

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. Principal Accounting Policies

a. Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

For full convergence with International Financial Reporting Standards, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively, "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005.

The Group has made a preliminary assessment of the impact of these new HKFRSs and has so far concluded that the adoption of Hong Kong Accounting Standard ("HKAS") 40 "Investment property", HK(SIC) Interpretation ("HK(SIC)-INT") 21 "Income taxes-recovery of revalued non-depreciable assets" and HK Interpretation ("HK-INT") 2 "The appropriate policies for hotel properties" will have a significant impact on the Group's financial statements.

HKAS 40 requires surpluses or deficits arising on the revaluation of investment properties to be recognized in the profit and loss account instead of property revaluation reserves. HK(SIC)-INT 21 requires the provision of deferred taxation on these surpluses or deficits to be calculated at applicable profits tax rates. If these new accounting standards had been adopted, the Group's profit attributable to shareholders for the year ended 30 June 2005 would have increased by approximately HK\$7.6 billion, being the increase in fair value of the Group's investment properties during the year net of deferred taxation thereon. Furthermore, recognition of deferred taxation on the Group's cumulative property revaluation surpluses would have resulted in a reduction in the Group's net assets as at 30 June 2005 of approximately HK\$3.5 billion (HK\$2.6 billion as at 30 June 2004).

Under HK-INT 2 owner-operated hotel properties are stated at cost less accumulated depreciation and impairment losses, rather than at valuation. Adoption of this new accounting standard would have had the effect of reducing the Group's net assets as at 30 June 2005 and 30 June 2004 by approximately HK\$2.6 billion and HK\$2.3 billion, respectively, as a result of the reversal of hotel property revaluation surpluses and the recognition of cumulative depreciation on the Group's hotel properties. Under this new accounting treatment, the Group's profit attributable to shareholders for the year ended 30 June 2005 would have reduced by approximately HK\$48 million, being the annual depreciation that would have been charged on the Group's hotel properties.

The Group is continuing its assessment of the impact of the other new HKFRSs on the Group's financial statements.

b. Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30 June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below, respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either co-terminus with the financial statements of the Company or cover a year ended not more than six months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation.

Following the adoption of HKFRS 3 "Business Combination", goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities on or after 1 January 2005 is recognized as an asset in the balance sheet and reviewed for impairment annually. Any impairment arising on goodwill is recognized in the profit and loss account. Any excess of the Group's interest in fair value of net assets over the cost of acquisition ("discount on acquisition") is recognized immediately in the profit and loss account. The Group shall apply this HKFRS prospectively with effect from 1 July 2005 to goodwill arising before 1 January 2005.

Minority interests in the consolidated profit and loss account and balance sheet represent the interests of third parties outside the Group in the results and net assets of subsidiaries.

1. Principal Accounting Policies (cont'd)

c. Turnover

Turnover derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from properties letting under operating leases, revenue from hotel operation and revenue derived from other business activities including property management, car parking and transport infrastructure management, toll road fees, logistics business, construction, financial services, telecommunications, internet infrastructure, enabling services and department store. It does not include the turnover of associates and jointly controlled entities.

d. Revenue recognition

Revenue of a transaction is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group which will result in increases in equity and these benefits can be measured reliably, on the following basis:

(i) Property sales

Profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sale proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sale proceeds receivable over the interest-free period.

(ii) Rental income

Rental income from properties letting under operating leases is recognized on a straight line basis over the lease terms.

(iii) Hotel operation

Revenue from hotel operation is recognized upon provision of services.

(iv) Interest income

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

(v) Construction

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

(vi) Investment income

Income from securities and other investments is recognized when the right to receive payment is established.

(vii) Use of internet services centre facilities

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

(viii) Telecommunications

Revenue from telecommunication is recognized when the service is rendered.

(ix) Toll income

Toll income is recognized upon the passage of vehicles through tunnel.

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(Expressed in millions of Hong Kong dollars)

1. Principal Accounting Policies (cont'd)

d. Revenue recognition (cont'd)

(x) Department Store

Revenue from sale of own-bought goods and commission income from concession and consignment sales is recognized upon the transfer of risks and rewards of ownership of the goods.

(xi) Other income

Property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

e. Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the balance sheet of the Company at cost less impairment.

f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets.

g. Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the parties has unilateral control.

(i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less impairment.

1. Principal Accounting Policies (cont'd)

g. Joint ventures (cont'd)

(ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

h. Investments in securities

(i) Long-term investments

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less impairment. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities which are intended to be held to maturity are measured at amortized cost, less any impairment losses recognized, if necessary, in the balance sheet. The amortization of any discount or premium arising on acquisition is aggregated with other investment income receivable over the period from the date of acquisition to the date of maturity so as to give a constant yield on the investment. Held-to-maturity debt securities maturing within one year are classified as short-term investments under current assets.

