Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2005, the Group has adopted the new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively, "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for accounting periods beginning on or after 1 January 2005. The changes in accounting policies and its effect on the Group's financial statements are summarized as follows:

a. 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 deferred taxation to be recognized on any revaluation of investment properties on the basis that recovery of the carrying amount of the investment properties would be through use and 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 year ended 30 June 2006 have been increased by HK$9,382 million (2005: HK$7,638 million) and HK$21 million (2005: HK$56 million), respectively.

b. Hotel properties

Upon the adoption of HKAS 40 "Investment property", owner-operated hotel properties are stated at cost less accumulated depreciation and impairment, 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 surplus and the recognition of cumulative depreciation on the Group's hotel properties. Operating profit for the Group's hotel operation for the year ended 30 June 2006 has been decreased, as a result of depreciation charge provided on the properties, from HK$277 million to HK$223 million (2005: from HK$264 million to HK$214 million).

c. 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 investment revaluation reserve or retained profits at 1 July 2005. The opening investment revaluation reserve and retained profits at 1 July 2005 have been increased by HK$904 million and HK$21 million, respectively.

(Expressed in millions of Hong Kong dollars)

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

d. 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.

e. 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, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK$4 million (2005: HK$4 million) and HK$1 million (2005: HK$3 million), respectively.

f. 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 year ended 30 June 2006 and 30 June 2005 have been decreased by HK$19 million and HK$18 million, respectively.

g. 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 associates 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 year ended 30 June 2006 and 30 June 2005 have been decreased by HK$54 million and HK$36 million, respectively.

(Expressed in millions of Hong Kong dollars)

1. CHANGES IN ACCOUNTING POLICIES (cont'd)

h. 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 Group's total net assets as at 1 July 2005 and 1 July 2004 were decreased by HK$14 million and HK$11 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK$2 million (2005: HK$2 million) and HK$2 million (2005: HK$1 million), respectively.

i. Telecommunication licence

The adoption of HKAS 38 has resulted in a change in accounting policy relating to the recognition of the fees and royalties payable for the right to use telecommunication spectrum. This right represents a right to provide a service rather than a right to use an identifiable asset, and is therefore accounted as an intangible asset. In order to measure the intangible asset, HKAS 39 "Financial instruments: recognition and measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute a contractual obligation to deliver cash and hence should be considered a financial liability and be initially measured at its fair value. As a result, capitalized minimum annual payments together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortized on a straight line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the consolidated profit and loss account after the commercial launch. Variable annual payments on top of the annual minimum payments, if any, are recognized in the consolidated profit and loss account as incurred. The change in accounting policy has been applied retrospectively. The Group's total net assets as at 1 July 2005 and 1 July 2004 were decreased by HK$20 million and HK$18 million, respectively. Profit attributable to Company's shareholders and minority interests for the year ended 30 June 2006 have been decreased by HK$27 million (2005: HK$1 million) and HK$22 million (2005: HK$1 million), respectively.

(Expressed in millions of Hong Kong dollars)

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

a. Effect on opening balance of total equity at 1 July 2005 and 1 July 2004:

	Company's shareholders' equity						
	Property revaluation reserve	Investment revaluation reserve	Employee share-based compensation reserve	Retained profits	Total	Minority interests	Total equity
At 1 July 2005							
Investment properties	**(56,048)**	**–**	**–**	**52,522**	**(3,526)**	**(19)**	**(3,545)**
Hotel properties	**(1,703)**	**–**	**–**	**(936)**	**(2,639)**	**–**	**(2,639)**
Financial instruments	**–**	**904**	**–**	**21**	**925**	**–**	**925**
Share-based payment	**–**	**–**	**6**	**(6)**	**–**	**–**	**–**
Leasehold land	**–**	**–**	**–**	**(144)**	**(144)**	**–**	**(144)**
Associates and jointly controlled entities	**–**	**–**	**–**	**98**	**98**	**–**	**98**
Site restoration cost	**–**	**–**	**–**	**(8)**	**(8)**	**(6)**	**(14)**
Telecommunication licence	**–**	**–**	**–**	**(10)**	**(10)**	**(10)**	**(20)**
Total increase / (decrease) in equity	**(57,751)**	**904**	**6**	**51,537**	**(5,304)**	**(35)**	**(5,339)**
At 1 July 2004							
Investment properties	(47,529)	–	–	44,884	(2,645)	(15)	(2,660)
Hotel properties	(1,463)	–	–	(888)	(2,351)	–	(2,351)
Share-based payment	–	–	2	(2)	–	–	–
Leasehold land	–	–	–	(126)	(126)	–	(126)
Associates and jointly controlled entities	–	–	–	134	134	–	134
Site restoration cost	–	–	–	(6)	(6)	(5)	(11)
Telecommunication licence	–	–	–	(9)	(9)	(9)	(18)
Total increase / (decrease) in equity	(48,992)	–	2	43,987	(5,003)	(29)	(5,032)

b. Effect on profit attributable to Company's shareholders and minority interests:

	2006			2005		
	Attributable to Company's shareholders	**Minority interests**	**Total**	Attributable to Company's shareholders	Minority interests	Total
Investment properties	**9,382**	**21**	**9,403**	7,638	56	7,694
Hotel properties	**(53)**	**–**	**(53)**	(48)	–	(48)
Share-based payment	**(4)**	**(1)**	**(5)**	(4)	(3)	(7)
Leasehold land	**(19)**	**–**	**(19)**	(18)	–	(18)
Associates and jointly controlled entities	**(54)**	**–**	**(54)**	(36)	–	(36)
Site restoration cost	**(2)**	**(2)**	**(4)**	(2)	(1)	(3)
Telecommunication licence	**(27)**	**(22)**	**(49)**	(1)	(1)	(2)
	9,223	**(4)**	**9,219**	7,529	51	7,580

(Expressed in millions of Hong Kong dollars)

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (cont'd)

c. Analysis of increase in profit attributable to Company's shareholders by line items presented according to their function:

	2006	2005
Increase in cost of sales and operating expenses	**(65)**	(600)
Increase in administrative expenses	**(5)**	(7)
Increase in fair value of investment properties	**9,110**	8,139
Increase in finance costs	**(67)**	(39)
Decrease in share of results of associates and jointly controlled entities	**(73)**	(54)
Increase in share of increase in fair value of investment properties net of tax held by associates and jointly controlled entities	**2,305**	1,493
Increase in deferred taxation	**(1,986)**	(1,352)
	9,219	7,580
Decrease/(increase) in profit attributable to minority interests	**4**	(51)
	9,223	7,529
	HK$	HK$
Increase in basic earnings per share	**3.82**	3.13

Profit attributable to Company's shareholders before and after the adoption of the new HKFRSs is reconciled as below:

	2006		2005	
		Earnings per share (Basic) HK$		Earnings per share (Basic) HK$
Profit attributable to Company's shareholders before the adoption of the new HKFRSs	**10,627**	**4.41**	10,371	4.32
Effects of changes in accounting policies	**9,223**	**3.82**	7,529	3.13
Profit attributable to Company's shareholders after the adoption of the new HKFRSs	**19,850**	**8.23**	17,900	7.45

3. 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 the Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and Listing Rules. The financial statements are prepared under the historical cost convention except for investment properties and certain financial instruments, which are measured at fair value, as explained in the principal accounting policies set out below.

