

Notes to the Accounts

1 Principal accounting policies

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with accounting principles adopted in the preparation of the Group's annual financial statements for the year ended 30th June 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP26:	Segment reporting
SSAP28:	Provisions, contingent liabilities and contingent assets
SSAP29:	Intangible assets
SSAP30:	Business combinations
SSAP31:	Impairment of assets
SSAP32:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effects of adopting these new policies is set out below:

Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to net assets of subsidiaries, associated companies or jointly controlled entities acquired.

In previous years, goodwill on acquisitions of subsidiaries, associated companies or jointly controlled entities was written off directly to reserves in the year of acquisition.

Goodwill on acquisitions occurring on or after 1st July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Any impairment of the goodwill will be recognised as an expenses in the profit and loss account immediately.

The Group has adopted the transitional provisions of SSAP30 and goodwill previously written off against reserves has not been restated. However, any impairment arising on such goodwill is required to be accounted for in accordance with provisions of SSAP31 "Impairment of assets".

The adoption of provisions of SSAP31 represents a change in accounting policy and accordingly, the Group has made an assessment on any impairment in goodwill or share of goodwill previously eliminated against reserves and considered that an amount of HK\$153,384,000 being the share of goodwill of a jointly controlled entity was impaired during the 6 months period ended 30th June 2001. The write-off of this share of impaired goodwill by means of a prior year adjustment has the effect of reducing the profit attributable to shareholders for the year ended 30th June 2001 by HK\$153,384,000.

1 Principal accounting policies (continued)

Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

In previous years, negative goodwill on acquisitions of subsidiaries, associated companies or jointly controlled entities was taken directly to reserves in the year of acquisition.

Negative goodwill on acquisitions occurring on or after 1st July 2001 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

The Group has adopted the transitional provisions in SSAP30 and such negative goodwill has not been restated.

2 Business segment information

	6 months ended 31st December 2001				
	Property	Rental	Hotel	Others	Total
	sales	operation	operation		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	439,766	61,033	–	1,581	502,380
Segment results	103,877	37,152	(40)	37	141,026
Bank and other interest income					57,685
Loss on disposal of subsidiaries					(8,088)
Corporate administrative expenses					(53,067)
Operating profit before financing					137,556
Finance costs					(16,147)
Share of results of					
Associated companies	(4,351)	(369)	884	–	(3,836)
Jointly controlled entities	(38,346)	16,639	7,968	(243)	(13,982)
Profit before taxation					103,591
Taxation					7,371
Profit after taxation					96,220
Minority interests					4,422
Profit attributable to shareholders					100,642

2 Business segment information (continued)

	6 months ended 31st December 2000				
	Property	Rental	Hotel	Others	Total
	sales	operation	operation		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	302,616	83,671	3,958	–	390,245
Segment results	84,894	98,336	3,918	264	187,412
Bank and other interest income					23,601
Corporate administrative expenses					(62,330)
Operating profit before financing					148,683
Finance costs					(31,447)
Share of results of					
Associated companies	(4,257)	(950)	(6,463)	–	(11,670)
Jointly controlled entities	13,127	3,837	(7,317)	(264)	9,383
Profit before taxation					114,949
Taxation					19,346
Profit after taxation					95,603
Minority interests					527
Profit attributable to shareholders					96,130

No geographical segment analysis is presented as the majority of the assets and operation of the Group are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns.