(ii) Marketable securities

Marketable securities, which are that part of liquid assets temporarily invested in debt and equity securities, are stated at fair value, with unrealized gains and losses included in net profit or loss for the year.

i. Properties

(i) Land pending development

Land pending development, which is stated at cost less impairment made by the directors, embraces all land acquired pending any definite intention whether to develop it for long-term retention or for sale. When the intention is clear and action initiated, land to be developed for long-term retention is reclassified as fixed assets whereas land to be developed for sale and expected to be realized in the normal course of the Group's property development cycle is reclassified as stocks under current assets.

(ii) Investment properties

Investment properties are completed properties which are income producing and held for their investment potential on a long-term basis. Investment properties are included in fixed assets at open market value on the basis of an annual professional valuation related to properties on the basis that increases in valuations are credited to the investment property revaluation reserve and decreases in valuations are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to operating profit. Upon disposal of an investment property, the revaluation surplus or deficit realized is transferred to operating profit in calculating the profit or loss on disposal.

(iii) Hotel properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at open market value on the basis of an annual professional valuation related to individual hotel properties.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. Principal Accounting Policies (cont'd)

i. Properties (cont'd)

(iv) Properties under development

Properties under development for long-term retention are classified under fixed assets and are stated at cost less impairment. These properties are reclassified as investment properties or other properties as the case may be upon completion of the development.

Properties under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

Cost of property in the course of development comprises land cost, development costs and borrowing costs during the development period.

(v) Stocks of completed properties

Completed properties remaining unsold at year end are stated at the lower of cost and net realizable value.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

(vi) Other properties

Other properties are properties held for production or administrative purposes and are included in fixed assets at cost less accumulated depreciation and impairment, if any.

j. Depreciation

(i) Investment properties

No depreciation is provided on investment property except where the unexpired term of the lease of the investment property is 20 years or less, in which case the then carrying amount is amortized on a straight line basis over the remaining unexpired term of the lease.

(ii) Hotel properties

No depreciation is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of these assets and their high residual values, any depreciation would be insignificant. The related repair and maintenance expenditure is charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalized.

(iii) Properties under development

No depreciation is provided on properties under development.

(iv) Network equipment

Network equipment including assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment losses over their estimated useful lives at rates ranging from ten per cent to 50 per cent per annum. No depreciation is provided on network equipment under construction.

1. Principal Accounting Policies (cont'd)

j. Depreciation (cont'd)

(v) Toll road

Toll road including the cost of tunnel, approach road and buildings, electrical and mechanical systems are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment losses over the term of franchise at rate 3.7 per cent per annum.

(vi) Other properties

The cost of leasehold land and construction cost of buildings thereon are depreciated on a straight line basis over the term of the lease.

(vii) Other fixed assets

Other fixed assets including equipment, furniture, fixtures and vehicles are stated at cost less depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum.

k. Capitalization of borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale.

l. Materials

Materials comprising mainly building materials, hotel stocks, handsets and consumable goods are valued at the lower of cost, calculated on a weighted average cost basis, and net realizable value.

m. Translation of foreign currencies

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

The balance sheet of overseas subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of balance sheet whereas the profit and loss accounts are translated at average exchange rates for the year. Exchange differences arising on translation are dealt with as a movement in reserves.

n. Deferred taxation

Deferred tax liabilities are provided in full, using the liability method, on all temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profits, while deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

o. Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be represented as the primary reporting format.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. Principal Accounting Policies (cont'd)

p. Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

q. Retirement benefits

The retirement benefit costs charged to the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution schemes and Mandatory Provident Fund Schemes.

2. Segment Information

(i) 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		Profit from Operations before Finance Costs	
	2005	2004	2005	2004
Property				
Property sales	10,274	10,004	3,626	2,401
Rental income	5,056	4,978	3,740	3,729
	15,330	14,982	7,366	6,130
Hotel operation	679	597	264	227
Telecommunications	3,619	3,367	324	492
Other businesses	3,317	2,818	779	595
	22,945	21,764	8,733	7,444
Other revenue			618	633
Unallocated administrative expenses			(526)	(492)
Profit from operations			8,825	7,585

Turnover from properties sales includes HK\$1,718 million (2004: HK\$162 million) from sale of investment properties.

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

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.

