

# Notes to the Accounts

## 1 Significant Accounting Policies

These condensed unaudited consolidated interim accounts ('the Accounts') are prepared in accordance with Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the Accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2005 with the addition of certain new standards and amendments of Hong Kong Financial Reporting Standards ('HKFRS') issued and became effective during the period ended 30 June 2006.

The adoption of such standards or amendments does not result in substantial changes to the Group's accounting policies and has no significant effect on the results reported for the first half of 2006.

## 2 Turnover and Segment Information

An analysis of the Group's turnover and profit from consolidated activities before net finance charges and share of results of jointly controlled entities and associated companies by principal activities are as follows:

turnover	profit from consolidated activities	share of results of jointly controlled entities	share of results of associated companies	group total	segment allocations	segment profit	
six months ended 30 June 2006 in HK\$ million							
<i>By principal activities</i>							
Special Steel Manufacturing	7,665	790	-	-	790	-	790
Property	7,996	1,690	-	237	1,927	42	1,969
Power Generation	2	(150)	163	(41)	(28)	-	(28)
Aviation	-	-	3	453	456	-	456
Civil Infrastructure	351	253	56	28	337	-	337
Marketing & Distribution	6,032	211	20	(7)	224	(42)	182
Communications	786	46	19	51	116	-	116
Others	49	5	41	-	46	-	46
Fair Value Change of Investment Properties	-	422	-	267	689	-	689
Less: General and Administration Expenses	-	(273)	-	-	(273)	-	(273)
	<b>22,881</b>	<b>2,994</b>	<b>302</b>	<b>988</b>	<b>4,284</b>	<b>-</b>	<b>4,284</b>
Net Finance Charges							(315)
Taxation							(328)
Profit for the Period							<b>3,641</b>

## 2 Turnover and Segment Information *continued*

six months ended 30 June 2005 <i>in HK\$ million</i>	turnover	profit from consolidated activities	share of results of jointly controlled entities	share of results of associated companies	group total	segment allocations	segment profit
<i>By principal activities</i>							
Special Steel Manufacturing	6,286	584	(39)	–	545	–	545
Property	1,150	547	–	308	855	39	894
Power Generation	99	79	76	(13)	142	–	142
Aviation	–	–	12	484	496	–	496
Civil Infrastructure	282	181	50	25	256	–	256
Marketing & Distribution	5,212	192	15	1	208	(39)	169
Communications	608	9	31	52	92	–	92
Others	–	–	16	–	16	–	16
Fair Value Change of Investment Properties	–	561	–	285	846	–	846
Less: General and Administration Expenses	–	(183)	–	–	(183)	–	(183)
	13,637	1,970	161	1,142	3,273	–	3,273
Net Finance Charges							(92)
Taxation							(248)
Profit for the Period							2,933

An analysis of the Group's turnover by geographical area is as follows:

<i>in HK\$ million</i>	six months ended 30 June	
	<b>2006</b>	2005
<i>By geographical area</i>		
Hong Kong	<b>11,041</b>	4,747
Mainland China	<b>11,121</b>	8,231
Japan	<b>236</b>	265
Others	<b>483</b>	394
	<b>22,881</b>	13,637

### 3 Profit from Consolidated Activities

The profit from consolidated activities is arrived at after crediting and charging:

<i>in HK\$ million</i>	six months ended 30 June	
	<b>2006</b>	2005
<i>Crediting</i>		
Dividend income from unlisted other financial assets	<b>9</b>	99
Profit on disposal of other financial assets	<b>3</b>	–
Profit on disposal of subsidiary companies	<b>1,262</b>	360
<i>Charging</i>		
Cost of inventories sold	<b>11,384</b>	9,195
Depreciation of property, plant and equipment	<b>441</b>	358
Impairment losses on other financial assets	<b>1</b>	22
Amortisation of leasehold land	<b>27</b>	22

