(Expressed in millions of Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES

a. **Basis of preparation**

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include the Hong Kong Financial Reporting Standards and Interpretations (collectively, "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited. 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.

The HKICPA has issued a number of new and revised HKFRSs which are effective for the year ended 30 June 2007. The adoption of these HKFRSs has no significant impact on the Group's results and financial position.

The Group has not early adopted the new and revised HKFRSs which have been issued but are not yet effective. The Group has commenced an assessment of the impact of these HKFRSs on the Group's financial statements.

b. **Basis of consolidation**

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30 June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below, respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either 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.

Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

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, department store and container and cargo handling services. 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.

(Expressed in millions of Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d. Revenue recognition (cont'd)

(ii) Rental income

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

(iii) Hotel operation

Revenue from hotel operation is recognized upon provision of services.

(iv) Interest income

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

(v) Construction

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

(vi) 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) Provision of container and cargo handling service

Revenue from the provision of container and cargo handling service is recognized when the service is rendered.

(xii) Other income

Other income including property management service fee, car parking management fee and insurance income are recognized when the services are rendered.

e. Subsidiaries

A subsidiary is a company in which the Company directly or indirectly 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 loss.

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 loss.

1. 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 loss whereas in the balance sheet of the Company at cost less impairment loss.

(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 loss and carried at cost less accumulated impairment losses. 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.

i. Financial assets, financial liability and equity

The Group classifies its financial assets 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 financial assets 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. 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.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i. Financial assets, financial liability and equity (cont'd)

(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 using the effective interest method less impairment loss.

(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 loss. Any impairment loss 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 by reference to market prices. 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 loss on available-for-sale investments are recognized in profit or loss. Impairment loss on available-for-sale 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 loss at each balance sheet date subsequent to initial recognition. Any impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. Such impairment loss will not reverse in subsequent periods.

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. Financial liabilities are measured at amortized cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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 accumulated impairment losses, if any. Upon disposal of a hotel property, any gain or loss on disposal is recognized in the profit and loss account.

(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.

(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 accumulated impairment losses, if any. Upon disposal of other properties, any gain or loss on disposal is recognized in the profit and loss account.

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 losses 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 accumulated impairment losses, if any. Depreciation is calculated on a straight line basis to write off their costs 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.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

l. Depreciation (cont'd)

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

(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 accumulated depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from 6.67 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 method or at fair value when accounting for fair value hedges set out in note 1(j) 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.

n. Intangible asset – telecommunication licence

A mobile carrier licence, which is a right 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"), renewal of the Global System for Mobile communications licence ("GSM Licence") and Personal Communications Services Licence (the "PCS 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.

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

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 assets and liabilities of overseas subsidiaries, associates and jointly controlled entities expressed in functional 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. Provision

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a present obligation and the amount of obligation can be reliably estimated.

s. 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.

t. 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.

u. Share-based payment

The fair value at grant date of share options granted to directors and employees is expensed on a straight line basis over the relevant vesting periods to the profit and loss account with a corresponding increase in employee share-based compensation reserve. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in the profit and loss account with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited or lapsed, the amount previously recognized in employee share-based compensation reserve will be transferred to retained profits.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

2. 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 derivative financial instruments, impairment loss 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.

3. 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 through the Group's long term investments that are classified as available-for-sale investments. 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 loss 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)

4 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	
	2007	2006	**2007**	2006
Property				
Property sales	**14,242**	10,890	**5,739**	6,885
Rental income	**6,078**	5,659	**4,384**	4,101
	20,320	16,549	**10,123**	10,986
Hotel operation	**799**	734	**232**	223
Telecommunications	**4,039**	3,779	**183**	118
Other businesses	**5,836**	4,536	**1,189**	1,077
	30,994	25,598	**11,727**	12,404
Other income			**516**	535
Unallocated administrative expenses			**(681)**	(625)
Operating profit before change in fair value of investment properties			**11,562**	12,314
Increase in fair value of investment properties			**8,904**	9,110
Operating profit after change in fair value of investment properties			**20,466**	21,424
Net finance costs – Group			**(635)**	(859)
Profit on disposal of long-term investments less impairment loss, net			**36**	176
Profit before taxation			**19,867**	20,741
Taxation			**(4,453)**	(3,655)
Profit after taxation			**15,414**	17,086

Revenue from properties sales includes HK$71 million (2006: HK$14 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, department store and container and cargo handling services.

