1. General

The Company is a public limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is Henderson Land Development Company Limited, a public limited liability company also incorporated in Hong Kong with its shares listed on the Stock Exchange. Its ultimate holding company is Henderson Development Limited, a private limited liability company incorporated in Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are property development and investment, investment holding, infrastructure, department store operation, security guard services, hotel operation and information technology development.

The address of the registered office and the principal place of business of the Company is disclosed in the corporate information of the annual report.

The financial statements are presented in Hong Kong dollars. The Company's functional currency is mainly Hong Kong dollars, while the functional currency of the subsidiaries registered in the People's Republic of China (the "PRC") is Renminbi.

2. Application of new and revised Hong Kong financial reporting standards/changes in accounting policies

In the current year, the Group and the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, balance sheets and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed. The changes in presentation have been applied retrospectively.

As disclosed in the financial statements for the year ended 30 June 2005, the Group had elected early adoption on HKAS 40 *Investment property*, HK Int 21 *Income taxes – Recovery of revalued non-depreciable assets* and HK Int 1 *The appropriate accounting policies for infrastructure facilities*. In current year, the Group has adopted, where relevant, all remaining new and revised HKFRSs that are currently in issue and effective for the financial year beginning on 1 July 2005.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied the transitional provisions of HKFRS 3 Business combinations to goodwill acquired in business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions of associates prior to 1 January 2005 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously included in interests in associates amounted to HK$1,272.2 million, the Group has continued amortising such goodwill till 30 June 2005 and discontinued amortising such goodwill from 1 July 2005 onwards. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses, if any, after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures have not been re-stated (see note 3 for the financial impact).

Discount on acquisition (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1 January 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. The Group has applied the relevant transitional provisions in HKFRS 3 and derecognised negative goodwill on 1 July 2005 of HK$118.9 million previously presented as a deduction from interests in associates, with a corresponding increase in retained profits as at 1 July 2005.

Non-current assets held for sale and discontinued operations

HKFRS 5 *Non-current assets held for sale and discontinued operations* requires non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets (or disposal group) are available for immediate sale in its present condition.

2. Application of new and revised Hong Kong financial reporting standards/changes in accounting policies *(cont'd)*

Non-current assets held for sale and discontinued operations (cont'd)

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amounts and fair values less costs to sell.

The transitional provisions of HKFRS 5 applied prospectively. Accordingly, the Group shall not reclassify or re-present amount presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the consolidated balance sheet for prior years.

Hotel properties

In previous years, hotel properties of the Group were carried at revalued amounts and no depreciation was provided on hotel properties held on leases of more than twenty years. It was the Group's practice to maintain its hotel properties in a continual state of sound repairs and maintenance. In the current year, the Group has applied HKAS 16 *Property, plant and equipment*. HKAS 16 requires the residual value of the hotel properties to be measured as the amount the Group would currently obtain from disposal of the hotel properties, after deducting the estimated costs of disposal, if the hotel properties were already of the age and in the condition expected at the end of their respective useful lives.

Upon application of HKAS 16 and Hong Kong Interpretation 2 *The appropriate policies for hotel properties* (which was withdrawn during the year), the Group reviewed the residual values of its hotel properties, depreciation is provided on hotel properties and these changes are accounted for as a change in accounting policy in accordance with HKAS 8 *Accounting policies, changes in accounting estimates and errors*. Deferred taxation relating to hotel properties has also been re-stated. Comparative figures have been re-stated (see note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, and properties held for development were stated at the cost of acquisition to the Group together with any attributable expenses less any identified impairment losses, where appropriate. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial instruments: Disclosure and presentation* and HKAS 39 *Financial instruments: Recognition and measurement*. HKAS 32 requires retrospective application. The application of HKAS 32 has no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 30 June 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 July 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are 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 values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

2. Application of new and revised Hong Kong financial reporting standards/changes in accounting policies *(cont'd)*

Financial instruments (cont'd)

Financial assets and financial liabilities other than debt and equity securities

From 1 July 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are 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 liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss ("other financial liabilities")". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The application of HKAS 39 has had no material effect on the results of the previous and current years.

Interests in associates

During the year, the associates of the Group applied a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005, certain of which require retrospective application. Comparative figures have been re-stated (see note 3 for the financial impact).

3. Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior year are as follows:

	2006		
	HKAS 16 & HKAS 17 HK$ million	**HKFRS 3 HK$ million**	**Total HK$ million**
Increase in depreciation and amortisation	**(8.5)**	**—**	**(8.5)**
Increase in share of results of associates	**10.4**	**—**	**10.4**
Decrease in amortisation of goodwill	**—**	**74.1**	**74.1**
Decrease in negative goodwill released to income	**—**	**(6.3)**	**(6.3)**
Decrease in deferred tax	**0.8**	**—**	**0.8**
Increase in profit	**2.7**	**67.8**	**70.5**

	2005
	HKAS 16 & HKAS 17 HK$ million
Increase in depreciation and amortisation (included in administrative expenses)	(8.6)
Increase in share of results of associates	10.1
Decrease in deferred tax (included in taxation)	1.0
Increase in profit	2.5

3. Summary of the effects of the changes in accounting policies *(cont'd)*

The cumulative effects of the application of the new HKFRSs as at 30 June 2005 and 1 July 2005 are summarised below:

	At 30 June 2005 originally stated HK$ million	Effect of HKAS 1 HK$ million	Effect of HKAS 16 & HKAS 17 HK$ million	At 30 June 2005 re-stated HK$ million	Effect of HKAS 39 HK$ million	Effect of HKFRS 3 HK$ million	At 1 July 2005 re-stated HK$ million
Property, plant and equipment	1,274.0	—	(588.3)	685.7	—	—	685.7
Prepaid lease payments	—	—	82.3	82.3	—	—	82.3
Interests in associates	14,556.8	—	(841.2)	13,715.6	—	118.9	13,834.5
Investments in securities	241.6	—	—	241.6	(241.6)	—	—
Held-to-maturity investments	—	—	—	—	11.5	—	11.5
Available-for-sale investments	—	—	—	—	230.1	—	230.1
Deferred tax liabilities	(565.8)	—	11.1	(554.7)	—	—	(554.7)
Total effects on assets and liabilities		—	(1,336.1)		—	118.9	
Property valuation reserve	1,313.8	—	(1,313.8)	—	—	—	—
Retained profits	14,381.2	—	(22.3)	14,358.9	—	118.9	14,477.8
Minority interests	—	744.8	—	744.8	—	—	744.8
Total effects on equity		744.8	(1,336.1)		—	118.9	
Minority interests	744.8	(744.8)	—	—	—	—	—

The financial effects of the application of the new HKFRSs to the Group's equity at 1 July 2004 are summarised below:

	As originally stated HK$ million	Effect of HKAS 16 & HKAS 17 HK$ million	As re-stated HK$ million
Property revaluation reserve	1,294.0	(1,294.0)	—
Retained profits	11,664.9	(24.8)	11,640.1

The Group and the Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group and the Company, except for HKAS 39 and HKFRS 4 (Amendments) which require all financial guarantee contract to be initially measured at fair value. The directors consider the impact resulting from this amendment cannot be reasonably estimated as at the balance sheet date.

