NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants, except that, in this first year of implementation of the standard, as permitted by the Hong Kong Stock Exchange Listing Rules, no comparative figures are presented for the condensed consolidated cash flow statement.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2000 except as follows:—

(i) Changes in accounting policies resulting from the adoption of the following SSAP's issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised): Events after balance sheet date
SSAP 14 (revised): Leases (effective for period commencing on or after 1 July 2000)
SSAP 26: Segment Reporting
SSAP 30: Business Combinations

(ii) Change in accounting policies in respect of investments.

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

(a) SSAP 9 (revised): Events after balance sheet date

In accordance with the SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform with the changed policy.

As detailed in Note 12, opening retained earnings at 1 January 2000 have increased by HK$15,943,000 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31 December 1999 although not declared until after the balance sheet date. Opening retained earnings at 1 January 2001 have increased by HK$15,943,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31 December 2000 although not declared until after the balance sheet date.

A corresponding decrease in current liabilities by HK$15,943,000 has been reflected in the comparative 31 December 2000 balance sheet.

Changes to headings used in the previously reported balance sheet as at 31 December 2000 and profit and loss account for the year ended 31 December 2000 relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) SSAP 14 (revised): Leases

SSAP 14 (revised) prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of SSAP 14 (revised) by the Group does not have any impact on these interim accounts except that certain comparative figures and disclosures in note 14(b) have been adjusted and extended to conform with current year's presentation.

(c) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. 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. Comparative information has been given.

(d) SSAP 30: Business Combinations

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 2001 is amortised using the straight-line method over its estimated useful life of 20 years. Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the traditional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised.

(e) Investments

In previous financial periods, the Group had classified its investments in securities into investment securities and other investments, which were respectively accounted for in accordance with paragraphs 18 to 26 of SSAP 24 under a "benchmark treatment". Commencing this period, the Group adopted an "alternative treatment" as allowed under paragraphs 27 to 30 of SSAP 24. The change in method of accounting for investments in securities represents a change in accounting policy. However, no prior year adjustment was made as the effect of applying the new accounting policy retrospectively is immaterial. Under the new treatment, investments are classified into non-trading and trading investments, and details of the accounting policies for these respective categories of investments are stated below.

(i) Non-trading investments

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired any relevant loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(ii) Trading investments

Trading investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2 Turnover and segment information

The Group is principally engaged in property investment, property trading and providing property management services.

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2001				
	Property investment	Property management and related services	Property trading	Operation of driver training centre and tunnel operation and management	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	62,964	5,348	73,000	—	141,312
Segment results	57,916	3,527	(9,879)	—	51,564
Goodwill amortisation	—	—	—	(3,950)	(3,950)
Finance costs	(31,300)	—	—	—	(31,300)
Operating profit					16,314
Share of profits less losses of associated companies	—	—	15,259	9,957	25,216
Profit before taxation					41,530

	Six months ended 30 June 2000			
	Property investment	Property management and related services	Property trading	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	71,886	5,614	—	77,500
Segment results	65,238	4,502	(1,594)	68,146
Finance costs	(39,981)	—	—	(39,981)
Operating profit				28,165
Share of losses of an associated company	—	—	(436)	(436)
Profit before taxation				27,729

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segments is as follows:

	Turnover		Operating profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2001	2000	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Geographical segment:				
Hong Kong	68,312	77,500	25,120	31,032
Mainland China	73,000	—	(8,806)	(2,867)
	141,312	77,500	16,314	28,165

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June 2001 HK$'000	Six months ended 30 June 2000 HK$'000
Crediting:		
Write-back of provision for doubtful debt	203	—
Interest income	2,659	2,320
Charging:		
Depreciation of fixed assets	87	233
Amortisation of goodwill	3,950	—
Outgoings in respect of other properties	2,284	2,743
Interest expense	27,784	39,486

