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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*for the six months ended 30th June, 2001*

### 1. ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in the Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) except that comparative figures are not presented either for the condensed consolidated statement of recognised gains and losses or for the condensed consolidated cash flow statement, being the first cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Listing Rules. Also, these statements have been prepared in accordance with the significant accounting policies set out in the Group’s audited financial statements for the year ended 31st December, 2000, except for the change in accounting policy as described below.

Several new accounting standards issued by the HKSA have become effective for this financial period. The only standard that has resulted in a change in accounting policy is SSAP 30 “Business Combinations”. In adopting SSAP 30, the Group has elected not to restate goodwill/capital reserve previously eliminated against/credited to reserves. Accordingly goodwill/capital reserve arising on acquisitions prior to 1st January, 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. Where it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years. On disposal of a subsidiary, associate or jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from non-current assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 2. SEGMENTAL INFORMATION

The turnover and contribution to profit from operations by each of the principal activities are as follows:

	Turnover		Contribution to profit from operations	
	Six months ended 30th June,		Six months ended 30th June,	
	2001	2000	2001	2000
	Unaudited	Unaudited	Unaudited	Unaudited
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
By principal activity:				
Investment and finance	<b>164,484</b>	28,282	<b>131,207</b>	17,612
Sale of properties and property based investments	<b>82,956</b>	–	<b>1,820</b>	(627)
Property rental and management services	<b>59,741</b>	46,814	<b>21,999</b>	3,165
Hotel operations	<b>9,223</b>	–	<b>220</b>	–
	<b><u>316,404</u></b>	<b><u>75,096</u></b>	<b><u>155,246</u></b>	<b><u>20,150</u></b>
Finance costs			<b>(65,606)</b>	(43,307)
Share of results of associates			<b>55,878</b>	86,738
Share of results of jointly controlled entities			<b>29,935</b>	24,761
Profit before taxation			<b><u>175,453</u></b>	<b><u>88,342</u></b>

During the period under review, less than 10% of the operations of the Group in terms of both turnover and contribution to profit from operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 3. PROFIT FROM OPERATIONS

	Six months ended 30th June,	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation	5,233	2,380
Net realised loss (profit) on trading securities	66	(82)
and after crediting:		
Amortisation of capital reserve	10,302	–
Amortisation of negative goodwill	9,245	–
Interest income	56,084	28,124
Profit on dealing in foreign currencies	1,423	–
Profit on derivatives	3,875	–
Profit on disposal of investment properties	7,690	–
Profit on disposal of leasehold land and building	685	–
Profit on disposal of non-trading securities	13,072	–
Profit on other dealing activities	116	–
Provision for bad and doubtful debts written back	6,262	–
Net unrealised profit (loss) on trading securities	33,208	(710)

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 4. TAXATION

	Six months ended 30th June,	
	2001	2000
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	<b>4,085</b>	4,180
Taxation outside Hong Kong	<b>182</b>	–
Share of taxation attributable to associates	<b>11,965</b>	10,764
Share of taxation attributable to jointly controlled entities	<b>2,785</b>	2,325
	<b><u>19,017</u></b>	<b><u>17,269</u></b>

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

There was no significant unprovided deferred tax for the period.

### 5. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$90,807,000 (2000: HK\$69,455,000) and on the weighted average number of 3,085,421,362 (2000: weighted average number of 2,954,251,446 after adjusting for the rights issue in June 2001) shares in issue during the period.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 6. INTEREST IN ASSOCIATES/INTEREST IN JOINTLY CONTROLLED ENTITIES

In the current period, the Group's interest in Allied Kajima Limited has been reclassified as an interest in a jointly controlled entity instead of interest in an associate as in the past, following a review to comply with new accounting standards. Prior year amounts have been reclassified in order to reflect a consistent presentation.