3 Other revenues

	6 months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Bank and other interest income	61,823	33,823

4 Operating expenses

	6 months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Cost of properties sold	(314,741)	(183,802)
Staff costs	(51,557)	(41,764)
Depreciation	(5,865)	(4,607)
Amortisation of deferred expenditure	(1,825)	(2,794)
Other operating expenses	(44,571)	(42,418)
	(418,559)	(275,385)

5 Other operating charge

	6 months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Loss on disposal of subsidiaries	(8,088)	–

6 Operating profit before financing

	6 months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Operating profit before financing is arrived at after crediting:		
Gross rental income from investment properties	61,033	80,463
and after charging:		
Rental for leased premises	6,296	2,946
Outgoings in respect of investment properties	2,047	3,849
Retirement benefit costs	1,840	1,420
Auditors' remuneration	1,697	1,926
Guarantee fee paid to ultimate holding company	–	3,610

7 Taxation

	6 months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries		
PRC income tax	576	10,386
Jointly controlled entities		
PRC income tax	6,795	8,960
	7,371	19,346

No provision for Hong Kong profits tax has been made within the Group as the Group has no assessable profits in Hong Kong for the period (2000: Nil). PRC income tax has been provided on the estimated assessable profits of a subsidiary operating in the PRC at the applicable rate of taxation.

The Group's jointly controlled entities established in the PRC are required to pay income tax at the rate of 33% (2000: 33%).

7 Taxation (continued)

In July 1999, a deed of tax indemnity was entered into between the ultimate holding company and the Group whereby the ultimate holding company undertakes to indemnify the Group in respect of, inter alia, certain PRC income tax ("IT") and land appreciation tax ("LAT") payable in consequence of the disposal of certain properties held by the Group as at 31st March 1999 and in respect of which the aggregate amount of LAT and IT is estimated at approximately HK\$7,724 million (30th June 2001: HK\$7,783 million). The tax indemnity is also given in respect of LAT and IT payable in consequence of the disposal of any low-cost community housing in the event the relevant company in the Group is unable to pay such taxes. During the period, no such tax indemnity was effected (30th June 2001: Nil).

Realisation of the surplus on revaluation of the Group's investment and hotel properties would give rise to a taxation liability in the PRC. No provision has been made in the accounts for this liability as these properties are held for the long term and management has no intention to dispose of these properties in the foreseeable future. Tax indemnity has also been given by the ultimate holding company in respect of these properties.

8 Dividend

The directors do not declare the payment of a dividend for the six months ended 31st December 2001 (2000: Nil).

9 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$100,642,000 (2000: HK\$96,130,000) and the weighted average of 1,480,338,406 shares (2000: 1,463,772,938 shares) in issue during the period.

Diluted earnings per share for the period is based on profit attributable to shareholders of HK\$100,642,000 divided by 1,480,338,406 shares which is the weighted average number of shares in issue during the period plus the weighted average of 6,749,129 shares deemed to be issued at no consideration as if all outstanding share options had been exercised. Diluted earnings per share is not presented for 2000 as the Company had no dilutive potential shares as at 31st December 2000.

10 Debtors, deposits and other receivables

Debtors, deposits and other receivables include trade debtors, utility and other deposits, interest and other receivables and prepayment for land cost. The ageing analysis of trade debtors is as follows:

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
0 to 30 days	33,072	6,890
31 to 60 days	169	5,874
61 to 90 days	8,253	7,238
Over 90 days	6,949	9,213
	48,443	29,215

Sales proceed receivables in respect of sale of properties are settled in accordance with the installment schedules as stipulated in the sale and purchase agreements. Monthly rental in respect of rental properties are payable in advance by tenants in accordance with the lease agreements.

11 Creditors and accruals

Creditors and accruals include trade creditors, retentions payable of construction costs, other payables and various accruals. The ageing analysis of trade creditors is as follows:

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
0 to 30 days	69,831	76,726
31 to 60 days	6,851	9,207
61 to 90 days	9,513	1,997
Over 90 days	135,537	101,618
	221,732	189,548

12 Share capital

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.1 each	800,000	800,000
Issued and fully paid:		
1,480,773,094 shares of HK\$0.1 each (30th June 2001: 1,468,511,738 shares of HK\$0.1 each)	148,077	146,851

12 Share capital (continued)

Details of the movement in the issued share capital of the Company are summarised as follows:

	Number of shares of HK\$0.1 each	HK\$'000
At 30th June 2001	1,468,511,738	146,851
Issue of shares for the acquisition of subsidiaries (note (i))	10,911,756	1,091
Exercise of share options (note (ii))	1,349,600	135
At 31st December 2001	1,480,773,094	148,077

- (i) On 3rd July 2001, 8,790,616 new shares of the Company were issued at an issue price of HK\$3.225 each and credited as fully paid for the acquisition of a further 30% interest in a subsidiary.