2. Segment Information (cont'd)

(i) 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	
	2005	2004
Property		
Property sales	1,390	354
Rental income	323	269
	1,713	623
Other businesses	457	518
Profit from operations	2,170	1,141
Finance costs	(147)	(169)
Profit before taxation	2,023	972

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

	Attributable Profit	
	2005	2004
Property		
Property sales	5,016	2,755
Rental income	4,063	3,998
	9,079	6,753
Hotel operation	264	227
Telecommunications	324	492
Other businesses	1,236	1,113
Other revenue	618	633
Unallocated administrative expenses	(526)	(492)
Net finance costs — Group	(245)	(172)
— Associates and jointly controlled entities	(147)	(169)
Profit on disposal of long-term investments less impairment	1,858	100
Profit before taxation	12,461	8,485
Taxation	(1,861)	(1,285)
Minority interests	(229)	(277)
Profit attributable to shareholders	10,371	6,923

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(Expressed in millions of Hong Kong dollars)

2. Segment Information (cont'd)

(ii) Assets and liabilities

The Group's assets and liabilities by business segments are analysed as follows:

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Total Liabilities
At 30 June 2005				
Property				
Development	38,224	3,141	41,365	(4,475)
Investment	99,253	14,822	114,075	(1,445)
	137,477	17,963	155,440	(5,920)
Hotel operation	5,277	—	5,277	(65)
Telecommunications	2,557	—	2,557	(977)
Other businesses	10,100	3,110	13,210	(1,519)
	155,411	21,073	176,484	(8,481)
Long-term investments			5,971	—
Short-term investments			2,428	—
Bank balances and deposits			6,519	—
Bank and other borrowings			—	(23,066)
Unallocated corporate assets/(liabilities)			544	(1,916)
Taxation			—	(3,114)
Deferred taxation			—	(1,604)
Total assets/(liabilities)			191,946	(38,181)
At 30 June 2004				
Property				
Development	31,565	3,672	35,237	(3,581)
Investment	91,157	12,204	103,361	(1,320)
	122,722	15,876	138,598	(4,901)
Hotel operation	4,893	—	4,893	(65)
Telecommunications	2,425	—	2,425	(934)
Other businesses	5,012	5,177	10,189	(1,345)
	135,052	21,053	156,105	(7,245)
Long-term investments			6,617	—
Short-term investments			1,318	—
Bank balances and deposits			7,207	—
Bank and other borrowings			—	(19,948)
Unallocated corporate assets/(liabilities)			581	(2,091)
Taxation			—	(2,971)
Deferred taxation			—	(1,393)
Total assets/(liabilities)			171,828	(33,648)

Less than ten per cent of the Group's assets are situated outside Hong Kong.

2. Segment Information (cont'd)

(ii) Assets and liabilities (cont'd)

The Group's depreciation and capital expenditure by business segments are analysed as follows:

	Depreciation		Capital Expenditure	
	2005	2004	2005	2004
Property				
Development	3	3	9,112	2,584
Investment	2	7	1,741	1,470
	5	10	10,853	4,054
Hotel operation	2	2	40	29
Telecommunications	457	412	695	680
Other businesses	302	186	50	49
Unallocated corporate assets	5	6	4	2
	771	616	11,642	4,814

In addition to the above capital expenditure, the Group also acquired interest in subsidiaries as explained in note 29 (b).

3. Net Finance Costs

	2005	2004
Interest expenses on		
Bank loans and overdrafts	357	205
Other loans wholly repayable within five years	86	65
Other loans not wholly repayable within five years	8	29
	451	299
Less: Portion capitalized	(123)	(86)
	328	213
Interest income on bank deposits	(83)	(41)
	245	172

Interest is capitalized at an average annual rate of approximately 1.6 per cent (2004: 1.1 per cent).

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(Expressed in millions of Hong Kong dollars)

4. Profit on Disposal of Long-Term Investments Less Impairment

	2005	2004
Profit on disposal of interests in jointly controlled entities (Note)	1,649	—
Profit on disposal of long-term investments	300	156
Impairment of long-term investments	(91)	(56)
	1,858	100

Note:

This includes a profit of HK\$1,417 million on the disposal of the Group's investment in Asia Container Terminals Holdings Limited.

5. Profit before Taxation

	2005	2004
Profit before taxation is arrived at after charging:		
Cost of properties sold	6,049	7,060
Cost of other inventories sold	955	849
Depreciation	771	616
Impairment of goodwill	1	17
Staff costs (including directors' emoluments and retirement schemes contributions)	2,199	2,039
Auditors' remuneration	8	8
Loss on disposal of other fixed assets	8	13
and crediting:		
Discount on acquisition	2	—
Dividend income from:		
listed investments	67	45
unlisted investments	20	51
Interest income from:		
listed debt securities	287	273
unlisted debt securities	27	90
Profit on disposal of marketable securities	18	33
Net holding gain on marketable securities	136	4

