

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2006

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The address of the registered office and principal place of business of the Company is 64th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

The Group is principally engaged in investment in infrastructure projects, property development and investment, property agency and management, hotel investment and management, restaurant operations and food catering.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

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

### Hotel Properties

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-Int 2") clarifies the accounting policy for owner-operated hotel properties. In previous years, the Group's self-operated hotel properties were carried at cost and were not subject to depreciation. HK-Int 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

### Owner-occupied leasehold interest in land and development properties

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. Under HKAS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

The Group's development properties held for sale within the normal operating cycle of the Group, which were previously classified as non-current, have been reclassified as current in accordance with HKAS 1 "Presentation of Financial Statements". Comparative figures have been restated (see Note 3 for the financial impact).

### Investment properties

In previous periods, investment properties under Statement of Standard Accounting Practice 13 ("SSAP 13") issued by the HKICPA were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property" and has elected to apply this standard retrospectively. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement for the period in which they arise. The Group has applied the transitional provision in HKAS 40 and elected to apply HKAS 40 retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

The adoption of HKAS 40 has also resulted in a change of classification of certain properties which were previously classified as investment properties according to SSAP 13. In previous periods, property with 15% or less by area or value that was occupied by the Group would normally be regarded as an investment property as a whole though part of it is not held for investment purposes. According to HKAS 40, if a portion of the properties could be sold separately, an entity accounts for the portion separately. In the current year, the Group applied HKAS 40 and has reclassified certain owner-occupied properties from investment properties to property, plant and equipment and prepaid land lease payments retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

#### Deferred tax related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amounts of the properties through sale in accordance with the predecessor Interpretation. HK(SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" ("HK(SIC) 21") removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see Note 3 for the financial impact).

#### Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

#### *Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 30th June, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24 "Investments in Securities" issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any) under SSAP 24. From 1st July, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. On 1st July, 2005, the Group reclassified its investment securities as available-for-sale investments in accordance with the transitional provisions in HKAS 39. The application of HKAS 39 in this respect has had no material impact to the Group's retained profits at 1st July, 2005.

#### *Financial assets and financial liabilities other than debt and equity securities*

From 1st July, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Prior to the application of HKAS 39, interest-free loans were stated at their nominal value. HKAS 39 requires that all financial assets and financial liabilities to be measured at fair value on initial recognition. Interest-free loans are measured at amortised cost using the effective interest method at subsequent balance sheet dates. The Group's retained profits as at 1st July, 2005 have been increased by approximately HK\$61,617,000. Profit for the year ended 30th June, 2006 has been decreased by approximately HK\$1,822,000.

#### Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st July, 2005. In relation to share options granted before 1st July, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st July, 2005 in accordance with the relevant transitional provisions. Accordingly, the adoption of HKFRS 2 has not resulted in an impact to the results of the Group for the prior accounting period.

The financial impacts on the adoption of HKFRS 2 to the results of the Group for the current year are summarised in note 3.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above on the results of the Group for the current and prior year are as follows:

	2005 HK\$'000	2006 HK\$'000
Depreciation and amortisation of		
- hotel property	(7,391)	(7,392)
- property, plant and equipment reclassified from investment properties	(3,077)	(3,134)
Amortisation of prepaid land lease payments	(3,227)	(3,227)
Decrease in deferred taxes relating to depreciation and amortisation of hotel property and property, plant and equipment reclassified from investment properties	1,735	1,800
Gains arising from changes in fair value of investment properties of		
- the Group	281,166	405,529
- a jointly controlled entity	27,000	1,000
- an associate	-	(1,895)
Increase in deferred taxes relating to investment properties of		
- the Group	(48,284)	(70,968)
- a jointly controlled entity	(3,000)	-
Decrease in loss on disposal of an investment property	-	66,702
Expenses in relation to share option granted to employees	-	(5,295)
Increase in imputed interest income relating to interest-free loan to a jointly controlled entity	-	42,745
Decrease in share of profits of jointly controlled entities relating to their financial liabilities	-	(45,233)
Share of tax of jointly controlled entities and associates reclassified from (to):		
- share of profits of jointly controlled entities	(70,855)	(111,577)
- share of profits of associates	(668)	(36)
- income tax expense	71,523	111,613
<b>Increase in profit for the year</b>	<b>244,922</b>	<b>380,632</b>
Attributable to:		
Equity holders of the Company	244,922	381,298
Minority interests	-	(666)
	244,922	380,632

Analysis of increase in profit for the year by line items presented according to their function:

	2005 HK\$'000	2006 HK\$'000
Increase in turnover	-	42,745
Increase in cost of sales and services	(13,695)	(13,753)
Increase in administrative expenses	-	(5,295)
Decrease in other operating expenses	-	66,702
Increase in gain arising from changes in fair value of investment properties	281,166	405,529
Decrease in share of profits of		
- jointly controlled entities	(46,855)	(155,810)
- associates	(668)	(1,931)
Decrease in income tax expense	24,974	42,445
<b>Increase in profit for the year</b>	<b>244,922</b>	<b>380,632</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

#### The Group

The cumulative effects of the application of the new HKFRSs as at 30th June, 2005 and 1st July, 2005 are summarised below:

	As at 30th June, 2005 (originally stated) HK\$'000	Effects of adoption of					As at 30th June, 2005 (restated) HK\$'000	Effect of adoption of HKAS 39 HK\$'000	As at 1st July, 2005 (restated) HK\$'000	
		HK-Int 2 HK\$'000	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 32 HK\$'000	HKAS 40 HK\$'000				HK(SIC) 21 HK\$'000
<b>Balance sheet items</b>										
Investment properties	6,477,300	-	-	-	-	(361,016)	-	6,116,284	-	6,116,284
Property, plant and equipment	538,378	(129,804)	-	(78,996)	-	111,049	-	440,627	-	440,627
Prepaid land lease payments										
- Non-current	-	-	-	737,207	-	53,763	-	790,970	-	790,970
- Current	-	-	-	5,528	-	1,346	-	6,874	-	6,874
Properties for or under development	1,125,532	-	(260,398)	(663,739)	-	-	-	201,395	-	201,395
Interests in jointly controlled entities	7,725,147	-	-	-	(1,198,933)	-	-	6,526,214	268,592	6,794,806
Interests in associates	14,164	-	-	-	-	-	(4,021)	10,143	-	10,143
Investments in securities										
- Non-current	22,114	-	-	-	-	-	-	22,114	(22,114)	-
- Current	737,591	-	-	-	-	-	-	737,591	(737,591)	-
Held-to-maturity investments	-	-	-	-	-	-	-	-	737,591	737,591
Available-for-sale investments	-	-	-	-	-	-	-	-	22,114	22,114
Long-term loans and receivables	-	-	-	-	1,216,483	-	-	1,216,483	(186,187)	1,030,296
Long-term receivables	17,550	-	-	-	(17,550)	-	-	-	-	-
Properties for sale	99,332	-	260,398	-	-	-	-	359,730	-	359,730
Deferred tax liabilities	(64,815)	22,716	-	-	-	889	(539,281)	(580,491)	-	(580,491)
<b>Total effects on assets and liabilities</b>		<b>(107,088)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(193,969)</b>	<b>(543,302)</b>		<b>82,405</b>	
Retained profits	2,819,949*	(107,088)	-	-	-	2,260,604	(543,302)	4,430,163	61,617	4,491,780
Investment property revaluation reserve	2,454,573	-	-	-	-	(2,454,573)	-	-	-	-
Minority interests	-	-	2,468,602	-	-	-	-	2,468,602	20,788	2,489,390
<b>Total effects on equity</b>		<b>(107,088)</b>	<b>2,468,602</b>	<b>-</b>	<b>-</b>	<b>(193,969)</b>	<b>(543,302)</b>		<b>82,405</b>	
Minority interests	2,468,602	-	(2,468,602)	-	-	-	-	-	-	-

The financial effects of the application of the new HKFRSs to the Group's equity at 30th June, 2004 and 1st July, 2004 are summarised below:

	As at 30th June, 2004 (originally stated) HK\$'000	Effects of adoption of				As at 30th June, 2004 and 1st July, 2004 (restated) HK\$'000
		HK-Int 2 HK\$'000	HKAS 1 HK\$'000	HKAS 40 HK\$'000	HK(SIC) 21 HK\$'000	
Retained profits	1,829,891*	(99,439)	-	1,959,749	(495,018)	3,195,183
Investment property revaluation reserve	2,131,845	-	-	(2,131,845)	-	-
Minority interests	-	-	2,418,947	-	-	2,418,947
<b>Total effects on equity</b>		<b>(99,439)</b>	<b>2,418,947</b>	<b>(172,096)</b>	<b>(495,018)</b>	
Minority interests	2,418,947	-	(2,418,947)	-	-	-

\* The retained profits shown above include dividend reserve previously presented as a separate item in reserves.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

#### The Company

The cumulative effects of the application of the new HKFRSs as at 30th June, 2005 and 1st July, 2005 are summarised below:

	<i>As at 30th June, 2005 (originally stated) HK\$'000</i>	<i>Effects of adoption of HKAS 32 HK\$'000</i>	<i>As at 30th June, 2005 (restated) HK\$'000</i>	<i>Effect of adoption of HKAS 39 HK\$'000</i>	<i>As at 1st July, 2005 (restated) HK\$'000</i>
<b>Balance sheet items</b>					
Interests in subsidiaries	13,424,338	(13,424,338)	–	–	–
Investments in subsidiaries	–	27,813	27,813	–	27,813
Amounts due from subsidiaries					
- Non-current	–	13,396,525	13,396,525	–	13,396,525
Investments in securities	3,000	–	3,000	(3,000)	–
Available-for-sale investments	–	–	–	3,000	3,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
		–		–	

The application of the new HKFRSs has had no significant effect on the Company's equity at 30th June, 2004 and 1st July, 2004.