On 3rd July 2001, 2,121,140 new shares of the Company were further issued at an issue price of HK\$3.225 each and credited as fully paid for the acquisition of a further 12% interest in a subsidiary.

- (ii) Pursuant to the share option scheme adopted on 18th December 2000, the Company may grant options to executive directors and employees of the Company to subscribe for shares in the Company. The movements in the number of share options granted during the period and the balance outstanding at 31st December 2001 are as follows:

Date of offer to grant	Exercise price per share HK\$	Number of shares				
		At 1st July 2001	Granted during the period (note)	Exercised during the period	Lapsed during the period	At 31st December 2001
5th February 2001	1.955	53,044,000	–	1,330,400	797,600	50,916,000
2nd May 2001	2.605	458,400	–	–	–	458,400
29th June 2001	3.192	–	2,485,200	–	–	2,485,200
31st August 2001	2.380	–	2,149,200	19,200	–	2,130,000
		53,502,400	4,634,400	1,349,600	797,600	55,989,600

Note: Divided into 5 tranches and exercisable within a period of 5 years commencing on the expiry of one month after the dates on which the options were accepted.

13 Bank and other borrowings

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
Bank loans (note)		
Secured	327,103	140,187
Unsecured	227,009	93,458
Loans from fellow subsidiaries	3,106,417	2,741,175
Loans from minority shareholders	350,428	332,403
	4,010,957	3,307,223
Current portion included in current liabilities	(587,247)	(287,848)
	3,423,710	3,019,375

Note:

The bank loans are repayable as follows:

	Secured		Unsecured		Total	
	31st December 2001 HK\$'000	30th June 2001 HK\$'000	31st December 2001 HK\$'000	30th June 2001 HK\$'000	31st December 2001 HK\$'000	30th June 2001 HK\$'000
Between one and two years	140,187	140,187	189,626	93,458	329,813	233,645
Between two and five years	186,916	-	37,383	-	224,299	-
	327,103	140,187	227,009	93,458	554,112	233,645

14 Contingent liabilities

- (i) The Group has contingent liabilities of approximately HK\$1,238,484,000 as at 31st December 2001 (30th June 2001: HK\$844,307,000) relating to corporate guarantees given in respect of bank loan facilities extended to certain associated companies, jointly controlled entities and fixed return joint ventures. As at 31st December 2001, the Group's attributable portion of the outstanding amount under these bank loan facilities granted to the associated companies, jointly controlled entities and fixed return joint ventures was approximately HK\$589,105,000 (30th June 2001: HK\$549,044,000).
- (ii) At 30th June 2001, the Group had contingent liabilities relating to counter-guarantees given to the ultimate holding company of approximately HK\$42,991,000 in respect of bank loan facilities extended to a fixed return joint venture of the Group in respect of which the ultimate holding company had given guarantees. As at 30th June 2001, the Group's attributable portion of the outstanding amounts under the bank loan facilities granted to the fixed return joint venture in respect of the counter-guarantees was HK\$42,991,000. The counter-guarantees were released during the period.

15 Commitments

(i) Capital expenditure commitments

(a) The capital expenditure commitments of the Group are as follows:

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
Contracted but not provided for		
Investments in jointly controlled entities	63,115	142,971
Investments in an associated company	116,234	–
Investments in fixed return joint ventures	–	15,600
	179,349	158,571
Authorised but not contracted for	–	–
	179,349	158,571

(b) As at 31st December 2001, the Group did not have any share of capital commitments of the jointly controlled entities themselves not included in above (30th June 2001: Nil).

