	**1,814,580**	1,722,140	**3,629,160**	3,444,280
Issue of shares	**—**	92,440	**—**	184,880
At 30th June	**1,814,580**	1,814,580	**3,629,160**	3,629,160

By an ordinary resolution passed at the Annual General Meeting of the Company held on 6th December, 2004, the authorised share capital of the Company was increased to HK$5,200,000,000 by the creation of an additional 600,000,000 ordinary shares of HK$2.00 each ranking for dividend and in all other respects pari passu with the existing shares in the Company.

35 RESERVES

The Group:

	Share premium HK$'000	Property revaluation reserves restated HK$'000	Reserve on consolidation HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Retained profits restated HK$'000	Total restated HK$'000
At 1st July, 2003								
— as previously reported	8,387,915	8,696,443	1,446,702	20,200	(3,815)	2,456	30,934,838	49,484,739
— prior period adjustments in respect of:								
— investment properties	—	(7,876,093)	—	—	—	—	5,685,709	(2,190,384)
— infrastructure facilities	—	—	—	—	—	—	(32,477)	(32,477)
— as restated	8,387,915	820,350	1,446,702	20,200	(3,815)	2,456	36,588,070	47,261,878
Premium on issue of shares	2,769,595	—	—	—	—	—	—	2,769,595
Expenses on issue of shares	(64)	—	—	—	—	—	—	(64)
Surplus on revaluation of other properties	—	54,288	—	—	—	—	—	54,288
Share of surplus on revaluation of other properties in associates	—	44,887	—	—	—	—	—	44,887
Impairment loss on positive goodwill	—	—	2,613	—	—	—	—	2,613
Exchange difference arising from investment in a foreign entity	—	—	—	—	(110)	—	—	(110)
Transfer to other reserve	—	—	—	—	—	1,430	(1,430)	—
Dividends approved in respect of the previous year (note 11(b))	—	—	—	—	—	—	(816,561)	(816,561)
Profit for the year	—	—	—	—	—	—	6,173,343	6,173,343
Dividends declared and paid in respect of the current year (note 11(a))	—	—	—	—	—	—	(635,103)	(635,103)
At 30th June, 2004	11,157,446	919,525	1,449,315	20,200	(3,925)	3,886	41,308,319	54,854,766
Dealt with by:								
Company and subsidiaries	11,157,446	235,475	1,449,315	20,200	—	3,886	38,056,565	50,922,887
Associates and jointly controlled entities	—	684,050	—	—	(3,925)	—	3,251,754	3,931,879
	11,157,446	919,525	1,449,315	20,200	(3,925)	3,886	41,308,319	54,854,766

35 RESERVES *(cont'd)*

The Group: *(cont'd)*

	Share premium HK$'000	Property revaluation reserves restated HK$'000	Reserve on consolidation HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Retained profits restated HK$'000	Total restated HK$'000
At 1st July, 2004								
— as previously reported	11,157,446	12,439,574	1,449,315	20,200	(3,925)	3,886	32,540,800	57,607,296
— prior period adjustments in respect of:								
— investment properties	—	(11,520,049)	—	—	—	—	8,796,720	(2,723,329)
— infrastructure facilities	—	—	—	—	—	—	(29,201)	(29,201)
— as restated, before opening balance adjustment	11,157,446	919,525	1,449,315	20,200	(3,925)	3,886	41,308,319	54,854,766
— opening balance adjustment in respect of investment properties (note 2(c))	—	—	—	—	—	—	(972,173)	(972,173)
— as restated, after opening balance adjustment	11,157,446	919,525	1,449,315	20,200	(3,925)	3,886	40,336,146	53,882,593
Surplus on revaluation of other properties	—	57,550	—	—	—	—	—	57,550
Exchange difference arising from investment in a foreign entity	—	—	—	—	7	—	—	7
Transfer to other reserve	—	—	—	—	—	1,404	(1,404)	—
Dividends approved in respect of the previous year (note 11(b))	—	—	—	—	—	—	(998,019)	(998,019)
Profit for the year	—	—	—	—	—	—	10,853,521	10,853,521
Dividends declared and paid in respect of the current year (note 11(a))	—	—	—	—	—	—	(725,832)	(725,832)
At 30th June, 2005	11,157,446	977,075	1,449,315	20,200	(3,918)	5,290	49,464,412	63,069,820
Dealt with by:								
Company and subsidiaries	11,157,446	293,025	1,449,315	20,200	—	5,290	42,222,691	55,147,967
Associates and jointly controlled entities	—	684,050	—	—	(3,918)	—	7,241,721	7,921,853
	11,157,446	977,075	1,449,315	20,200	(3,918)	5,290	49,464,412	63,069,820

