

# NOTES TO THE FINANCIAL STATEMENTS

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for the year ended 31 December 2001

## 1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property development and investment and investment holding.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE / CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group’s accounting policies that have affected the amounts reported for the current or prior years:

### ***Dividends proposed or declared after the balance sheet date***

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, 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 in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment (see Note 30) as at 31 December 2000 by increasing reserves by HK\$319,377,904 (1999: HK\$309,170,399) and the shareholders’ funds to HK\$23,478,423,517 (1999: HK\$20,526,492,023) from HK\$23,159,045,613 (1999: HK\$20,217,321,624).

### ***Goodwill***

In the current year, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### ***Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

#### ***Negative goodwill***

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

#### ***Investments in subsidiaries***

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

#### ***Interests in associates***

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

#### ***Investments in securities***

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

**3. SIGNIFICANT ACCOUNTING POLICIES** *continued*

***Investment properties***

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

***Property, plant and equipment***

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

|                                   |  |
|-----------------------------------|--|
| Leasehold land                    | Over the remaining term of the lease                   |
| Buildings                         | Over the shorter of the term of the lease, or 40 years |
| Furniture, fixtures and equipment | 20%  |
| Computers                         | 20%  |
| Motor vehicles                    | 25%  |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### 3. SIGNIFICANT ACCOUNTING POLICIES *continued*

#### ***Impairment***

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

#### ***Floating rate notes issue expenses***

Expenses incurred directly in connection with the issue of Floating Rate Notes are deferred and amortised on a straight line basis over the terms of the Notes.

#### ***Foreign currencies***

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

#### ***Taxation***

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### ***Operating leases***

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

#### ***Retirement benefits scheme***

The retirement benefit costs charged in the income statement represent the contributions paid and payable in respect of the current year to the Group's Enhanced Mandatory Provident Fund Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

**Recognition of income**

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Income from disposals of investments in securities is recognised on a trade date basis.

Management fee income and security service income are recognised when the services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

4. TURNOVER

|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--|------------------|------------------|
| Turnover comprises:                        |                  |                  |
| Gross rental income from properties        | 1,351,892        | 1,475,941        |
| Income from property sales                 | –                | 400              |
| Management fee and security service income | 3,558            | 3,905            |
|  | <b>1,355,450</b> | <b>1,480,246</b> |

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

**5. PROFIT FROM OPERATIONS**

|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|---|------------------|------------------|
| Profit from operations has been arrived at after charging (crediting):  |                  |                  |
| Staff costs   | 107,645          | 102,208          |
| Retirement benefits scheme contributions (Note)   | 4,456            | 10,050           |
| Forfeited contributions   | (2,742)          | –                |
|   | <b>109,359</b>   | 112,258          |
| Depreciation  | 6,029            | 5,624            |
| Auditors' remuneration  | 1,636            | 1,495            |
| Rental income arising from operating leases less out-goings   | (1,131,580)      | (1,240,958)      |
| Dividends from  |                  |                  |
| – listed investments  | (8,612)          | (7,040)          |
| – unlisted investments  | (5,796)          | (4,790)          |
| Gain on disposal of investments in other securities (including HK\$Nil (2000: HK\$293,922,213) previously recognised in investment revaluation reserve) | –                | (293,842)        |
| Gain on property sales  | –                | (350)            |
| Interest income   | (3,749)          | (17,021)         |

*Note:*

A new enhanced MPF scheme (the “Enhanced MPF Scheme”) was established effective 1 December 2000 to replace the old defined benefit scheme (the “Old Scheme”), which was terminated at the close of business on 30 November 2000 with all assets transferred to the Enhanced MPF Scheme. The Group targeted to maintain broadly the same benefit at retirement under the Enhanced MPF Scheme.

A special retirement transfer value was therefore offered to all transferring Old Scheme members. The leaving service benefit of all members of the Old Scheme were also enhanced as incentives to convert. Retirement benefit scheme contribution in 2000 therefore included these transfer values. The Group injected HK\$4,735,323 to finance such transfer values of which sums of HK\$570,398 and HK\$146,314 were attributable to the Directors and the employee referred to in notes 6 and 7 respectively. Their retirement transfer values, which make up a substantial part of the aggregate transfer values, would only be fully vested upon their attaining retirement age. Forfeitures will be used to fund future contributions. During the year, a total of HK\$2,741,993 forfeited contributions were fully utilised to fund the Group's contributions.