#### New standards and interpretations not yet effective

The Group has not early applied the following standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease <sup>2</sup>
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006

<sup>5</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>6</sup> Effective for annual periods beginning on or after 1st June, 2006

The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the financial statements of the Group and the Company, except for HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts". HKAS 39 and HKFRS 4 (Amendments) require financial guarantee contracts be initially recognised at fair value. The Group is not yet in a position to quantify the overall effect of HKAS 39 and HKFRS 4 (Amendments) on the results of operations and financial position of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **Goodwill**

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

### **Excess of an acquirer’s interest in the net fair value of an acquiree’s identifiable assets, liabilities and contingent liabilities over cost (“discount on acquisition”)**

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

### **Investments in subsidiaries**

In the Company’s balance sheet, investments in subsidiaries are stated at cost less any identified impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. The cost of investments in jointly controlled entities comprises capital contributed, development expenditure incurred by the Group, financial expenses capitalised less interest income on advances to jointly controlled entities deferred to the extent of the Group's interest therein during the development stage of the projects undertaken by the jointly controlled entities.

The cost of investments, to the extent not borne by the jointly controlled entities, is amortised over the joint venture period on the same basis as that adopted by the relevant jointly controlled entity in respect of depreciation of its project cost, commencing from the date of operation of the project undertaken.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

In the Company's balance sheet, investments in associates are stated at cost less any identified impairment losses.

### Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

### Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any identified accumulated impairment loss.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Properties for or under development

Properties held for or under development are stated at cost less any identified impairment losses. The cost of properties comprises land cost, development expenditure, other attributable expenses and, where appropriate, borrowing costs capitalised.

When the leasehold property is in the course of development, the leasehold land component is classified as prepaid lease payments for land and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided in respect of the leasehold land is included as part of the cost of the property under development.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment - other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Prepaid land lease payments

Prepaid land lease payments, which represent up-front payments to acquire interests in leasehold land, are stated at cost and amortised over the period of the lease on a straight-line basis.

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

The Group's financial assets are classified into loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as "held-to-maturity investments", "financial assets at fair value through profit or loss" and "loans and receivables". At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent years.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent years when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including long-term loans and receivables, trade and other receivables, loans to a jointly controlled entity, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities, including amounts due to associates, trade and other payables and amount due to a minority shareholder, are subsequently measured at amortised cost, using the effective interest method.

##### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the balance sheet (i.e. when the obligation specified in the relevant contract is discharged or cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

##### Properties for sale

Completed properties and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale, determined by management based on prevailing market conditions.

##### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

##### The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense on a straight-line basis over the lease term.

##### The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when they fall due.

### Equity-settled share-based payment transactions

#### *Share options granted to employees after 1st July, 2005*

The fair value of services received, determined by reference to the fair value of share options granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

### Lease of properties

Rental income in respect of properties under operating leases is recognised on a straight-line basis over the respective lease term.

### Property agency and management

Revenue from the provision of property agency and management services is recognised when the relevant services are provided.

### Property development

Revenue from properties under pre-sale arrangement prior to completion of the development is recognised on the execution of binding sales agreement or when the relevant completion certificates are issued by the respective government authorities, whichever is the later. Payments received from the purchasers prior to this stage are recorded as deposits received from sale of properties and presented as current liabilities.

### Hotel investment and management

Revenue from hotel investment and management is recognised when the relevant services are provided.

### Restaurant operations and food catering

Revenue from restaurant operations and food catering services is recognised when goods are delivered and services are provided.

### Interest income

Interests from bank deposits, advances to jointly controlled entities undertaking infrastructure project investments, loans and other receivables are recognised on a time basis by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Dividend income

Dividends from investments are recognised when the Group's rights to receive payment have been established.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, long-term loans and receivables, trade and other receivables, loans to a jointly controlled entity, pledged deposits, bank balances and cash, bank borrowings, amounts due to associates, trade and other payables, and amount due to a minority shareholder. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risk

#### (i) Currency risk

Certain trade receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

#### (ii) Interest rate risk

The Group has exposures to cash flow interest rate risk regarding its loans to jointly controlled entities which carry interest at floating interest rate. Currently, interest rate risk is not hedged. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's bank balances and deposits are all short term in nature, any future variations in interest rate will not have a significant impact on the results of the Group.

#### (iii) Other price risk

The Group is also exposed to equity security price risk through its investments in listed and unlisted equity investments. Management monitors the price movements of these assets and makes appropriate investment decisions.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30th June, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet and in respect of the guarantees given by the Group is the amounts covered by the guarantees. The recoverability of each individual receivable and the Group's credit risk exposure are regularly reviewed to ensure that adequate provisions are made for impairment losses. The Group has established credit approvals and other monitoring procedures to ensure that follow-up actions are taken to minimise the potential losses from bad credit risk. In this regard, the directors of the Company consider that the Group's credit risk is adequately monitored.

The credit risk on liquid funds is limited because the counterparties are financial institutions with high credit standing.

Other than the long-term loans and receivables disclosed in note 30, the Group has no significant concentration of credit risk, with exposures adequately spread over a number of counterparties and customers.

### 6. TURNOVER

Turnover comprises mainly income from infrastructure project investments, property letting, agency and management, property development, hotel investment and management, restaurant operations and food catering, and is analysed as follows:

	2005 HK\$'000	2006 HK\$'000
Infrastructure project investments	52,473	<b>115,508</b>
Property letting, agency and management	289,696	<b>330,636</b>
Property development	–	<b>107,849</b>
Hotel investment and management	179,491	<b>200,460</b>
Restaurant operations and food catering	151,488	<b>176,255</b>
Other operations	4,884	<b>693</b>
	678,032	<b>931,401</b>

Note: The turnover from infrastructure project investments shown above includes interest income from jointly controlled entities of HK\$108 million (2005: HK\$44 million), of which HK\$43 million (2005: Nil) represents imputed interest on interest-free loans advanced by the Group to certain jointly controlled entities.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business Segments

The businesses based upon which the Group reports its primary segment information are as follows:

Infrastructure project investments	–	investments in expressway projects
Property investment	–	property letting, agency and management
Property development	–	development of properties
Hotel investment and management	–	hotel ownership and management
Restaurants and catering	–	restaurant operations and food catering

Segment information about these businesses is presented below.

#### Segment turnover

Year ended 30th June

	2005			2006		
	External HK\$'000	Inter- segment HK\$'000	Combined HK\$'000	External HK\$'000	Inter- segment HK\$'000	Combined HK\$'000
Infrastructure project investments	52,473	–	52,473	115,508	–	115,508
Property investment	289,696	23,328	313,024	330,636	25,730	356,366
Property development	–	–	–	107,849	–	107,849
Hotel investment and management	179,491	175	179,666	200,460	175	200,635
Restaurants and catering	151,488	–	151,488	176,255	–	176,255
Other operations	4,884	300	5,184	693	–	693
Eliminations	–	(23,803)	(23,803)	–	(25,905)	(25,905)
<b>Total turnover</b>	<b>678,032</b>	<b>–</b>	<b>678,032</b>	<b>931,401</b>	<b>–</b>	<b>931,401</b>

Inter-segment revenue was charged at prices determined by management with reference to market prices.

#### Segment results

Year ended 30th June

	2005				2006			
	Company and subsidiaries HK\$'000	Jointly controlled entities HK\$'000	Associates HK\$'000	Total HK\$'000	Company and subsidiaries HK\$'000	Jointly controlled entities HK\$'000	Associates HK\$'000	Total HK\$'000
Infrastructure project investments	16,642	888,381	–	905,023	100,610	982,199	–	1,082,809
Property investment								
- Operations	163,133	–	2,680	165,813	187,696	–	382	188,078
- Gain arising from changes in fair value of investment properties	281,166	–	–	281,166	405,529	–	–	405,529
Property development	(24,930)	101,489	–	76,559	(506)	32,576	15,758	47,828
Hotel investment and management	42,350	–	–	42,350	55,204	–	–	55,204
Restaurants and catering	7,019	–	–	7,019	17,936	–	–	17,936
Other operations	(32,104)	–	540	(31,564)	15,166	–	424	15,590
<b>Segment results</b>	<b>453,276</b>	<b>989,870</b>	<b>3,220</b>	<b>1,446,366</b>	<b>781,635</b>	<b>1,014,775</b>	<b>16,564</b>	<b>1,812,974</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business Segments (continued)

	2005 HK\$'000	2006 HK\$'000
Segment results		
Company and subsidiaries	453,276	781,635
Interest and other income	107,188	164,798
Exchange (losses) gains	(9,703)	15,062
Unallocated corporate and other expenses	(85,221)	(66,252)
	465,540	895,243
Gain on disposal of a power station project	449,216	185,755
Gain on disposal/deemed disposal of subsidiaries	–	294,491
Reversal of impairment loss on an amount due from a former jointly controlled entity	–	245,480
Write back of warranty provisions	–	80,000
Gain on disposal of interests in jointly controlled entities and an associate	502,117	–
Finance costs	(92,182)	(61,706)
Share of profits of		
Jointly controlled entities	989,870	1,014,775
Associates	3,220	16,564
Profit before taxation	2,317,781	2,670,602
Income tax expense	(73,646)	(68,148)
Profit for the year	2,244,135	2,602,454

### Assets and Liabilities

At 30th June, 2006

	Segment assets HK\$'000	Interests in and loans to jointly controlled entities HK\$'000	Interests in associates HK\$'000	Consolidated total assets HK\$'000	Segment liabilities HK\$'000	Consolidated total liabilities HK\$'000
Infrastructure project investments	102,469	7,489,046	–	7,591,515	53,225	53,225
Property investment	6,631,603	4,000	19,973	6,655,576	131,822	131,822
Property development	1,585,770	541,608	3,403	2,130,781	159,275	159,275
Hotel investment and management	398,805	–	–	398,805	54,496	54,496
Restaurants and catering	118,702	–	–	118,702	19,735	19,735
Other operations	19,385	–	–	19,385	46,736	46,736
	8,856,734	8,034,654	23,376	16,914,764	465,289	465,289
Available-for-sale investments				194,932		–
Other assets/liabilities				4,274,733		823,255
				21,384,429		1,288,544

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business Segments (continued)

At 30th June, 2005

	Segment assets HK\$'000	Interests in and loans to jointly controlled entities HK\$'000	Interests in associates HK\$'000	Consolidated total assets HK\$'000	Segment liabilities HK\$'000	Consolidated total liabilities HK\$'000
Infrastructure project investments	12,081	7,256,485	–	7,268,566	48,893	48,893
Property investment	6,204,271	–	10,143	6,214,414	127,271	127,271
Property development	1,225,071	479,532	–	1,704,603	117,377	117,377
Hotel investment and management	395,382	–	–	395,382	43,581	43,581
Restaurants and catering	110,162	–	–	110,162	18,494	18,494
Other operations	119,100	–	–	119,100	464,128	464,128
	8,066,067	7,736,017	10,143	15,812,227	819,744	819,744
Investments in securities				756,078		–
Other assets/liabilities				3,082,728		896,675
				19,651,033		1,716,419

The Group's total assets less current liabilities and the Group's net current assets at 30th June, 2006 amounted to HK\$20,839,057,000 (2005: HK\$18,746,202,000) and HK\$4,338,623,000 (2005: HK\$3,327,709,000) respectively.

