Notes on the Accounts

1 Principal place of business

The Company is incorporated in Hong Kong. It has its registered office and principal place of business at 72-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

2 Principal accounting policies

(a) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in note 3.

(b) Basis of preparation of the accounts

The consolidated accounts for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as held for trading and available-for-sale securities (see note 2(f)); and

— investment property (see note 2(g)).

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

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

Judgements made by management in the application of HKFRSs and estimates that have significant effect on the accounts are discussed in note 40.

(c) Subsidiaries and controlled entities

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

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

2 Principal accounting policies *(cont'd)*

(c) Subsidiaries and controlled entities (cont'd)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(y)).

(d) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(y)). The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 2(e) and (k)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

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

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(y)).

(e) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see note 2(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

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

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

2 Principal accounting policies *(cont'd)*

(f) Other investments in debt and equity securities

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

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 2(k)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(k)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

(g) Fixed assets

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(v)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

Property that is being constructed or developed for future use as investment property is classified as investment properties under development and stated at cost, including borrowing costs capitalised (see note 2(x)), aggregate cost of development, materials and supplies, wages and other direct expenses, less any impairment losses (see note 2(k)). When the construction or development is complete, it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

2 Principal accounting policies *(cont'd)*

(g) Fixed assets (cont'd)

(ii) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)):

— hotel properties;

— other land and buildings;

— bridges; and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the aggregate cost of development, materials and supplies, wages, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of borrowing costs (see note 2(x)) and other direct expenses.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(h) Depreciation of fixed assets

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Investment properties under development and properties under development for own use

No depreciation is provided until such time as the relevant assets are complete and put into use.

(iii) Hotel properties and other land and buildings

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Costs of buildings thereon are depreciated on a straight-line basis over the remaining terms of the respective leases or 40 years if shorter.

(iv) Other property, plant and equipment

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvement, furniture and fixtures	5 years
Bridges	over the operating periods
Others	2 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Toll highway operation rights

Toll highway operation rights are stated at cost less accumulated amortisation and impairment losses (see note 2(k)).

Amortisation are provided to write off the cost of toll highway operation rights using the straight-line method over the operating periods.

Toll highway operation rights are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising from derecognition of toll highway operation rights are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2 Principal accounting policies *(cont'd)*

(j) Leased assets

(i) Classification of assets leased to the Group

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

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)); and

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Operating lease charges

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

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale. Information on accounting policies for land held under operating leases for development for sale is provided in accounting policy note 2(l).

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

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

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

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Principal accounting policies *(cont'd)*

(k) Impairment of assets (cont'd)

(i) Impairment of investments in debt and equity securities and other receivables *(cont'd)*

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

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

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

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

— toll highway operation rights;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investments in subsidiaries, associates and jointly controlled entities (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(y))); and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Principal accounting policies *(cont'd)*

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) **Leasehold land**

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition and the premium, if any, payable to the relevant government authorities. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(ii) **Property held for and under development for sale**

The cost of properties held for and under development for sale comprises specifically identified cost, including borrowing costs capitalised (see note 2(x)), aggregate cost of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(iii) **Completed properties for sale**

Cost is determined by apportionment of the total land and development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less costs to be incurred in selling the property.

(iv) **Retail, catering stocks and trading goods**

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

(m) Construction contracts

The accounting policy for contract revenue is set out in note 2(v)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customers are included in the balance sheet under "Trade and other receivables".

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(k)).

2 Principal accounting policies *(cont'd)*

(o) *Convertible notes*

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(p) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(q) *Trade and other payables*

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

(r) *Cash and cash equivalents*

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

(s) *Employee benefits*

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

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

2 Principal accounting policies *(cont'd)*

(t) Income tax

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

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

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

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

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

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

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

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

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Principal accounting policies *(cont'd)*

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit/a completion certificate by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received.

(ii) Rental income from operating leases

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

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Contract revenue

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

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

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

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

(v) Toll fee income

Toll fee income is recognised on a cash receipt basis.

(vi) Hotel operation

Income from hotel operation is recognised when services are provided.

(vii) Sale of goods

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

2 Principal accounting policies *(cont'd)*

(v) Revenue recognition (cont'd)

(viii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(x) Borrowing costs

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

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

(y) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the accounts of the Group are concerned are deferred tax assets, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

(z) Related parties

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

2 Principal accounting policies *(cont'd)*

(aa) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

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

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

(a) *Summary of the effect of changes in the accounting policies*

The following tables sets out the adjustments that have been made to the opening balances at 1 July 2005 and 2004. These are the aggregate effect of retrospective adjustments to the net assets as at 30 June 2005 and 2004 and the opening balance adjustments made as at 1 July 2005.

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

		Retained profits		Other reserves		Total		Minority interests		Total equity	
		2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	Note	**HK$ million**	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
Effect of new policy (increase/ (decrease))											
Prior period adjustments:											
HKAS 17											
Leasehold land and buildings	*3(c)*	**78.7**	70.4	**(668.3)**	(668.3)	**(589.6)**	(597.9)	**(212.8)**	(215.8)	**(802.4)**	(813.7)
HKAS 16											
Hotel properties	*3(d)*	**(108.7)**	(93.1)	**(308.8)**	(251.2)	**(417.5)**	(344.3)	**(206.2)**	(198.6)	**(623.7)**	(542.9)
HKAS 21											
Foreign currency	*3(e)*	**(13.4)**	(20.1)	**(40.8)**	(6.5)	**(54.2)**	(26.6)	**(16.8)**	(14.4)	**(71.0)**	(41.0)
Total decrease in equity before opening balance adjustments		**(43.4)**	(42.8)	**(1,017.9)**	(926.0)	**(1,061.3)**	(968.8)	**(435.8)**	(428.8)	**(1,497.1)**	(1,397.6)
Opening balance adjustments:											
HKFRS 3											
Goodwill	*3(b)*	**1,521.3**	—	**(1,433.9)**	—	**87.4**	—	**31.5**	—	**118.9**	—
HKAS 39											
Available-for-sale securities	*3(f)*	**—**	—	**0.9**	—	**0.9**	—	**—**	—	**0.9**	—
Guaranteed convertible notes	*3(f)*	**(0.8)**	—	**35.5**	—	**34.7**	—	**—**	—	**34.7**	—
		1,520.5	—	**(1,397.5)**	—	**123.0**	—	**31.5**	—	**154.5**	—
Total effect at 1 July		**1,477.1**	(42.8)	**(2,415.4)**	(926.0)	**(938.3)**	(968.8)	**(404.3)**	(428.8)	**(1,342.6)**	(1,397.6)

3 Changes in accounting policies *(cont'd)*

(a) Summary of the effect of changes in the accounting policies (cont'd)

(ii) Effect on profit after taxation for the years ended 30 June 2006 and 2005

	Note	Equity shareholders of the Company		Minority interests		Total	
		2006	2005	**2006**	2005	**2006**	2005
		HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
Effect of new policy (increase/(decrease))							
HKFRS 3							
Amortisation of goodwill	*3(b)*	**46.1**	—	**21.7**	—	**67.8**	—
HKAS 17							
Leasehold land and buildings	*3(c)*	**7.9**	8.3	**3.7**	2.9	**11.6**	11.2
HKAS 16							
Hotel properties	*3(d)*	**(14.7)**	(15.6)	**(2.8)**	(2.4)	**(17.5)**	(18.0)
HKAS 21							
Foreign currency	*3(e)*	**(84.5)**	6.7	**(11.8)**	1.3	**(96.3)**	8.0
HKAS 39							
Available-for-sale securities	*3(f)*	**(124.9)**	—	**(16.7)**	—	**(141.6)**	—
Guaranteed convertible notes	*3(f)*	**(0.8)**	—	**—**	—	**(0.8)**	—
Total effect for the year		**(170.9)**	(0.6)	**(5.9)**	1.8	**(176.8)**	1.2

(b) Positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

— Positive or negative goodwill which arose prior to 1 July 2001 was written off on acquisition or recognised in other reserves at the time it arose, and was not recognised in profit or loss until disposal or impairment of the acquired business;

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

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

With effect from 1 July 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 July 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been re-stated, the cumulative amount of amortisation as of 1 July 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in profit or loss for the year ended 30 June 2006. This has increased the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 by HK$46.1 million.

In addition, the Group's other reserves of HK$1,433.9 million has been transferred to retained profits as a result of the adoption of HKFRS 3. There is no impact on the Group's net assets as at 1 July 2005 and 30 June 2006.

In respect of negative goodwill recognised on the face of balance sheet in prior years, the carrying amount of such negative goodwill as of 1 July 2005 was derecognised and the change in the policy was adopted by increasing the opening balance of retained profits as of 1 July 2005 by HK$87.4 million. Comparative amounts have not been re-stated in accordance with the transitional arrangements of HKFRS 3.