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. Accordingly, no geographical segment information is presented.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

4 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	
	2007	2006
Property		
Property sales	**1,959**	164
Rental income	**861**	514
	2,820	678
Hotel operation	**117**	18
Other businesses	**199**	293
Operating profit	**3,136**	989
Finance costs	**(279)**	(214)
Profit before taxation and share of increase in fair value of investment properties	**2,857**	775
Share of increase in fair value of investment properties held by associates and jointly controlled entities	**4,114**	2,798
Profit before taxation	**6,971**	3,573
Taxation	**(971)**	(621)
Profit after taxation	**6,000**	2,952

(Expressed in millions of Hong Kong dollars)

4 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	
	2007	2006
Property		
Property sales	**7,698**	7,049
Rental income	**5,245**	4,615
	12,943	11,664
Hotel operation	**349**	241
Telecommunications	**183**	118
Other businesses	**1,388**	1,370
Other income	**516**	535
Unallocated administrative expenses	**(681)**	(625)
Operating profit	**14,698**	13,303
Increase in fair value of investment properties		
– Group	**8,904**	9,110
– Associates and jointly controlled entities	**4,114**	2,798
Net finance costs		
– Group	**(635)**	(859)
– Associates and jointly controlled entities	**(279)**	(214)
Profit on disposal of long-term investments less impairment loss, net	**36**	176
Profit before taxation	**26,838**	24,314
Taxation		
– Group	**(4,453)**	(3,655)
– Associates and jointly controlled entities	**(971)**	(621)
Profit for the year	**21,414**	20,038

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

4 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 2007				
Property				
Development	**56,868**	**5,491**	**62,359**	**(6,146)**
Investment	**147,066**	**13,908**	**160,974**	**(2,409)**
	203,934	**19,399**	**223,333**	**(8,555)**
Hotel operation	**2,836**	**1,450**	**4,286**	**(98)**
Telecommunications	**2,960**	**–**	**2,960**	**(1,741)**
Other businesses	**9,127**	**2,249**	**11,376**	**(2,945)**
	218,857	**23,098**	**241,955**	**(13,339)**
Long-term investments			**6,297**	**–**
Short-term investments			**841**	–
Bank balances and deposits			**7,364**	–
Bank and other borrowings			–	**(33,332)**
Unallocated corporate assets/(liabilities)			**837**	**(1,500)**
Taxation			–	**(3,944)**
Deferred taxation			–	**(16,684)**
Total assets/(liabilities)			**257,294**	**(68,799)**
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)

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

(Expressed in millions of Hong Kong dollars)

4 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	
	2007	2006	**2007**	2006
Property				
Development	**5**	2	**11,658**	13,509
Investment	**6**	5	**6,134**	5,324
	11	7	**17,792**	18,833
Hotel operation	**65**	57	**182**	49
Telecommunications	**533**	542	**390**	360
Other businesses	**448**	425	**355**	74
Unallocated corporate assets	**4**	4	**5**	4
	1,061	1,035	**18,724**	19,320

In addition to the above capital expenditure, the Group also acquired interest in subsidiaries as explained in note 34 (b).

5 NET FINANCE COSTS

	2007	2006
Interest expenses on		
Bank loans and overdrafts	**1,184**	1,149
Other loans wholly repayable within five years	**137**	185
Other loans not wholly repayable within five years	**134**	54
	1,455	1,388
Notional non-cash interest accretion	**76**	67
Less : Portion capitalized	**(624)**	(389)
	907	1,066
Interest income on bank deposits	**(272)**	(207)
	635	859

Interest is capitalized at an average annual rate of approximately 4.37 per cent (2006: 4.28 per cent).