### 4 Net Finance Charges

<i>in HK\$ million</i>	six months ended 30 June	
	<b>2006</b>	2005
<i>Finance charges</i>		
Interest expenses	<b>460</b>	277
Other finance charges	<b>22</b>	18
Amount capitalised	<b>(113)</b>	(37)
Fair value losses / (gains) on derivative financial instruments	<b>35</b>	(134)
	<b>404</b>	124
<i>Finance income</i>		
Interest income	<b>(89)</b>	(32)
	<b>315</b>	92

## 5 Taxation

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Overseas taxation is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations. Details as follows:

<i>in HK\$ million</i>	six months ended 30 June	
	2006	2005
<i>Current taxation</i>		
Hong Kong profits tax	98	60
Overseas taxation	163	57
<i>Deferred taxation</i>		
Change in fair value of investment properties	42	126
Origination and reversal of other temporary difference	25	5
	<b>328</b>	248

## 6 Dividends

<i>in HK\$ million</i>	six months ended 30 June	
	2006	2005
2005 Final dividend paid: HK\$0.80 (2004: HK\$0.80) per share	1,755	1,754
2006 Interim dividend proposed: HK\$0.30 (2005: HK\$0.30) per share	658	658
2006 Special dividend proposed: HK\$0.30 (2005: HK\$nil) per share	658	–
	<b>1,316</b>	658

## 7 Earnings per Share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$3,440 million (2005: HK\$2,773 million).

The basic earnings per share is based on the weighted average number of 2,193,406,134 shares in issue during the period (2005: 2,192,285,022 shares in issue). The diluted earnings per share is based on 2,197,886,817 shares (2005: 2,195,109,006 shares) which is the weighted average number of shares in issue during the period plus the weighted average number of 4,480,683 shares (2005: 2,823,984 shares) deemed to be issued at no consideration if all outstanding options had been exercised.

## 8.1 Debtors, Accounts Receivable, Deposits and Prepayments

<i>in HK\$ million</i>	<b>30 June 2006</b>	31 December 2005
<i>Trade debtors</i>		
Within 1 year	<b>1,842</b>	1,649
Over 1 year	<b>54</b>	45
	<b>1,896</b>	1,694
Accounts receivable, deposits and prepayments	<b>4,923</b>	3,997
	<b>6,819</b>	5,691

Note:

- i) Trade debtors are net of provision and the ageing is classified based on invoice date.
- ii) Each business units has a defined credit policy appropriate to its circumstances.
- iii) The carrying amounts of debtors, accounts receivable, deposits and prepayments approximate their fair value.
- iv) Accounts receivable, deposits and prepayments included derivative financial assets of HK\$22 million (2005: HK\$12 million).

## 8.2 Creditors, Accounts Payable, Deposits and Accruals

<i>in HK\$ million</i>	<b>30 June 2006</b>	31 December 2005
<i>Trade creditors</i>		
Within 1 year	<b>2,341</b>	2,464
Over 1 year	<b>396</b>	214
	<b>2,737</b>	2,678
Accounts payable, deposits and accruals	<b>4,312</b>	3,950
	<b>7,049</b>	6,628

Note:

- i) Accounts payable, deposits and accruals included derivative financial liabilities of HK\$2 million (2005: HK\$17 million).
- ii) The carrying amounts of creditors, accounts payable, deposits and accruals approximate their fair value.

## 9 Post Balance Sheet Events

On 31 March 2006, the Company entered into the Sino Iron Acquisition Agreement and Balmoral Acquisition Agreement, to acquire magnetite ore mining rights in Australia at a consideration of US\$215 million and US\$200 million respectively. Details of the acquisitions are set out in the Company's circular to shareholders dated 8 May 2006. The acquisition under Sino Iron Acquisition Agreement was completed in July 2006.

On 8 June 2006, the Company, Air China Limited, China National Aviation Company Limited, Cathay Pacific Airways Limited and Swire Pacific Limited entered into the Restructuring Agreement. Details of the restructuring are set out in the Company's circular to shareholders dated 30 June 2006. The restructuring is expected to be completed by the end of August 2006.