The Enhanced MPF Scheme is a defined contribution plan, offering a range of investment choice to all staff of the Group, providing benefits based on accumulated investment returns. The Enhanced MPF Scheme covers the Group's contributions to the plan (which are immediately vested) are based on fixed percentages of members' salary, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

On 4 January 2001, the Enhanced MPF Scheme was granted a participation certificate by the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

**6. DIRECTORS' REMUNERATION**

|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|---|------------------|------------------|
| Directors' fees   | 792              | 857              |
| Other emoluments:                                       |                  |                  |
| Basic salaries  | 7,776            | 9,871            |
| Housing, other allowances and benefits in kind          | 3,556            | 4,629            |
| Bonus paid  | 1,625            | 1,142            |
| Retirement benefits scheme regular contributions (Note) | 210              | 578              |
|   | <b>13,959</b>    | <b>17,077</b>    |

*Note: In 2000, as part of the restructuring of its retirement scheme arrangements, the Group injected funds to finance certain transfer values. A substantial part of such transfer values, including the portion attributable to the Directors, are only vested upon the relevant members attaining retirement. Details are set out in note 5.*

The number of Directors whose remuneration/fees within the bands set out below is as follows:

|                               | 2001<br>No. of<br>Directors | 2000<br>No. of<br>Directors |
|-------------------------------|-----------------------------|-----------------------------|
| HK\$ 0 – HK\$1,000,000        | 11                          | 11                          |
| HK\$1,000,001 – HK\$1,500,000 | 1                           | –                           |
| HK\$1,500,001 – HK\$2,000,000 | –                           | –                           |
| HK\$2,000,001 – HK\$2,500,000 | –                           | –                           |
| HK\$2,500,001 – HK\$3,000,000 | –                           | –                           |
| HK\$3,000,001 – HK\$3,500,000 | 1                           | 1                           |
| HK\$3,500,001 – HK\$4,000,000 | 1                           | 1                           |
| HK\$4,000,001 – HK\$4,500,000 | –                           | 1                           |
| HK\$4,500,001 – HK\$5,000,000 | 1                           | 1                           |
|                               | <b>15</b>                   | <b>15</b>                   |

Directors' fees paid to independent non-executive Directors during the year totalled HK\$249,740 (2000: HK\$170,000). They received no other emoluments from the Company or any of its subsidiaries.

**7. EMPLOYEE COSTS**

The five highest paid individuals included three (2000: four) Directors, details of whose remuneration are set out in note 6. The remuneration of the remaining individuals is detailed as follows:

|  | 2001<br>HK\$'000            | 2000<br>HK\$'000            |
|--|-----------------------------|-----------------------------|
| Basic salaries, housing, other allowances and benefits in kind | 3,886                       | 2,171                       |
| Bonus paid   | 369                         | 84                          |
| Retirement benefits scheme regular contributions (Note)        | 24                          | 128                         |
|  | <b>4,279</b>                | <b>2,383</b>                |
|  | 2001<br>No. of<br>employees | 2000<br>No. of<br>employees |
| Remuneration within the band:                                  |                             |                             |
| HK\$1,000,001 – HK\$1,500,000                                  | –                           | –                           |
| HK\$1,500,001 – HK\$2,000,000                                  | 1                           | –                           |
| HK\$2,000,001 – HK\$2,500,000                                  | 1                           | 1                           |
|  | <b>2</b>                    | <b>1</b>                    |

*Note: In 2000, as part of the restructuring of its retirement scheme arrangements, the Group injected funds to finance certain transfer values. A substantial part of such transfer values, including the portion attributable to the employee, are only vested upon the employees attaining retirement. Details are set out in note 5.*

**8. FINANCE COSTS**

|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--|------------------|------------------|
| Interest on  |                  |                  |
| – bank loans, overdraft and other loans:                                 |                  |                  |
| wholly repayable within five years                                       | 179,209          | 243,409          |
| not repayable within five years  | 4,789            | –                |
| – convertible bonds  | –                | 25,829           |
| – floating rate notes  | 117,678          | 165,409          |
|  | <b>301,676</b>   | <b>434,647</b>   |
| Amortisation of convertible bonds and floating rate notes issue expenses | 2,855            | 5,123            |
| Bank charges   | 7,930            | 6,077            |
| Exchange loss  | –                | 3,173            |
| Medium Term Note Programme expenses                                      | 1,967            | –                |
|  | <b>314,428</b>   | <b>449,020</b>   |



**9. TAXATION**

|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|---|------------------|------------------|
| The charge comprises:                                     |                  |                  |
| Hong Kong Profits Tax                                     |                  |                  |
| – for the year  | 114,799          | 117,212          |
| – under(over)provision in prior years                     | 104              | (2)              |
| Taxation attributable to the Company and its subsidiaries | <b>114,903</b>   | 117,210          |

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

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 for taxation purposes.

**10. NET PROFIT FOR THE YEAR**

Of the Group's net profit for the year of HK\$600,343,225 (2000: HK\$850,173,491), a profit of HK\$336,547,511 (2000: HK\$389,246,795) has been dealt with in the financial statements of the Company.