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June 2001 HK$'000	Six months ended 30 June 2000 HK$'000
Hong Kong profits tax	2,011	3,036
Overprovision in prior periods	(695)	(65)
	1,316	2,971
Share of taxation attributable to an associated company	563	—
	1,879	2,971

5 Dividends

	Six months ended 30 June	
	2001	2000
	HK$'000	*HK$'000*
2000 Final dividend, paid, of HK$2.0¢ (1999 final paid: HK$2.0¢) per share	15,943	15,943

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31 December 1999 and 2000 both amounted to HK$15,943,000. Under the Group's new accounting policy as described in Note 1(a), these have been written back against opening reserves as at 1 January 2000 and 2001 in note 12 and are now charged in the period in which they were proposed.

6 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK$39,651,000 (2000: HK$24,758,000).

The earnings per share is based on the weighted average of 797,157,415 (2000: 739,513,459) ordinary shares in issue during the period. The options of the Company do not result in a dilution effect on the earnings per share in respect of the periods ended 30 June 2001 and 2000.

7 Fixed assets

	Investment properties, equipment and motor vehicles
	HK$'000
Six months ended 30 June 2001	
Opening net book amount	2,377,870
Additions	2,561
Disposal of a subsidiary	(498,000)
Depreciation	(87)
Closing net book amount	1,882,344

8 Trade and other receivables

Included in trade and other receivables are trade debtors of HK$72,932,000 (31 December 2000: HK$10,332,000) and their ageing analysis is as follows:

	30 June 2001 *HK$'000*	31 December 2000 *HK$'000*
Not yet due	58,400	—
Within 30 days	2,207	4,184
31 — 60 days	11,627	507
61 — 90 days	452	254
Over 90 days	246	5,387
	72,932	10,332

Included in trade debtors is a receivable of HK$69,350,000 in respect of the disposal of properties which will be settled in accordance with the payment schedule of the sale and purchase agreements. Other trade debtors are primarily rental receivable from tenants. The payment term is stated according to tenancy agreement and payment is normally due on the first day of the month.

9 Trade and other payables

Included in trade and other payables are trade payables of HK$2,041,000 (31 December 2000: HK$3,716,000) and their ageing analysis is as follows:

	30 June 2001 *HK$'000*	31 December 2000 *HK$'000*
Within 30 days	1,654	884
31 — 60 days	188	1,373
61 — 90 days	137	858
Over 90 days	62	601
	2,041	3,716

10 Bank loans, secured

(a) Bank loans are repayable as follows:

	30 June 2001 *HK$'000*	31 December 2000 *HK$'000*
Within one year	274,000	191,660
In the second year	180,000	357,730
In the third to fifth year	130,500	318,639
After the fifth year	346,500	—
	931,000	868,029
Amounts classified under current liabilities	(274,000)	(191,660)
Amounts classified under non-current liabilities	657,000	676,369

(b) Pledge of assets

The bank loans are secured by mortgages on certain investment properties and properties held for sale with an aggregate carrying value of HK$1,909,361,000 (31 December 2000: HK$2,405,800,000) and the assignment of rental income from certain of the properties.

In addition, the company has pledged all the issued shares of certain subsidiaries and subordinated its loans to certain subsidiaries in favour of the lenders of the above bank loans.

11 Share capital

	Ordinary shares of HK$0.10 each Number	HK$'000
Authorised:		
At 30 June 2001 and 31 December 2000	1,500,000,000	150,000
Issued and fully paid:		
At 30 June 2001 and 31 December 2000	797,157,415	79,716

12 Retained earnings

	Note	30 June 2001 *HK$'000*	31 December 2000 *HK$'000*
At the beginning of period/year, as previously reported		264,188	401,099
Effect of adopting SSAP 9 (revised)	*1(a)*	15,943	15,943
At the beginning of period/year as restated		280,131	417,042
Final dividend for the previous year paid		(15,943)	(15,943)
Profit/(loss) for the period/year		39,651	(120,968)
		303,839	280,131
Retained earnings		303,839	280,131
2000 final dividend proposed		—	(15,943)
At end of period/year		303,839	264,188
Company and subsidiaries		386,076	387,021
Associated companies		(82,237)	(106,890)
		303,839	280,131