3 Changes in accounting policies *(cont'd)*

(c) *Leasehold land and buildings (HKAS 17, Leases)*

In prior years, the Group's leasehold land and buildings were stated at cost less accumulated depreciation, except for certain leasehold land and buildings held by a listed associate of the Group which were stated at revalued amount, and movements of the Group's share of revaluation surpluses or deficits were normally taken to the property revaluation reserves.

With the adoption of HKAS 17 as from 1 July 2005, the Group's interests in leasehold land are accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be split reliably from the fair value of the leasehold interests in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Where the two elements cannot be split reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation. Leasehold land under operating leases will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight-line basis over the lease term and recognised in profit or loss immediately. Any buildings which are situated on such land leases are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

This change in accounting policy has been adopted retrospectively by decreasing the opening balance of property revaluation reserves as of 1 July 2005 by HK$668.3 million (1 July 2004: HK$668.3 million) and increasing the opening balance of retained profits as of 1 July 2005 by HK$78.7 million (1 July 2004: HK$70.4 million). As a result of this policy, the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 has increased by HK$7.9 million (2005: HK$8.3 million).

In addition, certain leasehold land interests with a net book value of HK$26.6 million as of 1 July 2005 previously included in "Other land and buildings" are reclassified to "Interests in leasehold land held for own use under operating leases" with the comparative figures re-stated to conform with the current year's presentation. There is no impact on the Group's net assets as at the years end and on the profit attributable to equity shareholders of the Company for the years presented.

(d) *Hotel properties (HKAS 16, Property, plant and equipment)*

In prior years, the Group's hotel properties were stated at their open market value based on an annual professional valuation and no depreciation was provided on hotel properties held on lease of more than 20 years.

Upon the adoption of HKAS 16 as from 1 July 2005, all owner-operated hotel properties are stated at cost less accumulated depreciation and impairment losses.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits and property revaluation reserves as of 1 July 2005 have reduced by HK$108.7 million (1 July 2004: HK$93.1 million) and HK$308.8 million (1 July 2004: HK$251.2 million) respectively. The change has also reduced the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 by HK$14.7 million (2005: HK$15.6 million).

In addition, with the adoption of HKAS 17, the leasehold interests in the land element with a net book value of HK$216.8 million as of 1 July 2005 are reclassified to "Interests in leasehold land held for own use under operating leases" with the comparative figures re-stated to conform with the current year's presentation. There is no impact on the Group's net assets as at the years end and on the profit attributable to equity shareholders of the Company for the years presented.

(e) *Translation of foreign currencies (HKAS 21, The effects of changes in foreign exchange rates)*

In prior years, Statement of Standard Accounting Practice 2.111 "Foreign currency translation" defines "reporting currency" as the currency in which the accounts are prepared and does not provide guidance on how an entity should choose the currency in which it measures transactions. Accordingly, certain foreign subsidiaries of the Group have chosen Hong Kong dollars as its reporting currency.

With effect from 1 July 2005, in accordance with HKAS 21, it makes a distinction between the "presentation currency" and "functional currency" and each entity of the Group has to determine its own functional currency which reflects the primary economic environment in which such entity operates and presentation currency in which the accounts are presented.

This change in accounting policy has been adopted retrospectively. As a result of the adoption of this new policy, the opening balance of retained profits and exchange reserve of the Group as of 1 July 2005 has decreased by HK$13.4 million (1 July 2004: HK$20.1 million) and HK$40.8 million (1 July 2004: HK$6.5 million) respectively. In addition, the change has decreased the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 by HK$84.5 million (2005: increased by HK$6.7 million).

3 Changes in accounting policies *(cont'd)*

(f) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

In prior years, the accounting policies for certain financial instruments were as follows:

— equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision;

— other non-current investments were stated at fair value with changes in fair value recognised in profit or loss; and

— guaranteed convertible notes issued were stated at amortised cost.

With effect from 1 July 2005, and in accordance with HKAS 39, the following new accounting policies are adopted for the financial instruments mentioned above:

— All non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to profit or loss for the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale equity securities is recognised directly in equity.

This change was adopted by increasing the opening balance of fair value reserve as of 1 July 2005 by HK$0.9 million. Comparative amounts have not been re-stated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 has decreased by HK$124.9 million and the fair value reserve has increased by HK$130.2 million respectively.

— Guaranteed convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

This change was adopted by increasing the opening balance of the other reserves as of 1 July 2005 of HK$35.5 million and decreasing the opening balance of retained profits as of 1 July 2005 of HK$0.8 million. Comparative amounts have not been re-stated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, the profit attributable to equity shareholders of the Company for the year ended 30 June 2006 has decreased by HK$0.8 million.

(g) Changes in presentation (HKAS 1, Presentation of financial statements)

(i) Presentation of share of associates' and jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)

In prior years, the Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax in the consolidated profit and loss account. With effect from 1 July 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates and jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit or loss before taxation. These changes in presentation have been applied retrospectively with comparatives re-stated.

3 Changes in accounting policies *(cont'd)*

(g) Changes in presentation (HKAS 1, Presentation of financial statements) (cont'd)

(ii) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 July 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company. Further details of the new policy are set out in note 2(c). These changes in presentation of minority interests have been applied retrospectively with comparatives in the consolidated balance sheet, profit and loss account and statement of changes in equity re-stated.

4 Turnover

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

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

The major items are analysed as follows:

	2006	2005
	HK$ million	HK$ million
Sale of properties	**2,708.6**	1,884.8
Rental income	**2,261.0**	2,097.0
Interest income from provision of financing services	**114.6**	90.2
Building construction	**856.4**	639.6
Infrastructure	**136.4**	235.5
Hotel operation	**134.5**	120.3
Others	**561.5**	765.9
	6,773.0	5,833.3

5 Other revenue and other net income

	2006 HK$ million	2005 HK$ million
Other revenue:		
Bank interest income	**140.6**	46.0
Other interest income	**25.5**	24.5
Others	**33.0**	65.1
	199.1	135.6
Other net income:		
(Loss)/profit on disposal of fixed assets	**(8.1)**	7.7
Net foreign exchange gain/(loss)	**23.2**	(1.2)
Others	**3.7**	(0.1)
	18.8	6.4

6 Other operating income, net

	2006 HK$ million	2005 HK$ million
Deemed profit on placement of a listed subsidiary's shares *(note (i))*	**829.6**	—
Excess of interest in fair values of the acquirees' identifiable assets over cost of business combination *(note (ii))*	**812.5**	—
Reversal of impairment loss/(impairment loss) on properties under development for own use	**86.0**	(204.0)
Write-back of provision/(provision) on inventories	**26.3**	(23.9)
Gain on disposal of a subsidiary	**24.3**	—
Impairment loss on goodwill *(note (iii))*	**(161.8)**	—
Impairment loss for bad and doubtful debts	**(34.3)**	(24.7)
Impairment loss on other fixed assets	**(4.5)**	—
Premium on redemption of guaranteed convertible notes	**—**	444.9
Surplus on revaluation of other investments	**—**	25.1
Others	**(242.2)**	(152.1)
	1,335.9	65.3

Notes:

(i) The deemed profit arose from the placement of 230.0 million ordinary shares by Henderson Investment Limited ("HIL"), a listed subsidiary of the Group on 18 April 2006.

(ii) The amount arose from the privatisation of Henderson China Holdings Limited, a subsidiary of the Group, on 15 August 2005.

(iii) On 8 December 2005, a non wholly-owned subsidiary, Henderson Cyber Limited ("HCL") was privatised jointly by HIL and an associate of the Group, The Hong Kong and China Gas Company Limited. Upon the privatisation, there is an excess of HIL's total cost of acquisition over its interest in the net assets value of HCL. This has given rise to goodwill of approximately HK$161.8 million. By reference to the future cash flow forecast of HCL, the directors are of the opinion that the goodwill arising on the privatisation was impaired and full impairment loss was made at the balance sheet date.

