

# Notes to the Unaudited Condensed Financial Statements

For the six months ended 30 June 2001

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with SSAP 25 “Interim Financial Reporting” and with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and buildings, investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, SSAP 9 (Revised) “Events after the Balance Sheet Date” issued by the Hong Kong Society of Accountants. In accordance with SSAP 9 (Revised), dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet/in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (see Note 15) by increasing the reserves by HK\$319,378,000 and the shareholders’ funds to HK\$23,478,424,000 from HK\$23,159,046,000.

## 3. TURNOVER

The Group operates mainly in Hong Kong. The turnover and contribution to the Group’s profit from overseas operations are insignificant. The turnover and contribution to the Group’s profit from operations of each principal activity are as follows:

	Six months ended			
	30.6.2001		30.6.2000	
	Consolidated turnover HK\$’000	Contribution to the Group’s profit from operations HK\$’000	Consolidated turnover HK\$’000	Contribution to the Group’s profit from operations HK\$’000
Segment information:				
Rental income	690,439	551,583	772,410	631,468
Management fee and security service income	2,061	1,115	1,952	735
	<u>692,500</u>	<u>552,698</u>	<u>774,362</u>	<u>632,203</u>
Others:				
Gain on disposal of investments in securities	–	–	–	293,842
Other revenue	–	9,386	–	17,190
	<u>692,500</u>	<u>562,084</u>	<u>774,362</u>	<u>943,235</u>

In the current period, turnover is comprised of only the revenue from the Group’s core businesses of property rental and management. Proceeds from disposal of investments in securities, interest and dividend income were included as part of the turnover in previous years are now presented as gain on disposal of investments in securities and other revenue respectively. Comparative figures have been restated to conform with the current period’s presentation.

#### 4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation	3,031	2,656
Staff costs	48,598	51,738
and after crediting:		
Rental income arising from operating leases less out-goings	591,985	665,835
Dividends from listed investments	6,740	4,044
Interest income	2,646	13,146
	<u>591,985</u>	<u>665,835</u>

#### 5. FINANCE COSTS

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Interest on		
– bank loans, overdraft and other loans wholly repayable within five years	100,412	126,097
– convertible bonds	–	25,829
– floating rate notes	71,613	80,291
Amortisation of convertible bonds and floating rate notes issue expenses	1,428	3,695
Bank charges	4,227	3,673
Exchange gain	–	(20)
	<u>177,680</u>	<u>239,565</u>

#### 6. TAXATION

The charge comprises Hong Kong Profits Tax for the period.

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is immaterial.

Deferred taxation has not been provided on the surplus arising on the valuation of investment properties, land and buildings and investments in securities because profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the surplus arising on valuation does not constitute a timing difference.

## 7. DIVIDENDS

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Ordinary Share		
Interim dividend, proposed – HK10 cents per share (2000: HK11 cents)	<u>102,988</u>	<u>113,686</u>

During the period, a dividend of HK31 cents per share (1999: HK30 cents), which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2000. The scrip dividend alternatives were accepted by the shareholders as follows:

	2000 Final dividend paid HK\$'000
Dividends:	
Cash	268,259
Share alternative	<u>51,119</u>
	<u>319,378</u>

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<u>306,427</u>	<u>626,122</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,030,797	1,032,693
Effect of dilutive potential ordinary shares:		
Share options	<u>735</u>	<u>129</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,031,532</u>	<u>1,032,822</u>

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the fair value per share.

## 9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, additions to the Group property, plant and equipment and investment properties amounted to approximately HK\$1,267,000 and HK\$16,668,000, respectively (1.1.2000 to 31.12.2000: HK\$3,570,000 and HK\$9,955,000, respectively).

At 30 June 2001, the directors have considered the carrying amount of the Group's investment properties and leasehold land and buildings carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

## 10. ACCOUNTS RECEIVABLE

Accounts receivables are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 30 June 2001 and 31 December 2000 were aged less than 90 days.

