

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Accounting policies

These unaudited consolidated condensed interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") as applicable to condensed interim accounts, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that as allowed under the said Appendix 16, no comparative figures are required to be presented for the condensed consolidated cash flow statement.

Pursuant to the revised SSAP No. 2.101, "Presentation of Financial Statements," which became effective for accounting periods on or after 1 January 1999, certain comparative figures have been reclassified and/or extended.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30 June 2000.

2. Turnover and operating profit before financing costs and income

Group turnover represents all revenues from rental, property sales, construction and engineering, hotel and restaurant operations, infrastructure operations, telecommunication services, department store operations, financial services, property management, security service, transportation and other services.

An analysis of the Group's turnover and operating profit before financing costs and income for the period by activities and geographical areas are as follows:

	Six months ended	
	31 December	
	2000	1999
	HK\$m	HK\$m
(a) Turnover		
Rental income	978.9	916.0
Property sales	4,666.3	304.3
Construction and engineering	5,267.2	4,237.1
Hotel and restaurant operations	1,283.6	1,116.2
Infrastructure operations	394.7	355.6
Telecommunication services	1,492.6	1,446.2
Others	2,077.2	1,700.0
	16,160.5	10,075.4
Intra-group transactions		
Rental income	(92.5)	(68.5)
Construction and engineering	(105.9)	(833.1)
Others	(60.6)	(38.4)
	15,901.5	9,135.4

	Six months ended	
	31 December	
	2000	1999
	HK\$m	HK\$m
2. Turnover and operating profit before financing costs and income (Cont'd)		
(b) Operating profit before financing costs and income		
Rental income		
Trading results	<u>569.8</u>	<u>531.4</u>
Property sales		
Trading results	<u>378.7</u>	<u>60.8</u>
Loss on dilution of interests in subsidiary companies	<u>-</u>	<u>(1,579.7)</u>
	<u>378.7</u>	<u>(1,518.9)</u>
Construction and engineering		
Trading results	<u>306.2</u>	<u>201.9</u>
Hotel and restaurant operations		
Trading results	<u>335.4</u>	<u>246.7</u>
Infrastructure operations		
Trading results	<u>118.7</u>	<u>141.0</u>
Telecommunication services		
Trading results	<u>(106.8)</u>	<u>(87.7)</u>
Profit on disposal of interests in a subsidiary company	<u>3.2</u>	<u>-</u>
	<u>(103.6)</u>	<u>(87.7)</u>
Others		
Trading results	<u>17.0</u>	<u>(4.4)</u>
(Loss)/profit on disposal of interests in subsidiary companies	<u>(3.7)</u>	<u>40.0</u>
Profit on disposal of investment in listed shares	<u>52.8</u>	<u>584.9</u>
Profit on repurchase of convertible bonds	<u>1.8</u>	<u>16.8</u>
Provision for listed shares	<u>(99.8)</u>	<u>-</u>
	<u>(31.9)</u>	<u>637.3</u>
	<u>1,573.3</u>	<u>151.7</u>
(c) Analysis by geographical area		
Turnover		
Hong Kong and Southeast Asia	<u>14,029.0</u>	<u>7,752.6</u>
Mainland China	<u>1,872.5</u>	<u>1,382.8</u>
	<u>15,901.5</u>	<u>9,135.4</u>
Operating profit/(loss) before financing costs and income		
Hong Kong and Southeast Asia	<u>1,334.0</u>	<u>1,414.2</u>
Mainland China	<u>239.3</u>	<u>(1,262.5)</u>
	<u>1,573.3</u>	<u>151.7</u>

The turnover derived from the Group's overseas activities comprised less than 10% of the Group's turnover.

The turnover and operating profit before financing costs and income derived from the Group's activities in Southeast Asia comprised less than 10% of the Group's turnover and operating profit before financing costs and income.

	Six months ended	
	31 December	
	2000	1999
	HK\$m	HK\$m
3. Other income/(charge)		
Loss on dilution of interests in subsidiary companies	-	(1,579.7)
Profit on disposal of		
Associated company	3.2	-
Other investment	52.8	584.9
Subsidiary company	-	40.0
Loss on partial disposal of interest in a subsidiary company	(3.7)	-
Profit on repurchase of convertible bonds	1.8	16.8
Provision for investment in listed shares	(99.8)	-
	<u>(45.7)</u>	<u>(938.0)</u>
4. Operating profit/(loss)		
Operating profit is stated after charging the following:		
Cost of inventories sold	5,155.4	1,941.9
Depreciation		
Owned fixed assets	510.8	385.6
Leased fixed assets	19.4	20.6
Impairment losses on other investments	-	62.6
Loss on disposal of fixed assets	2.2	17.9
Staff costs	1,700.2	1,556.3
	<u>1,700.2</u>	<u>1,556.3</u>
5. Taxation		
Group		
Hong Kong profits tax	169.3	150.0
Overseas taxation	25.0	14.0
Deferred taxation	3.1	-
Associated companies		
Hong Kong profits tax	39.6	14.0
Overseas taxation	26.8	29.1
Jointly controlled entities		
Hong Kong profits tax	13.5	11.9
Overseas taxation	30.1	29.1
	<u>307.4</u>	<u>248.1</u>