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 3(f) and note 3(g) below, respectively. The financial statements of the associates and jointly controlled entities used for this purpose 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. 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. Unrealized profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity.

c. Revenue

Revenue 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 stores. It does not include the revenue 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 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d. Revenue recognition (cont'd)

(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) Dividend income

Dividend income from 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.

(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

Other income including 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 Company, 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 carried at cost as adjusted for post acquisition changes in the Group's share of their results and reserves less any identified impairment.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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.

(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 carried at cost as adjusted for post acquisition changes in the Group's share of their results and reserves less any identified impairment whereas in the balance sheet of the Company at cost less impairment.

(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 sheets 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. Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries, associates and jointly controlled entities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment. Goodwill on acquisition of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively.

Any excess of the Group's interest in fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognized immediately in the profit and loss account.

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the investments were acquired and is reviewed by the management at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are marketable securities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, these investments are measured at fair value. Changes in fair value are recognized in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortized cost less impairment.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognized in the balance sheet at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any identified impairment. An impairment is recognized in profit or loss when there is objective evidence that the asset is impaired.

(iv) Available-for-sale investments

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

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment at each balance sheet date subsequent to initial recognition. An impairment is recognized in profit or loss when there is objective evidence that the asset is impaired.

j. Derivative financial instruments and hedging

The Group only enters into derivative financial instruments in order to hedge its underlying exposures. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognizing the resulting gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge); a hedge of an exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or a hedge of net investments in foreign entities.

(i) Fair value hedges

For fair value hedges that qualify for hedge accounting, gains or losses arising on changes in fair values of hedging instruments are recognized immediately in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

j. Derivative financial instruments and hedging (cont'd)

(ii) Cash flow hedges

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognized in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognized immediately in profit or loss.

For the hedge of a forecast transaction that subsequently results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a liability, the gains or losses that were previously deferred in equity are transferred from equity and included in the initial measurement of the cost of asset or liability.

(iii) Hedges of net investment in foreign entities

Similar to cash flow hedges, the effective portion of the gain or loss arising on the changes in fair value of hedging instruments is initially deferred in equity and the ineffective portion is recognized in profit or loss. When the relevant foreign operation is disposed of, gains or losses accumulated in equity are included in the profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that point in time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is immediately transferred to the profit and loss account.

k. Properties

(i) Investment properties

Investment properties are land and/or buildings held under a leasehold interest to earn long-term rental income and/or for capital appreciation. These include completed properties and land under development for future use as investment properties.

Investment properties are stated in the balance sheet at fair value and are valued at least annually by independent valuer. Increase or decrease in fair value of investment properties is recognized in the profit and loss account. Upon disposal of an investment property, any gain or loss on disposal is recognized in the profit and loss account.

(ii) Hotel properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at cost less accumulated depreciation and impairment , if any.

(iii) Properties pending/under development for sale

Properties pending/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.

(iv) 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.

(Expressed in millions of Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

k. Properties (cont'd)

(v) 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.

l. Depreciation

(i) Hotel properties

Depreciation is provided on hotel property or on its integral fixed plant and calculated on a straight line basis to write off their costs less accumulated impairment over their estimated useful lives at rates ranging from 0.68 per cent to 20 per cent per annum.

(ii) Properties under development

No depreciation is provided on properties under development.

(iii) 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, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment 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.

(iv) 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, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment over the term of franchise at rate 3.7 per cent per annum.

(v) 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.

(vi) 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.

m. Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred, and are subsequently measured either at amortized cost, using the effective interest rate method or at fair value when accounting for fair value hedges set out in j(i) applies.

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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

n. Intangible asset – telecommunication licence

The mobile carrier licences to establish and maintain a telecommunication network and to provide mobile services in Hong Kong is recorded as an intangible asset. Upon the issue of the third generation licence ("3G Licence") and renewal of the Global System for Mobile communications licence ("GSM Licence"), the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period of 15 years and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Amortization is provided on the straight line basis over the remaining licence period from the date when the asset is ready for its intended use.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalized as part of the intangible asset. Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated profit and loss account as incurred.

o. 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.

p. 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 closing 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 closing 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.

q. 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.

r. 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.

s. 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.

t. Share-based payment

The fair value of share options granted to directors and employees is amortized over the relevant vesting periods to the profit and loss account with a corresponding increase in employee share-based compensation reserve. In accordance with the transitional provisions in HKFRS2, this treatment is applied to share options granted after 7 November 2002 and not vested at 1 July 2005.

4. 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 valuation of investment properties, valuation of derivative financial instruments, 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.

5. FINANCIAL RISK MANAGEMENT

The Group's policy dealing with the risks associated with its financial assets and financial liabilities is described below.

a. Currency risk

The Group aims to minimize its currency risk using forward contracts where feasible and cost effective. Most of the Group's assets and operational cash flow and the majority of the Group's borrowings are denominated in Hong Kong dollars. For investments in foreign subsidiaries and joint ventures, where the currency concerned is anticipated to be volatile and where the exposure of the Group is material, assets are partially hedged for management of balance sheet translation risk.

b. Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly, at times of interest rate uncertainty, through the use of interest rate swaps.

The Group's borrowings are predominantly on a floating rate basis. When raising funds at fixed rates, the Group enters into fixed-to-floating interest rate swaps to convert the rates to a floating basis. When appropriate, interest rate swaps are used in the Group's management of its long-term interest rate exposure. Speculative derivative transactions are strictly prohibited.

c. Liquidity risk

The Group takes liquidity risk into consideration when deciding its sources of finances and their respective tenors. The Group aims to diversify its funding sources and minimize its refinancing risk by preventing substantial refinancing in any one period. The Group also maintains substantial committed revolving banking facilities to allow for flexibility in meeting its funding requirements.

d. Price risk

The Group is exposed to equity securities price risk as part of the Group's long term investments are classified as available-for-sale investments which are measured at fair value at each balance sheet date. The Group manages its exposure by closely monitoring the price movements and the changes in market conditions that may affect the value of these investments.

e. Credit risk

The Group's trade debtors mainly arise from sale of properties developed by the Group and rent receivables from tenants. Occasionally, long term loans are provided to purchasers of the Group's properties and carry interest at rates with reference to banks' lending rates. Regular review is carried out and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment is made for irrecoverable amounts.

Counterparty exposure from derivatives is managed, together with that from deposits and bank account balances, with credit limit that reflect published credit ratings and monitored on a regular basis to ensure there is no significant risk to any individual counterparty. Investments in securities are generally limited to issuers of sound credit and rating.