Notional non-cash interest accretion represents notional adjustments to accrete the carrying amount of asset retirement obligations and contractual obligations of telecommunications licence 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)

6 PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS LESS IMPAIRMENT LOSS, NET

	2007	2006
Profit on disposal of interests in jointly controlled entities	–	132
Profit on disposal of available-for-sale investments	60	57
Impairment of available-for-sale investments	(24)	(13)
	36	176

7 PROFIT BEFORE TAXATION

	2007	2006
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	7,250	3,291
Cost of other inventories sold	881	886
Depreciation and amortization of hotel properties	59	54
Depreciation of other properties, plant and equipment	938	923
Amortization of intangible asset (included in cost of sales)	64	58
Impairment of goodwill	9	40
Staff costs (including directors' emoluments and retirement schemes contributions)	2,823	2,461
Auditors' remuneration	12	11
Loss on disposal of other fixed assets	13	4
and crediting:		
Dividend income from:		
listed investments	111	93
unlisted investments	2	23
Interest income from:		
listed debt securities	39	139
unlisted debt securities	2	18
Profit on disposal of marketable securities	34	49
Net holding gain on marketable securities	203	122

(Expressed in millions of Hong Kong dollars)

8 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	2007 Total Emoluments	2006 Total Emoluments
Executive Directors						
Kwok Ping-sheung, Walter	0.14	1.67	0.10	0.15	2.06	2.00
Kwok Ping-kwong, Thomas	0.13	1.58	0.12	0.15	1.98	1.89
Kwok Ping-luen, Raymond	0.24	1.63	0.12	0.15	2.14	2.06
Chan Kai-ming	0.10	2.58	0.20	0.24	3.12	5.97
Chan Kui-yuen, Thomas	0.12	3.40	5.26	0.31	9.09	8.41
Kwong Chun	0.10	2.03	1.63	–	3.76	3.56
Wong Yick-kam, Michael	0.32	3.21	4.80	0.30	8.63	10.48
Wong Chik-wing, Mike	0.10	8.80	4.00	0.61	13.51	12.63
Non-Executive Directors						
Lee Shau-kee	0.11				0.11	0.11
Woo Po-shing	0.10				0.10	0.10
Li Ka-cheung, Eric	0.52				0.52	0.60
Kwan Cheuk-yin, William	0.15				0.15	0.15
Lo Chiu-chun, Clement	0.15				0.15	0.15
Independent Non-Executive Directors						
Chung Sze-yuen	0.46				0.46	0.56
Fung Kwok-king, Victor	0.10				0.10	0.10
Dicky Peter Yip	0.37				0.37	0.45
Wong Yue-chim, Richard	0.21				0.21	0.21
Past Director						
Law King-wan	0.05				0.05	0.10
Total 2007	3.47	24.90	16.23	1.91	46.51	49.53
Total 2006	3.78	23.59	20.36	1.80		

The above analysis included three (2006: three) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2006: two) individuals are:

	2007	2006
Salaries, allowances and benefits in kind	7.67	9.75
Discretionary bonus	11.39	9.97
Retirement scheme contributions	0.61	0.59
	19.67	20.31

(Expressed in millions of Hong Kong dollars)

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

Number of employees whose emoluments fell within:

			2007	2006
Emoluments Band			**Number of**	Number of
HK$M		HK$M	**Employees**	Employees
9.5	–	10.0	**2**	1
10.5	–	11.0	**–**	1
			2	2

9 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 1st 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$142 million (2006: HK$123 million). Forfeited contributions for the year of HK$7 million (2006: HK$7 million) were used to reduce the existing level of contributions.

(Expressed in millions of Hong Kong dollars)

10 TAXATION

	2007	2006
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,568	1,552
(Over)/Under provision in prior years	(3)	5
	1,565	1,557
Tax outside Hong Kong	40	5
Under provision in prior years	4	2
	44	7
	1,609	1,564
Deferred taxation		
Change in fair value of investment properties	2,538	1,994
Other origination and reversal of temporary differences	306	97
	2,844	2,091
	4,453	3,655

(a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2006: 17.5 per cent) based on the estimated assessable profits for the year. Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

(b) Share of associates and jointly controlled entities' taxation of HK$85 million (2006: HK$39 million) and HK$886 million (2006: HK$582 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:

	2007	2006
Profit before share of results of associates, jointly controlled entities and taxation	19,867	20,741
Tax at Hong Kong profits tax rate of 17.5% (2006: 17.5%)	3,477	3,630
Effect of different tax rate of subsidiaries operating outside Hong Kong	1,007	442
Net effect of non-deductible expenses and non-taxable revenue	(136)	(193)
Utilization/recognition of tax losses not previously recognized	(12)	(68)
Tax losses and other temporary differences not recognized	45	(130)
Others	72	(26)
Tax expenses	4,453	3,655