6. Directors' Emoluments and Five Highest Paid Individuals

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

Name of director	Fees	Salaries, allowances and benefits	Discretionary Bonuses	Retirement scheme contributions	2005 Total emoluments	2004 Total emoluments
Executive Directors						
Kwok Ping-sheung, Walter	0.08	1.57	0.06	0.15	1.86	1.77
Kwok Ping-kwong, Thomas	0.07	1.49	0.06	0.14	1.76	1.68
Kwok Ping-luen, Raymond	0.18	1.54	0.06	0.14	1.92	1.84
Chan Kai-ming	0.04	2.43	3.15	0.22	5.84	4.50
Chan Kui-yuen, Thomas	0.06	1.74	5.17	0.16	7.13	1.93
Kwong Chun	0.04	1.72	1.50	—	3.26	3.13
Wong Yick-kam, Michael	0.26	2.47	3.65	0.23	6.61	3.94
Wong Chik-wing, Mike	0.04	8.37	3.30	0.58	12.29	7.63
Non-Executive Directors						
Lee Shau-kee	0.05				0.05	0.05
Woo Po-shing	0.04				0.04	0.04
Li Ka-cheung, Eric	0.39				0.39	—
Kwan Cheuk-yin, William	0.04				0.04	0.39
Lo Chiu-chun, Clement	0.19				0.19	0.20
Law King-wan	0.04				0.04	0.04
Independent Non-Executive Directors						
Chung Sze-yuen	0.44				0.44	0.39
Fung Kwok-king, Victor	0.04				0.04	0.04
Yip Dicky Peter	0.34				0.34	—
Wong Yue-chim, Richard	0.04				0.04	—
Past Director						
So Hing-woh, Victor	—				—	3.80
Total 2005	2.38	21.33	16.95	1.62	42.28	31.37
Total 2004	1.96	21.08	6.92	1.41		

The above analysis included three (2004: three) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2004: two) individuals are:

	2005	2004
Salaries, allowances and benefits in kind	10.17	9.76
Discretionary bonus	9.15	5.33
Retirement scheme contributions	0.36	0.51
	19.68	15.60

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6. Directors' Emoluments and Five Highest Paid Individuals (cont'd)

Number of employees whose emoluments fell within:

		2005	2004
Emoluments Band		Number	Number
HK\$M	HK\$M	of Employees	of Employees
4.0 — 4.5		—	1
7.0 — 7.5		1	—
11.0 — 11.5		—	1
12.0 — 12.5		1	—
		2	2

7. Staff Retirement Schemes

The Group operates a number of defined contribution schemes for all qualified employees. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions to these schemes are made by both the employers and employees at rates ranging from five per cent to ten per cent on the employees' salary.

With effect from 1 December 2000, the Group sets up an employer sponsored scheme ("MPF Scheme") for other employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at specific rates. Contributions of the Group to the MPF Scheme are charged to profit and loss account as incurred.

Total contributions to the retirement schemes made by the Group during the year amounted to HK\$118 million (2004: HK\$114 million). Forfeited contributions for the year of HK\$9 million (2004: HK\$10 million) were used to reduce the existing level of contributions.

8. Taxation

	2005	2004
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,296	1,032
(Over)/under provision in prior years	(2)	19
	1,294	1,051
China income tax	13	5
	1,307	1,056
Deferred taxation		
Origination and reversal of temporary differences	236	53
Under provision in prior years	4	—
	240	53
	1,547	1,109
Share of taxation		
Associates	74	94
Jointly controlled entities	240	82
	1,861	1,285

(a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2004: 17.5 per cent) based on the estimated assessable profits for the year. China income tax is calculated at the rates applicable in China.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rate:

	2005	2004
Profit before share of profit and loss of associates, jointly controlled entities and taxation	10,438	7,513
Tax at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	1,827	1,315
Effect of change in tax rate and different tax rate of subsidiaries operating outside Hong Kong	1	11
Net effect of non-deductible expenses and non-taxable revenue	(154)	(127)
Utilization/recognition of tax losses not previously recognized	(166)	(141)
Tax losses and other temporary differences not recognized	27	9
Under provision in prior years	2	19
Others	10	23
	1,547	1,109
Share of taxation of associates	74	94
Share of taxation of jointly controlled entities	240	82
Tax expenses	1,861	1,285

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9. Dividends

	2005	2004
Interim dividend of HK\$0.70 per share based on 2,401 million shares (2004: HK\$0.60 per share based on 2,401 million shares) paid	1,680	1,441
Proposed final dividend of HK\$1.50 per share based on 2,401 million shares (2004: HK\$1.05 per share based on 2,401 million shares)	3,602	2,521
	5,282	3,962

10. Earnings Per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$10,371 million (2004: HK\$6,923 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,400,982,551 (2004: 2,400,917,592). The diluted earnings per share is based on 2,401,089,118 (2004: 2,400,961,425) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 106,567 (2004: 43,833) shares deemed to be issued at no consideration if all outstanding options had been exercised.