The Group has no significant concentration of credit risk.

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION

(i) Segment Results

(a) The Company and its subsidiaries

The Group's revenue and results by business segments are analysed as follows:

	Revenue		Profit after Taxation	
				(Restated)
	2006	2005	**2006**	2005
Property				
Property sales	**10,890**	10,274	**6,885**	3,072
Rental income	**5,659**	5,056	**4,101**	3,740
	16,549	15,330	**10,986**	6,812
Hotel operation	**734**	679	**223**	214
Telecommunications	**3,779**	3,619	**118**	322
Other businesses	**4,536**	3,317	**1,077**	769
	25,598	22,945	**12,404**	8,117
Other income			**535**	618
Unallocated administrative expenses			**(625)**	(526)
Operating profit before change in fair value of investment properties			**12,314**	8,209
Increase in fair value of investment properties			**9,110**	8,139
Operating profit after change in fair value of investment properties			**21,424**	16,348
Net finance costs – Group			**(859)**	(284)
Profit on disposal of long-term investments less impairment			**176**	1,858
Profit before taxation			**20,741**	17,922
Taxation			**(3,655)**	(2,899)
Profit after taxation			**17,086**	15,023

Revenue from properties sales includes HK$14 million (2005: HK$1,718 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 income includes mainly investment income from bonds and other investments.

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

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(i) Segment Results (cont'd)

(b) Associates and jointly controlled entities

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

	Share of Results	
		(Restated)
	2006	2005
Property		
Property sales	**164**	1,390
Rental income	**514**	327
	678	1,717
Hotel operation	**18**	–
Other businesses	**293**	403
Profit from operations	**989**	2,120
Finance costs	**(214)**	(152)
Profit before taxation and share of increase in fair value of investment properties	**775**	1,968
Share of increase in fair value of investment properties held by associates and jointly controlled entities	**2,798**	1,792
Profit before taxation	**3,573**	3,760
Taxation	**(621)**	(603)
Profit after taxation	**2,952**	3,157

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(i) Segment Results (cont'd)

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

	Attributable Profit	
		(Restated)
	2006	2005
Property		
Property sales	**7,049**	4,462
Rental income	**4,615**	4,067
	11,664	8,529
Hotel operation	**241**	214
Telecommunications	**118**	322
Other businesses	**1,370**	1,172
Other income	**535**	618
Unallocated administrative expenses	**(625)**	(526)
Operating profit	**13,303**	10,329
Increase in fair value of investment properties		
– Group	**9,110**	8,139
– Associates and jointly controlled entities	**2,798**	1,792
Net finance costs		
– Group	**(859)**	(284)
– Associates and jointly controlled entities	**(214)**	(152)
Profit on disposal of long-term investments less impairment	**176**	1,858
Profit before taxation	**24,314**	21,682
Taxation		
– Group	**(3,655)**	(2,899)
– Associates and jointly controlled entities	**(621)**	(603)
Profit for the year	**20,038**	18,180

(Expressed in millions of Hong Kong dollars)

6. 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 2006				
Property				
Development	**54,802**	**4,803**	**59,605**	**(5,172)**
Investment	**124,344**	**15,099**	**139,443**	**(1,645)**
	179,146	**19,902**	**199,048**	**(6,817)**
Hotel operation	**2,175**	**1,516**	**3,691**	**(73)**
Telecommunications	**3,029**	**–**	**3,029**	**(1,623)**
Other businesses	**9,480**	**2,628**	**12,108**	**(2,775)**
	193,830	**24,046**	**217,876**	**(11,288)**
Long-term investments			**3,379**	**–**
Short-term investments			**1,353**	**–**
Bank balances and deposits			**7,806**	**–**
Bank and other borrowings			**–**	**(30,237)**
Unallocated corporate assets/(liabilities)			**384**	**(1,458)**
Taxation			**–**	**(3,499)**
Deferred taxation			**–**	**(13,769)**
Total assets/(liabilities)			**230,798**	**(60,251)**
At 30 June 2005 (Restated)				
Property				
Development	38,225	3,202	41,427	(4,459)
Investment	106,152	14,677	120,829	(1,678)
	144,377	17,879	162,256	(6,137)
Hotel operation	2,186	–	2,186	(66)
Telecommunications	3,069	–	3,069	(1,570)
Other businesses	10,100	3,060	13,160	(2,683)
	159,732	20,939	180,671	(10,456)
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	(1,913)
Taxation			–	(3,114)
Deferred taxation			–	(11,494)
Total assets/(liabilities)			196,133	(50,043)

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

(Expressed in millions of Hong Kong dollars)

6. SEGMENT INFORMATION (cont'd)

(ii) Assets and liabilities (cont'd)

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

	Depreciation and Amortization		Capital Expenditure	
		(Restated)		
	2006	2005	**2006**	2005
Property				
Development	**2**	3	**13,509**	9,112
Investment	**5**	2	**5,324**	1,741
	7	5	**18,833**	10,853
Hotel operation	**57**	52	**49**	40
Telecommunications	**542**	483	**360**	695
Other businesses	**425**	302	**74**	50
Unallocated corporate assets	**4**	5	**4**	4
	1,035	847	**19,320**	11,642

In addition to the above capital expenditure, the Group also acquired interest in subsidiaries as explained in note 36 (b).

7. NET FINANCE COSTS

		(Restated)
	2006	2005
Interest expenses on		
Bank loans and overdrafts	**1,149**	357
Other loans wholly repayable within five years	**185**	86
Other loans not wholly repayable within five years	**54**	8
	1,388	451
Notional non-cash interest accretion	**67**	39
Less : Portion capitalized	**(389)**	(123)
	1,066	367
Interest income on bank deposits	**(207)**	(83)
	859	284

Interest is capitalized at an average annual rate of approximately 4.28 per cent (2005: 1.6 per cent).