#### Other Information

	2005			2006		
	Capital additions HK\$'000	Depreciation and amortisation HK\$'000	Other non-cash expenses HK\$'000	Capital additions HK\$'000	Depreciation and amortisation HK\$'000	Other non-cash expenses HK\$'000
Infrastructure project investments	833	101,097	–	223	112,696	–
Property investment	262,693	6,136	–	63,364	3,538	–
Property development	12,641	915	951	31,114	982	–
Hotel investment and management	6,428	15,762	179	32,087	17,489	857
Restaurants and catering	2,537	3,598	12	7,158	4,700	85
Other operations	7	698	–	28	674	–
Unallocated	3,795	1,988	–	1,542	1,983	–

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Geographical Segments

The Group's property investment, hotel investment and management, restaurants and catering activities are mainly carried out in Hong Kong. All the infrastructure project investments are located in the Mainland China (the "PRC") and the property development activities are carried out in Hong Kong, the PRC and Macau. The following table provides an analysis of the Group's turnover by geographical markets:

	<i>Turnover</i>	
	2005 HK\$'000	2006 HK\$'000
Hong Kong	622,611	<b>705,926</b>
The PRC and Macau	55,421	<b>225,475</b>
	678,032	<b>931,401</b>

The following is an analysis of the carrying amounts of assets and additions to investment properties, property, plant and equipment, and properties for or under development of the Group, analysed by the geographical areas in which the assets are located:

	<i>Assets</i>		<i>Additions to investment properties, property, plant and equipment and properties for or under development</i>	
	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000
Group segment assets				
Hong Kong	7,607,712	<b>8,241,632</b>	288,498	<b>134,745</b>
The PRC	345,509	<b>608,985</b>	436	<b>771</b>
Other regions	126,211	<b>18,656</b>	–	–
Other assets (Note)	8,079,432	<b>8,869,273</b>	288,934	<b>135,516</b>
	11,571,601	<b>12,515,156</b>	–	–
	19,651,033	<b>21,384,429</b>	288,934	<b>135,516</b>

*Note:* Other assets shown above include interests in and loans to jointly controlled entities engaging in infrastructure project investments in the PRC, available-for-sale investments and bank deposits.

### 8. OTHER INCOME

	2005 HK\$'000	2006 HK\$'000
Included in other income are:		
Interest from		
Defeasance and other bank deposits	66,021	<b>122,399</b>
Loans and other receivables	16,673	<b>17,646</b>
Yield on held-to-maturity debt securities (after deducting amortisation of premium on acquisition of HK\$3,914,000 (2005: HK\$40,826,000))	24,494	<b>3,822</b>
Gain on disposal of available-for-sale investments		
Listed equity securities	–	<b>20,931</b>
Unlisted equity investments	–	<b>7,958</b>
Exchange gains, net	–	<b>39,021</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 9. OTHER OPERATING EXPENSES

	2005 HK\$'000	2006 HK\$'000
Included in other operating expenses are:		
Charitable donations	10,386	22,136
Exchange losses, net	9,703	–

### 10. GAIN ON DISPOSAL OF A POWER STATION PROJECT

The amount represents gain on disposal of the Tanjung Jati B Power Station in Indonesia recognised during the year. The power station was disposed of in 2003 for a cash consideration of US\$306.2 million which was payable by instalments over a period of 39 months from July 2003 under the sale agreement. As the timing and ultimate receipt of the instalments could be materially affected by the occurrence of certain events stipulated in the loan agreements and the finance lease agreements entered into by the purchasers, including, inter alia, force majeure events which would have a material adverse effect on the construction of the plant resulting in the cancellation by the lenders of the project loan facilities granted to the purchasers, the outstanding instalments are recognised by the Group when payments are received. Up to the date of approval of these financial statements, the total consideration for disposal, after deducting related expenses, has been fully received by the Group, giving rise to a gain on disposal amounting to HK\$185.8 million (2005: HK\$449.2 million) recognised in the current year's consolidated income statement.

### 11. GAIN ON DISPOSAL/DEEMED DISPOSAL OF SUBSIDIARIES

	2005 HK\$'000	2006 HK\$'000
Gain on disposal of a subsidiary (Note a)	–	265,387
Gain on deemed disposal of interest in a listed subsidiary (Note b)	–	29,104
	–	294,491

Notes:

- (a) During the year, the Company entered into an agreement for the disposal of the Company's entire interest in and the Group's advances to a subsidiary, Hopewell (Thailand) Limited ("HTL"), whose primary business is the undertaking of the elevated rail and road transport system project in Bangkok (the "BERTS Project"). The consideration for the disposal amounted to Thai Baht 500 million plus a sum equivalent to 20% of the excess over Thai Baht 2 billion if the total amount recoverable by HTL relating to its claims in connection with the BERTS Project exceeds Thai Baht 2 billion as specified in the agreement. However, the timing and ultimate receipt of the consideration could be materially affected by the occurrence of certain events relating to the successful recovery by HTL of its claims regarding the BERTS Project, which are uncertain. Accordingly, the consideration will only be recognised by the Group until receipt of the consideration is probable. The gain on disposal of HTL amounting to approximately HK\$265 million recognised in the consolidated income statement for the year represents the net liabilities of HTL discharged by the Group on disposal.
- (b) Following the exercise of the HHI Warrants by the warrants holders during the year as detailed in note 38, the Company's interest in HHI has been reduced by 1.54% to 73.24%, giving rise to a gain on deemed disposal of HK\$29 million recognised in the consolidated income statement for the year.

### 12. REVERSAL OF IMPAIRMENT LOSS ON AN AMOUNT DUE FROM A FORMER JOINTLY CONTROLLED ENTITY/GAIN ON DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AN ASSOCIATE

	2005 HK\$'000	2006 HK\$'000
Reversal of impairment loss on an amount due from a former jointly controlled entity (Note)	–	245,480
Gain on disposal of interests in		
Jointly controlled entities (Note)	495,633	–
An associate	6,484	–
	502,117	245,480

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 12. REVERSAL OF IMPAIRMENT LOSS ON AN AMOUNT DUE FROM A FORMER JOINTLY CONTROLLED ENTITY/GAIN ON DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES AND AN ASSOCIATE (continued)

Note: In the prior year, the Group disposed of its entire interests in the jointly controlled entities undertaking the highway and bridge project and the National Highway 105 project in Shunde, the PRC, which gave rise to a gain on disposal of approximately HK\$496 million recognised by the Group. In determining the gain on disposal, the outstanding amount due from one of the jointly controlled entities of approximately HK\$245 million was regarded as impaired. During the current year, such outstanding amount of HK\$245 million was fully repaid by the jointly controlled entity to the Group and has been recognised in the consolidated income statement for the current year.

### 13. FINANCE COSTS

	2005 HK\$'000	2006 HK\$'000
Interests on:		
Bank loans and overdrafts wholly repayable within five years	14,647	5,636
Notes wholly repayable within five years	18,197	–
Other interest expense (note 26(c))	37,860	39,549
Total interest	70,704	45,185
Note issue expenses amortised	356	–
Loan arrangement fees and bank charges	21,122	16,521
	92,182	61,706

### 14. SHARE OF PROFITS OF JOINTLY CONTROLLED ENTITIES

	2005 HK\$'000	2006 HK\$'000
Share of profits of jointly controlled entities before amortisation of cost of investments in jointly controlled entities	1,090,683	1,127,101
Amortisation of cost of investments in jointly controlled entities	(100,813)	(112,326)
	989,870	1,014,775

Included in the share of profits of jointly controlled entities for the year ended 30th June, 2005 is profit from disposal of a development property by a jointly controlled entity amounted to HK\$83 million.

### 15. PROFIT BEFORE TAXATION

	2005 HK\$'000	2006 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	3,933	4,630
Depreciation of property, plant and equipment	26,154	26,509
Amortisation of prepaid land lease payments	6,875	8,532
Less: Amount capitalised to properties for or under development	(3,648)	(5,305)
	3,227	3,227
Rentals in respect of properties under operating leases	891	1,095
Staff costs (including directors' emoluments)	231,868	243,415
Share of tax of jointly controlled entities (included in share of profits of jointly controlled entities)	70,855	111,577
Share of tax of associates (included in share of profits of associates)	668	36
Rental income in respect of land and buildings under operating leases, less outgoings of HK\$125,444,000 (2005: HK\$118,821,000)	(164,558)	(197,250)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 16. INCOME TAX EXPENSE

	2005 HK\$'000	2006 HK\$'000
Hong Kong Profits Tax		
Current year	8,633	12,585
Overprovision in respect of prior years	–	(16,525)
	8,633	(3,940)
Taxation elsewhere		
Current year	8,306	11,610
Overprovision in respect of prior years	–	(18,144)
	16,939	(10,474)
Deferred tax (note 43)	56,707	78,622
	73,646	68,148

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Taxes on profits assessable elsewhere are calculated at the tax rates prevailing in the countries in which the Group operates.

Details of deferred taxation are set out in note 43.