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2006 HK$ million	2005 re-stated HK$ million
(a)	**Finance costs:**		
	Bank interest	**759.1**	193.9
	Interest on loans wholly repayable within five years	**84.1**	93.6
	Other borrowing costs	**34.3**	115.2
		877.5	402.7
	Less: Amount capitalised *	**(381.3)**	(193.2)
		496.2	209.5

* *The borrowing costs have been capitalised at rates ranging from 4.41% to 4.46% (2005: from 1.75% to 2.04%) per annum.*

		2006 HK$ million	2005 re-stated HK$ million
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**36.1**	33.3
	Salaries, wages and other benefits	**968.9**	821.4
		1,005.0	854.7
	Less: Amount capitalised	**—**	(30.5)
		1,005.0	824.2
(c)	**Other items:**		
	Depreciation – owned assets	**102.5**	105.3
	Less: Amount capitalised	**(0.1)**	(0.1)
		102.4	105.2
	Amortisation of land lease premium	**4.1**	4.1
	Amortisation of toll highway operation rights	**15.6**	34.7
	Cost of sales		
	— completed properties for sale	**1,076.4**	1,210.4
	— trading stocks	**132.4**	136.8
	Auditors' remuneration	**12.8**	13.9
	Rental receivable from investment properties net of outgoings of HK$762.8 million (2005: HK$633.7 million) #	**(1,104.8)**	(1,047.0)
	Other rental income less outgoings	**(265.8)**	(274.7)
	Dividend income from investments		
	— listed	**(7.9)**	(5.4)
	— unlisted	**(12.5)**	(30.0)

\# *Included contingent rental income of HK$123.0 million (2005: HK$132.1 million).*

8 Income tax

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

	2006 HK$ million	2005 re-stated HK$ million
Current tax – Provision for Hong Kong Profits Tax		
Provision for the year	**369.5**	262.8
Over-provision in respect of prior years	**(4.4)**	(8.3)
	365.1	254.5
Current tax – Provision for taxation outside Hong Kong		
Provision for the year	**32.6**	28.5
Under-provision in respect of prior years	**—**	4.7
	32.6	33.2
Deferred tax		
Origination and reversal of temporary differences	**1,194.0**	1,079.3
	1,591.7	1,367.0

Provision for Hong Kong Profits Tax has been made at 17.5% (2005: 17.5%) on the estimated assessable profits for the year.

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

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

	2006 HK$ million	2005 re-stated HK$ million
Profit before taxation	**17,196.0**	13,699.3
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**2,968.9**	2,347.5
Tax effect of share of profits less losses of associates and jointly controlled entities	**(1,109.5)**	(875.4)
Tax effect of non-deductible expenses	**85.1**	81.3
Tax effect of non-taxable revenue	**(355.0)**	(175.4)
Tax effect of current year's tax losses not recognised	**132.8**	53.3
Tax effect of prior year's tax losses utilised	**(68.7)**	(29.7)
Tax effect of unused tax losses not recognised in prior years now recognised	**(57.5)**	(31.0)
Over-provision in prior years	**(4.4)**	(3.6)
Actual tax expense	**1,591.7**	1,367.0

8 Income tax *(cont'd)*

(c) Deferred tax assets and liabilities recognised:

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

	The Group							
	Depreciation allowances in excess of related depreciation HK$ million	Revaluation of properties HK$ million	Elimination and capitalisation of expenses HK$ million	Fair value adjustment on business combination HK$ million	Gain on disposal of property, plant and equipment HK$ million	Others HK$ million	Tax losses HK$ million	Total HK$ million
Deferred tax arising from:								
At 1 July 2004								
As previously reported	463.0	2,653.1	293.3	166.8	15.2	—	(224.9)	3,366.5
Prior period adjustments arising from changes in accounting policies	0.6	(13.0)	—	—	—	—	—	(12.4)
As re-stated	463.6	2,640.1	293.3	166.8	15.2	—	(224.9)	3,354.1
Exchange adjustments	(0.3)	(0.2)	—	—	—	—	—	(0.5)
Charged/(credited) to profit or loss	67.5	1,101.8	(38.4)	0.8	(0.6)	—	(51.8)	1,079.3
At 30 June 2005 (re-stated)	530.8	3,741.7	254.9	167.6	14.6	—	(276.7)	4,432.9
At 1 July 2005								
As previously reported	**532.5**	**3,750.9**	**254.9**	**167.6**	**14.6**	**—**	**(276.7)**	**4,443.8**
Prior period adjustments arising from changes in accounting policies	**(1.7)**	**(9.2)**	**—**	**—**	**—**	**—**	**—**	**(10.9)**
As re-stated	**530.8**	**3,741.7**	**254.9**	**167.6**	**14.6**	**—**	**(276.7)**	**4,432.9**
Exchange adjustments	**3.5**	**(1.0)**	**—**	**—**	**—**	**—**	**—**	**2.5**
Charged/(credited) to profit or loss	**99.8**	**1,165.3**	**67.2**	**—**	**(0.7)**	**3.0**	**(140.6)**	**1,194.0**
Charged to property revaluation reserves	**—**	**15.1**	**—**	**—**	**—**	**—**	**—**	**15.1**
Additional investments in subsidiaries	**—**	**—**	**—**	**208.9**	**—**	**—**	**—**	**208.9**
Transfer to assets classified as held for sale	**—**	**—**	**33.1**	**(0.8)**	**—**	**—**	**—**	**32.3**
Disposal of a subsidiary	**—**	**—**	**1.5**	**—**	**—**	**—**	**—**	**1.5**
At 30 June 2006	**634.1**	**4,921.1**	**356.7**	**375.7**	**13.9**	**3.0**	**(417.3)**	**5,887.2**

	The Group	
	2006	2005 re-stated
	HK$ million	HK$ million
Net deferred tax assets recognised in the consolidated balance sheet	**(163.2)**	(235.6)
Net deferred tax liabilities recognised in the consolidated balance sheet	**6,050.4**	4,668.5
	5,887.2	4,432.9

8 Income tax *(cont'd)*

(d) Deferred tax assets not recognised:

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

	2006 Deductible temporary differences/ tax losses HK$ million	**2006** Deferred tax asset HK$ million	2005 Deductible temporary differences/ tax losses HK$ million	2005 Deferred tax asset HK$ million
Deductible temporary differences	**319.4**	**55.9**	105.3	18.4
Future benefits of tax losses				
Hong Kong *(note (a))*				
— Assessed by the Inland Revenue Department	**820.3**	**143.5**	1,025.9	179.5
— Not yet assessed by the Inland Revenue Department	**1,851.2**	**324.0**	1,641.8	287.3
Outside Hong Kong *(note (b))*	**593.2**	**181.1**	509.5	158.7
	3,584.1	**704.5**	3,282.5	643.9

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

Notes:

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

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

9 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees HK$'000	Basic salaries, emoluments, other allowances and benefits HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2006 Total HK$'000	2005 Total HK$'000
Executive directors						
Dr. Lee Shau Kee	130	7,267	—	—	**7,397**	2,896
Lee Ka Kit	130	7,140	—	3	**7,273**	4,184
Colin Lam Ko Yin	130	6,317	14,740	350	**21,537**	15,309
Lee Ka Shing	130	3,638	—	169	**3,937**	3,815
John Yip Ying Chee	50	4,503	11,000	251	**15,804**	11,311
Alexander Au Siu Kee	25	3,658	—	183	**3,866**	—
Ho Wing Fun	90	7,760	21,735	131	**29,716**	4,677
Suen Kwok Lam	70	3,648	3,500	203	**7,421**	6,015
Lee King Yue	90	2,664	—	148	**2,902**	2,783
Fung Lee Woon King	50	3,636	1,735	196	**5,617**	7,256
Leung Sing	70	8,933	34,300	205	**43,508**	8,388
Eddie Lau Yum Chuen	70	—	—	—	**70**	70
Li Ning	70	2,253	—	123	**2,446**	2,990
Patrick Kwok Ping Ho	108	3,182	—	177	**3,467**	3,188
Independent non-executive directors						
Gordon Kwong Che Keung	90	610	—	—	**700**	700
Professor Ko Ping Keung	105	570	—	—	**675**	600
Wu King Cheong	70	430	—	—	**500**	285
Alex Wu Shu Chih (passed away)	—	—	—	—	**—**	395
Non-executive directors						
The Hon. Lo Tak Shing	50	—	—	—	**50**	50
Sir Po-shing Woo	70	—	—	—	**70**	70
Leung Hay Man	70	430	—	—	**500**	600
Angelina Lee Pui Ling	50	—	—	—	**50**	150
Lee Tat Man	70	—	—	—	**70**	70
Kan Fook Yee	179	893	—	—	**1,072**	1,070
Vincent Liang	—	—	—	—	**—**	—
Jackson Woo Ka Biu	—	—	—	—	**—**	100
Total	1,967	67,532	87,010	2,139	**158,648**	76,972

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

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2005: four) of them are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other one (2005: one) individual is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Salaries and other emoluments	**3,968**	3,363
Discretionary bonuses	**3,500**	3,500
Retirement scheme contributions	**222**	187
	7,690	7,050

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$702.9 million (2005: HK$865.0 million) which has been dealt with in the accounts of the Company.