35 RESERVES *(cont'd)*

The Company:

	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st July, 2003	8,387,915	20,200	26,366,786	34,774,901
Premium on issue of shares	2,769,595	—	—	2,769,595
Expenses on issue of shares	(64)	—	—	(64)
Dividends approved in respect of the previous year (note 11(b))	—	—	(816,561)	(816,561)
Profit for the year	—	—	944,607	944,607
Dividends declared and paid in respect of the current year (note 11(a))	—	—	(635,103)	(635,103)
At 30th June, 2004	11,157,446	20,200	25,859,729	37,037,375
At 1st July, 2004	**11,157,446**	**20,200**	**25,859,729**	**37,037,375**
Dividends approved in respect of the previous year (note 11(b))	**—**	**—**	**(998,019)**	**(998,019)**
Profit for the year	**—**	**—**	**865,053**	**865,053**
Dividends declared and paid in respect of the current year (note 11(a))	**—**	**—**	**(725,832)**	**(725,832)**
At 30th June, 2005	**11,157,446**	**20,200**	**25,000,931**	**36,178,577**

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of capital redemption reserve is governed by Section 49H of the Hong Kong Companies Ordinance.

The property revaluation reserves, reserve on consolidation and exchange reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities, the valuation of properties and foreign currency translation (note 1).

Other reserve represents statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, wholly foreign-owned enterprises are required to transfer at least 10% of their profits after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprises' registered capital.

36 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2005 amounted to HK$25,000,931,000 (2004 — HK$25,859,729,000).

37 COMMITMENTS

At 30th June, 2005, the Group had commitments not provided for in these accounts as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
(i) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**638,106**	92,058
(ii) Contracted obligations to fund the subsidiaries and associates established outside Hong Kong	**1,691,279**	1,764,234
(iii) Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**4,859,480**	5,705,485
	7,188,865	7,561,777

Based on information available at the balance sheet date, the directors estimate that the Group's commitments disclosed above are payable as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**2,341,168**	2,669,710
After 1 year but within 2 years	**2,664,587**	2,090,280
After 2 years	**2,183,110**	2,801,787
	7,188,865	7,561,777

38 SIGNIFICANT LEASING ARRANGEMENTS

At 30th June, 2005, the Group is both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows: —

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 14.

During the current year, HK$2,096,940,000 (2004 — HK$2,017,239,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**1,469,601**	1,402,478
After 1 year but within 5 years	**898,862**	1,086,502
After 5 years	**25,456**	135,342
	2,393,919	2,624,322

38 SIGNIFICANT LEASING ARRANGEMENTS *(cont'd)*

(b) Lessee

(i) The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals .

During the current year, HK$46,183,000 (2004 — HK$26,971,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of building facilities.

The total future minimum lease payments under non-cancellable operating leases are payable as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**37,642**	33,548
After 1 year but within 5 years	**74,996**	72,874
After 5 years	**13,703**	19,575
	126,341	125,997

(ii) The Group also leases telecommunications network facilities under operating leases. Some of the leases are with no specific terms while the remaining leases typically run for an initial period of three month to four years, with an option to renew the lease upon the expiry of the initial lease term. None of the leases includes contingent rentals.

During the current year, HK$3,763,000 (2004 — HK$5,237,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of telecommunications network facilities.

The total future minimum lease payments under non-cancellable operating leases are payable as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**694**	2,476
After 1 year but within 5 years	**48**	252
	742	2,728

39 CONTINGENT LIABILITIES

At 30th June, 2005, contingent liabilities of the Group and of the Company were as follows: —

	The Group		The Company	
	2005	2004	**2005**	2004
	HK'000	HK'000	HK$'000	HK$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions on behalf of purchasers of flats	**162,189**	215,576	**849**	2,020
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	**—**	—	**15,470,201**	4,499,475
(c) Guarantees given by the Company to banks to secure banking facilities of an associate and a jointly controlled entity	**2,241,017**	2,322,385	**2,241,017**	2,322,385
(d) Guarantees given by the Company to holders of guaranteed convertible notes issued by a subsidiary	**—**	—	**189,444**	5,772,681
	2,403,206	2,537,961	**17,901,511**	12,596,561

(e) Pursuant to an indemnity deed dated 15th March, 1996 signed between the Company and a subsidiary, the Company, under certain conditions, has undertaken to indemnify the subsidiary in respect of any PRC Income Tax and LAT ("Land Appreciation Tax") payable in consequence of the disposal by the subsidiary of its property interests owned as at 31st December, 1995. At 30th June, 2005, the Company had contingent PRC Income Tax and LAT liabilities of HK$46 million (2004 — HK$110 million) and HK$38 million (2004 — HK$38 million) respectively in relation to certain investment properties of the subsidiary upon a revaluation of these properties at 30th June, 2005.