The income tax expense can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2006 HK\$'000
Profit before taxation	2,317,781	2,670,602
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	405,612	467,355
Tax effect of expenses not deductible for tax purposes	34,689	20,204
Tax effect of income not taxable for tax purposes	(109,066)	(170,248)
Tax effect of tax losses not recognised	6,535	6,851
Tax effect of utilisation of tax losses not previously recognised	(11,546)	(6,021)
Tax effect of utilisation of deductible temporary differences not previously recognised	(78,613)	(32,507)
Tax effect of share of profits of jointly controlled entities and associates	(173,791)	(180,484)
Overprovision in respect of prior years	–	(34,669)
Effect of different tax rates of subsidiaries operating in other jurisdictions	730	(1,856)
Others	(904)	(477)
Income tax expense	73,646	68,148

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 17. DIVIDENDS

	2005 HK\$'000	2006 HK\$'000
Dividends paid		
Final dividend for the year ended 30th June, 2005 of HK38 cents per share (2005: year ended 30th June, 2004 of HK30 cents per share)	268,931	341,454
Interim dividend for the year ended 30th June, 2006 of HK36 cents per share (2005: year ended 30th June, 2005 of HK12 cents per share)	107,768	323,447
2005: special interim dividend for the year ended 30th June, 2005 of HK30 cents per share	269,421	–
	646,120	664,901
Dividend proposed		
Final dividend for the year ended 30th June, 2006 of HK48 cents per share (2005: year ended 30th June, 2005 of HK38 cents per share)	341,229	431,311

The proposed final dividend of HK48 cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

### 18. EARNINGS PER SHARE

	2005 HK\$'000	2006 HK\$'000
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share		
Profit for the year attributable to equity holders of the Company	1,907,333	2,249,896
Effect of dilutive potential ordinary shares of HHI (note 38):		
Adjustment to the Group's results arising from a dilution of HHI's earnings attributable to warrants and share options issued	(4,109)	(3,803)
Earnings for the purposes of diluted earnings per share	1,903,224	2,246,093
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	895,900,603	898,379,751
Effect of dilutive potential ordinary shares:		
Share options	1,364,784	280,799
Weighted average number of ordinary shares for the purposes of diluted earnings per share	897,265,387	898,660,550

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 18. EARNINGS PER SHARE (continued)

#### Impact of changes in accounting policies

The following table summarises the impact on basic earnings per share as a result of changes in accounting policies as described in notes 2 and 3:

	2005 HK\$	2006 HK\$
Figures before changes in accounting policies	1.86	2.08
Effect of changes in accounting policies (see notes 2 and 3)	0.27	0.42
Figures after changes in accounting policies	2.13	2.50

### 19. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID EMPLOYEES

#### (a) Directors' emoluments

The emoluments paid or payable to the Company's directors are as follows:

	Year ended 30th June, 2006				
	Directors' fees HK\$'000	Basic salaries, allowances and benefits-in-kind HK\$'000	Bonus HK\$'000	Contributions to provident fund schemes HK\$'000	Total HK\$'000
Sir Gordon Ying Sheung Wu	600	4,500	–	–	5,100
Mr. Eddie Ping Chang Ho	500	3,492	–	–	3,992
Mr. Josiah Chin Lai Kwok	200	3,000	–	12	3,212
Mr. Thomas Jefferson Wu	400	3,354	–	24	3,778
Mr. Henry Hin Moh Lee	200	1,000	–	–	1,200
Mr. Robert Van Jin Nien	200	1,430	–	12	1,642
Mr. Guy Man Guy Wu	200	–	–	–	200
Lady Ivy Sau Ping Kwok Wu	200	–	–	–	200
Ms. Linda Lai Chuen Loke	200	–	–	–	200
Mr. Albert Kam Yin Yeung	200	1,638	–	12	1,850
Mr. Barry Chung Tat Mok	351	1,585	–	8	1,944
Mr. David Yau-gay Lui	200	–	–	–	200
Mr. Carmelo Ka Sze Lee	200	–	–	–	200
Mr. Andy Lee Ming Cheung	200	1,573	–	12	1,785
Mr. Eddie Wing Chuen Ho Junior	200	819	–	12	1,031
Mr. Lee Yick Nam	400	–	–	–	400
Mr. Colin Henry Weir	83	2,662	–	5	2,750
	4,534	25,053	–	97	29,684

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 19. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID EMPLOYEES (continued)

#### (a) Directors' emoluments (continued)

	Year ended 30th June, 2005				
	Directors' fees HK\$'000	Basic salaries, allowances and benefits-in-kind HK\$'000	Bonus HK\$'000	Contributions to provident fund schemes HK\$'000	Total HK\$'000
Sir Gordon Ying Sheung Wu	600	4,500	–	–	5,100
Mr. Eddie Ping Chang Ho	500	3,600	–	–	4,100
Mr. Josiah Chin Lai Kwok	200	3,000	–	12	3,212
Mr. Thomas Jefferson Wu	400	3,354	–	24	3,778
Mr. Henry Hin Moh Lee	200	1,000	–	–	1,200
Mr. Robert Van Jin Nien	200	1,430	–	12	1,642
Mr. Guy Man Guy Wu	200	–	–	–	200
Lady Ivy Sau Ping Kwok Wu	200	–	–	–	200
Ms. Linda Lai Chuen Loke	200	–	–	–	200
Mr. Albert Kam Yin Yeung	200	1,638	126	12	1,976
Mr. David Yau-gay Lui	200	–	–	–	200
Mr. Carmelo Ka Sze Lee	200	–	–	–	200
Mr. Andy Lee Ming Cheung	200	1,573	121	12	1,906
Mr. Eddie Wing Chuen Ho Junior	200	819	63	12	1,094
Mr. Lee Yick Nam	363	–	–	–	363
Mr. Colin Henry Weir	200	2,096	–	12	2,308
	4,263	23,010	310	96	27,679

Other than fees of HK\$800,000 (2005: HK\$763,000) paid or payable to the independent non-executive directors which have been included above, no remuneration was paid or is payable to such directors.

#### (b) Highest paid employees' emoluments

The five individuals in the Group with the highest emoluments are the directors of the Company and details of their emoluments have been disclosed above.

### 20. INVESTMENT PROPERTIES

#### The Group

	2005 HK\$'000	2006 HK\$'000
Investment properties at fair value		
At beginning of the year	5,562,962	6,116,284
Additions	258,464	59,820
Reclassified from property, plant and equipment	13,692	–
Disposals	–	(44,289)
Increase in fair value recognised in consolidated income statement	281,166	405,529
At end of the year	6,116,284	6,537,344

The Group's investment properties comprises:

	2005 HK\$'000	2006 HK\$'000
Land and buildings in Hong Kong on		
Long leases	3,049,910	3,268,730
Medium-term leases	3,066,374	3,268,614
	6,116,284	6,537,344

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 20. INVESTMENT PROPERTIES (continued)

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 30th June, 2006 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited ("Savills"), independent professional property valuers not connected with the Group. The valuation report on these properties is signed by a director of Savills who is a member of The Hong Kong Institute of Surveyors ("HKIS"), and the valuation, which is prepared in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) published by HKIS, was arrived at by reference to market evidence of transaction prices for similar properties or on the basis of capitalisation of net rental income from properties.

### 21. PROPERTY, PLANT AND EQUIPMENT

	<i>Buildings in Hong Kong</i>			<i>Total HK\$'000</i>
	<i>Hotel property HK\$'000</i>	<i>Other properties HK\$'000</i>	<i>Other assets HK\$'000</i>	
<b>The Group</b>				
<b>COST</b>				
At 1st July, 2004	369,543	174,511	292,871	836,925
Additions	–	2,922	15,360	18,282
Reclassified to investment properties	–	–	(13,692)	(13,692)
Disposals	–	–	(11,872)	(11,872)
At 30th June, 2005	369,543	177,433	282,667	829,643
Additions	–	1,644	43,800	45,444
Disposals	–	–	(1,254)	(1,254)
Disposal of a subsidiary	–	–	(624)	(624)
<b>At 30th June, 2006</b>	<b>369,543</b>	<b>179,077</b>	<b>324,589</b>	<b>873,209</b>
<b>DEPRECIATION</b>				
At 1st July, 2004	96,080	43,299	235,303	374,682
Provided for the year	7,391	3,633	15,130	26,154
Eliminated on disposals	–	–	(11,820)	(11,820)
At 30th June, 2005	103,471	46,932	238,613	389,016
Provided for the year	7,392	3,691	15,426	26,509
Eliminated on disposals	–	–	(933)	(933)
Eliminated on disposal of a subsidiary	–	–	(187)	(187)
<b>At 30th June, 2006</b>	<b>110,863</b>	<b>50,623</b>	<b>252,919</b>	<b>414,405</b>
<b>CARRYING VALUES</b>				
At 30th June, 2005	266,072	130,501	44,054	440,627
<b>At 30th June, 2006</b>	<b>258,680</b>	<b>128,454</b>	<b>71,670</b>	<b>458,804</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 21. PROPERTY, PLANT AND EQUIPMENT (continued)

An analysis of the carrying values of the buildings in Hong Kong is as follows:

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Hotel property on land under medium-term leases	266,072	<b>258,680</b>
Other properties on land under		
Long leases	16,260	<b>16,671</b>
Medium-term leases	114,241	<b>111,783</b>
	130,501	<b>128,454</b>

The above items of property, plant and equipment are depreciated over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method, as follows:

<i>Category of assets</i>	<i>Estimated useful lives</i>
Buildings	50 years or the remaining term of the lease of the land on which the buildings are located, whichever is shorter
Other assets	3 to 10 years

### 22. PREPAID LAND LEASE PAYMENTS

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
The Group's prepaid land lease payments comprise:		
Leasehold land in Hong Kong on		
Long leases	656,185	<b>843,196</b>
Medium-term leases	141,659	<b>138,206</b>
	797,844	<b>981,402</b>
Analysed for reporting purposes as		
Non-current asset	790,970	<b>972,953</b>
Current asset	6,874	<b>8,449</b>
	797,844	<b>981,402</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 23. INVESTMENTS IN SUBSIDIARIES

	<i>The Company</i>	
	2005 HK\$'000	2006 HK\$'000
Unlisted shares		
At cost less impairment	24,568	603
At directors' 1972 valuation less impairment	3,245	–
	27,813	603
Shares listed in Hong Kong, at cost	–	992
	27,813	1,595
Market value of listed shares	–	1,170

Particulars of the principal subsidiaries are set out in note 50.

### 24. AMOUNTS DUE FROM SUBSIDIARIES

	<i>The Company</i>	
	2005 HK\$'000	2006 HK\$'000
Amounts due from subsidiaries, less allowances		
Interest bearing	–	176,501
Interest free	13,396,525	–
	13,396,525	176,501

The amount due from a subsidiary amounting to HK\$177 million at 30th June, 2006, which is unsecured and repayable more than one year from the balance sheet date, carries interest ranging from 4.6% to 5.9% per annum which is based on Hong Kong Inter-bank Offered Rate plus a specific margin. The directors consider that the carrying amount of the amount at 30th June, 2006 approximates its fair value.