13 Contingent liabilities

(a) A subsidiary has claimed against the contractor of a property development project, and deducted from payments to the contractor, approximately HK$11 million for the delay in completion and defects of the construction works. In addition, there is a dispute of approximately HK$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming the subsidiary for HK$22.3 million, including liquidated damages, the abovementioned disputed contract sum and loss and expense. The case is pending arbitration. As at 30 June 2001, provisions of HK$7.4 million (31 December 2000: HK$8.2 million) have been made for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received.

(b) The Company has executed guarantees totalling HK$1,091,400,000 (31 December 2000: HK$977,189,000), with respect to banking facilities made available to its subsidiaries, of which HK$891,000,000 were utilised at 30 June 2001 (31 December 2000: HK$828,029,000).

(c) A subsidiary has executed guarantees to banks to secure banking facilities made available to its investee company and certain property buyers of the investee company in respect of mortgage loans. The total amounts of these guarantees given by the subsidiary as at 30 June 2001 is approximately HK$15.6 million.

14 Commitments

(a) Capital commitments

The Group had the following capital commitments in respect of property held for development:

	30 June 2001 *HK$'000*	31 December 2000 *HK$'000*
Contracted but not provided for	10,378	9,918
Authorised but not contracted for	12,975	10,420
	23,353	20,338

(b) Commitments under operating leases

At 30 June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	30 June 2001 *HK$'000*	Restated (note 1 (b)) 31 December 2000 *HK$'000*
Within one year	886	886
In the second to fifth year inclusive	—	443
	886	1,329

15 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

		Six months ended	
	Note	30 June 2001 *HK$'000*	30 June 2000 *HK$'000*
Rental received from related companies	*(a)*	355	1,691
Building management fee received from a related company	*(b)*	464	—
Rental paid to a shareholder	*(c)*	443	—
Administrative staff cost paid to a shareholder	*(d)*	248	—

Notes:

(a) During the period, the Group entered into lease agreements with a wholly-owned subsidiary of Playmates Interactive Entertainment Limited ("PIEL") to lease office spaces to PIEL Group. The terms of the leases were comparable to those contracted with other third party tenants. The Company and PIEL were related parties as a director and major shareholder of PIEL was a director and major shareholder of the Company up to 28 September 2000.

(b) A subsidiary, Prestige Properties Services Limited, has entered into a building management agreement with a wholly-owned subsidiary of PIEL for providing building management services in return for a management fee equivalent to 12.5% of total monthly building management fee receivable.

(c) A subsidiary, Prestige Group Management Limited, has entered into a sub-sub-lease agreement with a subsidiary of Yugang International Limited ("YIL") to lease office space for a period of 2 years commencing 27 October 2000 at a monthly rental of HK$73,857. YIL is a major beneficial shareholder of the Company.

(d) A subsidiary, Prestige Group Management Limited, has entered into an administrative staff cost agreement with YIL to share the cost of common staff commencing 1 January 2001 at a monthly charge of HK$41,398.

16 Subsequent events

(a) On 24 July 2001, the Group entered into a Sale and Purchase Agreement to dispose of its entire interest in an associated company, Maxdo Investments Limited, which is an investment holding company with a subsidiary engaged in property development activities in the People's Republic of China. The proceeds from the disposal amounted to approximately HK$16.3 million, which approximates the carrying value of the Group's interest in the associated company as at 30 June 2001.

(b) On 28 August 2001, the Group entered into a Sale and Purchase Agreement to dispose of its entire issued share capital of Rosy View Company Limited, a wholly-owned subsidiary, which held certain property interest in Shun Hing Square in Shenzhen. The consideration for the disposal is approximately HK$18 million and the disposal will result in a loss of approximately HK$1 million.

By Order of the Board
Wong Chi Keung, Dickie
Managing Director

Hong Kong, 7 September 2001