## 11. FLOATING RATE NOTES

	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Floating rate notes	2,400,000	2,400,000
Less: Unamortised notes issue expenses	(4,833)	(6,261)
	<u>2,395,167</u>	<u>2,393,739</u>
Carrying amount analysed for reporting purposes as:		
Current liabilities	1,998,640	–
Non-current liabilities	396,527	2,393,739
	<u>2,395,167</u>	<u>2,393,739</u>

HD Treasury (BVI) Limited and HD Finance (BVI) Limited, wholly-owned subsidiaries of the Company, issued HK\$2,000 million and HK\$400 million five-year floating rate notes on 27 March 1997 and 3 November 1999, respectively. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 0.565% and 1.25% over the 3-month HIBOR and are repayable in full in March 2002 and November 2004, respectively.

## 12. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 30 June 2001 and 31 December 2000 were aged less than 90 days.

### 13. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$5 each		
Authorised:		
At 1 January and 30 June 2001	<u>1,450,000</u>	<u>7,250,000</u>
Issued and fully paid:		
At 1 January 2001	1,030,251	5,151,256
Issued pursuant to scrip dividend scheme	5,046	25,232
Shares repurchased and cancelled	<u>(3,381)</u>	<u>(16,905)</u>
At 30 June 2001	<u>1,031,916</u>	<u>5,159,583</u>

During the period, the Company repurchased its own shares through the Hong Kong Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$5 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
June	3,381,000	10.35	9.75	33,810,136

The above shares were cancelled upon repurchase.

### 14. ACCUMULATED PROFITS

At 1 January 2000	HK\$'000
	3,110,025
Share repurchased and cancelled:	
– Nominal value of share repurchased	(51,035)
– Premium on shares repurchased	(39,836)
– Share repurchase expenses	(16)
Net profit for the year	<u>850,173</u>
Profit available for distribution	3,869,311
Dividends	<u>(433,064)</u>
At 31 December 2000	3,436,247
Share repurchased and cancelled:	
– Nominal value of share repurchased	(16,905)
– Premium on shares repurchased	(16,905)
Net profit for the period	306,427
Dividend	<u>(102,988)</u>
At 30 June 2001	<u>3,605,876</u>

## 15. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
<b>THE GROUP</b>										
At 1 January 2000										
– as original stated	1,258,363	8,345,106	1,654,177	8,719	500,718	(12,736)	69,140	100,000	–	11,923,487
– prior period adjustment, derecognition of liability for final dividend for 1999	–	–	–	–	–	–	–	–	309,170	309,170
– as restated	1,258,363	8,345,106	1,654,177	8,719	500,718	(12,736)	69,140	100,000	309,170	12,232,657
Premium on issue of shares pursuant to scrip dividend scheme	14,189	–	–	–	–	–	–	–	–	14,189
Share issue expenses	(14)	–	–	–	–	–	–	–	–	(14)
Shares repurchased and cancelled	–	–	–	–	–	–	51,035	–	–	51,035
Unrealised loss on investments in other securities	–	–	(190,050)	–	–	–	–	–	–	(190,050)
Recognition of unrealised gain on disposal of investments in other securities transferred to income statement	–	–	(293,922)	–	–	–	–	–	–	(293,922)
Surplus on revaluation of investment properties	–	3,253,384	–	–	–	–	–	–	–	3,253,384
Surplus on revaluation of land and buildings	–	–	–	2,833	–	–	–	–	–	2,833
Surplus on revaluation of investment properties shared by minority shareholders	–	(189,533)	–	–	–	–	–	–	–	(189,533)
Share of reserve of an associate	–	–	–	–	384	–	–	–	–	384
Realisation on disposal of investment properties transferred to income statement	–	(250)	–	–	–	–	–	–	–	(250)
Amount set aside for 2000 dividend	–	–	–	–	–	–	–	–	433,064	433,064
Final dividend for 1999 paid	–	–	–	–	–	–	–	–	(309,170)	(309,170)
Interim dividend for 2000 paid	–	–	–	–	–	–	–	–	(113,686)	(113,686)
At 31 December 2000	1,272,538	11,408,707	1,170,205	11,552	501,102	(12,736)	120,175	100,000	319,378	14,890,921
Premium on issue of shares pursuant to scrip dividend scheme	25,887	–	–	–	–	–	–	–	–	25,887
Share issue expenses	(26)	–	–	–	–	–	–	–	–	(26)
Unrealised loss on interests in other securities	–	–	(104,020)	–	–	–	–	–	–	(104,020)
Shares repurchased and cancelled	–	–	–	–	–	–	16,905	–	–	16,905
Amount set aside for 2001 interim dividend	–	–	–	–	–	–	–	–	102,988	102,988
Final dividend for 2000 paid	–	–	–	–	–	–	–	–	(319,378)	(319,378)
At 30 June 2001	<u>1,298,399</u>	<u>11,408,707</u>	<u>1,066,185</u>	<u>11,552</u>	<u>501,102</u>	<u>(12,736)</u>	<u>137,080</u>	<u>100,000</u>	<u>102,988</u>	<u>14,613,277</u>