12 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006	2005
	HK$ million	HK$ million
Interim dividend declared and paid of HK$0.4 per share (2005: HK$0.4 per share)	**725.8**	725.8
Final dividend proposed after the balance sheet date of HK$0.65 per share (2005: HK$0.6 per share)	**1,179.5**	1,088.8
	1,905.3	1,814.6

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

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.6 per share (2005: HK$0.55 per share)	**1,088.8**	998.0

13 Earnings per share

(a) The calculation of earnings per share is based on the profit attributable to equity shareholders of the Company of HK$13,548.7 million (2005 (re-stated): HK$10,852.8 million) and on 1,814.6 million ordinary shares (2005: 1,814.6 million ordinary shares) in issue during the year. Diluted earnings per share for the year ended 30 June 2006 is not presented as there was no potential dilution of earnings per share. Diluted earnings per share for the year ended 30 June 2005 was not presented because the existence of outstanding guaranteed convertible notes during that year had an anti-dilutive effect on the calculation of diluted earnings per share.

(b) The calculation of adjusted earnings per share is based on the profit attributable to equity shareholders of the Company and adjusted as follows:

	2006	2005
		re-stated
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**13,548.7**	10,852.8
Effect of increase in fair value of investment properties	**(7,297.0)**	(6,765.5)
Effect of deferred tax on increase in fair value of investment properties	**1,165.3**	1,101.8
Effect of share of increase in fair value of investment properties net of deferred tax of associates and jointly controlled entities	**(3,512.2)**	(1,580.8)
Effect of share of minority interests	**1,363.4**	804.5
Adjusted earnings for calculation of earnings per share	**5,268.2**	4,412.8
Adjusted earnings per share	**HK$2.90**	HK$2.43

14 Segmental information

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

Business segments

The Group comprises the following main business segments:

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

14 Segmental information *(cont'd)*

Business segments (cont'd)

	Property development HK$ million	Property leasing HK$ million	Finance HK$ million	Building construction HK$ million	Infra-structure HK$ million	Hotel operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the year ended 30 June 2006									
Income and Results									
Turnover	2,708.6	2,261.0	114.6	856.4	136.4	134.5	561.5	—	6,773.0
Other revenue (excluding bank interest income)	3.5	5.2	1.6	2.2	1.0	0.2	44.8	—	58.5
External revenue	2,712.1	2,266.2	116.2	858.6	137.4	134.7	606.3	—	6,831.5
Inter-segment revenue	—	125.5	1.4	824.5	—	0.8	26.3	(978.5)	—
Total revenue	2,712.1	2,391.7	117.6	1,683.1	137.4	135.5	632.6	(978.5)	6,831.5
Segment results	1,356.2	1,384.3	116.4	62.3	81.8	48.9	70.2		3,120.1
Inter-segment transactions	(2.1)	(13.7)	(1.4)	(61.0)	—	(0.7)	2.7		(76.2)
Contribution from operations	1,354.1	1,370.6	115.0	1.3	81.8	48.2	72.9		3,043.9
Bank interest income									140.6
Reversal of impairment loss on properties under development for own use	86.0	—	—	—	—	—	—		86.0
Write-back of provision on inventories	26.3	—	—	—	—	—	—		26.3
Unallocated operating income net of expenses									758.3
Profit from operations									4,055.1
Increase in fair value of investment properties									7,297.0
Finance costs									(496.2)
									10,855.9
Share of profits less losses of associates									2,534.8
Share of profits less losses of jointly controlled entities	700.0	3,062.6	7.0	10.0	—	13.6	12.1		3,805.3
Profit before taxation									17,196.0
Income tax									(1,591.7)
Profit for the year									15,604.3
Balance Sheet									
Segment assets	29,195.7	51,373.3	833.8	76.7	1,214.5	729.5	1,051.7	(192.2)	84,283.0
Investments in associates									16,962.6
Investments in jointly controlled entities	2,199.6	12,081.3	151.9	8.8	—	1,520.8	63.7		16,026.1
Unallocated assets									8,651.6
Total assets									125,923.3
Segment liabilities	795.0	669.3	153.0	634.0	200.9	66.6	438.1	(192.2)	2,764.7
Unallocated liabilities									29,375.7
Total liabilities									32,140.4
Other Information									
Depreciation and amortisation for the year	(0.4)	(6.4)	—	(0.6)	(36.1)	(19.0)	(59.7)		
Capital expenditure incurred during the year	4,513.7	1,593.1	—	0.1	11.1	0.1	1.0		

14 Segmental information *(cont'd)*

Business segments (cont'd)

	Property development HK$ million	Property leasing HK$ million	Finance HK$ million	Building construction HK$ million	Infra-structure HK$ million	Hotel operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the year ended 30 June 2005 (re-stated)									
Income and Results									
Turnover	1,884.8	2,097.0	90.2	639.6	235.5	120.3	765.9	—	5,833.3
Other revenue (excluding bank interest income)	0.2	4.3	2.2	37.7	1.9	0.1	43.2	—	89.6
External revenue	1,885.0	2,101.3	92.4	677.3	237.4	120.4	809.1	—	5,922.9
Inter-segment revenue	—	148.5	1.3	377.4	—	—	31.4	(558.6)	—
Total revenue	1,885.0	2,249.8	93.7	1,054.7	237.4	120.4	840.5	(558.6)	5,922.9
Segment results	444.3	1,359.3	90.2	92.0	152.1	33.4	257.6		2,428.9
Inter-segment transactions	10.7	(37.6)	(1.3)	(25.4)	—	—	5.6		(48.0)
Contribution from operations	455.0	1,321.7	88.9	66.6	152.1	33.4	263.2		2,380.9
Bank interest income									46.0
Impairment loss on properties under development for own use	(204.0)	—	—	—	—	—	—		(204.0)
Provision on inventories	(23.9)	—	—	—	—	—	—		(23.9)
Unallocated operating expenses net of income									(58.1)
Profit from operations									2,140.9
Increase in fair value of investment properties									6,765.5
Finance costs									(209.5)
									8,696.9
Share of profits less losses of associates									2,751.7
Share of profits less losses of jointly controlled entities	1,084.2	1,143.8	11.0	7.0	—	—	4.7		2,250.7
Profit before taxation									13,699.3
Income tax									(1,367.0)
Profit for the year									12,332.3
Balance Sheet									
Segment assets	25,035.9	41,825.5	1,271.9	157.4	1,253.6	724.2	776.3	(160.1)	70,884.7
Investments in associates									14,700.7
Investments in jointly controlled entities	3,428.0	7,535.8	255.7	30.8	—	2,094.6	51.0		13,395.9
Unallocated assets									5,681.8
Total assets									104,663.1
Segment liabilities	806.1	569.6	61.0	264.2	20.1	59.0	405.2	(160.1)	2,025.1
Unallocated liabilities									22,971.2
Total liabilities									24,996.3
Other Information									
Depreciation and amortisation for the year	(0.7)	(5.8)	—	(0.6)	(55.4)	(19.3)	(62.3)		
Capital expenditure incurred during the year	2,878.8	823.5	—	0.7	1.6	1.9	20.4		

14 Segmental information *(cont'd)*

Geographical segments

	Hong Kong HK$ million	The People's Republic of China ("PRC") HK$ million	Consolidated HK$ million
For the year ended 30 June 2006			
Turnover	**6,528.9**	**244.1**	**6,773.0**
Other revenue (excluding bank interest income)	**49.4**	**9.1**	**58.5**
External revenue	**6,578.3**	**253.2**	**6,831.5**
Segment assets	**70,527.7**	**13,947.5**	
Capital expenditure incurred during the year	**3,964.7**	**2,154.4**	
For the year ended 30 June 2005 (re-stated)			
Turnover	5,521.6	311.7	5,833.3
Other revenue (excluding bank interest income)	77.0	12.6	89.6
External revenue	5,598.6	324.3	5,922.9
Segment assets	59,430.2	11,614.6	
Capital expenditure incurred during the year	3,272.9	454.0	