### 25. PROPERTIES FOR OR UNDER DEVELOPMENT

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
<b>COST</b>		
At beginning of the year	189,207	201,395
Additions	12,188	30,252
At end of the year	201,395	231,647

Included in the cost of properties for or under development is net interest capitalised totalling HK\$55.4 million (2005: HK\$55.4 million).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 26. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Expressway and property projects in the PRC		
Unlisted investments, at cost	5,411,604	5,865,933
Share of post acquisition reserves	1,505,102	1,562,129
Less: Accumulated amortisation	(442,446)	(554,772)
	6,474,260	6,873,290
Property development project in Macau		
Unlisted investment, at cost	4,850	4,850
Share of post acquisition reserves	47,104	67,364
	51,954	72,214
Other unlisted investments	–	4,000
	6,526,214	6,949,504

### Notes:

Details of the principal jointly controlled entities at the balance sheet date are as follows:

#### (a) Phase I of the Guangzhou-Shenzhen-Zhuhai Superhighway ("GS Superhighway")

The GS Superhighway is undertaken by Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV"), a joint venture company established in the PRC. The operation period is 30 years from GS Superhighway's official opening date. The Group's entitlement to the profit of the toll operations of GS Superhighway is 50% for the initial ten years, 48% for the next ten years and 45% for the last ten years of the operation period. The Group is also entitled to a share of 80% of the rentals and other income, after deduction of operating and financial expenses, arising from the development of commercial centres and shop spaces along and underneath the GS Superhighway for a period of 30 years commencing on the date of completion of GS Superhighway. At the end of the operation period, all the immovable assets and facilities of GS Superhighway JV will revert to the PRC partner without compensation.

GS Superhighway JV has also been granted the rights to develop parcels of land within certain interchanges of the GS Superhighway for sale or rental with certain land premium to be waived. Detailed terms of such grant have yet to be finalised.

GS Superhighway was officially opened in July 1997.

#### (b) Phases II and III of the Guangzhou-Shenzhen-Zhuhai Superhighway ("Western Delta Route")

The Western Delta Route, comprising a major transportation route in Western Pearl River Delta to be developed in three phases, is undertaken by Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV"), a joint venture company established in the PRC. The joint venture co-operation period of phase I of the project ("Phase I West") is 30 years commencing from 17th September, 2003. The Group is entitled to 50% of the profits from the operation of West Route JV arising from Phase I West. At the end of the joint venture co-operation period, all the immovable assets and facilities in relation to Phase I West will revert to the PRC government without compensation. Phase I West was opened in April, 2004.

The project commitments regarding phase II ("Phase II West") and phase III ("Phase III West") of the project are disclosed in note 45(a).

#### (c) Ring Road project in Guangzhou

The construction, operation and management of the Guangzhou East-South-West Ring Road ("ESW Ring Road") are undertaken by Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV"), a joint venture company established in the PRC for this purpose. The operation period shall be approximately 30 years commencing from January 2002.

The Group is entitled to 45% of the net cash surplus of Ring Road JV for the initial ten years of the operation period and thereafter the Group's profit entitlement will be reduced to 37.5% for the subsequent ten years and 32.5% for the remaining ten years of the operation period. At the end of the operation period, all the immovable assets and facilities of Ring Road JV will revert to the PRC joint venture partner without compensation. The ESW Ring Road was officially opened in January 2002.

Ring Road JV has in the past raised bank loans to finance the development of its road project. The interests of such bank loans were reimbursed by the Hong Kong joint venture partners. During the year, interest reimbursed to Ring Road JV by the Group under such arrangement amounted to approximately HK\$40 million (2005: HK\$38 million).

#### (d) Property development project in Macau

The investment represents the Group's 50% interest in Nova Taipa-Urbanizacoes Limitada ("Nova Taipa"), a company incorporated and operating in Macau engaging principally in property development.

Subsequent to the balance sheet date, the occupation permit regarding certain properties developed by Nova Taipa was issued. Profit from sale of these properties will be recognised in the financial statements of Nova Taipa in the ensuing year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 26. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2005 HK\$'000	2006 HK\$'000
Current assets	2,234,156	3,603,120
Non-current assets	16,003,196	16,425,608
Current liabilities	725,512	2,439,526
Non-current liabilities	12,397,555	12,205,984
Income	3,347,595	4,003,989
Expenses	1,315,614	1,762,096

### 27. INTERESTS IN ASSOCIATES

	The Group	
	2005 HK\$'000	2006 HK\$'000
Cost of investments, unlisted	706	522
Share of post acquisition profits and reserves, net of dividends received	9,437	22,854
	10,143	23,376

	The Company	
	2005 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	401	401

Particulars of the principal associates are set out in note 51.

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

	2005 HK\$'000	2006 HK\$'000
Total assets	76,180	77,932
Total liabilities	(33,130)	(18,578)
Net assets	43,050	59,354
Group's share of net assets of associates	10,143	23,376
Revenue	16,857	49,120
Profit for the year	7,887	44,667
Group's share of profits of associates for the year	3,220	16,564

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 28. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments at 30th June, 2006 are set out below:

	<i>The Group</i> <i>HK\$'000</i>	<i>The Company</i> <i>HK\$'000</i>
Unlisted equity investments, at cost	18,682	3,000
Equity securities listed in Hong Kong, at fair value	176,250	–
	194,932	3,000
Market value of equity securities	176,250	–

The fair values of the listed equity securities have been determined by reference to the bid prices quoted on the Hong Kong Stock Exchange.

The unlisted equity investments are measured at cost because the directors of the Company are of the opinion that the fair value of these investments cannot be measured reliably as the information regarding the measurement of the fair value is not available.

### 29. INVESTMENTS IN SECURITIES

Investments in securities at 30th June, 2005 are set out below. Upon the application of HKAS 39 on 1st July, 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (see Note 3 for details).

	<i>The Group</i> <i>HK\$'000</i>	<i>The Company</i> <i>HK\$'000</i>
Held-to-maturity debt securities listed overseas (Note)	737,591	–
Investment securities		
Unlisted equity investments, at cost	92,403	3,000
Less: Impairment loss recognised	(70,289)	–
	22,114	3,000
	759,705	3,000
Carrying amount analysed for reporting purposes:		
Non-current	22,114	3,000
Current	737,591	–
	759,705	3,000

*Note:* During the year, held-to-maturity debt securities were redeemed upon maturity.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 30. LONG-TERM LOANS AND RECEIVABLES

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Loans to jointly controlled entities	1,209,803	<b>1,085,150</b>
Proceeds on disposal of a jointly controlled entity and property receivable	147,290	<b>96,224</b>
	1,357,093	<b>1,181,374</b>
Less: Amounts due within one year classified under current assets:		
Loans to a jointly controlled entity	(10,870)	<b>(45,620)</b>
Proceeds on disposal of a jointly controlled entity and property receivable (included in trade and other receivables)	(129,740)	<b>(96,224)</b>
	1,216,483	<b>1,039,530</b>
Analysis of long-term loans and receivables:		
Interest bearing at commercial lending rates	173,938	<b>284,804</b>
Interest bearing at a fixed rate of 6% to 7% per annum	433,364	<b>429,394</b>
Interest free	749,791	<b>467,176</b>
	1,357,093	<b>1,181,374</b>

The loans to jointly controlled entities are unsecured and with no fixed repayment terms except for an aggregate amount of HK\$616 million (2005: HK\$782 million) which are repayable out of the net cash surplus from the operations of the relevant jointly controlled entities.

The interest-free long-term loans and receivables amounting to HK\$467 million at 30th June, 2006 were measured based on the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The effective interest rates on the long-term loans and receivables in respect of the year range from 6% to 8% per annum (2005: 5% to 7% per annum).

The directors consider the carrying amount of the long-term loans and receivables at 30th June, 2006 approximates their fair value.

### 31. INVENTORIES

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Hotel and restaurant inventories	9,333	<b>11,537</b>

The cost of inventories recognised as an expense during the year amounted to HK\$108,844,000 (2005: HK\$90,646,000).

### 32. PROPERTIES FOR SALE

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Properties		
Under development	355,968	<b>337,281</b>
Completed	3,762	<b>124,813</b>
	359,730	<b>462,094</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 33. OTHER FINANCIAL ASSETS

#### Trade and other receivables

Other than rentals receivable, which are payable upon presentation of invoices, the Group allows an average credit period of 15 to 60 days to its trade customers.

The following is an analysis of trade and other receivables outstanding at the balance sheet date:

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Receivables aged		
0 - 30 days	16,301	56,027
31 - 60 days	4,353	7,964
Over 60 days	5,889	6,823
Interest on defeasance, bank deposits and other receivables	19,598	2,519
Proceeds on disposal of investment and property, plant and equipment receivable	152,586	229,948
Retentions receivable	314	-
Dividend from a jointly controlled entity receivable	323,016	352,836
	522,057	656,117

The directors consider that the carrying amounts of trade and other receivables of the Group and the Company approximate their respective fair value.

#### Pledged deposits

The amount represents deposits pledged by HTL to a bank to secure a performance bond of the same amount issued by the bank in connection with the BERTS Project referred to in note 11(a). The deposits, which carried interest ranging from 0.5% to 1% (2005: 0.5%) per annum which was based on prevailing bank deposits rates, were disposed of following the disposal of HTL.

#### Bank balances and cash

Bank balances and cash comprise cash held by the Group and bank deposits with maturity of three months or less which carry interest at prevailing market interest rates ranging from 1.5% to 4.9% (2005: 1.2% to 3.4%) per annum.

The directors consider that the carrying amounts of the bank balances and cash of the Group and the Company approximate their respective fair value.

### 34. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables outstanding at the balance sheet date:

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Payables due		
0 - 30 days	246,308	159,362
31 - 60 days	3,348	6,476
Over 60 days	148,215	150,973
Retentions payable	1,943	13,393
Development expenditure payable (Note)	359,808	-
	759,622	330,204

*Note:* The development expenditure payable at 30th June, 2005 represents construction and plant costs incurred by the Group in connection with the its overseas infrastructure project, the development of which has been suspended. Such development expenditure payable has been discharged following the disposal of the subsidiary undertaking the overseas infrastructure project during the year.