11. Fixed Assets

	Investment Properties	Hotel Properties	Properties under Development	Other Properties	Network Equipment	Toll Road	Other Fixed Assets	Total
The Group								
(a) Movement during year								
Cost or valuation								
At beginning of year	78,726	4,810	10,819	2,434	2,193	—	1,900	100,882
Acquired on acquisition of subsidiaries	—	—	—	—	—	5,268	11	5,279
Additions	213	33	1,528	—	630	—	130	2,534
Transfer in	3,624	56	212	—	—	—	—	3,892
Disposals	(1,180)	—	—	—	(94)	—	(78)	(1,352)
Transfer out	(56)	—	(3,596)	—	—	—	—	(3,652)
Revaluation surplus	7,323	291	—	—	—	—	—	7,614
At end of year	88,650	5,190	8,963	2,434	2,729	5,268	1,963	115,197
Accumulated depreciation								
At beginning of year	—	—	—	645	359	—	1,039	2,043
Charge for the year	—	—	—	77	396	128	170	771
Disposals	—	—	—	—	(88)	—	(73)	(161)
At end of year	—	—	—	722	667	128	1,136	2,653
Net book value at 30/6/2005	88,650	5,190	8,963	1,712	2,062	5,140	827	112,544
Net book value at 30/6/2004	78,726	4,810	10,819	1,789	1,834	—	861	98,839
(b) Basis of book value								
2005 professional valuation	88,650	5,190	—	—	—	—	—	93,840
Cost	—	—	8,963	2,434	2,729	5,268	1,963	21,357
	88,650	5,190	8,963	2,434	2,729	5,268	1,963	115,197

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

11. Fixed Assets (cont'd)

(c) Net book value of properties shown above comprises:

	2005	2004
Land in Hong Kong held under		
Long lease (not less than 50 years)		
Investment properties	19,403	18,198
Hotel properties	1,780	1,620
Properties under development	377	—
Other properties	417	430
	21,977	20,248
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	67,032	58,562
Hotel properties	3,410	3,190
Properties under development	8,000	10,411
Other properties	1,295	1,359
	79,737	73,522
Land outside Hong Kong held under		
Long lease (not less than 50 years)		
Investment properties	577	585
Properties under development	586	408
	1,163	993
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	1,638	1,381
	104,515	96,144

(d) Investment properties and hotel properties revaluation

The Group's investment properties and hotel properties have been revalued as at 30 June 2005 by Messrs. Knight Frank and Chesterton Petty, Chartered Surveyors on an open market value basis.

(e) Gross rental receivable from and profit on disposal of the Group's investment properties during the year amounted to HK\$4,761 million (2004: HK\$4,664 million) and HK\$804 million (2004: loss of HK\$71 million), respectively.

(f) The carrying amount of properties under development as at 30 June 2005 included interest capitalized in the amount of HK\$666 million (2004: HK\$1,077 million).

12. Subsidiaries

The Company

	2005	2004
Unlisted shares, at cost	30,074	30,074

Particulars regarding principal subsidiaries are set out on pages 151 to 154.

13. Associates

The Group

	2005	2004
Share of net assets		
Listed in Hong Kong	1,272	1,300
Unlisted	458	388
Amounts due from associates	567	893
	2,297	2,581
Market value of Hong Kong listed shares	5,864	4,910

Particulars regarding principal associates are set out on page 156.

14. Jointly Controlled Entities

	2005		2004	
	The Group	The Company	The Group	The Company
Share of net assets, unlisted	4,309		1,573	
Amounts due from jointly controlled entities	14,467	1	16,899	1
	18,776	1	18,472	1

Particulars regarding principal jointly controlled entities are set out on page 155.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

15. Long-term Investments

	2005		2004	
	The Group	The Company	The Group	The Company
Listed held-to-maturity debt securities, overseas	3,876	—	4,249	—
Listed held-to-maturity debt securities, Hong Kong	116	—	95	—
Unlisted held-to-maturity debt securities	707	—	901	—
Listed equity securities, overseas	102	—	163	—
Listed equity securities, Hong Kong	760	—	784	—
Unlisted equity securities	404	—	393	—
	5,965	—	6,585	—
Amounts due from investee companies	6	—	32	—
	5,971	—	6,617	—
Market value				
Listed overseas	4,514	—	4,986	—
Listed in Hong Kong	1,238	—	902	—
	5,752	—	5,888	—

16. Loan Receivables

The Group

	2005	2004
Mortgage loan receivables	1,629	1,612
Less: Amount due within one year included under current assets	(51)	(67)
	1,578	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.

17. Stocks

The Group

	2005	2004
Properties under development for sale	15,566	16,875
Stock of completed properties for sale	4,415	3,100
Materials	271	178
	20,252	20,153

The amount of the above stocks that are carried at net realizable value was HK\$1,124 million (2004: HK\$1,056 million).

18. Trade and Other Receivables

	Note	2005		2004	
		The Group	The Company	The Group	The Company
Debtors, deposits and prepayments		4,374	24	4,295	24
Amounts due from customers					
for contract works	18a	76	—	140	—
Short-term loans		106	—	246	—
		4,556	24	4,681	24

Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rents in respect of 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 of the Group are trade debtors of HK\$2,897 million (2004: HK\$2,942 million), of which 89 per cent aged less than 60 days, three per cent between 61 to 90 days and eight per cent more than 90 days (2004: 90 per cent, two per cent and eight per cent, respectively).

