

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 Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 30 June 2005, except for the changes in accounting policies as described below.

With effect from 1 July 2005, the Group has adopted the new / revised Hong Kong Financial Reporting Standards (“HKFRS”), HKAS and Interpretations (collectively, “new HKFRS”) issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2005. The changes in accounting policies and the significant impact are summarized as follows:

Investment properties

Following the adoption of HKAS 40 “Investment property”, certain properties are reclassified as investment properties and changes in fair values arising on the revaluation of investment properties are recognized in the profit and loss account instead of property revaluation reserves. HK(SIC) Interpretation 21 “Income taxes - recovery of revalued non-depreciable assets” requires the provision of deferred taxation on these changes in fair values to be calculated at applicable profits tax rates. These new accounting policies have been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were increased by HK\$52,522 million and HK\$44,884 million, respectively, representing the transfers of accumulated attributable revaluation surplus previously recorded in property revaluation reserve and net of deferred tax thereon. In addition, recognition of deferred taxation on the Group’s cumulative property revaluation surpluses and reclassification of certain properties as investment properties had resulted in a reduction in the Group’s total net assets as at 1 July 2005 and 1 July 2004 of HK\$3,545 million and HK\$2,660 million, respectively. Profit attributable to Company’s shareholders and minority interests for the six months ended 31 December 2005 have been increased by HK\$7,426 million (2004: decreased by HK\$442 million) and HK\$6 million (2004: nil), respectively.

Hotel properties

Under Hong Kong Interpretation 2 “The appropriate policies for hotel properties” owner-operated hotel properties are stated at cost less accumulated depreciation and impairment losses, rather than at valuation. This change of accounting policy has been applied retrospectively. The Group’s net assets as at 1 July 2005 and 1 July 2004 were reduced by HK\$2,639 million and HK\$2,351 million, respectively, as a result of the reversal of hotel property revaluation surpluses and the recognition of cumulative depreciation on the Group’s hotel properties. Operating profit for the Group’s hotel operation for the six months ended 31 December 2005 has been decreased, as a result of depreciation charge provided on the properties, from HK\$137 million to HK\$112 million (2004: from HK\$135 million to HK\$110 million).

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1. BASIS OF PREPARATION (CONT'D)

Financial instruments

The adoption of HKAS 32 “Financial instruments: disclosure and presentation” and HKAS 39 “Financial instruments: recognition and measurement” has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement.

Financial assets are now classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value with changes in fair value recognized in profit or loss and equity, respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortized cost using the effective interest method. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” and “other financial liabilities” carried at amortized cost using the effective interest method. In accordance with the transitional provisions in HKAS 39, this change in accounting policy has been applied prospectively by adjusting the difference between the carrying amount of certain financial assets and their fair value at 30 June 2005 to retained profits at 1 July 2005. The opening retained profits at 1 July 2005 has been increased by HK\$925 million.

Derivative financial instruments

In previous years, derivative financial instruments were not separately recorded in the financial statements.

Following the adoption of HKAS 32 and 39, derivatives are initially recognized at fair value on the date of entering the derivative contract and are subsequently remeasured at fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Changes in fair value of derivatives that are designated and qualified as fair value hedges together with any changes in fair value of the corresponding hedged asset or liability are recorded in the profit and loss accounts. Changes in fair value of derivatives held as hedging instruments that are designated and qualified as cash flow hedges are recognized in equity to the extent that the hedge is effective. Changes in fair value relating to the non-qualifying and ineffective portion of qualifying derivatives are recognized immediately in the profit and loss account. In accordance with the transitional provisions in HKAS 39, this change in accounting policy has been applied prospectively. This change has no significant impact in the Group's net assets at 1 July 2005.