## 16. CONTINGENT LIABILITIES

There was no changes in contingent liabilities of the Group and the Company since last annual report.

## 17. CAPITAL COMMITMENTS

At the balance sheet date, there were capital commitments as follows:

	THE GROUP	
	30.6.2001 HK\$ (Million)	31.12.2000 HK\$ (Million)
Uncalled share of shareholders' loan for property development projects	<u>27</u>	<u>34</u>
Acquisition of investment properties contracted for but not provided in the financial statements	<u>-</u>	<u>12</u>
Building renovation contracted for but not provided in the financial statements	<u>63</u>	<u>-</u>

The Group has also participated in two other property development projects in Singapore with 10% interest in each project. The Group has undertaken, in the agreed proportion, to meet all funding requirements necessary for these property developments by way of subscription to share capital, shareholders' loans or otherwise. At 30 June 2001, the pre-sale of these two properties has already commenced, the funding requirements for these two projects have been substantially reduced to approximately HK\$6 million (31.12.2000: HK\$98 million).

## 18. POST BALANCE SHEET EVENTS

Subsequent to the interim reporting date, the Group disposed of one of its associates resulting in a reversal of impairment loss of approximately HK\$33.6 million.

## 19. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with related parties:

	Note	Substantial shareholder		Senior management executives		Directors	
		1.1.2001	1.1.2000	1.1.2001	1.1.2000	1.1.2001	1.1.2000
		to	to	to	to	to	to
		30.6.2001	30.6.2000	30.6.2001	30.6.2000	30.6.2001	30.6.2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from staff housing loans	(a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>134</u>	<u>-</u>	<u>-</u>
Repairs and maintenance expenses paid to	(b)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,319</u>	<u>10,061</u>
Gross rental income from	(c)	<u>3,054</u>	<u>2,985</u>	<u>-</u>	<u>-</u>	<u>28,120</u>	<u>28,112</u>
Construction cost paid during the year for investment properties completed in previous years	(d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179</u>	<u>-</u>

## 19. RELATED PARTY TRANSACTIONS (continued)

At the balance sheet date, the Group had the following balances with related parties:

	Note	Substantial shareholder		Senior management executives		Directors	
		30.6.2001 HK\$'000	31.12.2000 HK\$'000	30.6.2001 HK\$'000	31.12.2000 HK\$'000	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Amount due to minority shareholder	(c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,486</u>	<u>84,486</u>
Construction cost payable to	(d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179</u>

- (a) The secured staff housing loans arise in connection with an established Staff Housing Loan scheme granted on the same terms as for other employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% per annum.
- (b) F.K. Hu (and his alternate, Raymond L.M. Hu) are shareholders and directors of Ryoden Lift Services Limited (“RLL”), Ryoden Lift and Escalator Company Limited (“RLE”) and Ryoden Engineering Contracting Company Limited (“REL”). RLL and RLE entered into a number of lift and escalator maintenance contracts with a subsidiary of the Company. REL entered into a number of electrical installation maintenance and repair contracts with a number of the Company’s subsidiaries. The agreements were entered into on normal commercial terms and on arm’s length basis.
- (c) The Group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying period. The leases were entered into on normal commercial terms and on arm’s length basis.
- (d) Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and directors of Hsin Chong Construction Group Limited whose associate entered into a MVAC/BAS contract with a subsidiary of the Company relating to the construction of The Lee Gardens. The contract has now been completed, with the relevant sum being the amount fully paid under the contract during the period under review. Such transaction was entered into on normal commercial terms and on arm’s length basis.
- (e) The amount due to minority shareholder is unsecured, interest free and is not repayable within one year.