15 Fixed assets

(a) The Group

	Investment properties HK$ million	Investment properties under development HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Properties under development for own use HK$ million	Bridges HK$ million	Others HK$ million	Total HK$ million
Cost or valuation:								
At 1 July 2004								
As previously reported	36,636.5	206.9	1,209.0	508.3	504.7	561.0	694.5	40,320.9
Prior period adjustments arising from changes in accounting policies	—	—	(607.7)	(29.8)	—	—	—	(637.5)
As re-stated	36,636.5	206.9	601.3	478.5	504.7	561.0	694.5	39,683.4
Exchange adjustments	(11.6)	—	—	—	—	—	—	(11.6)
Additions	945.2	146.0	—	—	23.2	—	118.8	1,233.2
Acquisition of subsidiaries	10.4	—	—	—	—	—	—	10.4
Transfer from properties under development under current assets	46.1	—	—	—	—	—	—	46.1
Disposals	(66.2)	—	—	—	—	(11.7)	(30.8)	(108.7)
Surplus on revaluation	6,765.5	—	—	—	—	—	—	6,765.5
At 30 June 2005 (re-stated)	44,325.9	352.9	601.3	478.5	527.9	549.3	782.5	47,618.3
Amortisation, depreciation and impairment:								
At 1 July 2004								
As previously reported	—	—	—	71.0	—	133.1	591.0	795.1
Prior period adjustments arising from changes in accounting policies	—	—	119.8	(2.5)	—	—	—	117.3
As re-stated	—	—	119.8	68.5	—	133.1	591.0	912.4
Charge for the year	—	—	15.1	6.4	—	19.1	64.7	105.3
Impairment loss	—	—	—	—	204.0	—	—	204.0
Written back on disposal	—	—	—	—	—	(9.7)	(30.1)	(39.8)
At 30 June 2005 (re-stated)	—	—	134.9	74.9	204.0	142.5	625.6	1,181.9
Net book value:								
At 30 June 2005 (re-stated)	44,325.9	352.9	466.4	403.6	323.9	406.8	156.9	46,436.4
Cost or valuation at 30 June 2005 (re-stated) representing:								
Cost	—	352.9	601.3	478.5	527.9	549.3	782.5	3,292.4
Valuation	44,325.9	—	—	—	—	—	—	44,325.9
	44,325.9	352.9	601.3	478.5	527.9	549.3	782.5	47,618.3

15 Fixed assets *(cont'd)*

(a) The Group (cont'd)

	Investment properties HK$ million	Investment properties under development HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Properties under development for own use HK$ million	Bridges HK$ million	Others HK$ million	Total HK$ million
Cost or valuation:								
At 1 July 2005								
As previously reported	44,325.9	352.9	1,271.8	508.3	527.9	549.3	782.5	48,318.6
Prior period adjustments arising from changes in accounting policies	—	—	(670.5)	(29.8)	—	—	—	(700.3)
As re-stated	44,325.9	352.9	601.3	478.5	527.9	549.3	782.5	47,618.3
Exchange adjustments	147.4	—	—	—	—	—	2.1	149.5
Additions	2,092.6	303.9	—	—	349.2	10.5	77.2	2,833.4
Transfer from properties under development under current assets	86.2	—	—	—	—	—	—	86.2
Disposal of a subsidiary	—	—	—	—	—	—	(1.1)	(1.1)
Other disposals	(3.3)	—	—	—	—	—	(57.7)	(61.0)
Surplus on revaluation	7,297.0	—	—	86.3	—	—	—	7,383.3
Transfer to investment property	221.1	—	—	(229.1)	—	—	—	(8.0)
Transfer to assets classified as held for sale	—	—	—	(3.8)	—	—	(2.0)	(5.8)
At 30 June 2006	54,166.9	656.8	601.3	331.9	877.1	559.8	801.0	57,994.8
Amortisation, depreciation and impairment:								
At 1 July 2005								
As previously reported	—	—	—	78.1	204.0	142.5	625.6	1,050.2
Prior period adjustments arising from changes in accounting policies	—	—	134.9	(3.2)	—	—	—	131.7
As re-stated	—	—	134.9	74.9	204.0	142.5	625.6	1,181.9
Exchange adjustments	—	—	—	—	—	—	1.5	1.5
Charge for the year	—	—	15.0	4.6	—	19.0	63.9	102.5
Reversal of impairment loss *(note (i))*	—	—	—	—	(86.0)	—	—	(86.0)
Impairment loss *(note (ii))*	—	—	—	—	—	—	4.5	4.5
Written back on disposal of a subsidiary	—	—	—	—	—	—	(1.0)	(1.0)
Written back on other disposals	—	—	—	—	—	—	(49.5)	(49.5)
Elimination upon transfer to investment property	—	—	—	(24.1)	—	—	—	(24.1)
Elimination upon transfer to assets classified as held for sale	—	—	—	(1.3)	—	—	(1.7)	(3.0)
At 30 June 2006	—	—	149.9	54.1	118.0	161.5	643.3	1,126.8
Net book value:								
At 30 June 2006	54,166.9	656.8	451.4	277.8	759.1	398.3	157.7	56,868.0
Cost or valuation at 30 June 2006 representing:								
Cost	—	656.8	601.3	331.9	877.1	559.8	801.0	3,827.9
Valuation	54,166.9	—	—	—	—	—	—	54,166.9
	54,166.9	656.8	601.3	331.9	877.1	559.8	801.0	57,994.8

15 Fixed assets *(cont'd)*

(a) The Group (cont'd)

Notes:

(i) This is related to a project site intended for hotel development purpose. The Group has assessed the recoverable amount of the project with reference to the valuation performed by an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited ("DTZ"). Based on the valuation result, a reversal of impairment loss of HK$86.0 million is made in respect of this development site and recognised in profit or loss for the year.

(ii) Due to difficult operating environment, the operation scale of the information technology services has been down-sized during the year. Based on the Group's assessment of the recoverable amount of the related assets, which has been determined on the basis of estimated net selling price, impairment loss of HK$4.5 million was made on the carrying amount of the data centre and network equipment and facilities as at 30 June 2006.

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

	The Group	
	2006	2005 re-stated
	HK$ million	HK$ million
In Hong Kong		
— under long leases	**6,316.1**	4,408.0
— under medium-term leases	**45,302.1**	38,491.3
	51,618.2	42,899.3
Outside Hong Kong		
— under long leases	**0.3**	0.4
— under medium-term leases	**5,091.8**	3,379.8
	5,092.1	3,380.2
	56,710.3	46,279.5

(c) The Group's investment properties were revalued as at 30 June 2006 by DTZ who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on an open market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential.

(d) All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

16 Toll highway operation rights

	The Group	
	2006	2005
	HK$ million	HK$ million
Cost:		
At 1 July	**789.5**	789.5
Transfer to assets classified as held for sale	**(557.7)**	—
At 30 June	**231.8**	789.5
Accumulated amortisation:		
At 1 July	**228.0**	193.3
Amortisation for the year	**15.6**	34.7
Elimination upon transfer to assets classified as held for sale	**(182.9)**	—
At 30 June	**60.7**	228.0
Carrying amount:		
At 30 June	**171.1**	561.5

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

At 30 June 2006, the toll highway operation rights are Maanshan Huan Tong Highway (the "Highway"), that were granted to the Group by The People's Government of Anhui Province（安徽省人民政府）for a period of 25 years since 16 December 1999. During the 25-year toll highway concession period, the Group has the rights of management of the Highway and the toll-collection rights thereof. The Group is required to maintain and operate the Highway in accordance with the regulations promulgated by the relevant government authority.

17 Interests in leasehold land held for own use under operating leases

The analysis of net book value of interests in leasehold land held for own use under operating leases is as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
In Hong Kong		
— under long leases	**175.2**	177.8
— under medium-term leases	**48.1**	65.6
	223.3	243.4

18 Interest in subsidiaries

	The Company	
	2006	2005
	HK$ million	HK$ million
Unlisted shares, at cost	**2,355.1**	2,355.1
Amounts due from subsidiaries *(note)*	**41,207.5**	39,066.8
	43,562.6	41,421.9
Less: Impairment loss	**(93.3)**	(93.3)
	43,469.3	41,328.6
Amounts due to subsidiaries *(note)*	**(5,292.7)**	(2,191.7)
	38,176.6	39,136.9

Note: The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered/repaid within one year.

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into these accounts.

Details of principal subsidiaries are shown on pages 161 to 171.

19 Interest in associates

	The Group		The Company	
	2006	2005 re-stated	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Unlisted				
Shares, at cost	**—**	—	**164.7**	166.3
Share of net assets	**628.7**	494.2	**—**	—
Amounts due from associates *(note)*	**1,266.9**	1,590.6	**356.7**	513.1
	1,895.6	2,084.8	**521.4**	679.4
Less: Impairment loss	**—**	—	**(49.0)**	(49.0)
	1,895.6	2,084.8	**472.4**	630.4
Listed in Hong Kong				
Share of net assets	**12,778.0**	11,343.7	**—**	—
Goodwill	**2,289.0**	1,272.2	**—**	—
	15,067.0	12,615.9	**—**	—
	16,962.6	14,700.7	**472.4**	630.4
Market value of listed shares	**39,760.4**	36,845.5	**—**	—

Note: Amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year.

Details of principal associates are shown on page 172.