### 7. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade receivable totalling HK\$2,668,196,000 (At 31st December, 2000: HK\$83,626,000), the ageing analysis of which is as follows:

	<b>30th June, 2001</b>	31st December, 2000
	<b>Unaudited</b>	Audited
	<b>HK\$'000</b>	HK\$'000
Aged:		
0 to 30 days	<b>2,473,667</b>	41,317
31 to 180 days	<b>53,726</b>	36,478
181 to 365 day	<b>144,468</b>	8,557
Over 365 days	<b>308,108</b>	103,215
	<b>2,979,969</b>	189,567
Less: provision for bad and doubtful debts	<b>(311,773)</b>	(105,941)
	<b><u>2,668,196</u></b>	<b><u>83,626</u></b>

Included in the above balance of HK\$2,979,969,000 (At 31st December, 2000: HK\$189,567,000) are term loans totalling HK\$1,202,033,000 (At 31st December, 2000: HK\$93,288,000), the maturity profile of which is shown in note 18.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

*for the six months ended 30th June, 2001*

### 7. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770 million shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770 million Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31st December, 2000. MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770 million Tian An shares to discharge the indebtedness owed by MT or foreclosing on the shares.

MT has defaulted under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group for the year ended 31st December, 2000, by marking to market those 770 million Tian An shares at the closing market price of HK\$0.134 as at 31st December, 2000. Despite the rise in market price of Tian An shares at the closing market price of HK\$0.19 as at 30th June, 2001, no adjustment of the said unrealised loss or write-back was accounted for in the income statement. The amount due from MT after the unrealised loss as at 30th June, 2001 was HK\$103,180,000 (At 31st December, 2000: Nil).

There were listed and unlisted securities of clients held as collateral against secured margin loans and term loans. The market value of the listed securities as at 30th June, 2001 was HK\$7,266 million (At 31st December, 2000: Nil).

The credit of trade receivables in respect of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific provisions are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such provisions.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$727,540,000 (At 31st December, 2000: HK\$143,147,000), the ageing analysis of which is stated as follows:

	<b>30th June, 2001 Unaudited HK\$'000</b>	31st December, 2000 Audited HK\$'000
Aged:		
0 to 30 days	529,129	42,768
31 to 180 days	14,559	21,223
181 to 365 days	11,696	51,895
Over 365 days	172,156	27,261
	<u>727,540</u>	<u>143,147</u>

### 9. SHARE CAPITAL

	<b>Number of shares</b>	<b>Value HK\$'000</b>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 2000, 31st December, 2000 and 30th June, 2001	<u>30,000,000,000</u>	<u>6,000,000</u>
Issued and fully paid:		
At 1st January, 2000	2,900,537,773	580,108
Exercise of warrant subscription rights	<u>1,651</u>	<u>–</u>
At 31st December, 2000	2,900,539,424	580,108
Rights issue during the period	<u>1,450,269,712</u>	<u>290,054</u>
At 30th June, 2001	<u>4,350,809,136</u>	<u>870,162</u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2001***10. REVALUATION RESERVES**

	<b>Property revaluation reserve</b>	<b>Investment revaluation reserve</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<u>          </u>	<u>          </u>	<u>          </u>
At 1st January, 2000	849,980	(52,453)	797,527
Deficit arising on revaluation	(336,261)	–	(336,261)
Adjustment due to overprovision for construction costs	941	–	941
Share of post-acquisition reserve movements of associates	27,337	48,564	75,901
Released on disposal of investment properties	(18,007)	–	(18,007)
	<u>          </u>	<u>          </u>	<u>          </u>
At 31st December, 2000	523,990	(3,889)	520,101
Transfer to income statement due to reduction in attributable reserve of an associate	15,666	–	15,666
Surplus arising on revaluation	–	13,391	13,391
Share of post-acquisition reserve movements of associates	–	2,628	2,628
Released on disposal of non-trading securities	–	(407)	(407)
Released on disposal of investment properties	(2,000)	–	(2,000)
	<u>          </u>	<u>          </u>	<u>          </u>
At 30th June, 2001	<u>537,656</u>	<u>11,723</u>	<u>549,379</u>



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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

*for the six months ended 30th June, 2001*

**11. ACCUMULATED PROFITS**

	<u>HK\$'000</u>
At 1st January, 2000	1,670,882
Loss attributable to shareholders	<u>(396,059)</u>
At 31st December, 2000	1,274,823
Profit attributable to shareholders	90,807
Transferred to capital reserve by an associate	<u>(664)</u>
At 30th June, 2001	<u><u>1,364,966</u></u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2001***12. OTHER RESERVES**