3. Summary of the effects of the changes in accounting policies *(cont'd)*

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

1 *Effective annual periods beginning on or after 1 January 2007.*

2 *Effective annual periods beginning on or after 1 January 2006.*

3 *Effective annual periods beginning on or after 1 December 2005.*

4 *Effective annual periods beginning on or after 1 March 2006.*

5 *Effective annual periods beginning on or after 1 May 2006.*

6 *Effective annual periods beginning on or after 1 June 2006.*

4. Significant accounting policies

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with new HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. 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. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. Significant accounting policies *(cont'd)*

Acquisition of additional interest in a subsidiary

When the Group increases its interest in an enterprise that is already an entity controlled by the Company, goodwill arising on such acquisition represents the difference between the consideration paid for the additional interest and the book value of the net assets of the subsidiary attributable to the additional interest acquired.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves and will be charged to the retained profits at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 July 2001 with agreement dated before 31 December 2004 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the interests in associates. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill arising on acquisitions for which the agreement date is on or after 1 January 2005, represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition, is initially recognised as an asset at cost and is subsequently measured at cost less impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

As goodwill arising from the acquisition of associates is included in the carrying amount of an investment in an associate and which is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in HKAS 36 Impairment of assets. Instead, the entire carrying amount of the investment in an associate is tested under HKAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in HKAS 39 indicates that the investment may be impaired. In determining the value in use of the investment, the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

On subsequent disposal of a subsidiary and an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 2 above, the discount on acquisitions arising on acquisition of associates as at 1 July 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Revenue recognition

Revenue is measured at the fair values of the consideration received or receivable.

Income from the sale of completed properties is recognised upon the execution of a binding sale agreement. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received, if any.

4. Significant accounting policies *(cont'd)*

Revenue recognition (cont'd)

The fixed portion of rental income under operating leases is recognised on a straight-line basis over the respective lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term. Contingent rent, which is determined based on a factor other than just the passage of time, is recognised when the Group's entitlement to receive payment has been established in accordance with the terms of the agreements.

Sale of goods from the retail business is recognised when goods are delivered and title of goods passes to the purchaser.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment income and dividend income from investments are recognised when the rights to receive payment have been established.

Income from hotels and restaurants and management services are recognised when the relevant services are provided.

Income from security guard services/consultancy service and commission income are recognised when services are provided.

Toll fee income is recognised on a cash receipt basis.

Income from customer use of data centre services is recognised on a straight-line basis over the terms of the respective leases.

Revenue from the provision of internet and telecommunication services is recognised at the time when the services are rendered.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled assets

Where a group company undertakes its activities under joint venture arrangements directly constituted as jointly controlled assets, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of 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 jointly controlled assets, together with its share of joint venture expenses are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

4. Significant accounting policies *(cont'd)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset is included in the profit or loss in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Toll highway operation rights

Toll highway operation rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses.

Amortisation are provided to write off the cost of toll highway operation rights using the straight-line method over the operating periods ranging from 25 years to 33 years.

Toll highway operation rights are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising from derecognition of toll highway operation rights using the straight-line method are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and released to income statement over the lease term on a straight-line basis.

Inventories

Goods for retails, catering stocks and trading goods

Goods for retails, catering stocks and trading goods are stated at the lower of cost and net realisable value. Costs, which comprise all costs of purchase, are calculated on the weighted average cost method.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes interest, finance charges, professional fees and other direct costs attributable to such properties until they reach a marketable state. Net realisable value is calculated as the estimated selling price less all costs to completion and costs to be incurred in marketing and selling.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. Significant accounting policies *(cont'd)*

Financial instruments (cont'd)

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, amounts due from subsidiaries, associates, minority shareholders and investee companies, bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

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

For available-for-sale equity 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 losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

The Group's financial liabilities including creditors, amounts due to subsidiaries, associates and minority shareholders and borrowings are subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. Significant accounting policies *(cont'd)*

Financial instruments (cont'd)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Impairment – other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Development costs

Research and development costs, including website/portal development costs, are charged to the profit or loss as incurred, except in so far as those product development costs that relate to a clearly defined project and the future benefits therefrom are reasonably assured. Such development costs are then deferred and amortised on a straight-line basis written off over the life of the project from the date of commencement of commercial operation.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement schemes and mandatory provident fund scheme are charged as an expense as they fall due.

4. Significant accounting policies *(cont'd)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. Critical accounting judgments and key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value in uses calculation. This calculation requires the use of estimation on future operating cash flows and discount rate adopted in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Fair value of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the method of valuation is reflective of the current market conditions.

6. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, debtors, instalments receivable, bank balances and cash, creditors, amounts due from/to related parties and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Cash flow interest rate risk

The Group's interest rate risk relates primarily to variable-rate bank borrowings which exposed the Group to cash flow interest rate risk (see note 30). The Group currently does not have an interest rate hedging policy. However, the management monitors closely the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's financing and treasury activities were managed centrally at the corporate level. Banking facilities obtained by the Group to finance its Hong Kong operations were mainly denominated in Hong Kong dollars. The Group bank loans are mainly related to the infrastructure projects in the PRC, and which are denominated in Renminbi. The use of financial derivative instruments is strictly controlled and is solely for management of the Group's foreign currency exchange rate exposures in connection with its borrowings. As a whole, the core operations of the Group can be considered as not exposed to foreign exchange rate risk to any significant extent and the Group did not enter into any currency hedging agreement in the current year.

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30 June 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high-credit-ratings assigned by international credit rating agencies.

In order to minimise the credit risk, the management of the Company has also closely monitored the receivable due from the associates and investee companies and implemented monitoring procedures to ensure that follow-up action is taken to recover the outstanding balances.

Other than the above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The objective of the Group is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings and advances from related parties. In addition, banking facilities have been put in place for general funding purposes.

7. Turnover

	2006 HK$ million	2005 HK$ million
Hotel operation	**95.3**	99.3
Information technology services income	**56.8**	83.8
Rental income	**613.8**	609.8
Sale of properties	**3.6**	1.6
Security guard services	**64.8**	98.5
Toll fee income	**136.4**	235.5
Others	**176.4**	165.9
	1,147.1	1,294.4

8. Business and geographical segments

Business segments

The business upon which the Group reports its primary segment information is as follows:

Property leasing	—	property rental
Hotel operation	—	hotel operation and management
Infrastructure	—	infrastructure project investment
Others	—	investment holding, sale of properties, provision of cleaning and security guard services, department store operation and management, retail business and provision of information technology services

Segment information about these businesses is presented below:

2006

	Property leasing HK$ million	**Hotel operation HK$ million**	**Infrastructure HK$ million**	**Others HK$ million**	**Eliminations HK$ million**	**Consolidated HK$ million**
Income and results						
Turnover	**613.8**	**95.3**	**136.4**	**301.6**	**—**	**1,147.1**
Other income	**3.8**	**0.2**	**1.0**	**3.4**	**—**	**8.4**
External income	**617.6**	**95.5**	**137.4**	**305.0**	**—**	**1,155.5**
Inter-segment income	**19.8**	**—**	**—**	**6.6**	**(26.4)**	**—**
Total income	**637.4**	**95.5**	**137.4**	**311.6**	**(26.4)**	**1,155.5**

Inter-segment sales were charged at prices determined by management with reference to market prices.