Hong Kong profits tax is provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the period. Tax on overseas profits has been calculated on the estimated taxable profits for the period at the rate of taxation prevailing in the countries in which the Group operates.

6. Interim Dividend

	Six months ended	
	31 December	
	2000	1999
	HK\$m	HK\$m
Interim dividend of HK\$0.10 (1999: HK\$0.10) per share	<u>212.3</u>	<u>213.8</u>

7. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$311.4 million (1999: loss of HK\$907.1 million) and the weighted average number of 2,114.2 million (1999: 2,127.8 million) shares in issue during the period. No dilution effect was resulted on the earnings per share for the current period and the same period last year after taking into account the potential dilutive effect of the conversion of the outstanding bonds.

8. Debtors and prepayments

Debtors and prepayments include trade debtors, amounts advanced to investee companies, deposits and prepayments. The Group allows credit terms range from 30 to 60 days for sales of goods and services. Sales proceeds receivables from sale of properties and retention money receivables in respect of construction and engineering services are settled in accordance with the respective contracts. Ageing analysis of trade debtors is as follows:

	As at	As at
	31 December	30 June
	2000	2000
	HK\$m	HK\$m
– Current to 30 days	2,848.4	2,390.6
– 31 to 60 days	170.3	204.4
– Over 60 days	1,975.1	1,805.8
	<u>4,993.8</u>	<u>4,400.8</u>

9. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors with their ageing analysis as follows:

	As at	As at
	31 December	30 June
	2000	2000
	HK\$m	HK\$m
– Current to 30 days	3,014.1	2,376.1
– 31 to 60 days	359.2	387.4
– Over 60 days	3,343.5	3,578.7
	<u>6,716.8</u>	<u>6,342.2</u>

10. Share capital

	As at 31 December 2000 No. of shares (million)	As at 31 December 2000 HK\$m	As at 30 June 2000 No. of shares (million)	As at 30 June 2000 HK\$m
Authorised:				
Shares of HK\$1.00 each				
Balance at beginning and end of the period	<u>2,500.0</u>	<u>2,500.0</u>	<u>2,500.0</u>	<u>2,500.0</u>
Issued and fully paid:				
Shares of HK\$1.00 each				
Balance at beginning of the period	2,114.1	2,114.1	2,127.8	2,127.8
Repurchase of shares	-	-	(37.7)	(37.7)
Issued as scrip dividends	-	-	24.0	24.0
Conversion of bonds (Note a)	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>-</u>
Balance at end of the period	<u>2,114.2</u>	<u>2,114.2</u>	<u>2,114.1</u>	<u>2,114.1</u>

a. Conversion of bonds

During the period, 65,923 new shares were issued upon conversion of bonds issued by a subsidiary company at the conversion price of HK\$35.15 per share.

11. Long term liabilities

	As at 31 December 2000 HK\$m	As at 30 June 2000 HK\$m
Bank loans		
Secured	5,479.6	7,176.3
Unsecured	19,831.6	18,556.2
Other secured loans wholly payable within five years	250.0	250.0
Other unsecured loans wholly payable within five years	830.6	854.5
Obligations under finance leases wholly payable within five years	<u>27.4</u>	<u>42.7</u>
	26,419.2	26,879.7
Convertible bonds	5,026.3	5,519.8
Debentures	332.8	334.4
Loans from minority shareholders	2,837.8	3,040.2
Deferred income	1,422.4	775.1
Long term accounts payable	<u>242.0</u>	<u>349.1</u>
	36,280.5	36,898.3
Amounts repayable within one year included in current liabilities	<u>(3,998.8)</u>	<u>(3,286.4)</u>
	<u>32,281.7</u>	<u>33,611.9</u>

