

# 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 Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 30 June 2006.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, “HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2006. The adoption of these HKFRSs has no significant impact on the Group’s results and financial position.

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

## 2. SEGMENT RESULTS

### (a) The Company and its subsidiaries

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

	Revenue Six months ended 31 December		Profit after Taxation Six months ended 31 December	
	2006	2005	2006	2005
Property				
Property sales	6,888	7,283	2,633	4,644
Rental income	2,966	2,810	2,143	2,026
	9,854	10,093	4,776	6,670
Hotel operation	415	363	140	112
Telecommunications	2,102	1,860	48	59
Other businesses	2,410	2,150	578	559
	14,781	14,466	5,542	7,400
Other income			314	305
Unallocated administrative expenses			(321)	(315)
Operating profit before change				
in fair value of investment properties			5,535	7,390
Increase in fair value of investment properties			5,547	7,784
Operating profit after change				
in fair value of investment properties			11,082	15,174
Net finance costs			(297)	(378)
Profit/(loss) on disposal of long-term investments less impairment			4	(13)
Profit before taxation			10,789	14,783
Taxation			(1,816)	(2,429)
Profit after taxation			8,973	12,354

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## 2. SEGMENT RESULTS (CONT'D)

### (a) The Company and its subsidiaries (cont'd)

Revenue from properties sales includes HK\$36 million (2005: nil) 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 equity and bonds 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.

### (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 Six months ended 31 December	
	2006	2005
Property		
Property sales	648	55
Rental income	392	209
	<u>1,040</u>	<u>264</u>
Hotel operation	57	–
Other businesses	78	106
	<u>1,175</u>	<u>370</u>
Operating profit	(81)	(89)
Finance costs		
	<u>1,094</u>	<u>281</u>
Profit before taxation and share of increase in fair value of investment properties	1,290	1,225
Share of increase in fair value of investment properties held by associates and jointly controlled entities		
	<u>2,384</u>	<u>1,506</u>
Profit before taxation	(357)	(270)
Taxation		
	<u>2,027</u>	<u>1,236</u>
Profit after taxation		

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## 2. 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 Six months ended 31 December	
	2006	2005
Property		
Property sales	3,281	4,699
Rental income	2,535	2,235
	5,816	6,934
Hotel operation	197	112
Telecommunications	48	59
Other businesses	656	665
Other income	314	305
Unallocated administrative expenses	(321)	(315)
Operating profit	6,710	7,760
Increase in fair value of investment properties		
– Group	5,547	7,784
– Associates and jointly controlled entities	1,290	1,225
Net finance costs		
– Group	(297)	(378)
– Associates and jointly controlled entities	(81)	(89)
Profit/(loss) on disposal of long-term investments less impairment	4	(13)
Profit before taxation	13,173	16,289
Taxation		
– Group	(1,816)	(2,429)
– Associates and jointly controlled entities	(357)	(270)
Profit for the period	11,000	13,590

## 3. NET FINANCE COSTS

	Six months ended 31 December	
	2006	2005
Interest expenses on		
Bank loans and overdrafts	520	491
Other loans wholly repayable within five years	63	87
Other loans not wholly repayable within five years	48	11
	631	589
Notional non-cash interest accretion	37	33
Less : Portion capitalized	(238)	(158)
	430	464
Interest income on bank deposits	(133)	(86)
	297	378

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

	Six months ended 31 December	
	2006	2005
Profit/(loss) on disposal of available-for-sale investments	12	(13)
Impairment of available-for-sale investments	(8)	–
	<u>4</u>	<u>(13)</u>

## 5. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2006	2005
Profit before taxation is arrived at after charging:		
Cost of properties sold	4,217	2,894
Cost of other inventories sold	526	505
Depreciation and amortization	494	534
Amortization of intangible asset (included in operating expenses)	31	28
and crediting:		
Dividend income from listed and unlisted investments	73	62
Interest income from listed and unlisted debt securities	11	138
Net realized and unrealized holding gains on marketable securities	203	75

## 6. TAXATION

	Six months ended 31 December	
	2006	2005
Current taxation		
Hong Kong profits tax	691	975
China income tax	10	3
	<u>701</u>	<u>978</u>
Deferred taxation		
Change in fair value of investment properties	974	1,362
Other origination and reversal of temporary differences	141	89
	<u>1,115</u>	<u>1,451</u>
	<u>1,816</u>	<u>2,429</u>

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## 6. TAXATION (CONT'D)

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 period. China income tax is calculated at the rates applicable in China.

Share of associates and jointly controlled entities' taxation of HK\$44 million (2005: HK\$26 million) and HK\$313 million (2005: HK\$244 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.