**11. DIVIDENDS**

|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--|------------------|------------------|
| Ordinary shares:   |                  |                  |
| Interim dividend, paid – HK\$0.10 per share (2000: HK\$0.11)   | 102,833          | 113,686          |
| Final dividend, proposed – HK\$0.28 per share (2000: HK\$0.31) | 288,765          | 319,378          |
|  | <b>391,598</b>   | 433,064          |

The 2001 final dividend of HK\$0.28 per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2001 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2000 final and 2001 interim dividends. These alternatives were accepted by the shareholders as follows:

|                   | 2001<br>Interim<br>HK\$'000 | 2000<br>Final<br>HK\$'000 |
|-------------------|-----------------------------|---------------------------|
| Dividends:        |                             |                           |
| Cash              | 83,025                      | 268,259                   |
| Share alternative | 19,808                      | 51,119                    |
|                   | <b>102,833</b>              | 319,378                   |

**12. EARNINGS PER SHARE**

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

|   | 2001                   | 2000            |
|---|------------------------|-----------------|
| Earnings for the purposes of basic and diluted earnings per share (net profit for the year) | <b>HK\$600,343,225</b> | HK\$850,173,491 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share     | <b>1,030,485,146</b>   | 1,032,763,163   |
| Effect of dilutive potential ordinary shares:<br>Share options                              | <b>357,639</b>         | 231,730         |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share   | <b>1,030,842,785</b>   | 1,032,994,893   |

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.

**13. PROPERTY, PLANT AND EQUIPMENT**

|                             | Land and<br>buildings in<br>Hong Kong<br>under long lease<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Computers<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------|---|---|-----------------------|-------------------------------|-------------------|
| THE GROUP                   |   |   |                       |                               |                   |
| COST OR VALUATION           |   |   |                       |                               |                   |
| At 1 January 2001           | 46,000  | 38,153  | 4,799                 | 1,611                         | 90,563            |
| Additions                   | –   | 1,846   | 532                   | –                             | 2,378             |
| Disposals                   | –   | –   | (51)                  | –                             | (51)              |
| Deficit on revaluation      | (3,500)   | –   | –                     | –                             | (3,500)           |
| <b>At 31 December 2001</b>  | <b>42,500</b>   | <b>39,999</b>                                       | <b>5,280</b>          | <b>1,611</b>                  | <b>89,390</b>     |
| Comprising:                 |   |   |                       |                               |                   |
| At cost                     | –   | 39,999  | 5,280                 | 1,611                         | 46,890            |
| At valuation 2001           | 42,500  | –   | –                     | –                             | 42,500            |
|                             | 42,500  | 39,999  | 5,280                 | 1,611                         | 89,390            |
| ACCUMULATED<br>DEPRECIATION |   |   |                       |                               |                   |
| At 1 January 2001           | –   | 30,620  | 1,994                 | 1,317                         | 33,931            |
| Provided for the year       | 677   | 4,166   | 892                   | 294                           | 6,029             |
| Eliminated on disposals     | –   | –   | (51)                  | –                             | (51)              |
| Adjustment on revaluation   | (677)   | –   | –                     | –                             | (677)             |
| <b>At 31 December 2001</b>  | <b>–</b>  | <b>34,786</b>                                       | <b>2,835</b>          | <b>1,611</b>                  | <b>39,232</b>     |
| NET BOOK VALUES             |   |   |                       |                               |                   |
| <b>At 31 December 2001</b>  | <b>42,500</b>   | <b>5,213</b>  | <b>2,445</b>          | <b>–</b>                      | <b>50,158</b>     |
| At 31 December 2000         | 46,000  | 7,533   | 2,805                 | 294                           | 56,632            |

13. PROPERTY, PLANT AND EQUIPMENT *continued*

|                             | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Computers<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------|---|-----------------------|-------------------------------|-------------------|
| THE COMPANY                 |   |                       |                               |                   |
| COST                        |   |                       |                               |                   |
| At 1 January 2001           | 18,637  | 4,785                 | 1,611                         | 25,033            |
| Additions                   | 1,120   | 532                   | –                             | 1,652             |
| Disposals                   | –   | (51)                  | –                             | (51)              |
| <b>At 31 December 2001</b>  | <b>19,757</b>                                       | <b>5,266</b>          | <b>1,611</b>                  | <b>26,634</b>     |
| ACCUMULATED<br>DEPRECIATION |   |                       |                               |                   |
| At 1 January 2001           | 13,293  | 1,993                 | 1,317                         | 16,603            |
| Provided for the year       | 3,164   | 889                   | 294                           | 4,347             |
| Eliminated on disposals     | –   | (51)                  | –                             | (51)              |
| <b>At 31 December 2001</b>  | <b>16,457</b>                                       | <b>2,831</b>          | <b>1,611</b>                  | <b>20,899</b>     |
| NET BOOK VALUES             |   |                       |                               |                   |
| <b>At 31 December 2001</b>  | <b>3,300</b>  | <b>2,435</b>          | <b>–</b>                      | <b>5,735</b>      |
| At 31 December 2000         | 5,344   | 2,792                 | 294                           | 8,430             |

