

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited consolidated interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended December 31, 2000 except the methods of accounting for goodwill/negative goodwill, planned maintenance, proposed dividend and segment reporting as described below.

(a) Goodwill/negative goodwill

In prior years, goodwill/negative goodwill arising on consolidation, representing the excess/shortfall of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, is taken to reserves in the year in which it arises. On disposal of a subsidiary or an associate, the attributable amount of goodwill/capital reserve is included in calculating the profit or loss on disposal.

With effect from January 1, 2001, with the introduction of SSAP 30 “Business Combinations”, the Group adopted an accounting policy to recognise goodwill as an asset and is amortised on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a consolidated controlled enterprise, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

By adoption of SSAP 30, goodwill of HK\$441 million was capitalised as assets in the balance sheet as at June 30, 2001 and HK\$11 million was amortised in the profit and loss account for the period ended June 30, 2001. The Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of positive/negative goodwill taken to reserves prior to January 1, 2001, and there is no financial effect to the Group for the prior periods. However, any impairment arising on such goodwill is required to be accounted for in accordance with the newly issued SSAP 31 “Impairment of Assets” retrospectively. As a result of this change, in adjusting prior years’ figures, revenue reserves as at January 1, 2000 were restated and decreased by HK\$204 million (the other capital reserves were increased by the corresponding amount) representing the goodwill written off to the prior year’s consolidated profit and loss account.

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS (CONTINUED)

(b) Planned maintenance

In prior years, the Group operated a planned maintenance scheme for its hotels which projected future maintenance requirements over a period of years. Within this scheme actual costs and/or projected costs of ensuing four year periods as estimated by the Group were equalised by annual provisions in the profit and loss account. With effect from January 1, 2001, maintenance costs are expensed in the profit and loss account in the year in which they are incurred in accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets". The accounting policy has been adopted retrospectively. In adjusting prior years' figures, revenue reserves as at January 1, 2001 were restated and increased by HK\$120 million representing the reversal of the previous provision for planned maintenance.

As a result of the adoption of SSAP 28 and restating the prior years' results and reserves, the Group's profit for the period attributable to shareholders has increased by HK\$9 million (2000: HK\$8 million) and the Group's shareholders' funds at June 30, 2001 have increased by HK\$9 million (2000: HK\$11 million) as a net result of not making planned maintenance provision and writing off the actual maintenance costs incurred during the period.

(c) Proposed dividend

In prior years, dividend proposed after balance sheet date was accrued as liabilities at the balance sheet date. With effect from January 1, 2001, the dividend proposed after balance sheet date is shown as a separate component of shareholders' funds in accordance with the revised SSAP 9 "Events After the Balance Sheet Date" issued by the Hong Kong Society of Accountants. The new accounting policy has been adopted retrospectively. In adjusting prior years' figures, shareholders' funds as at January 1, 2001 were restated and increased by HK\$1,223 million representing the proposed final dividend for the year ended December 31, 2000.

As a result of the adoption of SSAP 9 and restating the prior years' reserves, the Group's shareholders' funds at June 30, 2001 have increased by HK\$685 million (2000 : HK\$685 million).

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS (CONTINUED)

(d) Segment reporting

A segment is distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Inter-segment pricing is based on similar terms as those available to other external parties.

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26 “Segment Reporting”. In accordance with the Group’s internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

NOTES TO THE ACCOUNTS

2. TURNOVER AND OPERATING PROFIT

(a) Segment information

| Business segment | Segment Revenue | | Segment Results | |
|------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 30/06/2001 HK\$ Million | 30/06/2000 HK\$ Million | 30/06/2001 HK\$ Million | 30/06/2000 HK\$ Million |
| Property investment | 1,911 | 1,767 | 1,339 | 1,325 |
| Property development | 581 | 862 | 9 | 75 |
| CME (Note i) | 1,463 | 1,169 | 97 | (102) |
| Pay television | 802 | 744 | 185 | 61 |
| Telecommunication | 463 | 324 | (44) | (91) |
| Internet, multimedia and others | 198 | 101 | (44) | (72) |
| Logistics | 1,598 | 1,581 | 846 | 843 |
| Terminals | 1,421 | 1,407 | 806 | 803 |
| Others | 177 | 174 | 40 | 40 |
| Hotels | 344 | 351 | 82 | 83 |
| Other revenue | 137 | 232 | - | - |
| | 6,034 | 5,962 | 2,373 | 2,224 |
| Inter-segment revenue (Note ii) | (231) | (193) | - | - |
| | 5,803 | 5,769 | 2,373 | 2,224 |
| Unallocated income and expenses | | | 100 | 218 |
| Operating profit | | | 2,473 | 2,442 |

Notes:

i. CME annotates Communication, Media and Entertainment.

ii. Inter-segment revenue eliminated on consolidation includes:

| | 30/06/2001 HK\$ Million | 30/06/2000 HK\$ Million |
|---------------------------------|-------------------------------|----------------------------|
| Property investment | 148 | 116 |
| CME | 39 | 33 |
| Pay television | 15 | 12 |
| Telecommunication | 14 | 9 |
| Internet, multimedia and others | 10 | 12 |
| Logistics | 8 | 9 |
| Hotels | 19 | 18 |
| Other revenue | 17 | 17 |
| | 231 | 193 |

Geographical segment

During the period, more than 90% of the operations of the Group in terms of both turnover and operating profit was in Hong Kong.