18a. Amounts due from/(to) customers for contract works

The Group

	Note	2005	2004
Contract costs incurred plus recognized profits less recognized losses		2,099	2,997
Less: Progress billings		(2,042)	(2,958)
		57	39
Represented by:			
Due from customers included in current assets	18	76	140
Due to customers included in current liabilities	22	(19)	(101)
		57	39

19. Short-term Investments

The Group

	2005	2004
Marketable securities		
Equity securities, at market value		
Listed in Hong Kong	747	669
Listed overseas	25	17
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed overseas (Market value: HK\$1,586 million (2004: HK\$408 million))	1,576	403
Unlisted	80	229
	2,428	1,318

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

20. Bank Balances and Deposits

The Group

	2005	2004
Bank deposits	5,915	6,824
Bank balances and cash	604	383
	6,519	7,207

21. Bank and Other Borrowings

The Group

	Note	2005	2004
Unsecured bank overdrafts		59	58
Non-current bank and other borrowings due within one year	23	1,546	1,020
		1,605	1,078

22. Trade and Other Payables

	Note	2005		2004	
		The Group	The Company	The Group	The Company
Creditors and accrued expenses		9,653	213	8,458	213
Amounts due to customers for contract works	18a	19	—	101	—
		9,672	213	8,559	213

Included in trade and other payables of the Group are trade creditors of HK\$656 million (2004: HK\$625 million), of which 65 per cent aged less than 60 days, two per cent between 61 to 90 days and 33 per cent more than 90 days (2004: 50 per cent, five per cent and 45 per cent, respectively).

23. Bank and Other Borrowings

The Group

	Note	2005	2004
Secured bank loans repayable			
Within one year		279	—
After one year, but within two years		307	—
After two years, but within five years		1,723	—
After five years		—	—
		2,309	—
Unsecured bank loans repayable			
Within one year		565	220
After one year, but within two years		3,088	2,522
After two years, but within five years		14,359	9,662
After five years		—	4,000
		18,012	16,404
Other unsecured loans repayable			
Within one year		702	800
After one year, but within two years		650	702
After two years, but within five years		1,184	1,350
After five years		150	634
		2,686	3,486
		23,007	19,890
Less: Amount due within one year included under current liabilities	21	(1,546)	(1,020)
		21,461	18,870

(a) Secured bank loans related to bank borrowings of the Group's subsidiary, Route 3 (CPS) Company Limited which are secured by way of legal charges over its assets and business undertakings.

(b) The above other unsecured loans are repayable on various dates up to July 2012 at commercial market rates.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

24. Deferred Taxation

The Group

	2005	2004
Deferred tax assets	(254)	(105)
Deferred tax liabilities	1,858	1,498
	1,604	1,393

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

	Accelerated tax depreciation	Revaluation of properties	Provisions	Tax Losses	Others	Total
At 1 July 2003	959	91	17	(167)	14	914
Charged/(credited) to profit and loss account	142	—	2	6	(97)	53
Charged to reserves	—	426	—	—	—	426
At 30 June 2004 and 1 July 2004	1,101	517	19	(161)	(83)	1,393
On acquisition of subsidiaries	400	—	—	(586)	—	(186)
Charged/(credited) to profit and loss account	231	—	5	(23)	27	240
Charged to reserves	—	157	—	—	—	157
At 30 June 2005	1,732	674	24	(770)	(56)	1,604

At the balance sheet date, the Group has unrecognized tax losses and deductible temporary differences of HK\$5,028 million (2004: HK\$5,404 million), of which HK\$94 million (2004: HK\$117 million) will expire at various dates up to 2010. Recognition of these unrecognized tax losses depends on future taxable profits available and losses agreed with the relevant tax authorities.

25. Minority Interests

The Group

	2005	2004
Share of capital and reserves in subsidiaries	2,202	2,313
Amounts due to minority shareholders	1,411	628
	3,613	2,941

26. Share Capital

	2005		2004	
	Number of Shares in Million	Amount	Number of Shares in Million	Amount
Authorized:				
Ordinary shares of \$0.50 each				
At beginning and end of year	2,900	1,450	2,900	1,450
Issued and fully paid:				
Ordinary shares of \$0.50 each				
At beginning of year	2,401	1,201	2,401	1,201
96,000 (2004: 24,000) shares issued on exercise of share options	—	—	—	—
At end of year	2,401	1,201	2,401	1,201

27. Share Option Scheme

The Company has a share option scheme which was adopted on 5 December 2002 ("the New Scheme") to replace a former scheme previously adopted on 20 November 1997 ("the Old Scheme"), whereby the directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Details of the share option schemes are set out in the Directors' Report on pages 91 to 92.