Share-based payment

The adoption of HKFRS 2 “Share-based payment” has resulted in a change in accounting policy of employee share options. Previously, share options granted to directors and employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the profit and loss account. In accordance with the transitional provisions in HKFRS 2, this treatment is applied to share options granted after 7 November 2002 and not yet vested at 1 July 2005. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were decreased by HK\$6 million and HK\$2 million,

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1. BASIS OF PREPARATION (CONT'D)

Share-based payment (cont'd)

respectively. Profit attributable to Company's shareholders and minority interests for the six months ended 31 December 2005 have been decreased by HK\$2 million (2004: HK\$2 million) and HK\$1 million (2004: HK\$1 million), respectively.

Leasehold land

In prior years, leasehold land and buildings were included in fixed assets and stated at cost or valuation less accumulated depreciation and impairment, if any. Following the adoption of HKAS 17 "Leases", leasehold land is regarded as operating lease and stated at cost and amortized over the lease period on a straight line basis. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were decreased by HK\$144 million and HK\$126 million, respectively, resulting from a change in accounting policy on amortization of leasehold land held by a jointly controlled entity. Profit attributable to Company's shareholders for the six months ended 31 December 2005 and 31 December 2004 have been decreased by HK\$9 million and HK\$9 million, respectively.

Associates and joint ventures

Under HKAS 28 "Investments in associates" and HKAS 31 "Interests in joint ventures", the Group uses the most recent available financial statements of the associate or jointly controlled entities in applying the equity method, which are either coterminous with the financial statements of the Company or cover a year ended not more than three months before the Company's year-end. In prior years, financial statements of some associates and jointly controlled entities covered a year ended more than three months before the Company's year-end. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 and 1 July 2004 were increased by HK\$98 million and HK\$134 million, respectively. Profit attributable to Company's shareholders for the six months ended 31 December 2005 and 31 December 2004 have been decreased by HK\$9 million and HK\$13 million, respectively.

Site restoration cost

In accordance with HKAS 16 "Property, plant and equipment", site restoration costs incurred as a consequence of acquiring or using the site are included in the cost of an asset. Previously, such costs were accounted for to the extent it was recognized as a provision. This change in accounting policy has been applied retrospectively. The opening retained profits as at 1 July 2005 was decreased by HK\$2 million. Profit attributable to Company's shareholders and minority interests for the six months ended 31 December 2005 have been decreased by HK\$1 million (2004: HK\$1 million) and HK\$1 million (2004: HK\$1 million), respectively.

Telecommunication licence

In prior years, the fees and royalties payable for the third generation licence telecommunications spectrum ("3G licence") prior to launch of commercial services were deferred and included in fixed assets. Depreciation was provided from commencement of services over the estimated useful life. The fees and royalties payable subsequent to the launch of commercial services were charged to the profit and loss account when incurred. Following the adoption of HKAS 38 "Intangible assets", the Group capitalizes the discounted value of the annual fees and royalties payable for the 3G licence over the licence period and the finance costs incurred

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1. BASIS OF PREPARATION (CONT'D)

Telecommunication licence (cont'd)

prior to the launch of 3G services as an intangible asset. Capitalized licence fees and finance costs are amortized from the date of launch of the 3G services over the remaining 3G licence period, with the financing costs incurred subsequent to the launch of 3G services charged to the profit and loss account using the effective interest rate method. The opening retained profits as at 1 July 2005 and 1 July 2004 were decreased by HK\$6 million and increased by HK\$5 million, respectively. Profit attributable to Company's shareholders and minority interests for the six months ended 31 December 2005 have been decreased by HK\$13 million (2004: increased by HK\$2 million) and HK\$11 million (2004: increased by HK\$2 million), respectively.

Critical accounting judgements and estimation

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and carrying amounts of assets and liabilities including those related to investment properties, impairment of assets and income taxes. The estimates and assumptions concerning the future are believed to be reasonable under the circumstance. Actual results may differ from these estimates.