Notional non-cash interest accretion represents amortization of upfront facility fees and other notional adjustments to accrete the carrying amount of asset retirement obligation and telecommunications licence obligation recognized in the balance sheet to the present value of the estimated future cash flows expected to be required for their settlement in the future.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

8. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS LESS IMPAIRMENT

	2006	2005
Profit on disposal of interests in jointly controlled entities	**132**	1,649
Profit on disposal of long-term investments	**–**	300
Profit on disposal of available-for-sale investments	**57**	–
Impairment of long-term investments	**–**	(91)
Impairment of available-for-sale investments	**(13)**	–
	176	1,858

9. PROFIT BEFORE TAXATION

	2006	(Restated) 2005
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	**3,291**	6,603
Cost of other inventories sold	**886**	955
Depreciation and amortization of hotel properties	**54**	50
Depreciation of other properties, plant and equipment	**923**	764
Amortization of intangible asset (included in operating expenses)	**58**	33
Impairment of goodwill	**40**	1
Staff costs (including directors' emoluments and retirement schemes contributions)	**2,461**	2,206
Auditors' remuneration	**11**	8
Loss on disposal of other fixed assets	**4**	8
and crediting:		
Discount on acquisition	**–**	2
Dividend income from:		
listed investments	**93**	67
unlisted investments	**23**	20
Interest income from:		
listed debt securities	**139**	287
unlisted debt securities	**18**	27
Profit on disposal of marketable securities	**49**	18
Net holding gain on marketable securities	**122**	136

(Expressed in millions of Hong Kong dollars)

10. 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	2006 Total emoluments	2005 Total emoluments
Executive Directors						
Kwok Ping-sheung, Walter	**0.14**	**1.62**	**0.09**	**0.15**	**2.00**	1.86
Kwok Ping-kwong, Thomas	**0.13**	**1.53**	**0.09**	**0.14**	**1.89**	1.76
Kwok Ping-luen, Raymond	**0.24**	**1.58**	**0.09**	**0.15**	**2.06**	1.92
Chan Kai-ming	**0.10**	**2.50**	**3.14**	**0.23**	**5.97**	5.84
Chan Kui-yuen, Thomas	**0.12**	**2.84**	**5.19**	**0.26**	**8.41**	7.13
Kwong Chun	**0.10**	**1.91**	**1.55**	**–**	**3.56**	3.26
Wong Yick-kam, Michael	**0.32**	**3.03**	**6.85**	**0.28**	**10.48**	6.61
Wong Chik-wing, Mike	**0.10**	**8.58**	**3.36**	**0.59**	**12.63**	12.29
Non-Executive Directors						
Lee Shau-kee	**0.11**				**0.11**	0.05
Woo Po-shing	**0.10**				**0.10**	0.04
Li Ka-cheung, Eric	**0.60**				**0.60**	0.39
Kwan Cheuk-yin, William	**0.15**				**0.15**	0.04
Lo Chiu-chun, Clement	**0.15**				**0.15**	0.19
Law King-wan	**0.10**				**0.10**	0.04
Independent Non-Executive Directors						
Chun Sze-yuen	**0.56**				**0.56**	0.44
Fung Kwok-king, Victor	**0.10**				**0.10**	0.04
Dicky Peter Yip	**0.45**				**0.45**	0.34
Wong Yue-chim, Richard	**0.21**				**0.21**	0.04
Total 2006	**3.78**	**23.59**	**20.36**	**1.80**	**49.53**	42.28
Total 2005	2.38	21.33	16.95	1.62		

(Expressed in millions of Hong Kong dollars)

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

The above analysis included three (2005: three) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2005: two) individuals are:

	2006	2005
Salaries, allowances and benefits in kind	**9.75**	10.17
Discretionary bonus	**9.97**	9.15
Retirement scheme contributions	**0.59**	0.36
	20.31	19.68

Number of employees whose emoluments fell within:

Emoluments Band HK\$M HK\$M	**Number of employees**	Number of employees
7.0 – 7.5	**–**	1
9.5 – 10.0	**1**	–
10.5 – 11.0	**1**	–
12.0 – 12.5	**–**	1
	2	2

11. 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$123 million (2005: HK$118 million). Forfeited contributions for the year of HK$7 million (2005: HK$9 million) were used to reduce the existing level of contributions.

(Expressed in millions of Hong Kong dollars)

12. TAXATION

	2006	(Restated) 2005
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	**1,552**	1,296
Under/(over) provision in prior years	**5**	(2)
	1,557	1,294
China income tax	**5**	13
Under provision in prior years	**2**	–
	7	13
	1,564	1,307
Deferred taxation		
Change in fair value of investment properties	**1,994**	1,384
Other origination and reversal of temporary differences	**97**	208
	2,091	1,592
	3,655	2,899

(a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2005: 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) Share of associates and jointly controlled entities 's taxation of HK$39 million (2005: HK$71 million) and HK$582 million (2005: HK$532 million) respectively are included in the share of results of associates and jointly controlled entities and share of increase in fair value of investment properties.

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

	2006	(Restated) 2005
Profit before share of results of associates, jointly controlled entities and taxation	**20,741**	17,922
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	**3,630**	3,136
Effect of change in tax rate and different tax rate of subsidiaries operating outside Hong Kong	**442**	58
Net effect of non-deductible expenses and non-taxable revenue	**(193)**	(154)
Utilization/recognition of tax losses not previously recognized	**(68)**	(172)
Tax losses and other temporary differences not recognized	**(130)**	17
Others	**(26)**	14
Tax expenses	**3,655**	2,899

(Expressed in millions of Hong Kong dollars)

13. DIVIDENDS

	2006	2005
Interim dividend of HK$0.70 per share based on 2,401 million shares (2005: HK$0.70 per share based on 2,401 million shares) paid	**1,681**	1,680
Proposed final dividend of HK$1.50 per share based on 2,491 million shares (2005: HK$1.50 per share based on 2,401 million shares)	**3,737**	3,602
	5,418	5,282

14. EARNINGS PER SHARE

(a) Reported 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$19,850 million (2005 (restated): HK$17,900 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,411,924,600 (2005: 2,400,982,551). The diluted earnings per share is based on 2,412,075,082 (2005: 2,401,089,118) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 150,482 (2005: 106,567) shares deemed to be issued at no consideration if all outstanding options had been exercised.

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, earnings per share are additionally calculated based on the underlying profits attributable to Company's shareholders which excluded the effect of fair value changes on investment properties. A reconciliation of profits is as follows:

	2006		2005	
		Earnings per share (Basic) HK$		Earnings per share (Basic) HK$
Profit attributable to Company's shareholders as shown in the consolidated profit and loss account	**19,850**	**8.23**	17,900	7.45
Increase in fair value of investment properties	**(9,110)**	**(3.78)**	(8,139)	(3.39)
Deferred taxation on changes in fair value of investment properties	**1,994**	**0.83**	1,384	0.58
Adjustments for realized gains of disposed investment properties	**18**	**0.01**	554	0.23
Increase in fair value of investment properties net of related deferred taxation attributable to minority interests	**21**	**0.01**	56	0.02
Share of increase in fair value of investment properties net of related deferred taxation of associates and jointly controlled entities	**(2,305)**	**(0.96)**	(1,493)	(0.62)
Underlying profit attributable to Company's shareholders	**10,468**	**4.34**	10,262	4.27

(Expressed in millions of Hong Kong dollars)

15. INVESTMENT PROPERTIES

The Group

(a) Movement during year

Valuation	
At 1 July 2004	
– as originally stated	78,726
– reclassification	6,349
– change in accounting policy	6,371
– as restated	91,446
Additions	492
Transfer in	4,112
Disposals	(1,468)
Transfer out	(1,946)
Increase in fair value	8,139
At 30 June 2005 and 1 July 2005, as restated	100,775
Acquired on acquisition of subsidiaries	**2,993**
Additions	**3,583**
Transfer in	**713**
Disposals	**(164)**
Transfer out	**(378)**
Exchange difference	**101**
Increase in fair value	**9,110**
At 30 June 2006	**116,733**

(b) Valuation of properties shown above comprises:

	2006	(Restated) 2005
Properties in Hong Kong held under		
Long lease (not less than 50 years)	**22,123**	20,228
Medium-term lease (less than 50 years but not less than ten years)	**86,680**	78,332
Properties outside Hong Kong held under		
Long lease (not less than 50 years)	**616**	577
Medium-term lease (less than 50 years but not less than ten years)	**7,314**	1,638
	116,733	100,775

(c) Investment properties revaluation

The Group's investment properties and land value of properties under development have been revalued as at 30 June 2006 by Knight Frank Petty Limited on a market value basis by reference to market evidence of transaction prices for similar properties.