Segment results	**1,344.3**	**35.6**	**81.8**	**(170.9)**	**—**	**1,290.8**
Interest income	**—**	**—**	**9.9**	**114.3**	**—**	**124.2**
Dividend income from listed investments	**—**	**—**	**—**	**6.7**	**—**	**6.7**
Profit for the year of disposal group	**—**	**—**	**11.2**	**—**	**—**	**11.2**
Unallocated corporate expenses						**(32.0)**
Finance costs						**(10.0)**
Share of results of associates						**2,489.1**
Profit before taxation						**3,880.0**
Taxation						**(184.9)**
Profit for the year						**3,695.1**

8. Business and geographical segments *(cont'd)*

Business segments (cont'd)

2006

	Property leasing HK$ million	Hotel operation HK$ million	Infrastructure HK$ million	Others HK$ million	Consolidated HK$ million
Balance sheet					
Assets					
Segment assets	6,316.7	276.4	1,214.5	451.5	8,259.1
Interests in associates					16,243.0
Amounts due from associates					46.1
Unallocated corporate assets					5,328.7
Consolidated total assets					29,876.9
Liabilities					
Segment liabilities	87.0	23.0	270.5	124.2	504.7
Amounts due to associates					0.8
Unallocated corporate liabilities					1,091.3
Consolidated total liabilities					1,596.8
Other information					
Capital additions	—	0.8	11.1	16.5	28.4
Amortisation of toll highway operation rights	—	—	15.6	—	15.6
Depreciation	—	8.5	20.5	24.1	53.1
Impairment loss on debtors	0.4	0.6	—	0.3	1.3
Impairment loss on available-for-sale investments	—	—	—	0.3	0.3
Impairment loss on property, plant and equipment	—	—	—	4.5	4.5
Impairment loss on goodwill arising from acquisition of additional interests in subsidiaries	—	—	—	161.8	161.8
Loss on disposal of property, plant and equipment	—	—	—	7.8	7.8
Release of prepaid lease payments	—	1.1	—	0.6	1.7

8. Business and geographical segments *(cont'd)*

Business segments (cont'd)

2005

	Property leasing HK$ million	Hotel operation HK$ million	Infrastructure HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated re-stated HK$ million
Income and results						
Turnover	609.8	99.3	235.5	349.8	—	1,294.4
Other income	4.6	0.1	1.9	2.2	—	8.8
External income	614.4	99.4	237.4	352.0	—	1,303.2
Inter-segment income	26.3	—	—	3.6	(29.9)	—
Total income	640.7	99.4	237.4	355.6	(29.9)	1,303.2

Inter-segment sales were charged at prices determined by management with reference to market prices.

	Property leasing HK$ million	Hotel operation HK$ million	Infrastructure HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated re-stated HK$ million
Segment results	1,229.0	28.4	152.1	(4.4)	—	1,405.1
Interest income	—	—	10.8	42.0	—	52.8
Dividend income from listed investments	—	—	—	5.4	—	5.4
Dividend income from unlisted investments	—	—	—	4.7	—	4.7
Unrealised holding gain on investments in securities	—	—	—	26.0	—	26.0
Unallocated corporate expenses						(30.9)
Finance costs						(13.0)
Share of results of associates						2,392.1
Amortisation of goodwill						(74.1)
Negative goodwill released to income						6.3
Profit before taxation						3,774.4
Taxation						(201.0)
Profit for the year						3,573.4

8. Business and geographical segments *(cont'd)*

Business segments (cont'd)

2005

	Property leasing HK$ million	Hotel operation HK$ million	Infrastructure HK$ million	Others HK$ million	Consolidated re-stated HK$ million
Balance sheet					
Assets					
Segment assets	5,255.0	279.1	1,253.6	431.7	7,219.4
Interests in associates					13,715.6
Amounts due from associates					42.0
Unallocated corporate assets					3,015.4
Consolidated total assets					23,992.4
Liabilities					
Segment liabilities	79.2	18.6	20.1	150.3	268.2
Amounts due to associates					2.5
Unallocated corporate liabilities					1,460.4
Consolidated total liabilities					1,731.1
Other information					
Capital additions	0.1	1.9	1.6	19.3	22.9
Amortisation of toll highway operation rights	—	—	34.7	—	34.7
Depreciation	—	8.1	20.7	28.9	57.7
Impairment loss on debtors	1.7	(0.2)	—	4.2	5.7
Loss on disposal of property, plant and equipment	—	—	2.1	—	2.1
Release of prepaid lease payments	—	1.1	—	0.6	1.7

Geographical segments

The Group's sale of properties, property leasing, hotel operation, department store operation, cleaning and security guard services, and information technology services are carried out in Hong Kong. Infrastructure and retail business are carried out in other regions of the PRC.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

2006

	Hong Kong HK$ million	**PRC HK$ million**	**Consolidated HK$ million**
Turnover	**1,010.7**	**136.4**	**1,147.1**
Other income	**6.4**	**2.0**	**8.4**
External income	**1,017.1**	**138.4**	**1,155.5**

8. Business and geographical segments *(cont'd)*

Geographical segments (cont'd)

2005

	Hong Kong HK$ million	PRC HK$ million	Consolidated re-stated HK$ million
Turnover	1,058.9	235.5	1,294.4
Other income	6.9	1.9	8.8
External income	1,065.8	237.4	1,303.2

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

2006

	Hong Kong HK$ million	**PRC HK$ million**	**Consolidated HK$ million**
Carrying amount of total assets	**28,536.6**	**1,340.3**	**29,876.9**
Additions to property, plant and equipment	**17.3**	**11.1**	**28.4**

2005

	Hong Kong HK$ million	PRC HK$ million	Consolidated re-stated HK$ million
Carrying amount of total assets	22,627.8	1,364.6	23,992.4
Addition to investment properties	0.1	—	0.1
Additions to property, plant and equipment	21.2	1.6	22.8

Segmental information for the principal associates of the Group are shown on pages 103 to 109.

9. Other income

	2006 HK$ million	2005 HK$ million
Compensation for early termination of tenancy agreements	**0.4**	0.3
Dividend income from listed investments	**6.7**	5.4
Dividend income from unlisted investments	**—**	4.7
Exchange gain, net	**0.5**	0.1
Interest income *(note)*	**124.2**	52.8
Sponsorship fee	**1.4**	1.4
Sundry income	**6.1**	7.0
Unrealised holding gain on investments in securities	**—**	26.0
	139.3	97.7

Note: Included in interest income is an amount of HK$8.9 million (2005: HK$9.8 million) from deferred instalments receivable.

10. Impairment loss on goodwill arising from acquisition of additional interests in subsidiaries

After assessing the prospects of the various business segments of Henderson Cyber Limited ("Henderson Cyber"), a subsidiary of the Company, Henderson Land Development Company Limited, the immediate holding company of the Company, The Hong Kong and China Gas Company Limited ("Hong Kong China Gas"), an associate of the Company, Henderson Cyber and the Company jointly announced in August 2005 the privatisation of Henderson Cyber by Hong Kong China Gas and the Company, involving the cancellation and extinguishments of the relevant shares of Henderson Cyber at a price of HK$0.42 in cash per share. The privatisation became effective on 8 December 2005. In view of the cash flow forecast and the expected synergies of the privatisation of Henderson Cyber, the directors considered that the goodwill arising on the extinguishments of the relevant shares of Henderson Cyber by acquisition of additional interest in Henderson Cyber by the Company amounting to HK$161.8 million was proved to be impaired.

11. Finance costs

	2006 HK$ million	2005 HK$ million
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**9.0**	11.5
Other borrowings wholly repayable within five years	**1.0**	1.5
	10.0	13.0

12. Taxation

	2006 HK$ million	2005 re-stated HK$ million
The charge comprises:		
Current tax		
Hong Kong	**57.5**	57.2
Other regions in the PRC	**12.1**	28.1
	69.6	85.3
(Over)underprovision in prior year		
Hong Kong	**(17.5)**	(3.5)
Other regions in the PRC	**—**	0.4
	(17.5)	(3.1)
Deferred tax *(note 25)*		
Current year	**132.8**	118.8
	184.9	201.0

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions and are exempted from PRC income taxes for the year.