(f) At 30th June, 2005, the Group had contingent liabilities in respect of performance bonds to guarantee for a due and proper performance of the subsidiaries' obligations amounting to HK$73,090,000 (2004 — HK$32,390,000).

40 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with fellow subsidiaries

Details of material related party transactions between the Group and its fellow subsidiaries are as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Other interest expense (note i)	**12,057**	18,643
Loan arrangement fee (note i)	**—**	14,217
Building management service income (note iii)	**—**	32,070
Rental commission income (note iii)	**916**	16,150

40 MATERIAL RELATED PARTY TRANSACTIONS *(cont'd)*

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions between the Group and its associates and jointly controlled entities are as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Other interest income (note i)	**44,504**	33,482
Building construction income (note ii)	**634,477**	748,062
Management fee income (note iii)	**20,830**	30,010
Professional fee income (note iii)	**37,999**	10,384
Sales commission income (note iii)	**149,180**	3,140
Rental expenses (note iii)	**30,734**	8,840

(c) Transactions with related companies

Details of material related party transactions between the Group and its related companies which represented trust funds managed by the directors of the Group are as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Building management service income (note iii)	**23,086**	4,092
Rental commission income (note iii)	**14,400**	7,282
Sales commission income (note iii)	**2,685**	8,787
Building construction income (note ii)	**—**	29,394

In addition, the Group and one of its related companies entered into a rental agreement dated 30th March, 2004 for leasing certain units of the Group's investment properties with a monthly rental charged at 8% of the tenant's monthly turnover. According to the rental agreement, the related company is entitled to a rent free period from 1st April, 2004 to 30th September, 2004. The total rental income and receivable from the related company during the year and as at 30th June, 2005 is HK$636,000 (note iii).

Notes:

(i) Loan arrangement fee, interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Inter-Bank Offer Rate or prime rate.

(ii) These transactions represent cost reimbursements plus certain percentage thereon as service fees.

(iii) These transactions were carried out on normal commercial terms and in the ordinary course of business.

(iv) The amount due to a fellow subsidiary at 30th June, 2005 is shown in the balance sheet. The amounts due to/from associates and jointly controlled entities at 30th June, 2005 are set out in notes 16 and 17 respectively.

(d) Transactions with companies controlled by a director of the Company

Mr Lee Ka Kit, a director of the Company, through companies controlled or owned by him has separate interests in certain subsidiaries and associates of the Company or the Group and through which the Group holds its interest in certain development projects in the PRC. Mr Lee through companies controlled or owned by him had provided finance in the form of advances to these subsidiaries and associates in accordance with the percentage of his equity interest in these companies. At 30th June, 2005, the advances made to these subsidiaries and associates through companies controlled or owned by Mr Lee amounting to HK$472,128,000 (2004 — HK$470,464,000) and HK$537,055,000 (2004 — HK$586,821,000) respectively are unsecured. No interest is charged to these subsidiaries and associates by the companies controlled or owned by Mr Lee under such arrangements during the years ended 30th June, 2004 and 2005.

41 DIRECTORS' REMUNERATION

The remuneration of the Company's directors is as follows:

	Fees HK$'000	Basic salaries, other allowances and emolument HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	**2005 Total HK$'000**	2004 Total HK$'000
Executive directors						
Lee Shau Kee	**110**	**2,786**	**—**	**—**	**2,896**	3,385
Lee Ka Kit	**110**	**4,074**	**—**	**—**	**4,184**	4,453
Lam Ko Yin, Colin	**110**	**4,112**	**10,880**	**207**	**15,309**	10,353
Lee Ka Shing	**110**	**3,590**	**—**	**115**	**3,815**	3,184
Lee King Yue	**90**	**2,551**	**—**	**142**	**2,783**	2,595
Fung Lee Woon King	**50**	**5,049**	**1,970**	**187**	**7,256**	8,174
Leung Sing	**70**	**3,807**	**4,300**	**211**	**8,388**	7,993
Lau Yum Chuen, Eddie	**70**	**—**	**—**	**—**	**70**	70
Li Ning	**70**	**2,821**	**—**	**99**	**2,990**	2,884
Kwok Ping Ho, Patrick	**90**	**2,935**	**—**	**163**	**3,188**	2,946
Ho Wing Fun	**90**	**2,479**	**1,970**	**138**	**4,677**	4,302
Yip Ying Chee, John	**70**	**4,018**	**7,000**	**223**	**11,311**	9,715
Suen Kwok Lam	**70**	**3,264**	**2,500**	**181**	**6,015**	4,363
Independent non-executive directors						
Kwong Che Keung, Gordon	**90**	**610**	**—**	**—**	**700**	—
Ko Ping Keung	**90**	**510**	**—**	**—**	**600**	—
Wu King Cheong	**70**	**215**	**—**	**—**	**285**	—
Wu Shu Chih, Alex (passed away)	**90**	**305**	**—**	**—**	**395**	—
Non-executive directors						
Lo Tak Shing	**50**	**—**	**—**	**—**	**50**	50
Woo Po Shing	**70**	**—**	**—**	**—**	**70**	70
Lee Tat Man	**70**	**—**	**—**	**—**	**70**	70
Leung Hay Man	**70**	**530**	**—**	**—**	**600**	220
Lee Pui Ling, Angelina	**50**	**100**	**—**	**—**	**150**	150
Kan Fook Yee	**70**	**1,000**	**—**	**—**	**1,070**	1,070
Vincent Liang	**—**	**—**	**—**	**—**	**—**	—
Woo Ka Biu, Jackson	**20**	**80**	**—**	**—**	**100**	100
Total	**1,850**	**44,836**	**28,620**	**1,666**	**76,972**	66,147

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior years.

42 SENIOR MANAGEMENT REMUNERATION

Of the five individuals with the highest emoluments, four (2004 — four) of them are directors whose emoluments are disclosed in note 41. The aggregate of the emoluments in respect of the other one (2004 — one) individual are as follows: —

	The Group	
	2005	2004
	HK$'000	HK$'000
Salaries and other emoluments	**3,363**	3,243
Discretionary bonuses	**3,500**	2,000
Retirement scheme contributions	**187**	180
	7,050	5,423

43 POST BALANCE SHEET EVENTS

(a) Privatisation of Henderson China Holdings Limited ("Henderson China")

On 12th August, 2005, the Company and its subsidiary, Henderson China, issued a joint announcement regarding the privatisation of Henderson China by the Company by way of a scheme of arrangement involving the cancellation and extinguishment of shares in Henderson China at the cancellation price of HK$8 per share. The listing of the shares in Henderson China on SEHK was withdrawn on 15th August, 2005 and Henderson China became a wholly-owned subsidiary of the Company after the privatisation.

The cancellation price for the privatisation paid by the Company was approximately HK$1,381 million. Upon the privatisation, there is an excess of the Company's interest in the net assets value of Henderson China over its total cost of acquisition of approximately HK$779 million. Such excess will be recognised directly in the consolidated profit and loss account for the year ending 30th June, 2006 upon the adoption of HKFRS 3 "Business combinations".

(b) Proposed privatisation of Henderson Cyber Limited ("Henderson Cyber")

On 16th August, 2005, the Company together with its subsidiaries, Henderson Investment Limited ("Henderson Investment") and Henderson Cyber, as well as its associate, The Hong Kong and China Gas Company Limited ("China Gas"), issued a joint announcement regarding a proposed privatisation of Henderson Cyber by Henderson Investment and China Gas which involves the cancellation and extinguishment of shares in Henderson Cyber at the cancellation price of HK$0.42 per share.

The cancellation price payable by Henderson Investment is estimated at HK$253 million. Should the proposed privatisation of Henderson Cyber become effective, Henderson Investment's equity interest in Henderson Cyber will increase to 78.69%.

44 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2005 to be Henderson Development Limited, incorporated in Hong Kong.

45 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies for investment properties and infrastructure facilities, details of which are set out in note 2.

The classification of certain properties has been changed due to the early adoption of HKAS 40. As a result, certain properties to be developed for investment or for an undetermined future purpose previously included under "Properties under development" and "Properties held for development" are now classified as "Investment properties" and "Investment properties under development". In addition, certain properties are reclassified to "Properties under development for own use" and "Properties held for/under development for sale" in order to better reflect the intended use of the properties held by the Group. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.