NOTES TO THE ACCOUNTS

2. TURNOVER AND OPERATING PROFIT (CONTINUED)

(b) Operating profit is arrived at after charging :

| | 30/06/2001 | 30/06/2000 |
|---|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| Depreciation | 451 | 440 |
| Amortisation of deferred expenses | 65 | 62 |
| Amortisation of goodwill | 11 | - |
| Staff costs | 1,001 | 917 |
| Auditors' remuneration | 4 | 4 |
| Cost of properties sold during the period | 546 | 772 |
| Loss on disposal of investments | 58 | - |
| | 1,525 | 1,423 |
| And crediting : | | |
| Rental income less direct outgoings | 1,525 | 1,423 |
| Interest income | 110 | 151 |
| Dividend income from listed securities | 18 | 74 |
| Dividend income from unlisted securities | 10 | 10 |
| Profit on disposal of investments | - | 189 |
| | - | 189 |

3. BORROWING COSTS

| | 30/06/2001 | 30/06/2000 |
|--|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| Interest on:- | | |
| Bank loans and overdrafts | 402 | 677 |
| Other loans repayable within five years | 236 | 202 |
| Other loans repayable after more than five years | 92 | 98 |
| Other borrowing costs | 13 | 14 |
| | 743 | 991 |
| Less: Amount capitalised | (111) | (147) |
| Net borrowing costs for the period | 632 | 844 |

NOTES TO THE ACCOUNTS

4. TAXATION

- (a) The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16% (2000 : 16%).
- (b) Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- (c) The taxation charge represents :

| | 30/06/2001 | 30/06/2000 |
|--|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| The Company and its subsidiaries | | |
| Hong Kong profits tax for the period | 199 | 179 |
| Overseas taxation for the period | 1 | 1 |
| Deferred taxation | (9) | (9) |
| | 191 | 171 |
| Share of associates' Hong Kong profits tax | - | 1 |
| | 191 | 172 |

5. PROPOSED INTERIM DIVIDENDS

| | 30/06/2001 | 30/06/2000 |
|--|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| Interim dividend of 28 cents (2000 : 28 cents) per share | 685 | 685 |

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the period of HK\$1,145 million (2000: HK\$1,128 million as restated) and the weighted average of 2,446 million (2000: 2,446 million) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK\$1,145 million (2000: HK\$1,128 million as restated) and the weighted average of 2,446 million (2000: 2,446 million) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the period ended June 30, 2001 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2001.

NOTES TO THE ACCOUNTS

7. GOODWILL

| | 30/06/2001 | 31/12/2000 |
|--|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| Balance at January 1, 2001 | - | - |
| Addition through acquisition of a subsidiary | 441 | - |
| Amortisation | (11) | - |
| Balance at June 30, 2001 | 430 | - |

The addition of goodwill during the period under review is related to the acquisition of additional interest of 4.5% in Modern Terminals Limited (MTL) which increased the Group's equity holding in MTL from 50.8% to 55.3%. The above goodwill is amortised on a straight-line basis over 20 years.

8. DEBTORS

Included in debtors are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at June 30, 2001 as follows:

| | 30/06/2001 | 31/12/2000 |
|--------------|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| 0 - 30 days | 250 | 251 |
| 31 - 60 days | 168 | 59 |
| 61 - 90 days | 27 | 17 |
| Over 90 days | 82 | 82 |
| | 527 | 409 |

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are receivable upon completion.

9. CREDITORS

Included in creditors are trade creditors with an ageing analysis as at June 30, 2001 as follows:

| | 30/06/2001 | 31/12/2000 |
|--------------|---------------------|--------------|
| | HK\$ Million | HK\$ Million |
| 0 - 30 days | 297 | 226 |
| 31 - 60 days | 91 | 101 |
| 61 - 90 days | 41 | 132 |
| Over 90 days | 362 | 247 |
| | 791 | 706 |