11 DIVIDENDS

	2007	2006
Interim dividend of HK$0.70 per share based on 2,492 million shares (2006: HK$0.70 per share based on 2,401 million shares) paid	1,744	1,681
Proposed final dividend of HK$1.60 per share based on 2,492 million shares (2006: HK$1.50 per share based on 2,491 million shares)	3,987	3,737
	5,731	5,418

(Expressed in millions of Hong Kong dollars)

12 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$21,226 million (2006: HK$19,850 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,491,814,121 (2006: 2,411,924,600). The diluted earnings per share is based on 2,491,816,491,(2006: 2,412,075,082) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 2,370 (2006: 150,482) 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, basic and diluted earnings per share are additionally calculated based on the underlying profits attributable to Company's shareholders of HK$11,495 million (2006: HK$10,468 million) which excluded the effect of fair value changes on investment properties. A reconciliation of profits is as follows:

	2007	2006
Profit attributable to Company's shareholders as shown in the consolidated profit and loss account	**21,226**	19,850
Increase in fair value of investment properties	**(8,904)**	(9,110)
Deferred tax on changes in fair value of investment properties	**2,538**	1,994
Adjustments for realized gains of disposed investment properties	**47**	18
(Decrease)/increase in fair value of investment properties net of deferred tax attributable to minority interests	**(28)**	21
Share of increase in fair value of investment properties net of deferred tax of associates and jointly controlled entities	**(3,384)**	(2,305)
Underlying profit attributable to Company's shareholders	**11,495**	10,468

(Expressed in millions of Hong Kong dollars)

13 INVESTMENT PROPERTIES

The Group

(a) Movement during year

Valuation	
At 1 July 2005	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 and 1 July 2006	116,733
Additions	**1,883**
Transfer in	**6,986**
Disposals	**(80)**
Transfer out	**(12)**
Exchange difference	**729**
Increase in fair value	**8,904**
At 30 June 2007	**135,143**

(b) Valuation of properties shown above comprises:

	2007	2006
Properties in Hong Kong held under		
Long lease (not less than 50 years)	**23,259**	22,123
Medium-term lease (less than 50 years but not less than ten years)	**94,935**	86,680
Properties outside Hong Kong held under		
Long lease (not less than 50 years)	**713**	616
Medium-term lease (less than 50 years but not less than ten years)	**16,236**	7,314
	135,143	116,733

(c) Investment properties revaluation

The Group's investment properties and land value of properties under development have been revalued as at 30 June 2007 by Knight Frank Petty Limited on a market value basis by reference to market evidence of transaction prices for similiar properties.

(d) Loss on disposal of the Group's investment properties during the year amounted to HK$9 million (2006: HK$2 million).

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

14 FIXED ASSETS

	Hotel Properties	Properties under Development	Other Properties	Network Equipment	Toll Road	Other Fixed Assets	Total
The Group							
(a) Movement during year							
Cost							
At 1 July 2005	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 and 1 July 2006	3,169	5,950	2,406	2,811	5,268	2,086	21,690
Acquired on acquisition of subsidiaries	**–**	**–**	**118**	**–**	**–**	**9**	**127**
Additions	**161**	**4,177**	**28**	**329**	**–**	**367**	**5,062**
Transfer in	**532**	**639**	**–**	**–**	**–**	**–**	**1,171**
Disposals	**–**	**–**	**–**	**(35)**	**–**	**(153)**	**(188)**
Transfer out	**–**	**(1,087)**	**–**	**–**	**–**	**–**	**(1,087)**
Exchange difference	**–**	**44**	**–**	**–**	**–**	**2**	**46**
At 30 June 2007	**3,862**	**9,723**	**2,552**	**3,105**	**5,268**	**2,311**	**26,821**
Accumulated depreciation							
At 1 July 2005	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 and 1 July 2006	1,079	–	788	1,028	386	1,236	4,517
Charge for the year	**59**	**–**	**79**	**404**	**258**	**197**	**997**
Disposals	**–**	**–**	**–**	**(22)**	**–**	**(147)**	**(169)**
At 30 June 2007	**1,138**	**–**	**867**	**1,410**	**644**	**1,286**	**5,345**
Net book value at 30 June 2007	**2,724**	**9,723**	**1,685**	**1,695**	**4,624**	**1,025**	**21,476**
Net book value at 30 June 2006	2,090	5,950	1,618	1,783	4,882	850	17,173