19 Interest in associates *(cont'd)*

Summary financial information on associates:

	Assets HK$ million	Liabilities HK$ million	Equity HK$ million	Revenues HK$ million	Profit HK$ million
2006	**49,130.6**	**(20,957.0)**	**28,173.6**	**12,806.4**	**6,562.0**
2005	43,225.6	(18,314.2)	24,911.4	12,760.2	6,644.1

20 Interest in jointly controlled entities

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Unlisted shares, at cost	**—**	—	**—**	—
Share of net assets	**7,364.8**	4,321.1	**—**	—
Amounts due from jointly controlled entities *(note)*	**8,661.3**	9,074.8	**121.5**	119.6
	16,026.1	13,395.9	**121.5**	119.6

Note: Except for the amounts due from jointly controlled entities of HK$10.3 million (2005: HK$12.0 million) and HK$Nil (2005: HK$908.9 million) which are interest bearing at Hong Kong dollar prime rate and Hong Kong Interbank Offered Rate plus 2.31% per annum respectively, all of the amounts due from jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year.

Details of principal jointly controlled entities are shown on page 173.

Summary financial information on jointly controlled entities – Group's effective interest:

	2006 **HK$ million**	2005 HK$ million
Non-current assets	**19,100.4**	16,187.0
Current assets	**2,392.3**	3,474.4
Non-current liabilities	**(12,136.1)**	(12,325.3)
Current liabilities	**(1,991.8)**	(3,015.0)
Net assets	**7,364.8**	4,321.1
Income	**7,337.2**	6,038.5
Expenses	**(3,531.9)**	(3,787.8)
Profit for the year	**3,805.3**	2,250.7

21 Other financial assets

	The Group	
	2006	2005
	HK$ million	HK$ million
Held-to-maturity debt securities		
Listed outside Hong Kong	**11.5**	11.5
Available-for-sale equity securities (2005: Investment securities and other investments)		
Unlisted	**103.8**	107.7
Listed		
— in Hong Kong	**461.8**	276.9
— outside Hong Kong	**29.9**	21.2
	607.0	417.3
Instalments receivable ***(note (i))***	**732.4**	1,009.1
Long term receivable ***(note (ii))***	**116.7**	132.9
	1,456.1	1,559.3
Market value of listed securities	**502.8**	310.1

Notes:

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

(ii) The amount represents the non-current portion of the discounted value of the instalments receivable in the future arising from the disposal of toll collection right of certain toll bridges. The portion of HK$23.7 million (2005: HK$22.5 million) expected to be received within one year is classified under "Trade and other receivables".

22 Deposits for acquisition of properties

Deposits for acquisition of properties mainly include HK$604.0 million (2005: HK$1,177.4 million) and HK$561.0 million (2005: HK$561.0 million) paid for the acquisition of certain pieces of land/properties located in the PRC and Macau respectively.

23 Inventories

	The Group	
	2006	2005
		re-stated
	HK$ million	HK$ million
Property development ***(note (i))***		
Leasehold land held for development for sale	**5,678.9**	4,809.8
Properties held for/under development for sale	**9,710.4**	8,761.6
Completed properties for sale	**5,593.1**	5,471.9
	20,982.4	19,043.3
Other operations		
Trading stocks *(note (ii))*	**53.6**	46.8
	21,036.0	19,090.1

Notes:

(i) The analysis of carrying value of properties is as follows:

	The Group	
	2006	2005
		re-stated
	HK$ million	HK$ million
In Hong Kong		
— under long leases	**1,726.8**	2,399.1
— under medium-term leases	**13,492.8**	11,301.3
— under short leases	**7.4**	1.2
In the PRC		
— under long leases	**1,289.9**	1,152.2
— under medium-term leases	**4,465.5**	4,189.5
	20,982.4	19,043.3
Amount expected to be completed after more than one year	**13,950.5**	12,447.4
Amount carried at net realisable value	**2,684.1**	2,430.1

(ii) The trading stocks of HK$4.4 million (2005: HK$0.9 million) are carried at net realisable value.

24 Trade and other receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Loans receivable	**31.6**	31.6	**—**	—
Instalments receivable	**1,810.5**	497.3	**—**	—
Debtors, prepayments and deposits	**1,169.5**	1,336.4	**43.1**	35.3
Gross amount due from customers for contract work *(note 25)*	**31.4**	63.0	**—**	—
Amounts due from associates	**130.8**	203.5	**—**	—
Amounts due from jointly controlled entities	**212.4**	27.1	**—**	—
	3,386.2	2,158.9	**43.1**	35.3

(i) The trade and other receivables include HK$490.0 million (2005: HK$660.6 million) which is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered within one year.

(ii) Included in trade and other receivables are trade debtors (net of impairment loss for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Under 1 month overdue	**1,904.9**	683.3	**—**	—
More than 1 month overdue and up to 3 months overdue	**55.8**	33.9	**—**	—
More than 3 months overdue and up to 6 months overdue	**32.2**	15.8	**—**	—
More than 6 months overdue	**167.0**	158.9	**—**	—
	2,159.9	891.9	**—**	—

(iii) The Group's credit policy is set out in note 32(a).

25 Gross amounts due from/(to) customers for contract work

	The Group	
	2006	2005
	HK$ million	HK$ million
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less anticipated losses	**285.4**	1,270.5
Progress billings	**(254.0)**	(1,215.7)
Net contract work	**31.4**	54.8
Represented by:		
Gross amount due from customers for contract work *(note 24)*	**31.4**	63.0
Gross amount due to customers for contract work *(note 27)*	**—**	(8.2)
	31.4	54.8

26 Cash and cash equivalents

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Deposits with banks and other financial institutions	**6,215.6**	4,023.3	**—**	—
Cash at bank and in hand	**1,423.3**	312.2	**0.7**	0.3
Cash and cash equivalents in the balance sheets	**7,638.9**	4,335.5	**0.7**	0.3
Cash and cash equivalents classified as held for sale	**0.5**	—		
Bank overdrafts	**(181.4)**	(104.3)		
Cash and cash equivalents in the consolidated cash flow statement	**7,458.0**	4,231.2		

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	million	million	**million**	million
United States Dollars	**US$257.8**	US$215.5	**—**	—
Japanese Yen	**—**	JPY25.0	**—**	—

27 Trade and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Creditors and accrued expenses	**2,210.6**	1,727.5	**85.9**	89.7
Gross amount due to customers for contract work *(note 25)*	**—**	8.2	**—**	—
Rental and other deposits	**460.3**	403.3	**—**	—
Forward sales deposits received	**0.4**	0.4	**—**	—
Amounts due to associates	**39.2**	55.2	**27.9**	19.9
Amounts due to jointly controlled entities	**19.6**	23.2	**4.5**	5.2
	2,730.1	2,217.8	**118.3**	114.8

(i) The trade and other payables include HK$518.5 million (2005: HK$536.2 million) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

27 Trade and other payables *(cont'd)*

(ii) Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Due within 1 month and on demand	**334.6**	353.4	**—**	—
Due after 1 month but within 3 months	**221.0**	121.9	**—**	—
Due after 3 months but within 6 months	**106.0**	40.6	**—**	—
Due after 6 months	**775.0**	591.2	**—**	—
	1,436.6	1,107.1	**—**	—

28 Bank loans and overdrafts

	The Group	
	2006	2005
	HK$ million	HK$ million
Bank loans and overdrafts *(note)*		
— Secured	**55.6**	228.8
— Unsecured	**20,638.9**	15,783.0
	20,694.5	16,011.8

Note:
Bank loans and overdrafts are repayable as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
Within 1 year and included in current liabilities	**7,029.2**	3,097.4
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	**3,848.5**	4,920.1
After 2 years but within 5 years	**6,085.0**	6,744.3
After 5 years	**3,731.8**	1,250.0
	13,665.3	12,914.4
	20,694.5	16,011.8

29 Guaranteed convertible notes

(i) On 9 February 2004, a subsidiary of the Group issued guaranteed convertible notes (the "Notes") with a face value of HK$5,750.0 million at an issue price equal to 100% of the face value of the Notes. The Notes bear interest at the rate of 1% per annum, payable semi-annually in arrears on 9 August and 9 February of each year commencing 9 August 2004. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 82% of the principal amount plus any accrued interest on 9 February 2006, or at the option of the holder at 92% of the principal amount plus any accrued interest on 8 February 2005. The Notes are guaranteed by the Company.

(ii) The Notes are convertible after 9 March 2004 up to and including 10 January 2006 into fully paid ordinary shares with a par value of HK$2 each of the Company at an initial conversion price of HK$48.96 per share, which was subsequently changed to HK$48.4 per share on 7 December 2005.

(iii) During the year, the Notes with a face value of HK$188.7 million (2005: HK$5,561.3 million) were redeemed and no Notes were converted into any ordinary shares of the Company.

30 Assets and liabilities classified as held for sale

On 29 March 2006, the Group entered into a sale and purchase agreement with a minority shareholder, Fenghua Transportation Investment Co., Ltd（奉化市交通投資公司）to dispose of its entire interest in Ningbo Nickwell Highway Development Company Limited, Ningbo Wise Link Highway Development Company Limited and Ningbo Rayter Highway Development Company Limited (collectively referred to as the "Ningbo Subsidiaries") at a consideration of RMB70 million (approximately HK$67.65 million). The completion date is expected to be on or before 31 December 2006.

