

Notes to the Interim Financial Statements

(Expressed in millions of Hong Kong dollars)

1. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 30 June 2004.

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

2. SEGMENT RESULTS

(a) The Company and its subsidiaries

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

	Turnover Six months ended 31 December		Profit from Operations before Finance Costs Six months ended 31 December	
	2004	2003	2004	2003
Property				
Property sales	5,130	3,019	1,483	534
Rental income	2,492	2,489	1,854	1,852
	7,622	5,508	3,337	2,386
Hotel operation	341	301	135	115
Telecommunications	1,830	1,549	242	243
Other businesses	1,485	1,345	330	288
	11,278	8,703	4,044	3,032
Other revenue			322	379
Unallocated administrative expenses			(270)	(249)
Profit from operations			4,096	3,162

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

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

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

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2. SEGMENT RESULTS (cont'd)

(b) Associates and jointly controlled entities

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

	Share of Profits Less Losses before Taxation Six months ended 31 December	
	2004	2003
Property		
Property sales	53	51
Rental income	172	123
	225	174
Other businesses	243	276
Profit from operations	468	450
Finance costs	(72)	(94)
Profit before taxation	396	356

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

	Attributable Profit before Taxation Six months ended 31 December	
	2004	2003
Property		
Property sales	1,536	585
Rental income	2,026	1,975
	3,562	2,560
Hotel operation	135	115
Telecommunications	242	243
Other businesses	573	564
Other revenue	322	379
Unallocated administrative expenses	(270)	(249)
Net finance costs		
– Group	(46)	(82)
– Associates and jointly controlled entities	(72)	(94)
Profit on disposal of long-term investments	1,886	39
Profit before taxation	6,332	3,475

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3. NET FINANCE COSTS

	Six months ended 31 December	
	2004	2003
Interest expenses on		
Bank loans and overdrafts	87	117
Other loans wholly repayable within five years	29	37
Other loans not wholly repayable within five years	11	17
	127	171
Less : Portion capitalized	(46)	(65)
	81	106
Interest income on bank deposits	(35)	(24)
	46	82

4. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS

	Six months ended 31 December	
	2004	2003
Profit on disposal of interests in jointly controlled entities (Note)	1,646	–
Profit on disposal of long-term investments	240	39
	1,886	39

Note:

This represents a profit of HK\$1,414 million on the disposal of the Group's investment in Asia Container Terminals Holdings Limited and a profit of HK\$232 million on the disposal of a joint venture company which is engaged in consumer finance business.

5. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2004	2003
Profit before taxation is arrived at after charging / (crediting):		
Cost of properties sold	3,236	2,348
Cost of other inventories sold	501	316
Depreciation	302	303
Dividend income from listed and unlisted investments	(45)	(34)
Interest income from listed and unlisted debt securities	(145)	(192)
Net realized and unrealized holding gains on marketable securities	(68)	(92)

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6. TAXATION

	Six months ended 31 December	
	2004	2003
Company and subsidiaries		
Hong Kong profits tax	469	327
China income tax	1	–
Deferred taxation	100	86
	570	413
Share of taxation		
Associates	31	43
Jointly controlled entities	41	35
	642	491

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

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$5,549 million (2003: HK\$2,840 million).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 2,400,938,862 (2003: 2,400,907,362). The diluted earnings per share is based on 2,401,071,385 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 132,523 shares deemed to be issued at no consideration if all outstanding options had been exercised.

No diluted earnings per share was presented for the period ended 31 December 2003 as there were no potentially dilutive shares outstanding.

8. FIXED ASSETS

During the period, additions to fixed assets amounted to HK\$1,295 million and net book value of fixed assets disposed of amounted to HK\$1,134 million.

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9. LONG-TERM INVESTMENTS

	31 December 2004	30 June 2004
Listed held-to-maturity debt securities, overseas	4,489	4,249
Listed held-to-maturity debt securities, Hong Kong	117	95
Unlisted held-to-maturity debt securities	790	901
Listed equity securities, overseas	105	163
Listed equity securities, Hong Kong	778	784
Unlisted equity securities	393	393
	6,672	6,585
Amounts due from investee companies	31	32
	6,703	6,617
Market value		
Listed overseas	5,145	4,986
Listed in Hong Kong	1,240	902
	6,385	5,888

10. LOAN RECEIVABLES

	31 December 2004	30 June 2004
Mortgage loan receivables	1,676	1,612
Less : Amount due within one year included under current assets	(62)	(67)
	1,614	1,545

Mortgage loan receivables are secured on properties and repayable by monthly instalments with various tenors not more than 20 years at the balance sheet date.

11. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade debtors of HK\$1,556 million (30 June 2004: HK\$2,942 million), of which 84 per cent aged less than 60 days, four per cent between 61 to 90 days and 12 per cent more than 90 days (30 June 2004: 90 per cent, two per cent and eight per cent respectively).

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12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors of HK\$665 million (30 June 2004: HK\$625 million), of which 57 per cent aged less than 60 days, seven per cent between 61 to 90 days and 36 per cent more than 90 days (30 June 2004: 50 per cent, five per cent and 45 per cent respectively).

13. SHARE CAPITAL

	Number of Shares in Million	Amount
Authorized:		
Ordinary shares of \$0.50 each		
At beginning and end of period	2,900	1,450
Issued and fully paid:		
Ordinary shares of \$0.50 each		
At beginning of period	2,401	1,201
60,000 shares issued on exercise of share options	—	—
At end of period	2,401	1,201

14. SHARE OPTION SCHEME

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

Date of Grant	Exercise Price	Exercisable Period	At 1 July 2004	Exercised during the period	Lapsed during the period	At 31 December 2004
15 February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	—	—	810,000
16 July 2001	HK\$70	16.7.2002 to 15.7.2006	1,950,000	(60,000)	(12,000)	1,878,000
			2,760,000	(60,000)	(12,000)	2,688,000

During the six months ended 31 December 2004, options were exercised on 29 November 2004 and 24 December 2004 to subscribe for 36,000 shares and 24,000 shares in the Company at the exercised price of HK\$70.00 respectively. The respective market prices per share on the close of the exercise dates were HK\$79.00 and HK\$77.25. No share options were exercised during the six months ended 31 December 2003.

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15. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions during the period between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates Six months ended 31 December		Jointly controlled entities Six months ended 31 December	
	2004	2003	2004	2003
Interest income	–	3	27	33
Rental income	3	2	–	1
Rental Expenses	–	–	8	7
Other revenue from services rendered	104	19	75	163
Purchase of goods and services	–	–	65	89

16. CONTINGENT LIABILITIES AND COMMITMENTS

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

	31 December 2004	30 June 2004
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	2,879	3,015
Authorized but not contracted for	347	746
(b) Capital commitments in respect of investments		
Contracted but not provided for	86	129
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	602	852
Authorized but not contracted for	24	271

(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$4,189 million (30 June 2004: HK\$4,705 million) and other guarantees of HK\$313 million (30 June 2004: HK\$152 million).

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17. FINANCIAL INSTRUMENTS

Details of the Group's outstanding interest rate swaps (to swap fixed rate into floating rate debt) and currency swaps (to hedge principal repayment of USD debt) at balance sheet date are as follows:

	Notional Principal Amount	
	31 December 2004	30 June 2004
Interest rate swaps		
– Less than one year	–	800
– One to five years	1,400	1,250
– After five years	250	400
	<u>1,650</u>	<u>2,450</u>
Currency swaps		
– After five years	<u>234</u>	<u>234</u>