## 7. 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\$10,910 million (2005: HK\$13,505 million).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 2,491,795,194 (2005: 2,401,105,558). The diluted earnings per share is based on 2,491,799,895 (2005: 2,401,277,856) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 4,701 (2005: 172,298) 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:

	Six months ended 31 December			
	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	10,910	4.38	13,505	5.62
Increase in fair value of investment properties net of deferred tax and minority interests	(4,575)	(1.83)	(6,416)	(2.67)
Adjustments for realized gains of disposed investment properties net of deferred tax	26	0.01	—	—
Share of increase in fair value of investment properties net of deferred tax held by associates and jointly controlled entities	(1,064)	(0.43)	(1,010)	(0.42)
Underlying profit attributable to Company's shareholders	5,297	2.13	6,079	2.53

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## 8. FIXED ASSETS

During the period, additions to fixed assets amounted to HK\$2,225 million and net book value of fixed assets disposed of amounted to HK\$8 million.

## 9. LONG-TERM INVESTMENTS

	31 December 2006	30 June 2006
<b>Held-to-maturity debt securities</b>		
Listed debt securities, overseas	–	32
<b>Available-for-sale debt securities</b>		
Listed debt securities, overseas	483	137
<b>Available-for-sale equity securities</b>		
Listed equity securities, overseas	561	527
Listed equity securities, Hong Kong	4,121	2,133
Unlisted equity securities	513	543
	5,195	3,203
	5,678	3,372
Amounts due from investee companies	7	7
	5,685	3,379
<b>Market value</b>		
Listed overseas	1,044	695
Listed in Hong Kong	4,121	2,133
	5,165	2,828

## 10. LOAN RECEIVABLES

	31 December 2006	30 June 2006
Mortgage loan receivables	1,264	1,444
Less : Amount due within one year included under current assets	(45)	(47)
	1,219	1,397

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.

## 11. INTANGIBLE ASSET

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.

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## 12. DEBTORS, PREPAYMENT AND OTHERS

Consideration 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 are trade debtors of HK\$9,403 million (30 June 2006: HK\$7,417 million), of which 94 per cent aged less than 60 days, four per cent between 61 to 90 days and two per cent more than 90 days (30 June 2006: 96 per cent, two per cent and two per cent, respectively).

## 13. SHORT-TERM INVESTMENTS

	31 December 2006	30 June 2006
<b>Marketable securities, at market value</b>		
Listed equity securities, Hong Kong	680	495
Listed equity securities, overseas	120	174
	<u>800</u>	<u>669</u>
<b>Held-to-maturity debt securities maturing within one year, at amortized cost</b>		
Listed debt securities, overseas (Market value: HK\$31 million (30 June 2006: Nil))	31	–
Unlisted debt securities	–	660
	<u>31</u>	<u>660</u>
<b>Available-for-sale debt securities maturing within one year</b>		
Listed debt securities, overseas	39	16
Listed debt securities, Hong Kong	16	–
Unlisted debt securities	–	8
	<u>55</u>	<u>24</u>
	<u>886</u>	<u>1,353</u>

## 14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors of HK\$957 million (30 June 2006: HK\$767 million), of which 69 per cent aged less than 60 days, five per cent between 61 to 90 days and 26 per cent more than 90 days (30 June 2006: 68 per cent, four per cent and 28 per cent, respectively).

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## 15. SHARE CAPITAL

	Number of Shares in Million	Amount
<b>Authorized:</b>		
Ordinary shares of \$0.50 each		
At beginning and end of period	2,900	1,450
<b>Issued and fully paid:</b>		
Ordinary shares of \$0.50 each		
At beginning of period	2,491	1,246
774,000 (2005: 156,000) shares issued on exercise of share options	1	–
At end of period	2,492	1,246

## 16. 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	Number of Share Options			
			At 1 July 2006	Exercised during the period	Lapsed during the period	At 31 Dec 2006
16 July 2001	HK\$70	16.7.2002 to 15.7.2006	810,000	(774,000)	(36,000)	–
			810,000	(774,000)	(36,000)	–

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options			
			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



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## 16. SHARE OPTION SCHEME (CONT'D)

(b) Details of share options exercised during the six months ended 31 December 2006 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Options	Proceeds Received
3 July 2006	HK\$70	HK\$79.15	24,000	1
6 July 2006	HK\$70	HK\$79.35	60,000	4
7 July 2006	HK\$70	HK\$78.45	75,000	5
10 July 2006	HK\$70	HK\$78.80	150,000	11
11 July 2006	HK\$70	HK\$78.80	240,000	17
12 July 2006	HK\$70	HK\$78.80	225,000	16
			<b>774,000</b>	<b>54</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
			<b>156,000</b>	<b>11</b>

## 17. 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	
	2006	2005	2006	2005
Interest income	–	–	61	41
Rental income	3	3	–	–
Rental expense	–	–	12	7
Other revenue from services rendered	308	231	7	112
Purchase of goods and services	–	–	56	106

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## 18. 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 2006	30 June 2006
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	9,954	5,345
Authorized but not contracted for	369	563
(b) Capital commitments in respect of investments		
Contracted but not provided for	5	11
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	2	3
Authorized but not contracted for	1	7
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$3,390 million (30 June 2006: HK\$5,300 million) and other guarantees of HK\$2 million (30 June 2006: HK\$2 million).		

## 19. COMPARATIVE FIGURES

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