(d) Gross rental receivable from and loss on disposal of the Group's investment properties during the year amounted to HK$5,359 million (2005: HK$4,761 million) and HK$2 million (2005 (restated): profit of HK$250 million), respectively.

(Expressed in millions of Hong Kong dollars)

16. FIXED ASSETS

The Group

	Hotel Properties	Properties under Development	Other Properties	Network Equipment	Toll Road	Other Fixed Assets	Total
(a) Movement during year							
Cost							
At 1 July 2004							
– as originally stated	4,810	10,819	2,434	2,193	5,268	1,900	27,424
– reclassification	–	(6,349)	–	–	–	–	(6,349)
– change in accounting policy	(1,773)	–	–	(135)	–	23	(1,885)
– as restated	3,037	4,470	2,434	2,058	5,268	1,923	19,190
Acquired on acquisition of subsidiaries	–	–	–	–	–	11	11
Additions	33	1,249	–	609	–	132	2,023
Transfer in	56	12	–	–	–	–	68
Disposals	–	–	–	(94)	–	(78)	(172)
Transfer out	–	(1,994)	–	–	–	–	(1,994)
At 30 June 2005 and 1 July 2005, as restated	3,126	3,737	2,434	2,573	5,268	1,988	19,126
Acquired on acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**13**	**13**
Additions	**43**	**1,728**	**–**	**281**	**–**	**178**	**2,230**
Transfer in	**1**	**565**	**–**	**–**	**–**	**–**	**566**
Disposals	**(1)**	**–**	**(7)**	**(43)**	**–**	**(96)**	**(147)**
Transfer out	**–**	**(80)**	**(21)**	**–**	**–**	**–**	**(101)**
Exchange difference	**–**	**–**	**–**	**–**	**–**	**3**	**3**
At 30 June 2006	**3,169**	**5,950**	**2,406**	**2,811**	**5,268**	**2,086**	**21,690**
Accumulated depreciation							
At 1 July 2004							
– as originally stated	–	–	645	359	–	1,039	2,043
– change in accounting policy	976	–	–	–	–	7	983
– as restated	976	–	645	359	–	1,046	3,026
Charge for the year	50	–	77	387	128	172	814
Disposals	–	–	–	(88)	–	(73)	(161)
Transfer out	–	–	–	–	–	–	–
At 30 June 2005 and 1 July 2005, as restated	1,026	–	722	658	128	1,145	3,679
Charge for the year	**54**	**–**	**73**	**409**	**258**	**183**	**977**
Disposals	**(1)**	**–**	**(2)**	**(39)**	**–**	**(92)**	**(134)**
Transfer out	**–**	**–**	**(5)**	**–**	**–**	**–**	**(5)**
At 30 June 2006	**1,079**	**–**	**788**	**1,028**	**386**	**1,236**	**4,517**
Net book value at 30 June 2006	**2,090**	**5,950**	**1,618**	**1,783**	**4,882**	**850**	**17,173**
Net book value at 30 June 2005 (Restated)	2,100	3,737	1,712	1,915	5,140	843	15,447

(Expressed in millions of Hong Kong dollars)

16. FIXED ASSETS (Cont'd)

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

	2006	(Restated) 2005
Properties in Hong Kong held under		
Long lease (not less than 50 years)		
Hotel properties	**811**	809
Properties under development	**–**	24
Other properties	**391**	417
	1,202	1,250
Medium-term lease (less than 50 years but not less than ten years)		
Hotel properties	**1,279**	1,291
Properties under development	**5,403**	3,127
Other properties	**1,227**	1,295
	7,909	5,713
Properties outside Hong Kong held under		
Long lease (not less than 50 years)		
Properties under development	**–**	586
Medium-term lease (less than 50 years but not less than ten years)		
Properties under development	**547**	–
	9,658	7,549

(c) The carrying amount of properties under development as at 30 June 2006 included interest capitalized in the amount of HK$1,055 million (2005: HK$666 million).

17. SUBSIDIARIES

The Company

	2006	2005
Unlisted shares, at cost	**30,074**	30,074

Particulars regarding principal subsidiaries are set out on pages 167 to 170.

(Expressed in millions of Hong Kong dollars)

18. ASSOCIATES

The Group

	2006	(Restated) 2005
Unlisted shares, at cost less impairment	**28**	28
Hong Kong listed shares, at cost	**585**	585
Share of post acquisition reserve	**1,140**	1,206
	1,753	1,819
Amounts due from associates	**349**	567
	2,102	2,386
Market value of Hong Kong listed shares	**5,302**	5,864

The Group's effective interest in the revenues, results, assets and liabilities of its associates are summarised below:

	2006	2005
Non-current assets	**3,286**	3,423
Current assets	**1,106**	928
Current liabilities	**(773)**	(668)
Non-current liabilities	**(1,866)**	(1,864)
Net assets	**1,753**	1,819
Revenue	**2,282**	2,257
Fair value change of investment properties net of related deferred tax	**14**	23
Profit for the year	**191**	337

Particulars regarding principal associates are set out on page 172.

19. JOINTLY CONTROLLED ENTITIES

	2006		(Restated) 2005	
	The Group	**The Company**	The Group	The Company
Unlisted shares, at cost less impairment	**898**	**–**	1,121	–
Share of post acquisition reserve	**5,495**		2,965	
	6,393	**–**	4,086	–
Amounts due from jointly controlled entities	**15,551**	**–**	14,467	1
	21,944	**–**	18,553	1

(Expressed in millions of Hong Kong dollars)

19. JOINTLY CONTROLLED ENTITIES (Cont'd)

The Group's effective interest in the revenues, results, assets and liabilities of its jointly controlled entities are summarised below:

	2006	2005
Non-current assets	**34,297**	30,811
Current assets	**8,544**	3,514
Current liabilities	**(6,196)**	(2,323)
Non-current liabilities	**(30,252)**	(27,916)
Net assets	**6,393**	4,086
Revenue	**2,727**	5,567
Fair value change of investment properties net of related deferred tax	**2,291**	1,470
Profit for the year	**2,761**	2,820

Particulars regarding principal jointly controlled entities are set out on page 171.