(Expressed in millions of Hong Kong dollars)

14 FIXED ASSETS (cont'd)

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

	2007	2006
Properties in Hong Kong held under		
Long lease (not less than 50 years)		
Hotel properties	**798**	811
Properties under development	**3**	–
Other properties	**378**	391
	1,179	1,202
Medium-term lease (less than 50 years but not less than ten years)		
Hotel properties	**1,926**	1,279
Properties under development	**8,454**	5,403
Other properties	**1,307**	1,227
	11,687	7,909
Properties outside Hong Kong held under		
Medium-term lease (less than 50 years but not less than ten years)		
Properties under development	**1,266**	547
	14,132	9,658

(c) The carrying amount of properties under development as at 30 June 2007 included interest capitalized in the amount of HK$1,615 million (2006: HK$1,055 million).

15 SUBSIDIARIES

The Company

	2007	2006
Unlisted shares, at cost	**30,074**	30,074

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

16 ASSOCIATES

The Group

	2007	2006
Unlisted shares, at cost less impairment loss	**28**	28
Hong Kong listed shares, at cost	**585**	585
Share of post acquisition reserves	**2,473**	1,140
	3,086	1,753
Amounts due from associates	**328**	349
	3,414	2,102
Market value of Hong Kong listed shares	**5,263**	5,302

(Expressed in millions of Hong Kong dollars)

16 ASSOCIATES (cont'd)

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

	2007	2006
Non-current assets	**3,479**	3,286
Current assets	**2,639**	1,106
Current liabilities	**(1,432)**	(773)
Non-current liabilities	**(1,600)**	(1,866)
Net assets	**3,086**	1,753
Revenue	**4,406**	2,282
Fair value change of investment properties net of related deferred tax	**–**	14
Profit for the year	**1,610**	191

Particulars regarding principal associates are set out on page 172.

17 JOINTLY CONTROLLED ENTITIES

The Group

	2007	2006
Unlisted shares, at cost less impairment loss	**778**	898
Share of post acquisition reserves	**9,553**	5,495
	10,331	6,393
Amounts due from jointly controlled entities	**9,353**	15,551
	19,684	21,944

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

	2007	2006
Non-current assets	**35,766**	34,297
Current assets	**15,207**	8,544
Current liabilities	**(2,182)**	(6,196)
Non-current liabilities	**(38,460)**	(30,252)
Net assets	**10,331**	6,393
Revenue	**2,962**	2,727
Fair value change of investment properties net of related deferred tax	**3,384**	2,291
Profit for the year	**4,390**	2,761

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

(Expressed in millions of Hong Kong dollars)

18 LONG-TERM INVESTMENTS

The Group

	2007	2006
Held-to-maturity debt securities		
Listed debt securities, overseas	–	32
Available-for-sale debt securities		
Listed debt securities, overseas	745	137
Available-for-sale equity securities		
Listed equity securities, overseas	802	527
Listed equity securities, Hong Kong	4,147	2,133
Unlisted equity securities	603	543
	5,552	3,203
	6,297	3,372
Amounts due from investee companies	–	7
	6,297	3,379
Market value		
Listed overseas	1,547	695
Listed in Hong Kong	4,147	2,133
	5,694	2,828

19 LOAN RECEIVABLES

The Group

	2007	2006
Mortgage loan receivables	1,164	1,444
Less: Amount due within one year included under current assets	(44)	(47)
	1,120	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.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

20 INTANGIBLE ASSET

The Group

At 1 July 2005	643
Additions	47
Amortization	(58)
At 30 June 2006 and 1 July 2006	632
Additions	**66**
Amortization	**(64)**
At 30 June 2007	**634**

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

21 PROPERTIES FOR SALE

The Group

	2007	2006
Properties pending development for sale	**26,919**	17,910
Properties under development for sale	**17,846**	19,222
Stock of completed properties for sale	**4,031**	7,683
	48,796	44,815

22 DEBTORS, PREPAYMENT AND OTHERS

		2007		2006	
	Notes	The Group	The Company	The Group	The Company
Materials		**174**	**–**	165	–
Debtors, deposits and prepayments		**12,101**	**7**	8,748	9
Deposits for acquisition of properties		**42**	**–**	4,351	–
Amounts due from customers for contract works	22a	**82**	**–**	46	–
Short-term loans		**102**	**–**	117	–
Interest rate swaps	22b	**24**	**–**	37	–
		12,525	**7**	13,464	9

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$10,341 million (2006: HK$7,417 million), of which 98 per cent aged less than 60 days, one per cent between 61 to 90 days and one per cent more than 90 days (2006: 96 per cent, two per cent and two per cent, respectively).