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK$ million	2005 re-stated HK$ million
Profit before taxation	**3,880.0**	3,774.4
Tax at the Hong Kong Profits Tax rate of 17.5%	**679.0**	660.5
Tax effect of share of results of associates	**(435.6)**	(418.6)
Tax effect of expenses not deductible for tax purpose	**30.9**	41.1
Tax effect of income not taxable for tax purpose	**(33.8)**	(28.7)
Net overprovision in respect of prior years	**(17.5)**	(3.1)
Tax effect of deferred tax assets not recognised	**(0.1)**	(7.2)
Tax effect of tax losses not recognised	**14.4**	8.0
Tax effect of utilisation of tax losses previously not recognised	**(25.6)**	(36.6)
Tax effect of utilisation of deferred tax assets previously not recognised	**(8.4)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(4.7)**	(7.5)
Effect of tax exemptions granted to certain PRC subsidiaries	**(13.9)**	(7.0)
Others	**0.2**	0.1
Taxation charge for the year	**184.9**	201.0

13. Profit for the year

	2006	2005 re-stated
	HK$ million	HK$ million
Profit for the year has been arrived at after charging:		
Amortisation of toll highway operation rights (included in administrative expenses)	**15.6**	34.7
Depreciation	**53.1**	57.7
	68.7	92.4
Auditors' remuneration	**2.9**	3.3
Cost of inventories recognised as an expense	**125.4**	125.8
Cost of properties recognised as an expense	**2.8**	0.5
Impairment loss on debtors	**1.3**	5.7
Impairment loss on available-for-sale investments	**0.3**	—
Impairment loss on property, plant and equipment	**4.5**	—
Loss on disposal of property, plant and equipment	**7.8**	2.1
Minimum leases payments under operating leases in respect of		
Rented premises	**98.7**	90.1
Telecommunications network facilities	**2.7**	3.8
Release of prepaid lease payments	**1.7**	1.7
Staff costs including directors emoluments	**202.5**	230.0
Share of taxation attributable to associates (included in share of results of associates)	**369.8**	488.8
and after crediting:		
Rental from investment properties net of outgoings of HK$109.9 million (2005: HK$104.9 million) *(note a)*	**224.6**	220.5
Other rental income less outgoings *(notes a and b)*	**100.4**	109.3
Written back of allowance for completed properties for sale *(note c)*	**19.5**	—

Notes:

a. *Including contingent rental income of HK$103.8 million (2005: HK$116.7 million) from investment properties and other properties.*

b. *Including rental income of HK$1.9 million (2005: HK$1.8 million) from jointly controlled assets less expenses of HK$0.5 million (2005: HK$0.5 million).*

c. *The directors reviewed the net realisable value of the completed properties for sale by reference to a professional valuation on 30 June 2006 and the allowance previously made is written back during the year.*

14. Directors' emoluments

	Fees HK$'000	Salaries, emoluments and other benefits HK$'000	Contribution to retirement benefits schemes HK$'000	2006 Total emoluments HK$'000
Executive directors				
Lee Shau Kee	60	6,291	—	6,351
Lee Ka Kit	60	—	—	60
Colin Lam Ko Yin	60	—	—	60
Lee Ka Shing	60	—	—	60
Lee Tat Man	20	—	—	20
Ho Wing Fun	20	—	—	20
Suen Kwok Lam	20	—	—	20
Lee King Yue	20	—	—	20
Eddie Lau Yum Chuen	20	—	—	20
Li Ning	20	—	—	20
Patrick Kwok Ping Ho	20	—	—	20
Lau Chi Keung	20	—	—	20
Augustine Wong Ho Ming	20	—	—	20
Sit Pak Wing	20	—	—	20
Non-executive directors				
Woo Po Shing	20	—	—	20
Philip Yuen Pak Yiu	20	—	—	20
Leung Hay Man	20	180	—	200
Independent non-executive directors				
Gordon Kwong Che Keung	20	180	—	200
Ko Ping Keung	55	320	—	375
Wu King Cheong	20	180	—	200
	595	7,151	—	7,746

	Fees HK$'000	Salaries, emoluments and other benefits HK$'000	Contribution to retirement benefits schemes HK$'000	2005 Total emoluments HK$'000
Executive directors				
Lee Shau Kee	40	—	—	40
Lee Ka Kit	40	—	—	40
Colin Lam Ko Yin	40	—	—	40
Lee Ka Shing	40	—	—	40
Lee Tat Man	20	—	—	20
Ho Wing Fun	20	—	—	20
Suen Kwok Lam	20	—	—	20
Lee King Yue	20	—	—	20
Eddie Lau Yum Chuen	20	—	—	20
Li Ning	20	—	—	20
Patrick Kwok Ping Ho	20	—	—	20
Lau Chi Keung	20	—	—	20
Donald Cheung Ping Keung	20	—	—	20
Augustine Wong Ho Ming	20	—	—	20
Sit Pak Wing	20	—	—	20
Non-executive directors				
Woo Po Shing	20	—	—	20
Philip Yuen Pak Yiu	20	50	—	70
Leung Hay Man	20	230	—	250
Independent non-executive directors				
Gordon Kwong Che Keung	20	180	—	200
Alex Wu Shu Chih	20	90	—	110
Ko Ping Keung	40	260	—	300
Wu King Cheong	20	90	—	110
	540	900	—	1,440

14. Directors' emoluments *(cont'd)*

Except for directors' fees of HK$95,000 (2005: HK$100,000) and other emoluments of HK$680,000 (2005: HK$620,000), no emoluments were paid to the independent non-executive directors during the two years ended 30 June 2006.

During the year, the investment property of the Group with a rental value of HK$6,291,000 (2005: Nil) was provided as rent-free accommodation to a director of the Company which has been included in salaries, emoluments and other benefits.

There was no arrangement under which a director had waived or agreed to waive any emoluments during the year. There was no contributions to pension schemes for directors during the year.

Certain of the directors received remuneration from the Company's immediate holding company for services provided to the Group headed by the immediate holding company of which the Company is a member. No apportionment has been made as the directors are of the opinion that it is impracticable to apportion this amount between their services to the Company's immediate holding company and each of that company's subsidiaries.

15. Individuals with highest emoluments

The emoluments of the five highest paid individuals in the Group, none of whom is a director, are as follows:

	2006 HK$ million	2005 HK$ million
Basic salaries, allowances and benefits in kind	**5.2**	5.2
Contributions to retirement benefit schemes	**0.1**	0.2
Bonus	**0.6**	0.6
	5.9	6.0

Their emoluments are within the following bands:

	Number of employees	
	2006	2005
Bands		
Nil — HK$1,000,000	**3**	3
HK$1,000,001 — HK$1,500,000	**1**	1
HK$2,000,001 — HK$2,500,000	**1**	1
	5	5

16. Dividends

	2006 HK$ million	2005 HK$ million
Interim paid in respect of 2006 of HK13 cents (2005: HK13 cents) per share	**396.2**	366.3
Final paid in respect of 2005 of HK15 cents (2004: HK12 cents) per share	**422.6**	338.1
	818.8	704.4

The final dividend of HK15 cents for the year ended 30 June 2006 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. Earnings per share

(a) Reported earnings per share

The calculation of earnings per share is based on the profit for the year of HK$3,667.2 million (2005: HK$3,507.7 million, re-stated) attributable to the shareholders of the Company and on weighted average number of 2,858,916,436 (2005: 2,817,327,395) ordinary shares in issue during the year. Diluted earnings per share is not shown as there were no dilutive potential shares in existence during the two years ended 30 June 2006.