In addition, on 24 June 2005, the Group entered into a conditional agreement (as supplemented by a revised conditional agreement on 4 April 2006) to dispose of its interest in a subsidiary, Shanghai Henfield Properties Co., Ltd. ("Shanghai Henfield") to an independent third party at a consideration of RMB523.0 million. The completion date is expected to be 30 April 2007.

The net assets of Ningbo Subsidiaries and Shanghai Henfield were classified as a disposal group held for sale as at 30 June 2006 and stated at the lower of the carrying amount and fair value less costs to sell except for deferred tax assets and other financial assets, which would continue to be measured in accordance with the accounting policies as set out in note 2.

The major classes of assets and liabilities classified as held for sale as at 30 June 2006 are as follows:

	HK$ million
Assets	
Fixed assets	2.8
Toll highway operation rights	374.8
Deferred tax assets	33.1
Inventories	291.1
Debtors, prepayments and deposits	0.5
Cash and cash equivalents	0.5
Assets classified as held for sale	702.8
Liabilities	
Accrued expenses	1.3
Bank loans, secured	169.4
Deferred tax liabilities	0.8
Liabilities classified as held for sale	171.5
Net assets classified as held for sale	531.3

31 Capital and reserves

(a) The Group

	Attributable to equity shareholders of the Company										
	Share capital HK$ million	Share premium HK$ million	Property revaluation reserves HK$ million	Capital redemption reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Minority interests HK$ million	Total equity HK$ million
At 1 July 2004											
As previously reported	3,629.2	11,157.4	919.5	20.2	(3.9)	—	1,453.3	40,336.1	57,511.8	13,075.8	70,587.6
Prior period adjustments arising from changes in accounting policies	—	—	(919.5)	—	(6.5)	—	—	(42.8)	(968.8)	(428.8)	(1,397.6)
As re-stated	3,629.2	11,157.4	—	20.2	(10.4)	—	1,453.3	40,293.3	56,543.0	12,647.0	69,190.0
Exchange difference on translation of accounts of foreign entities	—	—	—	—	(34.3)	—	—	—	(34.3)	(3.4)	(37.7)
Transfer to other reserves	—	—	—	—	—	—	1.4	(1.4)	—	—	—
Profit for the year (re-stated)	—	—	—	—	—	—	—	10,852.8	10,852.8	1,479.5	12,332.3
Dividends approved in respect of the previous year *(note 12(b))*	—	—	—	—	—	—	—	(998.0)	(998.0)	—	(998.0)
Dividends declared and paid in respect of the current year *(note 12(a))*	—	—	—	—	—	—	—	(725.8)	(725.8)	—	(725.8)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(275.6)	(275.6)
Increase in shareholdings in subsidiaries	—	—	—	—	—	—	—	—	—	(44.2)	(44.2)
Advances from minority shareholders	—	—	—	—	—	—	—	—	—	225.8	225.8
At 30 June 2005 (as re-stated)	3,629.2	11,157.4	—	20.2	(44.7)	—	1,454.7	49,420.9	65,637.7	14,029.1	79,666.8
At 1 July 2005											
As previously reported	**3,629.2**	**11,157.4**	**977.1**	**20.2**	**(3.9)**	**—**	**1,454.7**	**49,464.3**	**66,699.0**	**14,464.9**	**81,163.9**
Prior period adjustments arising from changes in accounting policies	**—**	**—**	**(977.1)**	**—**	**(40.8)**	**—**	**—**	**(43.4)**	**(1,061.3)**	**(435.8)**	**(1,497.1)**
As re-stated, before opening balance adjustment	**3,629.2**	**11,157.4**	**—**	**20.2**	**(44.7)**	**—**	**1,454.7**	**49,420.9**	**65,637.7**	**14,029.1**	**79,666.8**
Opening balance adjustments arising from changes in accounting policies	**—**	**—**	**—**	**—**	**—**	**0.9**	**(1,398.4)**	**1,520.5**	**123.0**	**31.5**	**154.5**
As re-stated, after opening balance adjustments	**3,629.2**	**11,157.4**	**—**	**20.2**	**(44.7)**	**0.9**	**56.3**	**50,941.4**	**65,760.7**	**14,060.6**	**79,821.3**
Exchange difference on translation of accounts of foreign entities	**—**	**—**	**—**	**—**	**275.0**	**—**	**—**	**—**	**275.0**	**29.3**	**304.3**
Revaluation surpluses net of deferred tax	**—**	**—**	**64.1**	**—**	**—**	**—**	**—**	**—**	**64.1**	**7.1**	**71.2**
Changes in fair value of available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**130.2**	**—**	**—**	**130.2**	**16.7**	**146.9**
Redemption of guaranteed convertible notes	**—**	**—**	**—**	**—**	**—**	**—**	**(35.5)**	**35.5**	**—**	**—**	**—**
Transfer to other reserves	**—**	**—**	**—**	**—**	**—**	**—**	**2.2**	**(2.2)**	**—**	**—**	**—**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**13,548.7**	**13,548.7**	**2,055.6**	**15,604.3**
Dividends approved in respect of the previous year *(note 12(b))*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,088.8)**	**(1,088.8)**	**—**	**(1,088.8)**
Dividends declared and paid in respect of the current year *(note 12(a))*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(725.8)**	**(725.8)**	**—**	**(725.8)**
Dividends paid to minority shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(310.1)**	**(310.1)**
Privatisation of listed subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,382.7)**	**(2,382.7)**
Share placement of a listed subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,272.0**	**2,272.0**
Advances from minority shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**70.3**	**70.3**
At 30 June 2006	**3,629.2**	**11,157.4**	**64.1**	**20.2**	**230.3**	**131.1**	**23.0**	**62,708.8**	**77,964.1**	**15,818.8**	**93,782.9**

31 Capital and reserves *(cont'd)*

(b) The Company

	Share capital HK$ million	Share premium HK$ million	Capital redemption reserve HK$ million	Retained profits HK$ million	Total equity HK$ million
At 1 July 2004	3,629.2	11,157.4	20.2	25,859.7	40,666.5
Profit for the year	—	—	—	865.0	865.0
Dividends approved in respect of the previous year *(note 12(b))*	—	—	—	(998.0)	(998.0)
Dividends declared and paid in respect of the current year *(note 12(a))*	—	—	—	(725.8)	(725.8)
At 30 June 2005	3,629.2	11,157.4	20.2	25,000.9	39,807.7
At 1 July 2005	**3,629.2**	**11,157.4**	**20.2**	**25,000.9**	**39,807.7**
Profit for the year	**—**	**—**	**—**	**702.9**	**702.9**
Dividends approved in respect of the previous year *(note 12(b))*	**—**	**—**	**—**	**(1,088.8)**	**(1,088.8)**
Dividends declared and paid in respect of the current year *(note 12(a))*	**—**	**—**	**—**	**(725.8)**	**(725.8)**
At 30 June 2006	**3,629.2**	**11,157.4**	**20.2**	**23,889.2**	**38,696.0**

(c) Share capital

	The Group and the Company			
	No. of shares		Nominal value	
	2006 million	2005 million	**2006 HK$ million**	2005 HK$ million
Authorised				
Ordinary shares of HK$2 each	**2,600.0**	2,600.0	**5,200.0**	5,200.0
Issued and fully paid				
Ordinary shares of HK$2 each	**1,814.6**	1,814.6	**3,629.2**	3,629.2

31 Capital and reserves *(cont'd)*

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of share premium and the capital redemption reserve is governed by Section 48B and Section 49H respectively of the Hong Kong Companies Ordinance.

(ii) Property revaluation reserves

The balance of property revaluation reserves as at 30 June 2006 relates to other land and buildings. Where other land and buildings is reclassified to investment property, the cumulative increase in fair value of investment property at the date of reclassification is included in the property revaluation reserves, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 2(f).

(v) Other reserves

Other reserves comprise the value of unexercised equity component of guaranteed convertible notes issued by a subsidiary of the Company recognised in accordance with the accounting policy set out in note 2(o) and statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, wholly foreign-owned enterprises are required to transfer at least 10% of their profits after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprises' registered capital.

(vi) Distributability of reserves

At 30 June 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$23,889.2 million (2005: HK$25,000.9 million). After the balance sheet date the directors proposed a final dividend of HK$0.65 per ordinary share (2005: HK$0.6 per share), amounting to HK$1,179.5 million (2005: HK$1,088.8 million). This dividend has not been recognised as a liability at the balance sheet date.