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

(Expressed in millions of Hong Kong dollars)

22 DEBTORS, PREPAYMENT AND OTHERS (cont'd)

22a. Amounts due from/(to) customers for contract works

The Group

	Notes	2007	2006
Contract costs incurred plus recognized profits less recognized losses		**626**	2,714
Less: Progress billings		**(576)**	(2,679)
		50	35
Represented by:			
Due from customers included in current assets	22	**82**	46
Due to customers included in current liabilities	27	**(32)**	(11)
		50	35

22b. Financial derivative instruments

		2007		2006	
	Notes	**Assets**	**Liabilities**	Assets	Liabilities
Fair value hedges	22 & 27				
– interest rate swaps		**23**	**56**	37	92
– currency swaps		**1**	**–**	–	–
		24	**56**	37	92

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	
	2007	2006
Fixed-to-floating interest rate swaps maturing		
Within one year	**300**	550
After one year, but within five years	**650**	950
After five years	**1,950**	1,950
	2,900	3,450
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 0.33% (2006: 0.37%) per annum. Increase in fair value of the swaps during the year in the amount of HK$23 million (2006: decrease 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.

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

23 AMOUNT DUE FROM A SUBSIDIARY

The Company

Amount due from a subsidiary is interest free and repayable on demand.

24 SHORT-TERM INVESTMENTS

The Group

	2007	2006
Marketable securities, at market value		
Listed equity securities, Hong Kong	710	495
Listed equity securities, overseas	61	174
	771	669
Held-to-maturity debt securities maturing within one year, at amortized cost		
Listed debt securities, overseas (Market value: 31million (2006: Nil))	31	–
Unlisted debt securities	–	660
	31	660
Available-for-sale debt securities maturing within one year		
Listed debt securities, Hong Kong	–	16
Listed debt securities, overseas	39	–
Unlisted debt securities	–	8
	39	24
	841	1,353

25 BANK BALANCES AND DEPOSITS

	2007		2006	
	The Group	The Company	The Group	The Company
Bank deposits	6,755	–	7,423	–
Bank balances and cash	609	–	383	3
	7,364	–	7,806	3

Deposits with banks in the consolidated balance sheet are interest bearing at prevailing market rates.

(Expressed in millions of Hong Kong dollars)

26 BANK AND OTHER BORROWINGS

		2007		2006	
	Note	The Group	The Company	The Group	The Company
Unsecured bank overdrafts		65	4	80	–
Non-current bank and other borrowings due within one year	28	708	–	2,870	–
		773	4	2,950	–

27 TRADE AND OTHER PAYABLES

		2007		2006	
	Notes	The Group	The Company	The Group	The Company
Creditors and accrued expenses		12,747	20	10,673	20
Amounts due to customers for contract works	22a	32	–	11	–
Amount due to minority shareholders		1,301		1,340	
Interest rate swaps	22b	56	–	92	–
		14,136	20	12,116	20

Included in trade and other payables of the Group are trade creditors of HK$986 million (2006: HK$767 million), of which 63 per cent aged less than 60 days, four per cent between 61 to 90 days and 33 per cent more than 90 days (2006: 68 per cent, four per cent and 28 per cent, respectively).

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

(Expressed in millions of Hong Kong dollars)

28 BANK AND OTHER BORROWINGS

The Group

	Note	2007	2006
Secured bank loans repayable			
Within one year		132	200
After one year, but within two years		144	220
After two years, but within five years		552	810
After five years		621	673
		1,449	1,903
Unsecured bank loans repayable			
Within one year		273	2,016
After one year, but within two years		4,875	1,288
After two years, but within five years		19,149	21,184
After five years		688	37
		24,985	24,525
Other unsecured loans repayable			
Within one year		303	654
After one year, but within two years		410	307
After two years, but within five years		1,884	908
After five years		4,236	1,860
		6,833	3,729
		33,267	30,157
Less : Amount due within one year included under current liabilities	26	(708)	(2,870)
		32,559	27,287

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:

	Carrying amount		Fair value	
	2007	2006	2007	2006
Secured bank loans	1,317	1,703	1,317	1,703
Unsecured bank loans	24,712	22,509	24,712	22,509
Other unsecured loans	6,530	3,075	6,491	3,075
	32,559	27,287	32,520	27,287

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

As at 30 June 2007, 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 22b).