The adjustment to comparative basic earnings per share, arising from the changes in accounting policies shown in notes 2 and 3 above, is as follows:

	Basic	
	2006	2005
	HK$	HK$
Figure before adjustments	**1.26**	1.24
Adjustment arising from change of accounting policies	**0.02**	0.01
Re-stated	**1.28**	1.25

(b) Adjusted earnings per share

The calculation of earnings per share excluding fair value gain of investment properties net of deferred tax is based on the profit attributable to equity shareholders of the Company adjusted as follows:

	2006	2005
		re-stated
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**3,667.2**	3,507.7
Effect of fair value gain of investment properties	**(1,014.9)**	(890.3)
Effect of deferred tax on fair value gain of investment properties	**153.1**	126.6
Effect of share of fair value gain of investment properties net of related deferred taxation of associates	**(739.3)**	(523.6)
Adjusted earnings for calculation of earnings per share	**2,066.1**	2,220.4
Adjusted earnings per share	**HK$0.72**	HK$0.79

18. Investment properties

	The Group	
	2006	2005
	HK$ million	HK$ million
Fair value		
At beginning of the year	**5,000.7**	4,110.3
Additions	**—**	0.1
Transfer from prepaid lease payments	**16.0**	—
Transfer from property, plant and equipment	**26.4**	—
Increase in fair value during the year	**1,014.9**	890.3
At end of the year	**6,058.0**	5,000.7
Representing leasehold properties situated in Hong Kong:		
Long-term	**1,615.9**	1,369.4
Medium-term	**4,442.1**	3,631.3
	6,058.0	5,000.7

The fair value of the Group's investment properties at 30 June 2006 has been arrived at on the basis of a valuation carried out on that date by Messrs DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. Messrs DTZ Debenham Tie Leung are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties, and based on certain valuation assumptions. The resulting increase in fair value of investment properties of HK$1,014.9 million (2005: HK$890.3 million) has been recognised directly in the consolidated income statement.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

All the investment properties of the Group are rented out under operating leases.

Investment properties in Hong Kong with a total carrying value of HK$543.6 million (2005: HK$455.9 million) were co-owned with certain fellow subsidiaries as tenants in common. The carrying values represent the Group's proportionate share in the valuation of the relevant properties.

19. Property, plant and equipment

	Hotel properties HK$ million	Other buildings HK$ million	Bridges HK$ million	Construction in progress HK$ million	Leasehold improvements, equipment, furniture, fixtures and motor vehicles HK$ million	Total HK$ million
The Group						
Cost or valuation						
At 1 July 2004						
As previously reported	750.0	55.0	561.0	0.5	280.8	1,647.3
Prior period adjustments	(452.5)	(30.0)	—	—	—	(482.5)
As re-stated	297.5	25.0	561.0	0.5	280.8	1,164.8
Additions	—	—	—	—	22.8	22.8
Reclassification	—	—	—	(0.5)	0.5	—
Disposals	—	—	(11.7)	—	(18.3)	(30.0)
At 30 June 2005	297.5	25.0	549.3	—	285.8	1,157.6
Additions	—	—	10.5	—	17.9	28.4
Surplus on revaluation	—	18.4	—	—	—	18.4
Reclassified to investment properties	—	(30.1)	—	—	—	(30.1)
Transfer to assets classified as held for sale	—	(3.8)	—	—	(2.0)	(5.8)
Disposals	—	—	—	—	(52.7)	(52.7)
At 30 June 2006	297.5	9.5	559.8	—	249.0	1,115.8
Depreciation and impairment						
At 1 July 2004						
As previously reported	—	10.8	133.1	—	218.9	362.8
Prior period adjustments	81.8	(2.7)	—	—	—	79.1
As re-stated	81.8	8.1	133.1	—	218.9	441.9
Provided for the year	7.4	0.7	19.1	—	30.5	57.7
Eliminated on disposals	—	—	(9.7)	—	(18.0)	(27.7)
At 30 June 2005	89.2	8.8	142.5	—	231.4	471.9
Provided for the year	7.4	0.5	19.0	—	26.2	53.1
Reclassified to investment properties	—	(3.7)	—	—	—	(3.7)
Impairment loss *(note)*	—	—	—	—	4.5	4.5
Transfer to assets classified as held for sale	—	(1.3)	—	—	(1.7)	(3.0)
Eliminated on disposals	—	—	—	—	(44.7)	(44.7)
At 30 June 2006	96.6	4.3	161.5	—	215.7	478.1
Carrying values						
At 30 June 2006	200.9	5.2	398.3	—	33.3	637.7
At 30 June 2005	208.3	16.2	406.8	—	54.4	685.7

19. Property, plant and equipment *(cont'd)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease or 40 years
Bridges	Over the operating periods
Others	10% to 50%

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

The carrying value of properties shown above comprises:

	Hotel properties		Other buildings		Bridges	
	2006	2005	**2006**	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
In Hong Kong						
Long lease	**73.1**	75.7	**—**	—	**—**	—
Medium-term lease	**127.8**	132.6	**4.9**	13.3	**—**	—
Outside Hong Kong						
Long lease	**—**	—	**0.3**	0.4	**—**	—
Medium-term lease	**—**	—	**—**	2.5	**398.3**	406.8
	200.9	208.3	**5.2**	16.2	**398.3**	406.8

Note: During the year, the operating environment of the information technology services was difficult and the operation has been down-sized. Based on the Group's assessment of the recoverable amount of the related assets, which have been determined on the basis of their subsequent selling price, the carrying amount of the data centre and network equipment and facilities were written down by HK$4.5 million.

	Furniture and equipment HK$'000
The Company	
Cost	
At 1 July 2004, 30 June 2005 and 30 June 2006	21
Depreciation	
At 1 July 2004, 30 June 2005 and 30 June 2006	21
Carrying values	
At 30 June 2006 and 30 June 2005	—

20. Prepaid lease payments

	2006	2005
		re-stated
	HK$ million	HK$ million
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Long lease	**16.5**	16.7
Medium-term lease	**48.1**	65.6
	64.6	82.3
Analysed for reporting purposes as:		
Current asset (included in debtors, deposits and prepayments)	**1.3**	1.7
Non-current asset	**63.3**	80.6
	64.6	82.3

21. Toll highway operation rights

	HK$ million
The Group	
Cost	
At 1 July 2004 and 30 June 2005	789.5
Transfer to assets classified as held for sale	(557.7)
At 30 June 2006	231.8
Amortisation	
At 1 July 2004	193.3
Provided for the year	34.7
At 30 June 2005	228.0
Provided for the year	15.6
Written back to assets classified as held for sale	(182.9)
At 30 June 2006	60.7
Carrying values	
At 30 June 2006	171.1
At 30 June 2005	561.5

The Group's toll highway operation rights are pledged as securities for certain bank loans.

At 30 June 2006, the toll highway operation rights are Maanshan Huan Tong Highway (the "Highway"), that were granted to the Group by The People's Government of Anhui Province (安徽省人民政府) for a period of 25 years since 16 December 1999. During the 25-year toll highway concession period, the Group has the rights of management of the Highway and the toll-collection rights thereof. The Group is required to maintain and operate the Highway in accordance with the regulations promulgated by the relevant government authority.

22. Investments in subsidiaries

	The Company	
	2006	2005
	HK$ million	HK$ million
Unlisted shares, at cost	**2,158.0**	2,158.0

Details of the principal subsidiaries are shown on pages 98 to 101.

23. Interests in associates

	The Group		The Company	
	2006	2005 re-stated	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Unlisted				
Cost of investments	**165.0**	165.0	**164.2**	164.2
Share of post-acquisition profits, net of dividends received	**398.8**	317.8	**—**	—
	563.8	482.8	**164.2**	164.2
Listed in Hong Kong				
Cost of investments	**9,146.1**	8,212.6	**—**	—
Share of post-acquisition profits and reserves, net of dividends received	**6,533.1**	5,861.4	**—**	—
Prior period adjustment on adoption of HKAS 16 (note 3)	**—**	(841.2)	**—**	—
	15,679.2	13,232.8	**—**	—
	16,243.0	13,715.6	**164.2**	164.2
Market value of listed investments	**39,760.4**	36,845.5	**—**	—

Included in the cost of interest in associates is goodwill of HK$2,289.0 million (2005: HK$1,272.2 million) arising on acquisition of associates in prior years. The movement of goodwill is set out below.