(ii) Lease commitments

	As at 31st December 2001 HK\$'000	As at 30th June 2001 HK\$'000
Future aggregate minimum lease payments under non-cancellable operating lease in respect of land and buildings are as follows:		
The first year	7,224	6,969
The second to fifth years	13,767	1,030
After five years	57,618	–
	78,609	7,999

(iii) Other commitments

As at 31st December 2001, the Group had issued performance guarantees amounting to approximately HK\$262,153,000 (30th June 2001: HK\$166,228,000) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of property projects developed by certain subsidiaries of the Group. Pursuant to the terms of the performance guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties.

16 Related party transactions

The following is a summary of significant related party transactions during the period carried out by the Group in the normal course of its business:

(i)	6 months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Interest on loans from fellow subsidiaries	42,384	58,697
Rental for leased premises	1,946	2,341
Guarantee fee paid to ultimate holding company	–	3,610
Estate management fee income from a fellow subsidiary	(1,009)	(1,009)
Interest income from jointly controlled entities	(39,537)	(11,853)
Management fee income from jointly controlled entities	–	(16,053)

These related party transactions were governed in accordance with the terms as disclosed in 2001 annual report.

- (ii) Total fees for the provision of project management, construction and engineering consultancy services in respect of the Group's property projects and payable to certain fellow subsidiaries amount to HK\$89,621,000 (2000: HK\$82,335,000). Such fees are charged at fixed amount in accordance with the terms of respective contracts.
- (iii) Certain subsidiaries in the PRC have entered into various contracts with the PRC partners or their supervisory authority for site clearance, demolition, and resettlement of existing tenants from the sites of the property development projects on the basis of fixed contract sums with overrun costs being wholly borne by the respective PRC partners. The aggregate contract sums under these contracts amount to approximately HK\$157.3 million (30th June 2001: HK\$157.3 million) of which approximately HK\$117.7 million (30th June 2001: HK\$117.7 million) had been incurred as at 31st December 2001.
- (iv) A deed of tax indemnity was entered into between the ultimate holding company and the Group whereby the ultimate holding company undertakes to indemnify the Group in respect of IT and LAT payable in consequence of the disposal of certain properties (note 7).
- (v) During the period, the Group disposed of its entire interest in three subsidiaries to a fellow subsidiary for a consideration of approximately HK\$401,077,000, resulting in a loss on disposal of HK\$8,088,000.

16 Related party transactions (continued)

The following is a summary of other significant related party transactions during the period carried out by associated companies and jointly controlled entities of the Group in the normal course of their business:

- (i) Certain associated companies and jointly controlled entities in the PRC have entered into various contracts with the PRC partners or their supervisory authority for site clearance, demolition, and resettlement of existing tenants from the sites of the property development projects on the basis of fixed contract sums with overrun costs being wholly borne by the respective PRC partners. The aggregate contract sums under these contracts amounted to approximately HK\$2,746.6 million (30th June 2001: HK\$2,746.6 million) of which approximately HK\$2,558.1 million (30th June 2001: HK\$2,558.1 million) had been incurred as at 31st December 2001.
- (ii) Total fees for the provision of project management, construction and engineering consultancy services in respect of certain property projects of the jointly controlled entities of the Group and payable to certain fellow subsidiaries amount to HK\$71.9 million (30th June 2001: HK\$156.1 million). Such fees are charged at fixed amounts in accordance with the terms of the respective contracts.
- (iii) Certain associated companies of the Group have entered into loan agreements with a fellow subsidiary. These loan balances amount to US\$ 52,730,000 (2000: US\$52,730,000), bear interest ranging from 0.5% above LIBOR to 15% per annum (2000: 0.5% above LIBOR to 15% per annum), and have repayment terms as specified in the loan agreements. The total interest charged for the period ended 31st December 2001 by the fellow subsidiary and included as part of the development costs of properties developed by these associated companies was HK\$38.9 million (2000: HK\$21.7 million).