11. Long term liabilities (Cont'd)

	Secured bank loans HK\$m	Unsecured bank loans HK\$m	Other secured loans HK\$m	Other unsecured loans HK\$m	Obligations under finance leases HK\$m	Total HK\$m
The maturity of long term borrowings at 31 December 2000 is as follows:						
Of less than one year	1,220.2	1,385.9	-	278.4	26.8	2,911.3
Of more than one year, but not exceeding two years	1,358.0	11,876.8	-	1.2	0.6	13,236.6
Of more than two years, but not exceeding five years	1,505.3	6,525.4	250.0	551.0	-	8,831.7
Of more than five years	1,396.1	43.5	-	-	-	1,439.6
	<u>5,479.6</u>	<u>19,831.6</u>	<u>250.0</u>	<u>830.6</u>	<u>27.4</u>	<u>26,419.2</u>
The maturity of long term borrowings at 30 June 2000 is as follows:						
Of less than one year	579.0	1,723.6	250.0	302.9	11.5	2,867.0
Of more than one year, but not exceeding two years	3,711.2	5,602.8	-	0.6	26.2	9,340.8
Of more than two years, but not exceeding five years	1,913.4	11,153.2	-	551.0	5.0	13,622.6
Of more than five years	972.7	76.6	-	-	-	1,049.3
	<u>7,176.3</u>	<u>18,556.2</u>	<u>250.0</u>	<u>854.5</u>	<u>42.7</u>	<u>26,879.7</u>

12. Commitments

	As at 31 December 2000 HK\$m	As at 30 June 2000 HK\$m
(a) Capital commitments		
(i) Contracted but not provided for		
Fixed assets	1,549.5	1,460.9
Jointly controlled entities	957.7	971.6
Other investments	15.6	76.2
	<u>2,522.8</u>	<u>2,508.7</u>
(ii) Authorised but not contracted for		
Fixed assets	804.9	1,106.3
	<u>804.9</u>	<u>1,106.3</u>
(b) The Group's share of capital commitments committed by the jointly controlled entities not included above are as follows:		
Contracted but not provided for	668.9	937.9
Authorised but not contracted for	637.2	620.1
	<u>1,306.1</u>	<u>1,558.0</u>

12. Commitments (Cont'd)

(c) The Company has given an undertaking ("Buy-back Undertaking") to New World China Land Limited ("NWCL") in a spin-off agreement for the listing of NWCL's shares on the Stock Exchange of Hong Kong. Pursuant to the Buy-back Undertaking, if NWCL is unable to obtain a land use right certificate for those properties of which the land use rights certificates are either subject to transfer restrictions or have not been obtained, within two years from 16 July 1999 the Company will, at the request of NWCL, on or before the date falling six months after the two year period repurchase those properties from NWCL. The amount to be paid by the Company is equivalent to the net asset value of these properties as at 31 March 1999, totalling HK\$1,270.0 million plus the amount of any additional investment in those properties made by NWCL subsequent to that date.

(d) Commitments under operating leases payable in the next 12 months expiring

	As at 31 December 2000 HK\$m	As at 30 June 2000 HK\$m
Land and buildings		
In the first year	200.4	150.9
In the second to fifth year inclusive	158.2	238.5
After the fifth year	42.3	42.0
	400.9	431.4
Other equipment		
In the first year	24.9	1.8
In the second to fifth year inclusive	53.6	19.7
	479.4	452.9

(e) As at 31 December 2000, the Group had issued performance guarantees amounting to approximately HK\$480.1 million (30 June 2000: HK\$156.6 million) of which HK\$372.8 million (30 June 2000: HK\$107.1 million) was utilised, in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of property projects developed by a subsidiary and certain jointly controlled entities 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.

(f) Certain subsidiary companies and jointly controlled entities are parties to agreements with third parties pursuant to the joint development of Container Terminal 9 in Hong Kong, the related berth swap arrangement and the funding therefor. The Group's attributable share of capital commitments as at 31 December 2000 has been disclosed in (a) above.

One of the jointly controlled entities has obtained banking facilities to finance 60% of its share of development cost at Container Terminal 9 and reduced the funds to be injected by the Group accordingly. The Group has given guarantee in respect of the banking facilities and is included in note 13.

In the event of default of any of the third parties, the subsidiary companies and jointly controlled entities will be required to provide additional funds for the project. The Group has given guarantees in respect of these obligations of the subsidiary companies and jointly controlled entities to provide additional funds. If the Group is required to fulfil its obligations under the guarantees, the maximum amount of the additional commitment assumed, in addition to the Group's share of the capital commitments as disclosed above, will be HK\$1,482.0 million (30 June 2000: HK\$1,482.0 million).