The directors consider that the carrying amounts of trade and other payables of the Group and the Company approximate their respective fair value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 35. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are unsecured, interest free and repayable on demand.

The directors consider that the carrying amounts of the amounts due to associates of the Group and the Company approximate their respective fair value.

### 36. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

The directors consider that the carrying amounts of the amounts due from/to subsidiaries approximate their respective fair value.

### 37. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured and interest free with no fixed repayment terms.

The directors consider that the carrying amount of the amount due to a minority shareholder approximates its fair value.

### 38. SHARE CAPITAL

	<i>Number of shares</i>		<i>Nominal value</i>	
	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>
	<i>'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>The Group and the Company</b>				
Ordinary shares of HK\$2.50 each				
Authorised	1,200,000	<b>1,200,000</b>	3,000,000	<b>3,000,000</b>
Issued and fully paid				
At beginning of the year	884,082	<b>897,970</b>	2,210,205	<b>2,244,925</b>
Issued during the year	14,955	<b>595</b>	37,388	<b>1,488</b>
Repurchased during the year	(1,067)	–	(2,668)	–
At end of the year	897,970	<b>898,565</b>	2,244,925	<b>2,246,413</b>

During the year, the Company issued a total of 595,000 (2005: 14,955,000) ordinary shares of HK\$2.50 each for a total cash consideration of HK\$10,175,000 (2005: HK\$127,441,000) pursuant to the exercise of the share options granted by the Company. These shares rank pari passu in all respects with the other shares in issue.

During the year ended 30th June, 2005, the Company repurchased 1,067,000 ordinary shares of the Company on the Hong Kong Stock Exchange, all of which have been cancelled, as follows:

<i>Month</i>	<i>Number of ordinary shares repurchased</i>	<i>Purchase price per share</i>		<i>Total consideration paid (including transaction costs)</i>
		<i>Highest</i>	<i>Lowest</i>	
	<i>'000</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>
2005				
January	717	19.10	17.75	13,209
February	250	19.60	19.55	4,903
March	100	17.95	17.95	1,800
	1,067			19,912

These repurchases were effected by the directors pursuant to the mandate from the shareholders with a view to benefiting the shareholders as a whole by the enhancement of the earnings per share of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 38. SHARE CAPITAL (continued)

#### Share option schemes

(a) *The Company*

In 1994, the Company adopted a share option scheme ("HHL 1994 Scheme") which was effective for a period of 10 years. Pursuant to an ordinary resolution passed on 21st October, 2003, a new share option scheme ("HHL 2003 Scheme") was adopted with effect from 1st November, 2003 to replace the HHL 1994 Scheme. The principal purpose of these schemes are to provide incentives to directors and eligible employees. The Board is authorised under the share option scheme adopted to grant options to executive directors and employees of the Company or any of its subsidiaries and persons specified in the scheme document to subscribe for shares in the Company.

Under the HHL 1994 Scheme and HHL 2003 Scheme, options granted must be taken up within 28 days and 14 days respectively from the date of the offer letter upon the payment of HK\$1 per each grant of option, payable as consideration on acceptance, which is recognised in the income statement when received.

Upon termination of the HHL 1994 Scheme on 1st November, 2003, no further options may be granted thereunder. However, all options granted under the HHL 1994 Scheme shall continue to be subject to the provisions of this scheme.

The following table discloses details of share options which were granted by the Company at nominal consideration and movements in such holdings:

Date of grant	Subscription price per share HK\$	Outstanding at 1st July, 2004	Number of shares under options granted			At 30th June, 2005		Closing prices at the date of exercise HK\$
			Movements during the year			Outstanding	Exercisable	
			Granted	Exercised	Cancelled/lapsed			
<b>Directors</b>								
<u>HHL 1994 Scheme</u>								
28th March, 2002	6.15	1,000,000	-	(1,000,000)	-	-	-	16.05
1st April, 2002	6.15	1,000,000	-	(1,000,000)	-	-	-	16.40, 17.15
3rd April, 2002	6.15	2,400,000	-	(2,400,000)	-	-	-	16.40, 17.15
9th September, 2003	9.55	8,000,000	-	(8,000,000)	-	-	-	16.40
<u>HHL 2003 Scheme</u>								
8th September, 2004	17.10	-	2,700,000	(755,000)	-	1,945,000	1,945,000	18.35, 18.45 18.15
		12,400,000	2,700,000	(13,155,000)	-	1,945,000	1,945,000	
<b>Employees</b>								
<u>HHL 1994 Scheme</u>								
2nd April, 2002	6.15	1,800,000	-	(1,800,000)	-	-	-	16.40, 17.15
		14,200,000	2,700,000	(14,955,000)	-	1,945,000	1,945,000	
Weighted average exercise price		HK\$8.07	HK\$17.10	HK\$8.52	N/A	HK\$17.10	HK\$17.10	



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 38. SHARE CAPITAL (continued)

#### Share option schemes (continued)

##### (a) The Company (continued)

Date of grant	Subscription price per share HK\$	Number of shares under options granted						Closing prices at the date of exercise HK\$
		Outstanding at 1st July, 2005	Movements during the year			At 30th June, 2006		
			Granted	Exercised	Cancelled/lapsed	Outstanding	Exercisable	
<i>Directors</i>								
<i>HHL 2003 Scheme</i>								
8th September, 2004	17.10	1,945,000	-	(595,000)	-	1,350,000	1,350,000	21.20, 20.00
2nd September, 2005	19.94	-	2,500,000	-	-	2,500,000	1,250,000	N/A
		1,945,000	2,500,000	(595,000)	-	3,850,000	2,600,000	
Weighted average exercise price		HK\$17.10	HK\$19.94	HK\$17.10	N/A	HK\$18.94	HK\$18.47	

The dates of grant of options referred to above represent the dates on which the options were accepted by the grantees.

The options granted on 8th September, 2004 under the HHL 2003 Scheme are exercisable within a period of three years from the date of grant while the options granted on 2nd September, 2005 under the HHL 2003 Scheme are exercisable in the following manner:

No. of share options	Vesting period	Exercisable period
1,250,000	2nd September, 2005 to 1st March, 2006	2nd March, 2006 to 1st March, 2009
1,250,000	2nd September, 2005 to 1st March, 2007	2nd March, 2007 to 1st March, 2009
2,500,000		

Save as disclosed above, no options were granted, exercised, cancelled or lapsed during either of the years presented.

On 2nd September, 2005, the Company granted options under the HHL 2003 Scheme at nominal consideration to a director to subscribe for a total of 2,500,000 shares in the Company. The fair values of the options granted on that date are HK\$6,819,000 which were calculated using the Binomial model. The inputs into the model were as follows:

Weighted average share price (at grant date)	HK\$19.6
Exercise price	HK\$19.94
Expected volatility	23.3%
Expected life	3.4 years
Risk-free rate	3.66%
Expected dividend yield	4.1%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK\$5,295,000 for the year (2005: Nil) in relation to share options granted by the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 38. SHARE CAPITAL (continued)

#### Share option schemes (continued)

##### (b) HHI

A share option scheme ("HHI Scheme") was adopted by HHI pursuant to the written resolutions of the shareholder of HHI passed on 16th July, 2003 and approved by the shareholders of the Company at an extraordinary general meeting held on 16th July, 2003. The HHI Scheme shall be valid and effective for a period of 10 years and the principal purpose of which is to provide incentives to directors and eligible employees. The Board of HHI is authorised to grant options under the HHI Scheme to executive directors and employees of the Company, HHI or any of its subsidiaries and persons specified in the scheme document to subscribe for shares in HHI.

Options granted must be taken up within 28 days from the date of the offer letter upon payment of HK\$1 per each grant of option, payable as consideration on acceptance, which is recognised in the income statement when received.

The following table discloses the details of share options granted under the HHI Scheme by HHI to its directors and employees, who are not directors of the Company, at nominal consideration:

Date of grant	Subscription price per share HK\$	Number of shares under options granted						Closing prices at the date of exercise HK\$
		Outstanding at 1st July, 2004	Movements during the year			At 30th June, 2005		
			Granted	Exercised	Cancelled/lapsed	Outstanding	Exercisable	
8th September, 2004	4.875	–	2,800,000	(400,000)	–	2,400,000	2,400,000	6.00
13th September, 2004	4.880	–	2,000,000	(2,000,000)	–	–	–	4.9, 5.15, 4.8
		–	4,800,000	(2,400,000)	–	2,400,000	2,400,000	
Weighted average exercise price		N/A	HK\$4.88	HK\$4.88	N/A	HK\$4.875	HK\$4.875	

Date of grant	Subscription price per share HK\$	Number of shares under options granted						Closing prices at the date of exercise HK\$
		Outstanding at 1st July, 2005	Movements during the year			At 30th June, 2006		
			Granted	Exercised	Cancelled/lapsed	Outstanding	Exercisable	
8th September, 2004	4.875	2,400,000	–	–	–	2,400,000	2,400,000	N/A
Weighted average exercise price		HK\$4.875	N/A	N/A	N/A	HK\$4.875	HK\$4.875	

The options are exercisable within a period of three years from the dates of grant of the options.

#### HHI Warrants

In connection with the listing of the shares in HHI in 2003, HHI issued warrants to the Company's shareholders which entitle the holders thereof to subscribe for shares in HHI at a subscription price of HK\$4.18 per share subject to adjustment during the three-year period commencing on 6th August, 2003. The HHI Warrants are listed on the Hong Kong Stock Exchange.