NOTES TO THE ACCOUNTS

10. SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

11. RESERVES

Reserve movements during the period ended June 30, 2001 are as follow:

| | Investments revaluation reserves HK\$Million | Other capital reserves HK\$Million | Revenue reserves HK\$Million |
|--|---|---|------------------------------------|
| i Company and subsidiaries | | | |
| Balance at January 1, 2001 | (390) | (538) | 6,946 |
| Prior year adjustments (Note 1) | - | 207 | (84) |
| Restated | (390) | (331) | 6,862 |
| Exchange reserve | - | 2 | - |
| Goodwill written off on disposal of an associate | - | 301 | - |
| Transferred to the profit and loss account on disposal of non-trading securities | 103 | - | - |
| Revaluation deficit - non-trading securities | (119) | - | - |
| Profit for the period | - | - | 1,358 |
| Proposed dividend | - | - | (685) |
| Balance at June 30, 2001 | <u>(406)</u> | <u>(28)</u> | <u>7,535</u> |
| ii Associates | | | |
| Balance at January 1, 2001 | 13 | - | (127) |
| Transferred to the profit and loss account on disposal of non-trading securities | (4) | - | - |
| Revaluation deficit - non-trading securities | (6) | - | - |
| Loss absorbed for the period | - | - | (213) |
| Balance at June 30, 2001 | <u>3</u> | <u>-</u> | <u>(340)</u> |
| At June 30, 2001 | <u>(403)</u> | <u>(28)</u> | <u>7,195</u> |
| At December 31, 2000 (Restated) | <u>(377)</u> | <u>(331)</u> | <u>6,735</u> |

NOTES TO THE ACCOUNTS

12. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transaction during the period ended June 30, 2001 :

- (a) Loans totalling HK\$4,267 million (2000: HK\$4,622 million) advanced by the Group to certain associates involved in the Sham Tseng and Kowloon Station Development Package Two Projects (as described in more detail in (b) below) are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1994 and 1997 from complying with the relevant connected transaction requirements (as set out in further detail under (b) hereunder). The net interest earned by the Group from these loans during the period is not material in the context of these accounts.
- (b) As disclosed in Note 13(b) to the accounts, the Company and a subsidiary, together with its controlling shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by the subsidiary of an associate under an agreement to develop the Kowloon Station Development Package Two project.

The same parties have also severally guaranteed loans granted to another subsidiary of the above associate to finance the property development project. The amount attributable to the Company and a subsidiary was HK\$1,360 million (2000: HK\$1,360 million).

Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

13. CONTINGENT LIABILITIES

As at June 30, 2001 :

- (a) There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdraft, short term loan and credit facilities, bonds and notes of up to HK\$23,949 million (2000 : HK\$27,706 million).
- (b) The Company and a subsidiary together with its principal shareholder and two subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project by the subsidiary of an associate. Also all the parties have severally guaranteed loans granted to certain subsidiaries of an associate to finance its property development project. The amount attributable to the Company is HK\$1,360 million (2000 : HK\$1,360 million).

NOTES TO THE ACCOUNTS

13. CONTINGENT LIABILITIES (CONTINUED)

(c) Claims for unspecified damages for alleged breach of contract have been brought by a third party against the Company and certain subsidiaries and a director of the Company based on an alleged option to invest in the Group's cable television franchise. On May 21, 2001, the United States Supreme Court affirmed the judgments of the District Court and the Court of Appeals in Denver in the case of United International Holdings, Inc. ("UIH") and UIH Asia Investment Company v. The Wharf (Holdings) Limited and others.

The judgments were entered in an action brought by UIH arising out of an alleged breach of contract involving Wharf's cable television business, in respect of which the jury in the abovementioned District Court rendered a verdict against The Wharf (Holdings) Limited et al. awarding US\$67 million (HK\$523 million) in compensatory damages plus US\$59 million (HK\$456 million) in exemplary (or punitive) damages. The abovementioned Court of Appeals affirmed the judgment of District Court in May 2000. The Group has made full provision in its accounts for previous years in respect of the amount required to discharge all its liabilities. Up to date, the Group has settled in full the judgment sum and interest thereon and partially the UIH's legal fee claim, which is expected to be fully settled soon .

(d) Forward exchange contracts amounting to HK\$6,084 million (2000 : HK\$5,304 million) were outstanding of which HK\$4,914 million and HK\$1,170 million will mature in 2001 and 2002 respectively.

14. COMMITMENTS

| | 30/06/2001 | 31/12/2000 |
|---|---------------------|---------------------|
| | HK\$ Million | HK\$ Million |
| (a) Capital commitments | | |
| No provision has been made in the accounts for planned capital expenditure of | 6,176 | 5,913 |
| In respect of which contracts have been entered into for | 1,945 | 1,783 |
| (b) The Company's subsidiary, Modern Terminals Limited, together with certain other third parties, have entered into a Joint Development Agreement ("JDA") to jointly procure the construction of Container Terminal 9. The total cost of construction is estimated to be HK\$4.8 billion and will be shared by respective parties at an agreed ratio as stipulated in the JDA. The financing of the construction cost is non-recourse to the Company and other subsidiaries. | | |

15. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for goodwill / negative goodwill, planned maintenance, proposed dividend and segment reporting in order to comply with SSAPs 30, 28, 9 and 26 respectively, details of which are set out in Note 1.

16. REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended June 30, 2001 have been reviewed by the audit committee of the Company.