20. LONG-TERM INVESTMENTS

	2006		2005	
	The Group	**The Company**	The Group	The Company
Listed equity securities, overseas	**–**	**–**	102	–
Listed equity securities, Hong Kong	**–**	**–**	760	–
Unlisted equity securities	**–**	**–**	404	–
	–	**–**	1,266	–
Held-to-maturity debt securities				
Listed debt securities, overseas	**32**	**–**	3,876	–
Listed debt securities, Hong Kong	**–**	**–**	116	–
Unlisted debt securities	**–**	**–**	707	–
	32	**–**	4,699	–
Available-for-sale debt securities				
Listed debt securities, overseas	**137**	**–**	–	–
Available-for-sale equity securities				
Listed equity securities, overseas	**527**	**–**	–	–
Listed equity securities, Hong Kong	**2,133**	**–**	–	–
Unlisted equity securities	**543**	**–**	–	–
	3,203	**–**	–	–
	3,372	**–**	5,965	–
Amounts due from investee companies	**7**	**–**	6	–
	3,379	**–**	5,971	–
Market value				
Listed overseas	**695**	**–**	4,514	–
Listed in Hong Kong	**2,133**	**–**	1,238	–
	2,828	**–**	5,752	–

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

21. LOAN RECEIVABLES

The Group

	2006	2005
Mortgage loan receivables	**1,444**	1,629
Less: Amount due within one year included under current assets	**(47)**	(51)
	1,397	1,578

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 and carry interest at rates with reference to bank's lending rates.

The carrying amount of loan receivables approximates their fair value.

22. INTANGIBLE ASSET

The Group

At 1 July 2004	
– as originally stated	–
– change in accounting policy	650
– as restated	650
Additions	26
Amortization	(33)
At 30 June 2005 and 1 July 2005, restated	643
Additions	**47**
Amortization	**(58)**
At 30 June 2006	**632**

Intangible asset represents the discounted value of the annual licence fees and royalties payable for the telecommunication licence over the licence period less accumulated amortization and impairment.

23. PROPERTIES FOR SALE

The Group

	2006	(Restated) 2005
Properties pending development for sale	**17,910**	17,025
Properties under development for sale	**19,222**	15,566
Stock of completed properties for sale	**7,683**	4,415
	44,815	37,006

(Expressed in millions of Hong Kong dollars)

24. DEBTORS, PREPAYMENT AND OTHERS

		2006		(Restated) 2005	
	Notes	**The Group**	**The Company**	The Group	The Company
Materials		**165**	**–**	271	–
Debtors, deposits and prepayments		**8,748**	**9**	4,202	24
Deposits for acquisition of properties		**4,351**	**–**	172	–
Amounts due from customers for contract works	24a	**46**	**–**	76	–
Short-term loans		**117**	**–**	106	–
Interest rate swaps	24b	**37**	**–**	–	–
		13,464	**9**	4,827	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 debtors, prepayment and others of the Group are trade debtors of HK$7,417 million (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 (2005: 89 per cent, three per cent and eight per cent, respectively).

The fair values of debtors and other receivables are not materially different form their book values.

24a. Amounts due from/(to) customers for contract works

The Group

	Notes	**2006**	2005
Contract costs incurred plus recognized profits less recognized losses		**2,714**	2,099
Less: Progress billings		**(2,679)**	(2,042)
		35	57
Represented by:			
Due from customers included in current assets	24	**46**	76
Due to customers included in current liabilities	28	**(11)**	(19)
		35	57

24b. Derivative financial instruments

		2006	
		Assets	**Liabilities**
Fair value hedges	24 & 28		
– interest rate swaps		**37**	**92**
– currency swaps		**–**	**–**
		37	**92**

(Expressed in millions of Hong Kong dollars)

24. DEBTORS, PREPAYMENT AND OTHERS (cont'd)

24b. Derivative financial instruments (cont'd)

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.

At the balance sheet date, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps to hedge the fair value interest rate risk of the Group's fixed interest rate borrowings and currency swap (to hedge principal repayment of USD debt) analysed as follows :

	Notional principal amount	
	2006	2005
Fixed-to-floating interest rate swaps maturing		
Within one year	**550**	–
After one year, but within five years	**950**	1,500
After five years	**1,950**	150
	3,450	1,650
Currency swap maturing		
After one year, but within five years	**234**	234
	234	234

The fixed-to-floating interest rate swaps converted the fixed rates to floating rates at HIBOR plus a weighted average margin of 0.37% per annum. Decrease in fair value of the swaps during the year in the amount of HK$55 million along with the corresponding increase in fair value of the hedged borrowings of the same amount has been recognized in profit and loss.

25. SHORT-TERM INVESTMENTS

The Group

	2006	2005
Marketable securities		
Equity securities, at market value		
Listed in Hong Kong	**495**	747
Listed overseas	**174**	25
	669	772
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed overseas (Market value 2005: HK$1,586 million)	**–**	1,576
Unlisted	**660**	80
	660	1,656
Available-for-sale debt securities maturing within one year		
Listed in Hong Kong	**16**	–
Unlisted	**8**	–
	24	–
	1,353	2,428

(Expressed in millions of Hong Kong dollars)

26. BANK BALANCES AND DEPOSITS

The Group

	2006	2005
Bank deposits	**7,423**	5,915
Bank balances and cash	**383**	604
	7,806	6,519

27. BANK AND OTHER BORROWINGS

The Group

	Note	**2006**	2005
Unsecured bank overdrafts		**80**	59
Non-current bank and other borrowings due within one year	29	**2,870**	1,546
		2,950	1,605

28. TRADE AND OTHR PAYABLES

		2006		(Restated) 2005	
	Notes	**The Group**	**The Company**	The Group	The Company
Creditors and accrued expenses		**10,673**	**20**	9,669	213
Amounts due to customers for contract works	24a	**11**	**–**	19	–
Amount due to minority shareholders		**1,340**		1,411	
Interest rate swaps	24b	**92**	**–**	–	–
		12,116	**20**	11,099	213

Included in trade and other payables of the Group are trade creditors of HK$767 million (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 (2005: 65 per cent, two per cent and 33 per cent, respectively).

The carrying amounts of trade and other payables approximate their fair value.