(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 March 2017. About 85% 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)

29 DEFERRED TAXATION

The Group

	2007	2006
Deferred tax assets	(250)	(349)
Deferred tax liabilities	16,934	14,118
	16,684	13,769

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 2005	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 and 1 July 2006	1,929	12,753	27	(834)	(106)	13,769
On acquisition of subsidiaries	1	–	–	–	7	8
Charged to profit and loss accounts	85	2,538	–	138	83	2,844
Exchange difference	19	49	–	(5)	–	63
At 30 June 2007	2,034	15,340	27	(701)	(16)	16,684

At the balance sheet date, the Group has unrecognized tax losses and deductible temporary differences of HK$4,365 million (2006: HK$4,548 million), of which HK$35 million (2006: HK$85 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)

30 OTHER LONG–TERM LIABILITIES

The Group

	2007	2006
Asset retirement obligations	47	38
Contractual obligations for telecommunications licences	650	573
	697	611

31 SHARE CAPITAL

	2007		2006	
	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	2,491	1,246	2,401	1,201
Private placement	–	–	89	44
774,000 (2006: 1,032,000) shares issued on exercise of share options	1	–	1	1
At end of year	2,492	1,246	2,491	1,246

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 on 12 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.

(Expressed in millions of Hong Kong dollars)

32 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 98 to 99.

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 2007, no options remained outstanding. At 30 June 2006, the number of shares in respect of which options had been granted and remained outstanding was 810,000, representing 0.03 per cent of the shares in the Company in issue at that date.

The New Scheme

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

(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 2006**	**Granted During the Year**	**Exercised During the Year**	**Lapsed During the Year**	**At 30 June 2007**
16 July 2001	**HK$70**	**16 July 2002 to 15 July 2006**	**810,000**	**–**	**(774,000)**	**(36,000)**	**–**
			810,000	**–**	**(774,000)**	**(36,000)**	**–**

			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 July 2002 to 15 July 2006	1,842,000	–	(1,032,000)	–	810,000
			1,842,000	–	(1,032,000)	–	810,000

(Expressed in millions of Hong Kong dollars)

32 SHARE OPTION SCHEME (cont'd)

(ii) Details of share options exercised during the year ended 30 June 2007 are as follows:

Exercise Date	Exercise Price	Market Value per Share at Exercise Date	Number of Share Option	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
			774,000	54

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

(Expressed in millions of Hong Kong dollars)

33 SHARE PREMIUM AND RESERVES

The Company

	Share Premium	Capital reserve	Retained profits	Total
At 1 July 2005	17,009	5,281	63,965	86,255
Premium arising from exercise of share options	71	–	–	71
Premium on private placement less expenses	7,793	–	–	7,793
Profit for the year	–	–	6,331	6,331
Interim dividend paid	–	–	(1,681)	(1,681)
Final dividend paid	–	–	(3,602)	(3,602)
At 30 June 2006 and 1 July 2006	24,873	5,281	65,013	95,167
Premium arising from exercise of share options	**54**	**–**	**–**	**54**
Profit for the year	**–**	**–**	**6,060**	**6,060**
Interim dividend paid	**–**	**–**	**(1,744)**	**(1,744)**
Final dividend paid	**–**	**–**	**(3,737)**	**(3,737)**
At 30 June 2007	**24,927**	**5,281**	**65,592**	**95,800**

(Expressed in millions of Hong Kong dollars)

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from/(used in) operations

	2007	2006
Operating profit	**11,562**	12,314
Depreciation and amortization	**1,061**	1,035
Impairment of goodwill	**9**	40
Loss on disposal of investment properties	**9**	2
Loss on disposal of other fixed assets	**13**	4
Share–based payment expenses	**1**	5
Dividends received from investments	**(113)**	(116)
Impairment of properties	**379**	–
Interest income	**(96)**	(178)
Exchange difference	**8**	(2)
Operating profit before changes in working capital	**12,833**	13,104
Decrease in properties for sale	**4,784**	534
Additions to properties pending development for sale	**(11,658)**	(9,094)
Increase in debtors, prepayment and others	**(3,375)**	(4,586)
Increase in marketable securities	**(102)**	(65)
Increase/(decrease) in trade and other payables	**1,951**	(132)
Decrease in deposits received on sale of properties	**(13)**	(706)
Cash generated from/(used in) operations	**4,420**	(945)