Summary of the effect of changes in the accounting policies

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

	Company's shareholders' equity					
	Property revaluation reserves	Share options reserve	Retained profits	Total	Minority interests	Total equity
At 1 July 2005						
HKAS 40 and HK(SIC) Interpretation 21	(56,048)	-	52,522	(3,526)	(19)	(3,545)
Hong Kong Interpretation 2	(1,703)	-	(936)	(2,639)	-	(2,639)
HKAS 39	-	-	925	925	-	925
HKFRS 2	-	6	(6)	-	-	-
HKAS 17	-	-	(144)	(144)	-	(144)
HKAS 28 and 31	-	-	98	98	-	98
HKAS 16	-	-	(2)	(2)	(2)	(4)
HKAS 38	-	-	(6)	(6)	(5)	(11)
Total increase / (decrease) in equity	(57,751)	6	52,451	(5,294)	(26)	(5,320)
At 1 July 2004						
HKAS 40 and HK(SIC) Interpretation 21	(47,529)	-	44,884	(2,645)	(15)	(2,660)
Hong Kong Interpretation 2	(1,463)	-	(888)	(2,351)	-	(2,351)
HKFRS 2	-	2	(2)	-	-	-
HKAS 17	-	-	(126)	(126)	-	(126)
HKAS 28 and 31	-	-	134	134	-	134
HKAS 38	-	-	5	5	5	10
Total increase / (decrease) in equity	(48,992)	2	44,007	(4,983)	(10)	(4,993)

Notes to the Interim Financial Statements

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1. BASIS OF PREPARATION (CONT'D)

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

(ii) Effect on profit attributable to Company's shareholders and minority interests for the six months ended 31 December 2005 and 31 December 2004

	Six months ended 31 December 2005			Six months ended 31 December 2004		
	Attributable to			Attributable to		
	Company's shareholders	Minority interests	Total	Company's shareholders	Minority interests	Total
HKAS 40 and HK(SIC) Interpretation 21	7,426	6	7,432	(442)	-	(442)
Hong Kong Interpretation 2	(24)	-	(24)	(24)	-	(24)
HKFRS 2	(2)	(1)	(3)	(2)	(1)	(3)
HKAS 17	(9)	-	(9)	(9)	-	(9)
HKAS 28 and 31	(9)	-	(9)	(13)	-	(13)
HKAS 16	(1)	(1)	(2)	(1)	(1)	(2)
HKAS 38	(13)	(11)	(24)	2	2	4
	7,368	(7)	7,361	(489)	-	(489)

Notes to the Interim Financial Statements

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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	
	2005	2004	2005	2004 (Restated)
Property				
Property sales	7,283	5,130	4,644	947
Rental income	2,810	2,492	2,026	1,854
	10,093	7,622	6,670	2,801
Hotel operation	363	341	112	110
Telecommunications	1,860	1,830	59	240
Other businesses	2,150	1,485	559	321
	14,466	11,278	7,400	3,472
Other revenue			305	322
Unallocated administrative expenses			(315)	(270)
Profit from operations before change in fair value of investment properties			7,390	3,524
Increase in fair value of investment properties			7,784	-
Profit from operations after change in fair value of investment properties			15,174	3,524

Turnover from properties sales for the period ended 31 December 2004 includes HK\$1,624 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, 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.

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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	
	2005	2004 (Restated)
Property		
Property sales	55	53
Rental income	209	172
	264	225
Other businesses	106	236
Profit from operations	370	461
Finance costs	(89)	(73)
Profit before taxation and share of increase in fair value of investment properties	281	388
Share of increase in fair value of investment properties held by associates and jointly controlled entities	1,225	-
Profit before taxation	1,506	388

(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	
	2005	2004 (Restated)
Property		
Property sales	4,699	1,000
Rental income	2,235	2,026
	6,934	3,026
Hotel operation	112	110
Telecommunications	59	240
Other businesses	665	557
Other revenue	305	322
Unallocated administrative expenses	(315)	(270)
Increase in fair value of investment properties		
- Group	7,784	-
- Associates and jointly controlled entities	1,225	-
Net finance costs		
- Group	(378)	(53)
- Associates and jointly controlled entities	(89)	(73)
(Loss)/profit on disposal of long-term investments	(13)	1,886
Profit before taxation	16,289	5,745