	Special capital reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital (goodwill) reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2000	2,320,430	386,150	72,044	(177,482)	(87,028)	2,514,114
Exercise of warrant subscription rights	-	2	-	-	-	2
Acquisition of additional interest in an associate	-	-	-	-	121,940	121,940
Share of post-acquisition reserve movements of associates	-	-	-	(67,156)	(3,852)	(71,008)
Exchange differences on translation of operations outside Hong Kong	-	-	-	(2,564)	-	(2,564)
Translation differences released in connection with the winding up of subsidiaries	-	-	-	43,000	-	43,000
Released on disposal of a property based subsidiary	-	-	-	(781)	-	(781)
At 31st December, 2000	<u>2,320,430</u>	<u>386,152</u>	<u>72,044</u>	<u>(204,983)</u>	<u>31,060</u>	<u>2,604,703</u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2001***12. OTHER RESERVES (CONT'D)**

	Special capital reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital (goodwill) reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December, 2000	2,320,430	386,152	72,044	(204,983)	31,060	2,604,703
Premium on issue of shares	–	72,513	–	–	–	72,513
Share issue expenses	–	(4,992)	–	–	–	(4,992)
Share of post-acquisition reserve movements of associates	–	–	–	41	–	41
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	(26,157)	–	(26,157)
Exchange differences on translation of operations outside Hong Kong	–	–	–	255	–	255
Released on winding up of subsidiaries	–	–	–	(33)	634	601
Amortisation of capital reserve	–	–	–	–	(10,302)	(10,302)
Transferred on reclassification of an associate to a subsidiary	–	–	–	219	(169)	50
Transferred from accumulated profits by an associate	–	–	–	–	664	664
At 30th June, 2001	<u>2,320,430</u>	<u>453,673</u>	<u>72,044</u>	<u>(230,658)</u>	<u>21,887</u>	<u>2,637,376</u>

Note

Note: The balance comprises goodwill of HK\$90,301,000 (At 31st December, 2000: HK\$90,935,000) and capital reserve of HK\$112,188,000 (At 31st December, 2000: HK\$121,995,000).

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 13. ACQUISITION OF SUBSIDIARIES

	<u>HK\$'000</u>
<b>Net assets acquired:</b>	
Fixed assets	114,238
Intangible assets	3,817
Interest in associates	1,690,260
Interest in jointly controlled entities	122,282
Investments in securities	843,578
Other investments	122,411
Properties held for sale	6,375
Accounts receivable, deposits and prepayments	2,733,213
Short-term bank deposits	94,550
Bank balances and cash	179,365
Accounts payable and accrued charges	(715,676)
Taxation	(22,824)
Bank borrowings	(796,710)
Deferred taxation	(2,212)
Minority interests	(2,053,404)
	<u>2,319,263</u>
Negative goodwill on acquisition	(254,201)
	<u><u>2,065,062</u></u>
<b>Satisfied by:</b>	
Cash	141,203
Reclassification of interest in associates	1,923,859
	<u><u>2,065,062</u></u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(141,203)
Bank loans and overdrafts acquired	(770,997)
Bank balances and cash acquired	273,915
	<u><u>(638,285)</u></u>

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 14. MAJOR NON-CASH TRANSACTION

During the period, the Group increased its capital by way of rights issue, part of the proceeds of which amounting to HK\$112,000,000 was set off against the amount due by the Company to Allied Group Limited ("Allied Group"), the ultimate holding company.

### 15. COMMITMENTS

	<b>30th June, 2001 Unaudited HK\$'000</b>	31st December, 2000 Audited HK\$'000
Capital expenditure contracted for but not provided in the financial statements:		
For property development projects	<b>46,840</b>	73,250
Others	<b>8,772</b>	39,304
	<b><u>55,612</u></b>	<b><u>112,554</u></b>
Other capital expenditure authorised but not contracted for	<b><u>2,000</u></b>	<b><u>–</u></b>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

for the six months ended 30th June, 2001

**16. LEASE COMMITMENTS**

The Group had future minimum lease payments payable under non-cancellable operating leases for each of the following periods:

	<b>30th June, 2001 Unaudited HK\$'000</b>	31st December, 2000 Audited HK\$'000
Operating leases in respect of rented premises:		
Within one year	<b>25,892</b>	1,106
In the second to fifth years inclusive	<b>57,926</b>	–
	<b><u>83,818</u></b>	<b><u>1,106</u></b>
Other operating leases:		
Within one year	<b>5,353</b>	–
In the second to fifth years inclusive	<b>9,808</b>	–
	<b><u>15,161</u></b>	<b><u>–</u></b>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

for the six months ended 30th June, 2001

**17. RELATED PARTY TRANSACTIONS**

The following is a summary of the significant transactions with related parties during the period:

(a)	<b>(Income)/Expenses</b>	
	<b>30th June, 2001 Unaudited HK\$'000</b>	<b>30th June, 2000 Unaudited HK\$'000</b>
Underwriting commission paid to the ultimate holding company (Note)	<b>2,660</b>	–
Corporate management services, calculated at 0.5% of the Group's net assets to the ultimate holding company	<b>12,449</b>	13,907
Rent, property management and air-conditioning fees from the ultimate holding company	<b>(1,661)</b>	(1,762)
Dividend income from a fellow subsidiary	<b>(12,200)</b>	–
Dividend income from associates	<b>(7,344)</b>	(15,424)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	<b>(7,466)</b>	(7,725)
Administration and management fees from a jointly controlled entity	<b>(680)</b>	(680)
Rent, property management and air-conditioning fees to a jointly controlled entity	<b>1,883</b>	2,080
Rent, property management and air-conditioning fees from an associate	<b>(631)</b>	(372)
Interest income from an associate	<b>(3,650)</b>	(7,117)

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2001

### 17. RELATED PARTY TRANSACTIONS (CONT'D)

- (b) During the period, both the Group and Kajima Overseas Asia Pte. Limited, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 30th June, 2001, the amounts lent to the Group totalled HK\$146,500,000 (At 30th June 2000: HK\$176,500,000).
- (c) Throughout the period, the Group had a several guarantee outstanding which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of the jointly controlled entity. The guarantee provided was in proportion to the Group's interest in the jointly controlled entity and the amount at 30th June, 2001 was HK\$230,000,000 (At 30th June 2000: HK\$260,000,000).
- (d) On 17th May, 2001, a property held by a subsidiary of the Company was disposed of to a subsidiary of an associate for a cash consideration of RMB5,000,000 (equivalent to HK\$4,713,000).

*Note:*

In June 2001, a total of 1,450,269,712 new shares were allotted by the Company by way of rights issue of HK\$0.20 each in the capital of the Company at a subscription price of HK\$0.25 per share as detailed in the Prospectus dated 30th May, 2001 to shareholders. Pursuant to an underwriting agreement made between the ultimate holding company and the Company, the ultimate holding company agreed to act as the underwriter of the rights issue and in return, a 2% underwriting commission equivalent to approximately HK\$2,660,000 was paid to the ultimate holding company. Out of the total net proceeds (after deduction of expenses) of approximately HK\$358,000,000, HK\$112,000,000 was set off against the amount due by the Company to the ultimate holding company and the remaining balance was applied for reducing the Group's debt and as general working capital of the Group.



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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2001***18. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES**

The following table list the assets and liabilities of the Group which have a term of maturity. Overdue assets are reported as on demand.

	At 30th June, 2001					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	14,817	164,675	-	-	-	179,492
Term loans	225,308	303,057	673,668	-	-	1,202,033
Debt securities	-	13,633	-	-	-	13,633
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Liabilities						
Bank loans and overdrafts	<u>35,061</u>	<u>1,529,012</u>	<u>131,490</u>	<u>569,929</u>	<u>266,582</u>	<u>2,532,074</u>
	At 31st December, 2000					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	7,432	9,324	-	-	-	16,756
Term loans	93,288	-	-	-	-	93,288
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Liabilities						
Bank loans and overdrafts	<u>71,502</u>	<u>349,795</u>	<u>474,754</u>	<u>634,356</u>	<u>273,508</u>	<u>1,803,915</u>

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## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

*for the six months ended 30th June, 2001*

### **19. SUBSEQUENT EVENT**

On 9th August, 2001, the Company announced that the Directors propose to recommend a bonus issue of warrants ("Bonus Warrants") at the forthcoming Extraordinary General Meeting of the Company with the rights to subscribe for new shares of HK\$0.20 each in the capital of the Company ("Shares") at an initial subscription price of HK\$0.27 per Share in cash, subject to adjustment, at any time between the date when dealings in the Bonus Warrants on the Stock Exchange commence (which is expected to be 20th September, 2001) and 17th September, 2002 (both days inclusive), to all holders of Shares whose names appear on the Register of Members of the Company on 17th September, 2001 and whose registered addresses are in Hong Kong on that date, on the basis of one warrant for every five existing Shares then held.