(b) Purchase of subsidiaries

In July 2006, the Group acquired an additional 50% interest in Hoi Kong Container Services Company Limited and Faith & Safe Transportation Limited raising its total interest to 100%. In the period to 30 June 2007, the acquired subsidiaries contributed HK$294 million to the Group's revenue and HK$22 million to the profit attributable to Company's shareholders.

If the acquisitions had been completed on 1 July 2006, total group revenue and profit attributable to Company's shareholders would not be significantly different from that reported in consolidated profit and loss account.

(Expressed in millions of Hong Kong dollars)

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) **Purchase of subsidiaries (cont'd)**

The cash flow and net assets acquired are as follows:

	2007 Book Value	2007 Fair Value	2006 Fair Value
Net assets acquired:			
Investment properties	–	–	2,993
Fixed assets	88	127	13
Deposit for acquisition of properties	–	–	4,333
Debtors, prepayment and others	70	70	9
Cash and bank balances	1	1	99
Trade and other payables	(47)	(47)	(77)
Taxation	–	–	(2)
Bank and other borrowings	(3)	(3)	(1,260)
Deferred tax liabilities	(1)	(8)	(172)
	108	140	5,936
Less:			
Minority interests		–	(914)
Interest in jointly controlled entities		(54)	(1,560)
Goodwill on acquisition		–	4
		86	3,466
Satisfied by:			
Cash paid		86	2,484
Deferred consideration		–	982
		86	3,466

	2007	2006
Analysis of net cash inflow in respect of the purchase of subsidiaries:		
Cash consideration paid	86	2,484
Cash and bank balances acquired	(1)	(99)
	85	2,385

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

	2007	2006
Bank deposits	6,755	7,423
Bank balances and cash	609	383
Bank overdrafts	(65)	(80)
	7,299	7,726
Less: Pledged bank deposits	(324)	(320)
	6,975	7,406

(Expressed in millions of Hong Kong dollars)

35 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 :

	2007	2006
Investment properties	**6,292**	5,623
Properties under development	**1**	–
Properties pending development for sale	**–**	137
Properties under development for sale	**208**	117
Stocks of completed properties for sale	**144**	146
	6,645	6,023
Trade and other payables	**174**	174

36 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**	
	2007	2006	**2007**	2006
Interest income	**1**	1	**98**	96
Rental income	**6**	6	**1**	2
Rental expenses	**–**	–	**23**	18
Other revenue from services rendered	**640**	538	**33**	139
Purchase of goods and services	**–**	–	**150**	200
Acquisition of properties	**–**	106	**–**	–

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in notes 16 and 17.

(Expressed in millions of Hong Kong dollars)

37 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 :

	2007	2006
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	**8,876**	5,345
Authorized but not contracted for	**490**	563
(b) Capital commitments in respect of investments		
Contracted but not provided for	**4**	11
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	**1,800**	3
Authorized but not contracted for	**–**	7

(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK$3,400 million (2006: HK$5,300 million) and other guarantees of HK$2 million (2006: 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:

	2007	2006
Subsidiaries	**31,806**	30,144
Jointly controlled entities	**3,400**	5,300
	35,206	35,444

38 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:

	2007	2006
Not later than one year	**4,804**	4,331
Later than one year but not later than five years	**3,860**	3,195
Later than five years	**249**	98
	8,913	7,624

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

	2007	2006
Not later than one year	**338**	294
Later than one year but not later than five years	**226**	242
Later than five years	**28**	35
	592	571

Notes to the Financial Statements

(Expressed in millions of Hong Kong dollars)

39 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$324 million (2006: HK$320 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$4,656 million (including bank balance of HK$7 million) have been charged to secure its bank borrowings (2006: HK$4,962 million (including bank balance of HK$9 million)).

40 COMPARATIVE FIGURES

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

41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 124 to 172 were approved by the board of directors on 13 September 2007.