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3. NET FINANCE COSTS

	Six months ended 31 December	
	2005	2004 (Restated)
Interest expenses on		
Bank loans and overdrafts	491	87
Other loans wholly repayable within five years	120	36
Other loans not wholly repayable within five years	11	11
	<u>622</u>	<u>134</u>
Less : Portion capitalized	(158)	(46)
	<u>464</u>	<u>88</u>
Interest income on bank deposits	(86)	(35)
	<u>378</u>	<u>53</u>

4. (LOSS)/PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS

	Six months ended 31 December	
	2005	2004
Profit on disposal of interests in jointly controlled entities	-	1,646
(Loss)/profit on disposal of long-term investments	(13)	240
	<u>(13)</u>	<u>1,886</u>

5. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2005	2004 (Restated)
Profit before taxation is arrived at after charging / (crediting):		
Cost of properties sold	2,894	3,772
Cost of other inventories sold	505	501
Depreciation	534	301
Dividend income from listed and unlisted investments	(62)	(45)
Interest income from listed and unlisted debt securities	(138)	(145)
Net realized and unrealized holding gains on marketable securities	(75)	(68)

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6. TAXATION

	Six months ended 31 December	
	2005	2004 (Restated)
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	975	469
China income tax	3	1
	<u>978</u>	<u>470</u>
Deferred taxation		
Origination and reversal of temporary differences	89	(3)
Change in fair value of investment properties	1,362	-
	<u>1,451</u>	<u>(3)</u>
	<u>2,429</u>	<u>467</u>
Share of taxation		
Associates	23	38
Jointly controlled entities	32	39
Change in fair value of investment properties held by associates and jointly controlled entities	215	-
	<u>2,699</u>	<u>544</u>

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 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 Company's shareholders of HK\$13,505 million (2004 (restated): HK\$5,060 million).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 2,401,105,558 (2004: 2,400,938,862). The diluted earnings per share is based on 2,401,277,856 (2004: 2,401,071,385) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 172,298 (2004: 132,523) shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. FIXED ASSETS

During the period, additions to fixed assets amounted to HK\$886 million and net book value of fixed assets disposed of amounted to HK\$8 million.

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9. LONG-TERM INVESTMENTS

	31 December 2005	30 June 2005
Listed equity securities, overseas	-	102
Listed equity securities, Hong Kong	-	760
Unlisted equity securities	-	404
	<u>-</u>	<u>1,266</u>
Held-to-maturity debt securities		
Listed held-to-maturity debt securities, overseas	32	3,876
Listed held-to-maturity debt securities, Hong Kong	-	116
Unlisted held-to-maturity debt securities	-	707
	<u>32</u>	<u>4,699</u>
Available-for-sale debt securities		
Listed available-for-sale debt securities, overseas	141	-
Listed available-for-sale debt securities, Hong Kong	16	-
	<u>157</u>	<u>-</u>
Available-for-sale equity securities		
Listed equity securities, overseas	523	-
Listed equity securities, Hong Kong	1,222	-
Unlisted equity securities	470	-
	<u>2,215</u>	<u>-</u>
	<u>2,404</u>	<u>5,965</u>
Amounts due from investee companies	7	6
	<u>2,411</u>	<u>5,971</u>
Market value		
Listed overseas	696	4,514
Listed in Hong Kong	1,238	1,238
	<u>1,934</u>	<u>5,752</u>

10. LOAN RECEIVABLES

	31 December 2005	30 June 2005
Mortgage loan receivables	1,486	1,629
Less : Amount due within one year included under current assets	(43)	(51)
	<u>1,443</u>	<u>1,578</u>

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.

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11. INTANGIBLE ASSET

Intangible asset is discounted value of the annual licence and royalties fee payable for the 3G licence less accumulated amortization.