32 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's financial management policies and practices are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, instalments receivable, rental and other receivables. The Group maintain a defined credit policy and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings that are located where the group companies are operated and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

For instalments receivable from sale of properties, collateral is usually obtained. Regular review and follow-up actions are carried out on overdue amounts to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these receivables. Adequate impairment losses have been made for estimated irrecoverable amounts.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets. Except for the financial guarantee given by the Group as disclosed in note 35, the Group does not provide any other guarantees which expose the Group to credit risk.

32 Financial instruments *(cont'd)*

(b) *Liquidity risk*

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) *Interest rate risk*

The Group is exposed to interest rate risk through the impact of rates changes on interest bearing borrowings. In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006		
	Fixed/ floating	**Effective interest rate**	**Within one year HK$ million**
Instalments receivable	**Floating**	**6%-11.75%**	**2,542.9**
Cash and cash equivalents	**Floating**	**0%-3.1%**	**1,423.3**
Cash and cash equivalents	**Fixed**	**1.62%-5.28%**	**6,215.6**
Bank loans and overdrafts	**Floating**	**3.92%-8%**	**(20,694.5)**
Amount due to a fellow subsidiary	**Floating**	**4.16%-6.63%**	**(1,858.9)**

	2005		
	Fixed/ floating	Effective interest rate	Within one year HK$ million
Instalments receivable	Floating	3.75%-9.75%	1,506.4
Cash and cash equivalents	Floating	0%-1.32%	312.2
Cash and cash equivalents	Fixed	1.29%-3.75%	4,023.3
Bank loans and overdrafts	Floating	1.94%-5.76%	(16,011.8)
Amount due to a fellow subsidiary	Floating	3.5%-3.69%	(1,321.1)

(d) *Foreign currency risk*

The Group owns assets and conducts its business primarily in Hong Kong with its cash flows substantially denominated in Hong Kong dollars. The Group reports its results in Hong Kong dollars. In the light of the Hong Kong dollars peg, the Group does not hedge United States dollars exposure, and it aims to preserve its value in Hong Kong dollar terms.

The Group's primary foreign currency exposures arise from its direct property development and investment in the PRC. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings with reference to the future Renminbi funding requirements from the investment and related returns.

(e) *Sensitivity analysis*

In managing interest rate and foreign currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

32 Financial instruments *(cont'd)*

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2006 and 2005 except as follows:

(i) **Amounts due from/to subsidiaries, associates and jointly controlled entities**
Certain amounts due from/to subsidiaries, associates and jointly controlled entities of the Group and the Company are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to quantify their fair values and they are stated at cost.

(ii) **Unlisted investments**
Certain investments of HK$103.8 million at 30 June 2006 (2005: HK$107.7 million) do not have a quoted market price in an active market and therefore their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the balance sheet date.

(g) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments:

(i) **Securities**
Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) **Interest bearing borrowings**
The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

33 Commitments

At 30 June 2006, the Group had commitments not provided for in these accounts as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
(i) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**1,085.9**	638.1
(ii) Contracted obligations to fund the subsidiaries and associates established outside Hong Kong	**1,655.4**	1,691.3
(iii) Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**4,523.4**	4,859.5
	7,264.7	7,188.9

34 Significant leasing arrangements

At 30 June 2006, the Group is both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 15.

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Within 1 year	**1,485.7**	1,469.6
After 1 year but within 5 years	**806.9**	898.9
After 5 years	**12.3**	25.4
	2,304.9	2,393.9

(b) Lessee

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

During the current year, HK$49.5 million (2005: HK$46.2 million) was recognised as an expense in the consolidated profit and loss account in respect of leasing of building facilities.

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Within 1 year	**39.7**	37.6
After 1 year but within 5 years	**72.6**	75.0
After 5 years	**—**	13.7
	112.3	126.3

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

During the current year, HK$2.7 million (2005: HK$3.8 million) was recognised as an expense in the consolidated profit and loss account in respect of leasing of telecommunications network facilities.

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Within 1 year	**0.1**	0.7

35 Contingent liabilities

At 30 June 2006, contingent liabilities of the Group and of the Company were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
(a) Guarantees given by the Company and its subsidiaries to financial institutions on behalf of purchasers of flats	**119.3**	162.2	**0.4**	0.8
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	**—**	—	**20,371.1**	15,470.2
(c) Guarantees given by the Company to banks to secure banking facilities of an associate and a jointly controlled entity	**1,915.7**	2,241.0	**1,915.7**	2,241.0
(d) Guarantees given by the Company to holders of guaranteed convertible notes issued by a subsidiary	**—**	—	**—**	189.5
	2,035.0	2,403.2	**22,287.2**	17,901.5

(e) Pursuant to an indemnity deed dated 15 March 1996 signed between the Company and a subsidiary, the Company, under certain conditions, has undertaken to indemnify the subsidiary in respect of any PRC Income Tax and Land Appreciation Tax ("LAT") payable in consequence of the disposal by the subsidiary of its property interests owned as at 31 December 1995. As at 30 June 2006, the Company had contingent PRC Income Tax and LAT liabilities of HK$14.4 million (2005: HK$46.0 million) and HK$Nil (2005: HK$38.0 million) respectively in relation to certain investment properties of the subsidiary upon a revaluation of these properties.

(f) At 30 June 2006, the Group had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the subsidiaries' obligations amounting to HK$53.3 million (2005: HK$73.1 million).

36 Material related party transactions

(a) Transactions with fellow subsidiaries

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Other interest expense *(note (i))*	**63.8**	12.1

(b) Transactions with associates and jointly controlled entities

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Other interest income *(note (i))*	**47.9**	44.5
Building construction income *(note (ii))*	**850.5**	634.5
Management fee income *(note (iii))*	**15.5**	20.8
Professional fee income *(note (iii))*	**2.0**	38.0
Sales commission income *(note (iii))*	**19.0**	149.2
Rental expenses *(note (iii))*	**34.7**	30.7

36 Material related party transactions *(cont'd)*

(c) Transactions with related companies

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

	The Group	
	2006	2005
	HK$ million	HK$ million
Building management service income *(note (iii))*	**24.5**	23.0
Rental commission income *(note (iii))*	**13.4**	14.4
Sales commission income *(note (iii))*	**0.4**	2.7

In addition, the Group and one of its related companies entered into a rental agreement dated 30 March 2004 for leasing certain units of the Group's investment properties with a monthly rental charged at 8% of the tenant's monthly turnover. According to the rental agreement, the related company is entitled to a rent free period from 1 April 2004 to 30 September 2004. The total rental income earned from the related company during the year is HK$1.5 million (2005: HK$0.6 million) and the outstanding balance as at 30 June 2006 is HK$2.2 million (2005: HK$0.6 million) *(note (iii))*.

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate or prime rate.

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

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

(iv) The amount due to a fellow subsidiary at 30 June 2006 is shown in the balance sheet. The amounts due to/from associates and jointly controlled entities at 30 June 2006 are set out in notes 19, 20, 24 and 27 respectively.

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

Mr Lee Ka Kit, a director of the Company, through companies controlled or owned by him has separate interests in certain subsidiaries and associates of the Company or the Group and through which the Group holds its interest in certain development projects in the PRC. Mr Lee through companies controlled or owned by him had provided finance in the form of advances to these subsidiaries and associates in accordance with the percentage of his equity interest in these companies. At 30 June 2006, the advances made to these subsidiaries and associates through companies controlled or owned by Mr Lee amounting to HK$612.6 million (2005: HK$472.1 million) and HK$537.4 million (2005: HK$537.1 million) respectively are unsecured. No interest is charged to these subsidiaries and associates by the companies controlled or owned by Mr Lee under such arrangements during the years ended 30 June 2005 and 2006.

(e) Key management personnel

Remuneration for key management personnel is disclosed in note 9.

37 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 12.

38 Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 3. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

39 Parent and ultimate holding company

At 30 June 2006, the directors consider that the parent and ultimate holding company of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce accounts available for public use.

40 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(i) Valuation of investment properties

As described in note 15, investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on a method of valuation which involves certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market condition.

(ii) Assessment of impairment of non-current assets

Management assesses the recoverable amount of each asset based on its value in use or on its net selling price by reference to the comparable market transactions. Estimating the value in use of an asset involves estimating the future cash flows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows.

(iii) Write-down of value of inventories for property development

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

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

(iv) Recognition of deferred tax assets

At 30 June 2006, the Group has recognised a deferred tax asset in relation to the unused tax losses as set out in note 8(c). The realisability of the deferred tax asset mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 30 June 2006

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 30 June 2006 and which have not been adopted in these accounts.

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

		Effective for accounting periods beginning on or after
HK (IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Amendment to HKAS 21	The effects of changes in foreign exchange rate – Net investment in a foreign operation	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement	
	— Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	— The fair value option	1 January 2006
	— Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business Combinations	1 January 2006

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

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