13. Contingent liabilities

	As at 31 December 2000 HK\$m	As at 30 June 2000 HK\$m
Guarantees for the performance and completion of construction contracts and performance bonds	1,013.1	1,943.5
Guarantees for credit facilities granted to		
Associated companies	1,347.8	1,347.7
Investee companies included under other investments	88.5	157.5
Jointly controlled entities	5,454.5	4,612.3
Indemnity to non-wholly owned subsidiary companies for PRC tax liabilities	2,340.0	2,340.0
	<u>10,243.9</u>	<u>10,401.0</u>

14. Related party transactions

The following is a summary of significant related party transactions during the year carried out in the normal course of the Group's business:

	Six months ended 31 December	
	2000 HK\$m	1999 HK\$m
Transaction with affiliated companies		
Provision of contracting work service	956.2	1,429.2
Interest income	121.8	273.3
Management fee income	19.5	23.3
	<u>1,097.5</u>	<u>1,725.8</u>
Transaction with other related parties		
Rental income	15.3	12.9
	<u>15.3</u>	<u>12.9</u>

These related party transactions were conducted in accordance with the terms as disclosed in the last annual report.

15. Practice note 19 of the listing rules – Supplementary information

In accordance with the requirements under part 3.3 of Practice Note 19 of the Listing Rules, the Directors of the Company reported below the details of advances to, and guarantees given for the benefit of, its associated companies and jointly controlled entities (collectively as “affiliated companies”) as at 31 December 2000.

In aggregate the Group had advanced an amount of HK\$22,236.1 million (30 June 2000: HK\$21,387.3 million) to affiliated companies, guaranteed bank loans and other credit facilities for the benefit of the affiliated companies in the amount of HK\$6,818.7 million (30 June 2000: HK\$5,960.0 million) and contracted to further provide an aggregated amount of HK\$3,401.2 million (30 June 2000: HK\$4,106.1 million) in capital and loans to affiliated companies. The advances are unsecured, repayable on demand and are interest free except for aggregate amount of HK\$2,881.4 million (30 June 2000: HK\$2,180.6 million) which bear interest at variable rates ranging from 1.25% above Hong Kong Interbank offered rate to 1.25% above the Hong Kong prime rate per annum, HK\$9,892.7 million (30 June 2000: HK\$9,668.2 million) which bear interest at fixed rates ranging from 4% to 15% per annum and HK\$19.0 million (30 June 2000: HK\$19.0 million) which bear interest at fixed rates per annum and was subordinated. Contracted capital and loan contributions to affiliated companies would be funded by proceeds from internal resources and bank and other borrowings of the Group.

The above financial assistance given to the affiliated companies, in aggregate, represented 56.8% (30 June 2000: 54.0%) of the consolidated net assets of the Group as at 31 December 2000. No single entity received financial assistance from the Group which exceeds 25% of the consolidated net assets of the Group.

In addition, in accordance with the requirements under paragraph 3.10 of Practice Note 19 of the Listing Rules, the Company is required to include in its interim report a proforma combined balance sheet of its affiliated companies which would include significant balance sheet classifications and state the attributable interest of the Company in the affiliated companies. The Company has numerous affiliated companies and the Directors are of the opinion that it is not practical nor meaningful to prepare a proforma combined balance sheet and such information may be misleading. The Company made an application to, and received a waiver from, the Stock Exchange to provide the following statement as an alternative.

As at 31 December 2000, the combined indebtedness and capital commitments as reported by such affiliated companies (including amounts owing to the Group) amounted to approximately HK\$59,665.2 million (30 June 2000: HK\$59,154.6 million) and HK\$1,665.7 million (30 June 2000: HK\$5,290.9 million) respectively. These affiliated companies reported no contingent liabilities as at 31 December 2000 (30 June 2000: HK\$42.0 million).

16. Subsequent events

- a. On 22 December 2000, a subsidiary of the Group entered into a conditional agreement for the disposal of the entire interest in a jointly controlled entity to a third party in the PRC at a cash consideration of approximately HK\$1,347.5 million. The transaction was formally approved by the relevant PRC regulatory authority in January 2001. The gain on disposal attributable to the Group is estimated to be approximately HK\$60.4 million.
- b. On 20 February 2001, a subsidiary company of the Group entered into a placing agreement with an independent third party for the placing of its entire interest in an associated company, at a cash consideration of approximately HK\$1,256.3 million. The placement was completed on 23 February 2001. The loss on disposal attributable to the Group is estimated to be HK\$185.3 million.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current period presentation.