(Expressed in millions of Hong Kong dollars)

29. BANK AND OTHER BORROWINGS

The Group

	Note	2006	2005
Secured bank loans repayable			
Within one year		**200**	279
After one year, but within two years		**220**	307
After two years, but within five years		**810**	1,723
After five years		**673**	–
		1,903	2,309
Unsecured bank loans repayable			
Within one year		**2,016**	565
After one year, but within two years		**1,288**	3,088
After two years, but within five years		**21,184**	14,359
After five years		**37**	–
		24,525	18,012
Other unsecured loans repayable			
Within one year		**654**	702
After one year, but within two years		**307**	650
After two years, but within five years		**908**	1,184
After five years		**1,860**	150
		3,729	2,686
		30,157	23,007
Less : Amount due within one year included under current liabilities	27	**(2,870)**	(1,546)
		27,287	21,461

The fair values of the long-term borrowings as estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date for similar borrowings are as follows:

	Carry amount		**Fair value**	
	2006	2005	**2006**	2005
Secured bank loans	**1,703**	2,030	**1,703**	2,030
Unsecured bank loans	**22,509**	17,447	**22,509**	17,447
Other unsecured loans	**3,075**	1,984	**3,075**	2,105
	27,287	21,461	**27,287**	21,582

The carrying amount of short-term borrowings approximates their fair value.

As at 30 June 2006, the Group had entered into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk of certain fixed interest rate borrowings (see note 24).

(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 bank and other borrowings are repayable on various dates up to February 2016. The majority of the bank and other borrowings are denominated in Hong Kong dollars and carry interest, after hedging where appropriate, at effective rates based on HIBOR plus a weighted average margin less than 0.3% per annum.

(Expressed in millions of Hong Kong dollars)

30. DEFERRED TAXATION

The Group

	2006	(Restated) 2005
Deferred tax assets	**(349)**	(353)
Deferred tax liabilities	**14,118**	11,847
	13,769	11,494

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 2004						
– as originally stated	1,101	517	19	(161)	(83)	1,393
– change in accounting policy	(73)	8,768	–	–	–	8,695
– as restated	1,028	9,285	19	(161)	(83)	10,088
On acquisition of subsidiaries	400	–	–	(586)	–	(186)
Charged/(credited) to profit and loss accounts	199	1,384	5	(23)	27	1,592
At 30 June 2005 and 1 July 2005, as restated	1,627	10,669	24	(770)	(56)	11,494
Change in accounting policy	**–**	**–**	**3**	**–**	**–**	**3**
On acquisition of subsidiaries	**235**	**87**	**–**	**(150)**	**–**	**172**
Credited to equity	**–**	**(11)**	**–**	**–**	**–**	**(11)**
Charged/(credited) to profit and loss accounts	**56**	**1,994**	**–**	**91**	**(50)**	**2,091**
Exchange difference	**11**	**14**	**–**	**(5)**	**–**	**20**
At 30 June 2006	**1,929**	**12,753**	**27**	**(834)**	**(106)**	**13,769**

At the balance sheet date, the Group has unrecognized tax losses and deductible temporary differences of HK$4,548 million (2005: HK$5,028 million), of which HK$85 million (2005: HK$94 million) will expire at various dates up to 2011. Recognition of these unrecognized tax losses depends on future taxable profits available and losses agreed with the relevant tax authorities.

(Expressed in millions of Hong Kong dollars)

31. OTHER LONG-TERM LIABILITIES

The Group

	2006	(Restated) 2005
Asset retirement obligations	**38**	33
Contractual obligations for telecommunications licences	**573**	512
	611	545

32. SHARE CAPITAL

	2006		2005	
	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
Private placement in May 2006	**89**	**44**	–	–
1,032,000 (2005: 96,000) shares issued on exercise of share options	**1**	**1**	–	–
At end of year	**2,491**	**1,246**	2,401	1,201

A private placement of 89,000,000 shares of HK$0.50 each in the share capital of the Company at a price of HK$89.00 per share was made with independent investors in May 2006. The same number of shares were subscribed by the vendors of the aforesaid placement at HK$88.068 per new share which was equivalent to the placing price after deduction of related expenses. The net proceeds amounting to approximately HK$7,837 million would be used for the Group's core property development and investment activities particularly in Mainland China.

33. 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 vaild and exercisable in accordance with its provisions. At 30 June 2006, the number of shares in respect of which options had been granted and remained outstanding was 810,000 (2005: 1,842,000), representing 0.03 per cent (2005: 0.08 per cent) of the shares in the Company in issue at that date.

(Expressed in millions of Hong Kong dollars)

33. SHARE OPTION SCHEME (cont'd)

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.

(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 2005**	**Granted During the Year**	**Exercised During the Year**	**Lapsed During the Year**	**At 30 June 2006**
16 July 2001	**HK$70**	**16.7.2002 to 15.7.2006**	**1,842,000**	**–**	**(1,032,000)**	**–**	**810,000**
			1,842,000	**–**	**(1,032,000)**	**–**	**810,000**

			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

(Expressed in millions of Hong Kong dollars)

33. SHARE OPTION SCHEME (cont'd)

(ii) Details of share options exercised during the year ended 30 June 2006 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Option	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
3 January 2006	HK$70	HK$75.50	12,000	1
9 January 2006	HK$70	HK$80.00	72,000	5
10 January 2006	HK$70	HK$80.30	30,000	2
11 January 2006	HK$70	HK$81.00	192,000	13
12 January 2006	HK$70	HK$81.45	36,000	3
18 January 2006	HK$70	HK$80.05	12,000	1
1 February 2006	HK$70	HK$79.55	18,000	1
23 February 2006	HK$70	HK$80.30	24,000	1
24 February 2006	HK$70	HK$80.90	36,000	3
28 February 2006	HK$70	HK$81.00	54,000	4
6 April 2006	HK$70	HK$80.75	36,000	3
7 April 2006	HK$70	HK$81.85	18,000	1
10 April 2006	HK$70	HK$81.70	96,000	7
12 April 2006	HK$70	HK$80.70	36,000	3
19 April 2006	HK$70	HK$85.30	150,000	10
20 April 2006	HK$70	HK$88.65	36,000	3
21 April 2006	HK$70	HK$90.75	18,000	1
			1,032,000	73

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 Option	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

(Expressed in millions of Hong Kong dollars)

34. SHARE PREMIUM AND RESERVES

	2006		(Restated) 2005	
	The Group	**The Company**	The Group	The Company
Share premium				
At beginning of year	**17,009**	**17,009**	17,002	17,002
Premium arising from exercise of share options	**71**	**71**	7	7
Premium on private placement less expenses	**7,793**	**7,793**	–	–
At end of year	**24,873**	**24,873**	17,009	17,009
Capital reserve				
At beginning of year	**747**	**5,281**	766	5,281
Goodwill adjustments	**–**	**–**	(19)	–
At end of year	**747**	**5,281**	747	5,281
Property revaluation reserve				
At beginning of year, as originally stated	**57,751**	**–**	48,992	–
– change in accounting policy	**(57,751)**	**–**	(48,992)	–
At beginning of year and end of year, as restated	**–**	**–**	–	–
Investment revaluation reserve				
At beginning of year	**–**	**–**	–	–
Change in accounting policy	**904**	**–**	–	–
Fair value gain released on disposal	**(94)**	**–**	–	–
Fair value change during the year	**149**	**–**	–	–
At end of year	**959**	**–**	–	–
Employee share-based compensation reserve				
At beginning of year, as originally stated	**–**	**–**	–	–
– change in accounting policy	**6**	**–**	2	–
– as restated	**6**	**–**	2	–
Recognition of share-based payment	**4**	**–**	4	–
At end of year	**10**	**–**	6	–
Exchange reserve				
At beginning of year	**6**	**–**	10	–
Exchange difference arising on translation of financial statements of				
– Subsidiaries	**135**	**–**	(3)	–
– Associates and jointly controlled entities	**11**	**–**	(1)	–
At end of year	**152**	**–**	6	–
Retained profits				
At beginning of year, as originally stated	**73,438**	**63,965**	67,268	61,763
– change in accounting policy	**51,537**	**–**	43,987	–
– as restated	**124,975**	**63,965**	111,255	61,763
Profit attributable to shareholders	**19,850**	**6,331**	17,900	6,403
Interim dividend paid	**(1,681)**	**(1,681)**	(1,680)	(1,680)
Final dividend paid	**(3,602)**	**(3,602)**	(2,521)	(2,521)
At end of year	**139,542**	**65,013**	124,954	63,965
Total share premium and reserves	**166,283**	**95,167**	142,722	86,255