The Old Scheme

Upon the termination of the Old Scheme, no further options could be offered but the outstanding options granted shall continue to be valid and exercisable in accordance with its provisions. At 30 June 2005, the number of shares in respect of which options had been granted and remained outstanding was 1,842,000 (2004: 2,760,000), representing 0.08 per cent (2004: 0.11 per cent) of the shares of the Company in issue at that date.

The New Scheme

The New Scheme was adopted by the Company in order to comply with the new requirements under Chapter 17 of the Listing Rules. No option shares have been granted to any person since its adoption.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

27. Share Option Scheme (cont'd)

- (i) Movements in share options to subscribe for ordinary shares in the Company under the Old Scheme during the year are as follows:

			Number of Share Options				
Date of Grant	Exercise Price	Exercisable Period	At 1 July 2004	Granted During the Year	Exercised During the Year	Lapsed During the Year	At 30 June 2005
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	—	(96,000)	(12,000)	1,842,000
			2,760,000	—	(96,000)	(822,000)	1,842,000

			Number of Share Options				
Date of Grant	Exercise Price	Exercisable Period	At 1 July 2003	Granted During the Year	Exercised During the Year	Lapsed During the Year	At 30 June 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	2,010,000	—	(24,000)	(36,000)	1,950,000
			2,820,000	—	(24,000)	(36,000)	2,760,000

- (ii) Details of share options exercised during the year ended 30 June 2005 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Options	Proceeds Received
29 November 2004	HK\$70	HK\$79.00	36,000	3
29 December 2004	HK\$70	HK\$77.25	24,000	1
5 January 2005	HK\$70	HK\$74.00	36,000	3
			96,000	7

Details of share options exercised during the year ended 30 June 2004 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Options	Proceeds Received
27 January 2004	HK\$70	HK\$78.50	24,000	2

28. Share Premium and Reserves

	2005		2004	
	The Group	The Company	The Group	The Company
Share premium				
At beginning of year	17,002	17,002	17,000	17,000
Premium arising from exercise of share options	7	7	2	2
At end of year	17,009	17,009	17,002	17,002
Capital reserve				
At beginning of year	766	5,281	766	5,281
Goodwill adjustments	(19)	—	—	—
At end of year	747	5,281	766	5,281
Property revaluation reserves				
At beginning of year	48,992	—	37,490	—
Surplus on revaluation of properties held by subsidiaries attributable to the Group				
— Investment properties	7,236	—	10,556	—
— Hotel properties	291	—	314	—
(Surplus)/deficit realized on disposal of investment properties held by subsidiaries	(266)	—	35	—
Share of surplus on revaluation of investment properties held by jointly controlled entities	1,600	—	979	—
Share of surplus on revaluation of investment properties held by associates	28	—	15	—
Deferred tax charged	(130)	—	(397)	—
At end of year	57,751	—	48,992	—
Exchange reserve				
At beginning of year	10	—	7	—
Exchange difference arising on translation of financial statements of				
— Subsidiaries	(3)	—	2	—
— Jointly controlled entities	(1)	—	1	—
At end of year	6	—	10	—
Retained profits				
At beginning of year	64,747	59,242	61,786	59,094
Profit attributable to shareholders	10,371	6,403	6,923	4,110
Interim dividend paid	(1,680)	(1,680)	(1,441)	(1,441)
Proposed final dividend	(3,602)	(3,602)	(2,521)	(2,521)
At end of year	69,836	60,363	64,747	59,242
Total share premium and reserves	145,349	82,653	131,517	81,525

At the balance sheet date, retained profits of the Group included HK\$1,066 million (2004: HK\$1,036 million) retained by associates and losses of HK\$155 million (2004: losses of HK\$1,437 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30 June 2005 including the proposed dividends amounted to HK\$63,965 million (2004: HK\$61,763 million).

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

29. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2005	2004
Profit from operations	8,825	7,585
Depreciation	771	616
Discount on acquisition	(2)	—
Impairment of goodwill	1	17
(Profit)/loss on disposal of investment properties	(804)	71
Loss on disposal of other fixed assets	8	13
Dividends received from investments	(87)	(96)
Interest income	(345)	(407)
Exchange difference	4	(26)
Operating profit before changes in working capital	8,371	7,773
Decrease in stocks	3,301	3,769
Decrease/(increase) in trade and other receivables	55	(1,380)
Increase in marketable securities	(86)	(235)
(Decrease)/increase in trade and other payables	(76)	516
Decrease in deposits received on sale of properties	(52)	(1,122)
Cash generated from operations	11,513	9,321

(b) Purchase of subsidiaries

In January 2005, the Group acquired an additional 20% interest in Route 3 (CPS) Company Limited raising its total interest to 70%. In May 2005, the Group acquired 100% interest in Seiyu (Shatin) Company Limited. A total sum of HK\$260 million was paid by the Group for these acquisitions.

The effects on the Group's results from these subsidiaries acquired is immaterial.