23. Interests in associates *(cont'd)*

	The Group HK$ million	The Company HK$ million
Cost		
At 1 July 2004	1,216.8	—
Arising on acquisition of associates	286.0	—
At 30 June 2005	1,502.8	—
Elimination of accumulated amortisation upon the application of HKFRS 3	(230.6)	—
Arising on acquisition of associates	1,016.8	—
At 30 June 2006	2,289.0	—
Amortisation		
At 1 July 2004	164.1	—
Charge for the year	66.5	—
At 30 June 2005	230.6	—
Elimination of accumulated amortisation upon the application of HKFRS 3	(230.6)	—
At 30 June 2006	—	—
Carrying values		
At 30 June 2006	2,289.0	—
At 30 June 2005	1,272.2	—

Until 30 June 2005, goodwill had been amortised over 20 years.

Negative goodwill with carrying amount of HK$118.9 million as at 30 June 2005 (1 July 2004: HK$116.1 million) was presented as deduction from the cost of interests in associates. In prior years, negative goodwill was released to income statement on a straight-line basis of 20 years, representing the remaining weighted average useful life of the depreciable assets acquired. The amount of negative goodwill released to the income statement for the year ended 30 June 2005 was HK$6.3 million. All negative goodwill was derecognised on 1 July 2005 upon the application of HKFRS 3.

The summarised financial information in respect of the Group's associates which are accounted for using the equity method is set out below:

Operating results:

	2006 HK$ million	2005 re-stated HK$ million
Turnover	**12,276.8**	11,010.1
Profit for the year	**6,393.6**	6,238.9

23. Interests in associates *(cont'd)*

Financial position:

	2006 HK$ million	2005 re-stated HK$ million
Non-current assets	**31,841.3**	28,116.4
Current assets	**13,284.6**	9,911.0
Current liabilities	**(5,691.1)**	(7,728.7)
Non-current liabilities	**(10,082.0)**	(4,244.3)
Net assets	**29,352.8**	26,054.4

Details of the principal associates are shown on page 102.

24. Other financial assets

	The Group		The Company	
	2006 HK$ million	2005 HK$ million	**2006 HK$ million**	2005 HK$ million
Investments in securities *(note a)*	**—**	241.6	**—**	—
Held-to-maturity investments *(note b)*	**11.5**	—	**—**	—
Available-for-sale investments *(note c)*	**284.5**	—	**—**	—
Debtors, deposits and prepayments *(note d)*	**116.7**	137.8	**—**	4.9
	412.7	379.4	**—**	4.9

(a) Investments in securities

Investments in securities as at 30 June 2005 are set out below. Upon the application of HKAS 39 on 1 July 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (See note 3 for details).

	Held-to-maturity debt securities HK$ million	Investment securities HK$ million	Other investments HK$ million	Total HK$ million
The Group				
Equity securities				
Listed in Hong Kong	—	—	200.6	200.6
Unlisted	—	7.6	21.9	29.5
	—	7.6	222.5	230.1
Debt securities				
Listed outside Hong Kong	11.5	—	—	11.5
	11.5	7.6	222.5	241.6
Market value of listed securities	11.1	—	200.6	211.7

24. Other financial assets *(cont'd)*

(a) *Investments in securities (cont'd)*

	Other investments HK$'000
The Company	
Equity securities	
Unlisted	30

(b) *Held-to-maturity investments*

Upon the application of HKAS 39 on 1 July 2005, investments in debt securities listed outside Hong Kong of HK$11.5 million were reclassified to held-to-maturity investments.

	2006 HK$ million
The Group	
Debt securities listed outside Hong Kong	**11.5**

The market price of the listed debt securities as at 30 June 2006 amounted to HK$11.1 million. The held-to-maturity investments carry interest at 4.5% per annum and to be matured on 6 March 2032.

(c) *Available-for-sale investments*

Available-for-sale investments as at 30 June 2006 comprise:

	2006 HK$ million
The Group	
Equity securities:	
Listed in Hong Kong	**255.1**
Unlisted	**29.4**
	284.5
Market value of listed securities	**255.1**

	HK$'000
The Company	
Equity securities	
Unlisted	**30**

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of listed investments have been determined by reference to bid prices quoted in active markets.

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. Other financial assets *(cont'd)*

(d) Debtors, deposits and prepayments

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties are payable in advance by tenants. In respect of retailing, most of transactions are being on cash basis. Other trade debtors settle their accounts according to the payment terms as stated in contracts. An aged analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The aged analysis of trade debtors (net of allowances for bad debts) of the Group is as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
Under 1 month overdue	**31.2**	115.0
1 to 3 months overdue	**35.3**	16.4
More than 3 months overdue but less than 6 months overdue	**17.0**	4.4
Over 6 months overdue	**100.0**	42.4
Less: accumulated impairment	**(10.5)**	(10.0)
Trade debtors	**173.0**	168.2
Deposits, prepayments and other receivables – current portion	**107.4**	182.9
	280.4	351.1
Deposits, prepayments and other receivables — non-current portion	**116.7**	137.8
	397.1	488.9

At 30 June 2006, included in deposits, prepayments and other receivables of HK$140.4 million (2005: HK$155.4 million) representing the discounted instalment receivables in future arising from the disposal of toll bridges during the year ended 30 June 2004, out of which, HK$23.7 million (2005: HK$22.5 million) was classified as current assets.

The consideration will be received by instalments at RMB28.1 million (equivalent to HK$26.2 million) per annum and RMB16.0 million (equivalent to HK$14.9 million) per annum for the period from 1 June 2003 to 27 October 2010 and from 28 October 2010 to 20 July 2015, respectively. Accordingly, the Group calculated the discounted value of the instalment receivables in the future using the prevailing interest rate of 6% for a similar financial instrument offered by an issuer in the PRC with a similar credit rating. Total discounted value of the instalment receivables in the future is HK$175.9 million.

The directors considers the fair values of the debtors as at 30 June 2006 approximate the corresponding carrying amounts.

25. Deferred taxation

The followings are the major deferred tax liabilities (assets) of the Group recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK$ million	Gain on disposal of property, plant and equipment HK$ million	Gain on change in fair value of investment properties HK$ million	Tax losses HK$ million	Others HK$ million	Total HK$ million
At 1 July 2004						
As originally stated	36.5	15.2	399.0	(6.6)	1.9	446.0
Effect of adopting HKAS 16 & HKAS 17 *(note 3)*	(10.1)	—	—	—	—	(10.1)
As re-stated	26.4	15.2	399.0	(6.6)	1.9	435.9
(Credit)/charge to income for the year	(1.1)	(0.6)	126.6	(6.1)	—	118.8
At 30 June 2005	25.3	14.6	525.6	(12.7)	1.9	554.7
Charge to property revaluation reserve for the year	—	—	3.2	—	—	3.2
(Credit)/charge to income for the year	(3.9)	(0.7)	153.1	(16.8)	1.1	132.8
At 30 June 2006	21.4	13.9	681.9	(29.5)	3.0	690.7

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 HK$ million	2005 HK$ million
Deferred tax assets	**(3.2)**	—
Deferred tax liabilities	**693.9**	554.7
	690.7	554.7

At the balance sheet date, the Group has unused tax losses of approximately HK$1,341.5 million (2005: HK$1,309.2 million). Included in unused tax losses are losses of HK$990.6 million (2005: HK$917.8 million) that had not been agreed with relevant tax authorities. Subject to the agreement of the relevant tax authorities, the tax losses were available for offset against future profits. A deferred tax asset has been recognised in respect of HK$169.0 million (2005: HK$72.8 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,172.5 million (2005: HK$1,236.4 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$75.0 million (2005: HK$47.8 million) that can be carried forward to offset against the taxable profit of subsequent year for up to five years from the year in which they were incurred. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$21.7 million (2005: HK$52.4 million). A deferred tax asset has been recognised in respect of HK$17.9 million (2005: Nil) of such deductible temporary difference. No deferred tax asset has been recognised in relation to the remaining HK$3.8 million (2005: HK$52.4 million) as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

26. Inventories

	The Group	
	2006	2005
	HK$ million	HK$ million
Goods for retails, catering stocks and trading goods	**33.3**	29.1
Completed properties for sale	**276.2**	259.1
	309.5	288.2

Completed properties for sale with a total carrying value of HK$28.4 million (2005: HK$28.4 million) were co-owned with certain fellow subsidiaries as tenants in common and the carrying value represents the Group's proportionate share in the total cost of the relevant properties.