During the year, 61,235,525 (2005: 5,392,715) HHI warrants carrying an aggregate subscription price of HK\$255,964,495 (2005: HK\$22,541,549) were exercised by the warrant holders resulting in the issuance of 61,235,525 (2005: 5,392,715) ordinary shares in HHI. A total of 20,315,350 HHI warrants remained outstanding at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 39. SHARE PREMIUM AND RESERVES

Attributable to equity holders of the Company

	Share premium	Capital redemption reserve	Capital reserve	Investment property revaluation reserve	Translation reserve	PRC statutory reserves	Investment revaluation reserve	Share option reserve	Dividend reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July, 2004													
As originally stated	8,558,817	-	83,010	2,131,845	(5,682)	57,421	-	-	268,631	1,561,260	12,655,302	2,418,947	15,074,249
Effect of changes in accounting policies (note 3)	-	-	-	(2,131,845)	-	-	-	-	-	1,365,292	(766,553)	-	(766,553)
Transfer between categories	-	-	-	-	-	-	-	-	(268,631)	268,631	-	-	-
As restated	8,558,817	-	83,010	-	(5,682)	57,421	-	-	-	3,195,183	11,888,749	2,418,947	14,307,696
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	-	-	-	-	1,485	-	-	-	-	-	1,485	(1,668)	(183)
Share of reserves of jointly controlled entities and associates	-	-	-	-	(5,956)	-	-	-	-	-	(5,956)	-	(5,956)
Net expense recognised directly in equity	-	-	-	-	(4,471)	-	-	-	-	-	(4,471)	(1,668)	(6,139)
Realised on disposal of interest in jointly controlled entities	-	-	-	-	2,839	-	-	-	-	-	2,839	-	2,839
Profit for the year	-	-	-	-	-	-	-	-	-	1,907,333	1,907,333	336,802	2,244,135
Total recognised (expense) income for the year	-	-	-	-	(1,632)	-	-	-	-	1,907,333	1,905,701	335,134	2,240,835
Issue of shares	90,053	-	-	-	-	-	-	-	-	-	90,053	-	90,053
Shares issue expenses	(52)	-	-	-	-	-	-	-	-	-	(52)	-	(52)
Repurchase of shares	-	2,668	-	-	-	-	-	-	-	(19,912)	(17,244)	-	(17,244)
Proceeds from exercise of warrants issued by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	22,542	22,542
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	11,710	11,710
Dividends and distributions to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(319,731)	(319,731)
Transfers between reserves	-	-	-	-	-	6,321	-	-	-	(6,321)	-	-	-
Dividends paid (note 17)	-	-	-	-	-	-	-	-	-	(646,120)	(646,120)	-	(646,120)
At 30th June, 2005 (as restated)	8,648,818	2,668	83,010	-	(7,314)	63,742	-	-	-	4,430,163	13,221,087	2,468,602	15,689,689
Effect of changes in accounting policies (note 3)	-	-	-	-	-	-	-	-	-	61,617	61,617	20,788	82,405
At 1st July, 2005	8,648,818	2,668	83,010	-	(7,314)	63,742	-	-	-	4,491,780	13,282,704	2,489,390	15,772,094

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 39. SHARE PREMIUM AND RESERVES (continued)

Attributable to equity holders of the Company

	Share premium	Capital redemption reserve	Capital reserve	Investment property revaluation reserve	Translation reserve	PRC statutory reserves	Investment revaluation reserve	Share option reserve	Dividend reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	-	-	-	-	78,460	-	-	-	-	-	78,460	23,151	101,611
Gain arising from changes in fair value of available-for-sale investments	-	-	-	-	-	-	48,191	-	-	-	48,191	-	48,191
Net income recognised directly in equity	-	-	-	-	78,460	-	48,191	-	-	-	126,651	23,151	149,802
Transfer to consolidated income statement on disposal of available-for-sale investments	-	-	-	-	-	-	(20,931)	-	-	-	(20,931)	-	(20,931)
Profit for the year	-	-	-	-	-	-	-	-	-	2,249,896	2,249,896	352,558	2,602,454
Total recognised income for the year	-	-	-	-	78,460	-	27,260	-	-	2,249,896	2,355,616	375,709	2,731,325
Issue of shares	8,687	-	-	-	-	-	-	-	-	-	8,687	-	8,687
Shares issue expenses	(9)	-	-	-	-	-	-	-	-	-	(9)	-	(9)
Proceeds from exercise of warrants issued by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	255,964	255,964
Dividends and distributions to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(218,249)	(218,249)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	5,295	-	-	5,295	-	5,295
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(992)	(992)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(1,092)	(1,092)
Deemed disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(38,650)	(38,650)
Transfers between reserves	-	-	-	-	-	7,213	-	-	-	(7,213)	-	-	-
Dividends paid (note 17)	-	-	-	-	-	-	-	-	-	(664,901)	(664,901)	-	(664,901)
At 30th June, 2006	8,657,496	2,668	83,010	-	71,146	70,955	27,260	5,295	-	6,069,562	14,987,392	2,862,080	17,849,472

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 39. SHARE PREMIUM AND RESERVES (continued)

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>The Company</b>							
At 1st July, 2004, as originally stated	8,558,817	–	9,872	–	268,631	1,706,033	10,543,353
Transfer between categories	–	–	–	–	(268,631)	268,631	–
At 1st July, 2004, as restated	8,558,817	–	9,872	–	–	1,974,664	10,543,353
Profit for the year and total income recognised for the year	–	–	–	–	–	1,418,790	1,418,790
Issue of shares	90,053	–	–	–	–	–	90,053
Shares issue expenses	(52)	–	–	–	–	–	(52)
Repurchase of shares	–	2,668	–	–	–	(19,912)	(17,244)
Dividends paid (note 17)	–	–	–	–	–	(646,120)	(646,120)
At 30th June, 2005	8,648,818	2,668	9,872	–	–	2,727,422	11,388,780
Profit for the year and total income recognised for the year	–	–	–	–	–	522,335	522,335
Issue of shares	8,687	–	–	–	–	–	8,687
Shares issue expenses	(9)	–	–	–	–	–	(9)
Recognition of equity-settled share based payments	–	–	–	5,295	–	–	5,295
Dividends paid (note 17)	–	–	–	–	–	(664,901)	(664,901)
At 30th June, 2006	8,657,496	2,668	9,872	5,295	–	2,584,856	11,260,187

### 40. BANK BORROWINGS

	<b>The Group</b>	
	2005 HK\$'000	2006 HK\$'000
Unsecured bank loans repayable between two and five years	55,000	–

The bank borrowings, which carried interest at floating rates, were denominated in the functional currencies of the relevant group entity. The average effective borrowing rates range from 3.6% to 5.1% (2005: 0.7% to 3.9%) per annum.

### 41. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries, which are unsecured and interest free, have been reclassified as current.

### 42. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates, which are unsecured and interest free, have been reclassified as current.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 43. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	<i>Accelerated tax depreciation</i> HK\$'000	<i>Fair value adjustments on investment properties</i> HK\$'000	<i>Arising from business combinations</i> (Note) HK\$'000	<i>Tax losses</i> HK\$'000	<i>Others</i> HK\$'000	<i>Total</i> HK\$'000
At 1st July, 2004, before accounting for effects of changes in accounting policies	127,113	(58,376)	35,161	(57,257)	8,016	54,657
Effects of changes in accounting policies (note 3)	(11,924)	404,957	222,696	(146,602)	–	469,127
At 1st July, 2004, as restated	115,189	346,581	257,857	(203,859)	8,016	523,784
Charge (credit) to income statement	18,140	49,204	(775)	(8,961)	(901)	56,707
At 30th June, 2005, as restated	133,329	395,785	257,082	(212,820)	7,115	580,491
Charge (credit) to income statement	14,638	82,646	(10,874)	152	(7,940)	78,622
<b>At 30th June, 2006</b>	<b>147,967</b>	<b>478,431</b>	<b>246,208</b>	<b>(212,668)</b>	<b>(825)</b>	<b>659,113</b>

Note: Such deferred tax liabilities are attributable to taxable temporary differences arising on initial recognition of assets which were acquired in business combinations.

The deferred tax assets and liabilities have been offset for the purposes of balance sheet presentation.

At the balance sheet date, the Group had available unused tax losses of HK\$1,638 million (2005: HK\$1,633 million) for offset against future profits. A deferred tax asset of HK\$213 million (2005: HK\$213 million) in respect of tax losses has been recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$422 million (2005: HK\$417 million) due to the unpredictability of future profit streams. The tax losses available may be carried forward indefinitely.

At 30th June, 2005, the Group had deferred tax asset not recognised in respect of other deductible temporary differences amounted to HK\$206 million. Such deductible temporary differences have been utilised during the current year against the tax effect of the related profit recognised in the year.

### 44. DISPOSAL OF SUBSIDIARIES

	2005 HK\$'000	2006 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	437
Pledged deposits	–	94,263
Trade and other receivables	–	1,127
Deposits and prepayments	–	431
Trade and other payables	–	(360,553)
	–	(264,295)
Minority interests released	–	(1,092)
Gain on disposal of subsidiaries	–	265,387
Total consideration received	–	–

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows, turnover or profit before taxation for the year.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

## 45. PROJECT COMMITMENTS

### (a) Expressway projects in the PRC

At 30th June, 2006, the Group had agreed, subject to approval of relevant authorities, to make capital contribution to the West Route JV for the development of the Phase II West and the Phase III West totalling RMB 1,428 million (2005: RMB 858 million for the Phase II West). As at that date, no contribution to the registered capital of the joint venture company had been made by the Group in this respect.

At 30th June, 2006, the Group's attributable share of the commitment of GS Superhighway JV and Ring Road JV in respect of the capital expenditure to be incurred for their toll roads, which was contracted for but not provided, amounted to approximately HK\$19 million (2005: HK\$4 million).

### (b) Power station project

The Group had entered into a co-operation agreement with a PRC enterprise for the joint development of a 2X600 MW power station in Guangdong Province of the PRC which is undertaken by a joint venture to be established for that purpose. The development cost of the project is estimated to be in the region of RMB5,400 million. The project, which is at a preliminary planning stage, is subject to approval by the relevant PRC authority. At the balance sheet date, development expenditure contracted for in respect of the development of the power station amounted to approximately RMB1,400 million. At the balance sheet date, the Group has funded the development of the power station project amounting to approximately HK\$92 million (2005: Nil).