If the acquisitions had been completed on 1 July 2004, total group revenue for the year would have been HK\$23,659 million, and profit attributable to shareholders for the year would have been HK\$10,439 million.

29. Notes to Consolidated Cash Flow Statement (cont'd)

(b) Purchase of subsidiaries (cont'd)

	2005 Book Value	2005 Fair Value	2004
Net assets acquired:			
Deferred tax assets	67	187	—
Fixed assets	5,852	5,279	—
Stocks	22	22	—
Trade and other receivables	18	18	—
Cash and bank balances	166	166	—
Trade and other payables	(178)	(178)	—
Bank and other borrowings	(2,689)	(2,689)	—
Deferred tax liabilities	(1)	(1)	—
Minority interests	(1,017)	(847)	—
	2,240	1,957	—
Less:			
Interest in jointly controlled entities		(1,695)	—
Discount on acquisition		(2)	—
		260	—
Satisfied by:			
Cash paid		260	—
Analysis of net cash inflow in respect of the purchase of subsidiaries:			
Cash consideration paid		260	—
Cash and bank balances acquired		(166)	—
		94	—

(c) Analysis of the balances of cash and cash equivalents at end of year

	2005	2004
Bank deposits	5,915	6,824
Bank balances and cash	604	383
Bank overdrafts	(59)	(58)
	6,460	7,149
Less: pledged bank deposits	(328)	(326)
	6,132	6,823

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

30. Jointly Controlled Assets

At the balance sheet date, the aggregate amounts of assets and liabilities recognized in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2005	2004
Investment properties	5,620	5,340
Land pending development	126	132
Land under development	10	—
Stocks of completed properties for sale	150	151
	5,906	5,623
Trade and other payable	203	235

31. Related Party Transactions

During the year, the Group undertook various transactions with related parties for provision of finance, lease of premises, purchasing of goods and rendering of certain services related to property construction, management and marketing activities. The following is a summary of significant transactions between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates		Jointly controlled entities	
	2005	2004	2005	2004
Interest income	1	5	44	65
Rental income	6	6	3	3
Rental expenses	—	—	14	17
Other revenue from services rendered	314	211	304	322
Purchase of goods and services	—	—	196	198

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in notes (13) and (14).

32. Contingent Liabilities and Commitments

The Group

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

	2005	2004
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	5,038	3,015
Authorized but not contracted for	450	746
(b) Capital commitments in respect of investments		
Contracted but not provided for	83	129
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	337	852
Authorized but not contracted for	44	271
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$4,192 million (2004: HK\$4,705 million) and other guarantees of HK\$313 million (2004: HK\$152 million).		

The Company

At the balance sheet date, the Company had contingent liabilities, not included in the Company's financial statements, in respect of guarantees for bank and other borrowings drawn by:

	2005	2004
Subsidiaries	20,674	19,703
Jointly controlled entities	4,192	4,401
	24,866	24,104

33. Operating Lease

At the balance sheet date, the future aggregate minimum lease income receivable by the Group under non-cancellable operating leases for land and buildings is analysed as follows:

	2005	2004
Not later than one year	3,791	3,581
Later than one year but not later than five years	3,208	2,676
Later than five years	199	65
	7,198	6,322

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

33. Operating Lease (cont'd)

At the balance sheet date, the future aggregate minimum lease charges payable by the Group under non-cancellable operating leases is analysed as follows:

	2005	2004
Not later than one year	275	212
Later than one year but not later than five years	182	145
Later than five years	10	14
	467	371

34. Financial Instruments

At the balance sheet date, the Group had outstanding interest rate swaps (to swap fixed rate into floating rate debt) and currency swap (to hedge principal repayment of USD debt) analysed as follows:

	Notional Principal amount	
	2005	2004
Interest rate swaps maturing		
— Less than one year	—	800
— One to five years	1,500	1,250
— After five years	150	400
	1,650	2,450
Currency swap maturing		
— One to five years	234	—
— After five years	—	234
	234	234

Counterparties to swap transactions are reputable international financial institutions with strong credit ratings. The Group has established treasury policies and control procedures to assess and monitor the counterparty limits and exposure. The Group does not consider that it has any significant exposure to any individual counterparty, nor does it anticipate non-performance by any of its counterparties.

35. Charges of Assets

At the balance sheet date, certain bank deposits of the Group's subsidiary, SmarTone Telecommunications Holdings Limited, in the aggregate amount of HK\$328 million (2004: HK\$326 million) have been pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

At the balance sheet date, the assets of the Group's subsidiary, Route 3 (CPS) Company Limited, with an aggregate net book amount of approximately HK\$5,230 million (including bank balance of HK\$6 million) have been charged to secure its bank borrowings (2004: nil).

36. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.

37. Approval of Financial Statements

The financial statements set out on pages 115 to 156 were approved by the board of directors on 15 September 2005.