27. Amounts due from affiliates

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Related parties				
Amounts due from subsidiaries	—	—	**13,835.5**	10,444.2
Amounts due from associates	**46.1**	42.0	**46.0**	41.9
Amounts due from investee companies	**5.5**	6.5	—	—
	51.6	48.5	**13,881.5**	10,486.1
Other				
Amounts due from minority shareholders	**90.8**	80.9	—	—
	142.4	129.4	**13,881.5**	10,486.1

The amounts are unsecured, interest-free and repayable on demand.

The directors consider the fair values of the amounts as at 30 June 2006 approximate the corresponding carrying amounts.

28. Creditors and accrued expenses

The aged analysis of trade creditors of the Group included in creditors and accrued expenses by due date is as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
Due within 1 month or on demand	**103.0**	123.5
Due after 1 month but within 3 months	**39.2**	43.0
Due after 3 months but within 6 months	**2.8**	3.3
Due after 6 months	**9.4**	7.9
Trade creditors	**154.4**	177.7
Rental deposits and other payables	**126.6**	103.6
Total creditors and accrued expenses	**281.0**	281.3

The directors consider the fair values of the trade and other payables as at 30 June 2006 approximate the corresponding carrying amounts.

29. Amounts due to affiliates

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million
Related parties				
Amounts due to subsidiaries	**—**	—	**228.6**	269.7
Amounts due to associates	**0.8**	2.5	**—**	—
	0.8	2.5	**228.6**	269.7
Other				
Amounts due to minority shareholders	**65.1**	143.6	**—**	—
	65.9	146.1	**228.6**	269.7

The amounts are unsecured, interest-free and repayable on demand.

The directors consider the fair values of the amounts as at 30 June 2006 approximate the corresponding carrying amounts.

30. Borrowings

	The Group	
	2006	2005
	HK$ million	HK$ million
Secured	**55.6**	228.8
Unsecured	**28.0**	—
	83.6	228.8

The bank borrowings bear interest at prevailing market rates and are repayable as follows:

	2006	2005
	HK$ million	HK$ million
Within one year	**57.5**	93.1
Between one to two years	**20.6**	50.0
Between two to three years	**—**	53.1
Between three to four years	**5.5**	32.6
	83.6	228.8
Less: Amounts due within one year and included in current liabilities	**(57.5)**	(93.1)
Amounts due after one year	**26.1**	135.7

The average effective borrowing rates are ranging from 5.022% to 7.02% (2005: 5.7% to 5.76%) per annum.

The Group's bank loans are denominated in Renminbi.

All the Group's borrowings are at floating rates. The directors consider that the current interest rates represent prevailing market interest rate and, therefore, the fair value of borrowings as at 30 June 2006 estimated by discounting their future cash flows at the prevailing market borrowing rates approximates the corresponding carrying amounts.

31. Share Capital

	2006 HK$ million	2005 HK$ million
Authorised:		
3,600,000,000 (2005: 3,600,000,000) ordinary shares of HK$0.2 each	**720.0**	720.0
Issued and fully paid:		
3,047,327,395 (2005: 2,817,327,395) ordinary shares of HK$0.2 each	**609.5**	563.5

Pursuant to an ordinary resolution passed at the annual general meeting held on 6 December 2004, the authorised share capital of the Company was increased from HK$600 million to HK$720 million by the creation of 600,000,000 shares of HK$0.2 each.

On 18 April 2006, 230,000,000 ordinary shares were placed and issued at HK$13.55 per share to the shareholders of the Company. The net proceed received, net of expenses of HK$13.4 million, on the placement is HK$3,103.1 million. The new ordinary shares rank pari passu to the then existing shares of the Company.

32. Reserves

	Capital reserve HK$ million	Share premium account HK$ million	Dividend reserve HK$ million	Retained profits HK$ million	Total HK$ million
The Company					
At 1 July 2004	3.5	6,158.6	338.1	4,895.9	11,396.1
Final dividend paid	—	—	(338.1)	—	(338.1)
Profit for the year	—	—	—	1,293.5	1,293.5
Interim dividend paid	—	—	—	(366.3)	(366.3)
Final dividend proposed	—	—	422.6	(422.6)	—
At 30 June 2005	3.5	6,158.6	422.6	5,400.5	11,985.2
Shares issued	—	3,070.5	—	—	3,070.5
Transaction costs attributable to issue of shares	—	(13.4)	—	—	(13.4)
Final dividend paid	—	—	(422.6)	—	(422.6)
Profit for the year	—	—	—	1,146.6	1,146.6
Interim dividend paid	—	—	—	(396.2)	(396.2)
Final dividend proposed	—	—	457.1	(457.1)	—
At 30 June 2006	3.5	9,215.7	457.1	5,693.8	15,370.1

The Company's reserves available for distribution to shareholders at the balance sheet date are represented by its dividend reserve and retained profits amounting to HK$457.1 million and HK$5,693.8 million (2005: HK$422.6 million and HK$5,400.5 million) respectively.

33. Amount due to a fellow subsidiary

The amount is unsecured. The fellow subsidiary has agreed that no repayment will be demanded within the next twelve months from the balance sheet date and accordingly, the amount is shown as non-current.

The directors consider that the fair value of the amount as at 30 June 2006 approximates the corresponding carrying amount.

34. Disposal group

During the year, the Company has decided to dispose of its entire indirect interest of 24.98% in Ningbo Nickwell Highway Development Company Limited, Ningbo Wise Link Highway Development Company Limited and Ningbo Rayter Highway Development Company Limited (collectively known as the "Ningbo Subsidiaries") to the minority shareholder of the Ningbo Subsidiaries. The Ningbo Subsidiaries were classified as a disposal group held for sale. On 29 March 2006, the Group entered into the agreement with the minority shareholder to dispose of its entire interest in the Ningbo Subsidiaries at a consideration of Rmb70 million (approximately HK$67.65 million), and the transaction should be completed on or before 31 December 2006.

The results of the Ningbo Subsidiaries for the year since it classified as a disposal group are presented below:

	HK$ million
Revenue	15.6
Expenses	(4.4)
Profit for the year from the disposal group	11.2

The major classes of assets of the Ningbo Subsidiaries classified as held for sale as at 30 June 2006 are as follows:

	HK$ million
Assets	
Property, plant and equipment	2.8
Toll highway operation rights	374.8
Debtors, deposits and prepayments	0.5
Bank balances and cash	0.5
Assets classified as held for sale	378.6

The major classes of liabilities of the Ningbo Subsidiaries classified as held for sale as at 30 June 2006 are as follows:

	HK$ million
Liabilities	
Accrued expenses	1.3
Bank loans, secured (note)	169.4
Amount due to a minority shareholder	69.6
Liabilities associated with the assets classified as held for sale	240.3
Net assets associated with the disposal group	138.3

Note: The average effective borrowing rate is 5.76% per annum.