12. INTEREST RATE SWAPS

The Group has entered into interest rate swap contracts for converting its fixed rate debts into floating rate debts. These are designated as fair value hedges and are recognized on the balance sheet at fair value. Increase or decrease in fair value of these interest rate swaps matches with a corresponding decrease or increase in fair value of the items being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2005 were HK\$2,450 million (30 June 2005: HK\$1,650 million).

The fair value of interest rate swaps at 31 December were as follows:

	31 December 2005		30 June 2005	
	Assets	Liabilities	Assets	Liabilities
Designated as fair value hedge	80	-	-	-
Less : Current portion	(11)	-	-	-
Non-current portion	69	-	-	-

Comparative figures are not provided as HKAS39 "Financial Instrument: Recognition and Measurement" prescribes the recognition of derivative at fair value in the balance sheet to take effect prospectively from 1 July 2005.

13. 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\$9,448 million (30 June 2005: HK\$2,897 million), of which 96 per cent aged less than 60 days, two per cent between 61 to 90 days and two per cent more than 90 days (30 June 2005: 89 per cent, three per cent and eight per cent, respectively).

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14. SHORT-TERM INVESTMENTS

	31 December 2005	30 June 2005
Marketable securities		
Equity securities, at market value		
Listed in Hong Kong	377	747
Listed overseas	32	25
	<u>409</u>	<u>772</u>
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed overseas (Market value: HK\$1,036 million (30 June 2005: HK\$1,586 million))	1,042	1,576
Unlisted	-	80
	<u>1,042</u>	<u>1,656</u>
Available-for-sale debt securities maturing within one year		
Listed overseas	63	-
Unlisted	8	-
	<u>71</u>	<u>-</u>
	<u>1,522</u>	<u>2,428</u>

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors of HK\$716 million (30 June 2005: HK\$656 million), of which 68 per cent aged less than 60 days, four per cent between 61 to 90 days and 28 per cent more than 90 days (30 June 2005: 65 per cent, two per cent and 33 per cent, respectively).

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16. 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
156,000 (2004: 60,000) shares issued on exercise of share options	-	-
At end of period	2,401	1,201

17. SHARE OPTION SCHEME

(a) 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 2005	Exercised During the Period	Lapsed During the Period	At 31 Dec 2005
16 July 2001	HK\$70	16.7.2002 to 15.7.2006	1,842,000	(156,000)	-	1,686,000
			1,842,000	(156,000)	-	1,686,000

Date of Grant	Exercise Price	Exercisable Period	At 1 July 2004	Exercised During the Period	Lapsed During the Period	At 31 Dec 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

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17. SHARE OPTION SCHEME (CONT'D)

(b) Details of share options exercised during the six months ended 31 December 2005 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Options	Proceeds Received
3 August 2005	HK\$70	HK\$81.65	36,000	3
12 September 2005	HK\$70	HK\$82.85	24,000	1
26 September 2005	HK\$70	HK\$81.60	60,000	4
19 December 2005	HK\$70	HK\$75.55	36,000	3
			<u>156,000</u>	<u>11</u>

Details of share options exercised during the six months ended 31 December 2004 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
24 December 2004	HK\$70	HK\$77.25	24,000	1
			<u>60,000</u>	<u>4</u>

18. 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	
	2005	2004	2005	2004
Interest income	-	-	41	27
Rental income	3	3	-	-
Rental expense	-	-	7	8
Other revenue from services rendered	231	104	112	75
Purchase of goods and services	<u>-</u>	<u>-</u>	<u>106</u>	<u>65</u>

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19. 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 2005	30 June 2005
a) Capital commitments in respect of fixed assets		
Contracted but not provided for	5,913	5,038
Authorized but not contracted for	713	450
b) Capital commitments in respect of investments		
Contracted but not provided for	8	83
c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	19	337
Authorized but not contracted for	18	44

d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$3,660 million (30 June 2005: HK\$4,192 million) and other guarantees of HK\$353 million (30 June 2005: HK\$313 million).