(Expressed in millions of Hong Kong dollars)

34. SHARE PREMIUM AND RESERVES (cont'd)

At the balance sheet date, retained profits of the Group included HK$1,114 million (2005 (restated): HK$1,185 million) retained by associates and HK$5,490 million (2005 (restated): HK$2,972 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30 June 2006 including the proposed dividends amounted to HK$65,013 million (2005: HK$63,965 million).

35. MINORITY INTERESTS

The Group

	2006	(Restated) 2005
At 1 July		
– as originally stated	**2,202**	2,313
– change in accounting policy	**(35)**	(29)
– as restated	**2,167**	2,284
Capital contribution	**2**	36
Repayment of capital contribution	**(58)**	–
Acquisition of subsidiaries	**817**	(262)
Share of profits less losses	**188**	280
Dividend paid	**(94)**	(166)
Exchange differences	**(4)**	(5)
At 30 June	**3,018**	2,167

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2006	(Restated) 2005
Operating profit	**12,314**	8,209
Depreciation and amortization	**1,035**	847
Release of discount on acquisition	**–**	(2)
Impairment of goodwill	**40**	1
Loss/(profit) on disposal of investment properties	**2**	(250)
Loss on disposal of other fixed assets	**4**	8
Share-based payment expenses	**5**	7
Dividends received from investments	**(116)**	(87)
Interest income	**(178)**	(345)
Exchange difference	**(2)**	4
Operating profit before changes in working capital	**13,104**	8,392
Decrease in properties for sale	**534**	3,394
Increase in debtors, prepayment and others	**(4,586)**	(29)
Increase in marketable securities	**(65)**	(86)
Decrease in trade and other payables	**(132)**	(106)
Decrease in deposits received on sale of properties	**(706)**	(52)
Cash generated from operations	**8,149**	11,513

(Expressed in millions of Hong Kong dollars)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Purchase of subsidiaries

In July 2005, the Group acquired an additional 50% interest in Beijing New Dong An Company Limited raising its total interest to 100%. In Jan 2006, the Group acquired controlling interest in Wealth Pro Enterprises Limited. In the period to 30 June 2006, the acquired subsidiaries contributed HK$162 million to the Group's revenue and HK$99 million to the profit attributable to Company's shareholders.

If the acquisitions had been completed on 1 July 2005, total group revenue and profit attributable to Company's shareholders would not be significantly different from that reported in consolidated profit and loss account.

The cash flow and net assets acquired are as follows:

	2006 Book value	2006 Fair value	2005 Fair value
Net assets acquired:			
Deferred tax assets	–	–	187
Investment properties	2,993	2,993	–
Fixed assets	13	13	5,279
Deposit for acquisition of properties	2,730	4,333	–
Stocks	–	–	22
Debtors, prepayment and others	54	9	18
Cash and bank balances	99	99	166
Trade and other payables	(77)	(77)	(178)
Taxation	(2)	(2)	–
Bank and other borrowings	(1,260)	(1,260)	(2,689)
Deferred tax liabilities	(172)	(172)	(1)
Minority interests	(575)	(914)	(847)
	3,803	5,022	1,957
Less:			
Interest in jointly controlled entities		(1,560)	(1,695)
Goodwill/discount on acquisition		4	(2)
		3,466	260
Satisfied by:			
Cash paid		2,484	260
Deferred consideration		982	–
		3,466	260

	2006	2005
Analysis of net cash inflow in respect of the purchase of subsidiaries:		
Cash consideration paid	2,484	260
Cash and bank balances acquired	(99)	(166)
	2,385	94

(Expressed in millions of Hong Kong dollars)

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

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

	2006	2005
Bank deposits	**7,423**	5,915
Bank balances and cash	**383**	604
Bank overdrafts	**(80)**	(59)
	7,726	6,460
Less: Pledged bank deposits	**(320)**	(328)
	7,406	6,132

37. 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:

	2006	2005
Investment properties	**5,623**	5,620
Properties pending development for sale	**137**	126
Properties under development for sale	**117**	10
Stocks of completed properties for sale	**146**	150
	6,023	5,906
Trade and other payables	**174**	203

38. RELATED PARTY TRANSACTIONS

During the year, the Group undertook various transactions with related parties. 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	
	2006	2005	2006	2005
Interest income	**1**	1	**96**	44
Rental income	**6**	6	**2**	3
Rental expenses	**–**	–	**18**	14
Other revenue from services rendered	**538**	314	**139**	304
Purchase of goods and services	**–**	–	**200**	196
Acquisition of properties	**106**	–	**–**	–

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in Notes (18) and (19).

(Expressed in millions of Hong Kong dollars)

39. 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:

	2006	2005
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	**5,345**	5,038
Authorized but not contracted for	**563**	450
(b) Capital commitments in respect of investments		
Contracted but not provided for	**11**	83
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	**3**	337
Authorized but not contracted for	**7**	44

(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK$5,300 million (2005: HK$4,192 million) and other guarantees of HK$2 million (2005 (restated): HK$2 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:

	2006	2005
Subsidiaries	**30,144**	20,674
Jointly controlled entities	**5,300**	4,192
	35,444	24,866

40. 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:

	2006	2005
Not later than one year	**4,331**	3,791
Later than one year but not later than five years	**3,195**	3,208
Later than five years	**98**	199
	7,624	7,198

(Expressed in millions of Hong Kong dollars)

40. 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:

	2006	2005
Not later than one year	**294**	275
Later than one year but not later than five years	**242**	182
Later than five years	**35**	10
	571	467

41. 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$320 million (2005: HK$328 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$4,962 million (including bank balance of HK$9 million) have been charged to secure its bank borrowings (2005: 5,230 million (including bank balance of HK$6 million)).

42. COMPARATIVE FIGURES

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

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 119 to 172 were approved by the board of directors on 14 September 2006.