The net cash flows incurred by Ningbo Subsidiaries are as follows:

	HK$ million
Operating activities	9.5
Financing activities	(9.7)
	(0.2)

35. Jointly controlled assets

Completed properties for sale include the Group's share of interest in jointly controlled assets with a carrying value of HK$35.5 million (2005: HK$21.3 million). The Group's share of liabilities (included in creditors and accrued expenses), income and expenses in relation to the jointly controlled assets amounted to HK$0.5 million (2005: HK$0.4 million), HK$10.3 million (2005: HK$1.8 million) and HK$0.5 million (2005: HK$0.5 million) respectively.

36. Pledged bank deposits/bank balances and cash/bank overdraft

Of the pledged bank deposits and bank balances and cash items, a total sum being the equivalent of HK$125.7 million (2005: HK$110.8 million) was kept in other regions of the PRC and is subject to exchange control regulations.

The deposits carry fixed interest rate of 1.62% to 5.28% (2005: 1.62% to 3.75%) per annum. The fair values of bank deposits, bank balances and bank overdraft as at 30 June 2006 approximate to the corresponding carrying amounts.

37. Employees retirement schemes

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. The amount of forfeited contributions utilised during the year was HK$0.1 million (2005: HK$0.2 million). There was no such balance at 30 June 2006 and 30 June 2005.

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund and the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. No forfeited contributions were utilised during the year (2005: Nil).

The Group's retirement costs charged to the consolidated income statement for the year ended 30 June 2006 were HK$8.1 million (2005: HK$9.3 million).

38. Share option schemes

Under the Pre-IPO Share Option Plan ("Option Plan") of Henderson Cyber, a subsidiary of the Company, options to subscribe for an aggregate of 32,000,000 shares of Henderson Cyber were granted to certain directors and employees of Henderson Cyber, its holding companies, subsidiaries, fellow subsidiaries and affiliated company on 28 June 2000 at the consideration of HK$1.00 for each grant of options.

Subject to the terms and conditions of the Option Plan, each of the grantees will be entitled to exercise at the price of HK$1.25 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 14 July 2000, (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 14 July 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 14 July 2000 and, in each case, not later than four years from 14 July 2000.

Share options granted under the Option Plan lapsed on 14 July 2004.

Under the Share Option Scheme ("Share Option Scheme") of Henderson Cyber, options to subscribe for an aggregate of 150,000 shares of Henderson Cyber were granted to certain employees of the Group on 4 October 2000 at the consideration of HK$1.00 for each grant of options.

38. Share option schemes *(cont'd)*

Subject to the terms and conditions of the Share Option Scheme, each of the grantees will be entitled to exercise at the price of HK$0.89 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 16 October 2000 (the date of acceptance of the share options), (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 16 October 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 16 October 2000 and, in each case, not later than four years from 16 October 2000.

Share options granted under the Share Option Scheme lapsed on 16 October 2004.

	Number of share option		
	At 30 June 2004	**Lapsed during the year**	**At 30 June 2005**
Option Plan			
Directors	9,200,000	(9,200,000)	—
Employees	1,850,000	(1,850,000)	—
Other participants	16,450,000	(16,450,000)	—
	27,500,000	(27,500,000)	—
Share Option Scheme			
Employees	100,000	(100,000)	—

39. Capital commitments

	The Group	
	2006 HK$ million	2005 HK$ million
Contracted commitments for acquisition of property, plant and equipment and for property development and renovation expenditure	**34.2**	21.0
Contracted commitments for system development costs	**—**	0.3

At the balance sheet date, the Company had no capital commitment.

40. Contingent liabilities

	The Company	
	2006 HK$ million	2005 HK$ million
Guarantees given to banks to secure banking facilities utilised by subsidiaries	**30.1**	33.6

41. Operating lease commitments

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2006	2005
	HK$ million	HK$ million
Not later than one year	**12.2**	22.3
Later than one year and not later than five years	**5.4**	15.3
	17.6	37.6

Operating lease commitments represent rentals payable by the Group for retail shopping centre, telecommunication network facilities and certain of its office premises. The leases for retail shopping centre and office premises are negotiated for terms of six months to ten years at fixed rental. Some of leases for telecommunications network facilities are with no specific terms while the remaining leases typically run for an initial period of three months to four years, with an option to renew the lease upon the expiry of the initial lease term. None of the leases for telecommunication network facilities includes contingent rentals.

The Group as lessor

At the balance sheet date, the following assets were rented out under operating leases:

	The Group	
	2006	2005
		re-stated
	HK$ million	HK$ million
Investment properties	**6,058.0**	5,000.7
Completed properties for sale	**225.6**	213.4

These assets were leased out for periods of one to six years with an option to renew the lease and terms are subject to re-negotiation upon expiry.

Contingent rental income were calculated based on the excess of certain percentages of turnover of the relevant operation that occupied the premises/properties over the fixed portion of the monthly rentals.

At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for each of the following periods are:

	The Group	
	2006	2005
	HK$ million	HK$ million
Not later than one year	**345.9**	313.5
Later than one year and not later than five years	**140.5**	117.9
	486.4	431.4

At the balance sheet date, the Company had no commitment under operating lease.

42. Related party transactions

During the year, the Group entered into the following significant transactions with related parties:

	Fellow subsidiaries		Associates		Investee companies	
	2006	2005	**2006**	2005	**2006**	2005
	HK$ million	HK$ million	**HK$ million**	HK$ million	**HK$ million**	HK$ million
Accountancy fee paid	—	2.9	—	—	—	—
Agency commission paid	**1.2**	10.5	—	—	—	—
Building management fee paid	**6.1**	34.2	—	—	—	—
Cleaning services income	**0.9**	7.0	**0.1**	—	—	—
Interest expenses	**0.8**	0.5	—	—	—	—
Interest income	—	—	**4.0**	2.8	—	—
Maintenance fee	**15.6**	—	—	—	—	—
Rental expenses	**93.8**	85.1	**1.1**	2.2	—	—
Rental income	**5.1**	11.3	—	—	—	—
Security guard service income	—	29.9	—	—	—	—
At the balance sheet date						
Amounts due from						
Interest-free	—	—	**46.1**	42.0	**5.5**	0.2
Interest bearing *(note 1)*	—	—	—	—	—	6.3
	—	—	**46.1**	42.0	**5.5**	6.5
Rental deposit paid	—	2.5	—	—	—	—
Amounts due to						
Interest-free	—	—	**0.8**	2.5	—	—
Interest bearing *(note 2)*	**120.2**	301.1	—	—	—	—
	120.2	301.1	**0.8**	2.5	—	—

Notes:

(1) The balances bore interest at 5% per annum from July 2004 to March 2005.

(2) The balances bear interest at Hong Kong Inter-Bank Offer Rate per annum.

(3) The Company's holding company performed administrative services comprising company secretarial, accounting and personnel to certain group companies at no charge as the directors consider that the costs involved were not significant.

Compensation of key management personnel

Except for the directors' fees and the salaries and other benefits paid to the independent non-executive directors disclosed in note 14, certain of the directors and key management personnel received their remuneration from the Company's immediate holding company for their services provided to the Group headed by the immediate holding company of which the Company is a member, no other remuneration was paid to the directors and key management personnel of the Company. No apportionment has been made as the directors are of the opinion that it is impracticable to apportion this amount between their services to the Company's immediate holding company and each of that company's subsidiaries.