### (c) Property development

#### (i) Projects undertaken by the Group

	2005 HK\$'000	2006 HK\$'000
Authorised but not yet contracted for	193,166	495,772
Contracted for but not provided	161,428	128,118
	354,594	623,890

#### (ii) Project undertaken by a jointly controlled entity

	2005 HK\$'000	2006 HK\$'000
Group's share of property development expenditure		
Authorised but not yet contracted for	312,635	15,797
Contracted for but not provided	153,578	119,622
	466,213	135,419

### (d) Property renovation

	2005 HK\$'000	2006 HK\$'000
Property renovation expenditure		
Authorised but not yet contracted for	–	429,489
Contracted for but not provided	40,539	34,258
	40,539	463,747

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 46. OPERATING LEASE COMMITMENTS

#### The Group as lessor

Rental income from investment properties earned during the year is approximately HK\$323 million (2005: HK\$283 million). At the balance sheet date, the investment properties of the Group with an aggregate carrying amount of approximately HK\$5,029 million (2005: HK\$4,022 million) were rented out under operating leases. These properties have committed tenants for the next one to ten years without termination options granted to the tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum payments under non-cancellable operating leases:

	<i>The Group</i>	
	2005 HK\$'000	2006 HK\$'000
Within one year	139,368	<b>187,633</b>
In the second to fifth years inclusive	117,398	<b>252,224</b>
After five years	–	<b>10,590</b>
	256,766	<b>450,447</b>

### 47. CONTINGENCIES

#### (a) Disposal of CEPA

In connection with the disposal by the Group of its interests in Consolidated Electric Power Asia Limited (“CEPA”) in prior years, the Group entered into an agreement with the purchaser under which the purchaser and its affiliates agreed to release and discharge the Group from all claims whatsoever they may have against the Group arising under the sale agreement. The Group has also agreed to release and discharge the purchaser and its affiliates from all claims whatsoever the Group may have against them. In this connection, the Group has given certain performance undertakings and indemnities to the purchaser and its affiliates, for which provisions totalling approximately HK\$164 million had been made in the financial statements in prior years. During the year, management conducted a review of the performance undertakings and indemnities given, resulting in a write back of the provision for a warranty against a potential claim not materialised amounting to HK\$80 million being recognised in the consolidated income statement. The remaining balance of the provisions amounting to HK\$84 million represent management’s best estimate of the costs and expenses required to discharge the Group’s obligations and liabilities under such agreement. The directors are of the opinion that the provisions are not expected to be payable within one year from the balance sheet date and, accordingly, are classified as non-current.

#### (b) Guarantees

- (i) The bank loan facility of a jointly controlled entity of RMB736 million (2005: RMB736 million) utilised as at the balance sheet date is guaranteed by the Group.
- (ii) A subsidiary of the Company acted as guarantor for the repayment of the mortgage bank loans granted to purchasers of the subsidiary’s properties amounted to HK\$24 million (2005: Nil).
- (iii) The credit facilities of the Company’s subsidiaries to the aggregate extent of HK\$10,640 million (2005: HK\$5,579 million), of which HK\$12 million (2005: HK\$66 million) was utilised at the balance sheet date, are guaranteed by the Company.

### 48. RETIREMENT BENEFIT SCHEME

The Group has established a Mandatory Provident Fund Scheme (the “MPF Scheme”) for its Hong Kong employees. The assets of the scheme are held separately in funds which are under the control of independent trustees. The retirement benefit scheme contributions charged to the consolidated income statement represent contributions payable by the Group to the scheme at 5% of each of the employees’ monthly relevant income capped at HK\$20,000. At the balance sheet date, there were no forfeited contributions available to reduce future obligations. The contributions made by the Group to the MPF Scheme for the year are HK\$7,884,000 (2005: HK\$6,486,000).



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 49. RELATED PARTY TRANSACTIONS

In additions to the transactions and balances with related parties disclosed above, the Group has the following transactions with related parties during the year:

- (a) During the year, the Group purchased a property from a company owned by a director of the Company for a consideration of HK\$45,000,000. The consideration was determined with reference to the market value of the property as valued by an independent property valuer.
- (b) The remuneration paid or payable to the Group's key management personnel, who are the directors of the Company, in respect of the year is disclosed in note 19. Such remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

### 50. PRINCIPAL SUBSIDIARIES

The following list contains only the details of the subsidiaries which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a complete list of all the subsidiaries will be of excessive length. Except as otherwise indicated, all the subsidiaries are private companies incorporated and are operating principally in the place of incorporation and all issued shares are ordinary shares. None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong:</i>				
Banbury Investments Limited	2 shares of HK\$1 each	100	–	Property investment
Bayern Gourmet Food Company Limited	3,000,000 shares of HK\$1 each	–	90	Manufacture and sales of food
Chee Shing Company Limited	9,680 shares of HK\$100 each	100	–	Provision of management services
Exgratia Company Limited	2 shares of HK\$100 each	100	–	Property investment
Goldhill Investments Limited	2 shares of HK\$100 each and 60,600 non-voting deferred shares of HK\$100 each	–	100	Property investment
Hopewell China Development (Superhighway) Limited (ii)	2 shares of HK\$1 each and 4 non-voting deferred shares of HK\$1 each	–	71.4	Investment in super-highway project
Hopewell Construction Company, Limited	200,000 shares of HK\$100 each	–	100	Construction, project management and investment holding
HH Finance Limited	100,000 shares of HK\$10 each	100	–	Loan financing
HITEC Management Limited (formerly known as Primory Company Limited)	2 shares of HK\$1 each	–	100	Property management
Hopewell Food Industries Limited	1,000,000 shares of HK\$1 each	–	100	Restaurant operation

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 50. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong: (continued)</i>				
Hopewell Guangzhou-Zhuhai Superhighway Development Limited (ii)	2 shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	73.24	Investment in super-highway project
Hopewell Housing Limited	30,000 shares of HK\$100 each	100	–	Property agents and investment holding
Hopewell Huang Gang Development Limited (ii)	2 shares of HK\$1 each	–	100	Property investment
Hopewell Property Management Company Limited	2 shares of HK\$100 each	100	–	Building and carpark management
Hopewell Shunde Roads Limited (ii)	2 shares of HK\$1 each	–	100	Investment in highway system project
Hopewell Slipform Engineering Limited	2,000,000 shares of HK\$1 each	–	100	Construction specialist sub-contractor
Hopewell 108 Limited	1,000 shares of HK\$100 each	–	100	Property investment
Hopewell Centre Management Limited (formerly known as Hopewell 109 Limited)	209,200 shares of HK\$100 each	100	–	Property management
Hopewell 110 Limited	10,000 shares of HK\$100 each	–	100	Property investment and development
International Trademart Company Limited	2 shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each	–	100	Property investment and operation of a trademart
IT Catering and Services Limited	2 shares of HK\$1 each	–	100	Restaurant operations and provision of catering services
Kowloon Panda Hotel Limited	2 shares of HK\$100 each and 20,000 non-voting deferred shares of HK\$100 each	–	100	Property investment, hotel ownership and operations
Lok Foo Company Limited	52,000 shares of HK\$100 each	100	–	Investment holding
Mega Hotels Management Limited	3,000,000 shares of HK\$1 each	–	100	Hotel management
Panda Place Management Limited (formerly known as HH Secretarial Limited)	2 shares of HK\$1 each	–	100	Property management

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 50. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong: (continued)</i>				
Slipform Engineering Limited	1,000,001 shares of HK\$1 each	–	100	Construction, project consultant and investment holding
Wetherall Investments Limited	2 shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	100	Property investment and investment holding
Yuba Company Limited	10,000 shares of HK\$1 each	–	100	Property investment
<i>Incorporated in Macau:</i>				
Slipform Engineering (Macau) Limited	500,000 shares of MOP 1 each	–	100	Construction
<i>Established in the PRC:</i>				
廣州市合和(花都)置業發展有限公司(iii)	RMB99,200,000 (registered capital)	–	95	Property development
廣州市冠暉物業管理有限公司(iv)	RMB500,000 (registered capital)	–	76	Property management
<i>Incorporated in the British Virgin Islands:</i>				
Anber Investments Limited	1 share of US\$1 each	–	100	Investment holding
Goldvista Properties Limited (i)	1 share of US\$1 each	–	100	Property investment
Hopewell (Huadu) Estate Investment Company Limited (i)	1 share of US\$1 each	100	–	Investment holding
Hopewell Guangzhou Ring Road Limited (ii)	1 share of US\$1 each	–	73.24	Investment in highway system project
Kammer Investment Limited (i)	1 share of US\$1 each	100	–	Investment holding
H-Power Investor Limited	16 shares of US\$1 each	–	87.5	Investment in a power station project
Primax Investment Limited (i)	1 share of US\$1 each	100	–	Investment holding
Procelain Properties Ltd. (i)	1 share of US\$1 each	–	100	Property investment
Singway (B.V.I.) Company Limited (i)	1 share of US\$1 each	–	100	Property investment
Tubanan Power Limited (i)	100 shares of US\$1 each	–	100	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30th June, 2006

### 50. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in the Cayman Islands:</i>				
Delta Roads Limited (i)	46,422 shares of HK\$10 each	–	100	Investment holding
Hopewell Highway Infrastructure Limited (v)	2,949,618,286 shares of HK\$0.1 each	0.01	73.23	Investment holding
<i>Incorporated in Indonesia:</i>				
P.T. Hi Power Tubanan I	179,125 shares of US\$100 each	–	80	Development of a power station project

Notes:

- (i) Operating principally in Hong Kong
- (ii) Operating principally in the PRC
- (iii) Sino foreign cooperative joint venture registered in the PRC
- (iv) Limited liability company registered in the PRC
- (v) Hopewell Highway Infrastructure Limited, a company listed on the Hong Kong Stock Exchange, is operating in Hong Kong and in the PRC through its subsidiaries and jointly controlled entities.

The non-voting deferred shares carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.

Particulars of the subsidiaries, including those subsidiaries not listed above, will be annexed to the next annual return of the Company to be filed with The Registrar of Companies in accordance with the Companies Ordinance.

### 51. PRINCIPAL ASSOCIATES

Particulars regarding the principal associates, which are incorporated and operating in Hong Kong, are as follows:

Name of company	Proportion of nominal value of issued capital held by the Company		Principal activities
	%		
Granlai Company Limited	46		Property investment
HCNH Insurance Brokers Limited	25		Insurance brokerage

The directors are of the opinion that a complete list of all the associates will be of excessive length. Particulars of the associates, including those associates not listed above, will be annexed to the next annual return of the Company to be filed with The Registrar of Companies in accordance with the Companies Ordinance.

### 52. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 63 to 114 were approved and authorised for issue by the Board of Directors on 30th August, 2006.