The leasehold land and buildings of the Group were revalued at 31 December 2001 by Messrs. Knight Frank, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$34,084,593 (2000: HK\$34,609,137).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$20,512,083 (2000: HK\$19,817,086) and HK\$846,317 (2000: HK\$844,238) respectively and accumulated depreciation of HK\$18,692,470 (2000: HK\$17,747,881) and HK\$804,179 (2000: HK\$782,827) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$944,589 (2000: HK\$1,123,087) and HK\$21,352 (2000: HK\$29,460) respectively.

**14. INVESTMENT PROPERTIES**

|   | THE GROUP         |                   | THE COMPANY      |                  |
|---|-------------------|-------------------|------------------|------------------|
|   | 2001<br>HK\$'000  | 2000<br>HK\$'000  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| At 1 January                            | 28,432,700        | 25,173,000        | 3,740,000        | 3,250,000        |
| Additions                               | 178,098           | 9,955             | 1,331            | 1,263            |
| Adjustment resulted from cost variation | (50)              | (3,229)           | –                | –                |
| Refund of cost                          | –                 | (110)             | –                | –                |
| Disposals                               | –                 | (300)             | –                | –                |
| (Deficit) surplus on revaluation        | (1,972,248)       | 3,253,384         | (241,331)        | 488,737          |
| <b>At 31 December</b>                   | <b>26,638,500</b> | <b>28,432,700</b> | <b>3,500,000</b> | <b>3,740,000</b> |

The value of investment properties comprises:

|                     | THE GROUP         |                   | THE COMPANY      |                  |
|---------------------|-------------------|-------------------|------------------|------------------|
|                     | 2001<br>HK\$'000  | 2000<br>HK\$'000  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Land in Hong Kong:  |                   |                   |                  |                  |
| – Medium term lease | 4,300,000         | 4,600,000         | –                | –                |
| – Long lease        | 22,338,500        | 23,832,700        | 3,500,000        | 3,740,000        |
|                     | <b>26,638,500</b> | <b>28,432,700</b> | <b>3,500,000</b> | <b>3,740,000</b> |

The investment properties of the Group and the Company were revalued at 31 December 2001 by Messrs. Knight Frank, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for use under operating leases.

**15. INVESTMENTS IN SUBSIDIARIES**

|                          | THE COMPANY       |                   |
|--------------------------|-------------------|-------------------|
|                          | 2001<br>HK\$'000  | 2000<br>HK\$'000  |
| Unlisted shares, at cost | 5                 | 5                 |
| Amounts due therefrom    | 13,312,167        | 12,799,620        |
|                          | <b>13,312,172</b> | <b>12,799,625</b> |
| Less: Impairment loss    | (404,000)         | (404,000)         |
|                          | <b>12,908,172</b> | <b>12,395,625</b> |

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2001 are set out in note 38.

**16. INTERESTS IN ASSOCIATES**

|                          | THE GROUP        |                  | THE COMPANY      |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Unlisted shares, at cost | –                | –                | 3                | 3                |
| Share of net liabilities | (77,164)         | (91,495)         | –                | –                |
|                          | (77,164)         | (91,495)         | 3                | 3                |
| Amounts due therefrom    | 149,786          | 345,878          | –                | –                |
|                          | 72,622           | 254,383          | 3                | 3                |
| Less: Impairment loss    | (11,298)         | (202,999)        | –                | –                |
|                          | 61,324           | 51,384           | 3                | 3                |

The aggregate attributable share of results of the associates is based on the unaudited management accounts of Parallel Asia Engineering Company Limited and Wingrove Investment Pte Limited for the year ended 31 December 2001.

Details of the Group's associates at 31 December 2001 are as follows:

| Name of associate                         | Form of business structure | Place of incorporation and operation | Class of share held | Proportion of nominal value of issued share capital held by the Company |          | Principal activity   |
|---|----------------------------|--------------------------------------|---------------------|---|----------|----------------------|
|   |                            |                                      |                     | indirectly  | directly |                      |
| Parallel Asia Engineering Company Limited | Incorporated               | Hong Kong                            | Ordinary            | –   | 25%      | Investment holding   |
| Wingrove Investment Pte Limited           | Incorporated               | Singapore                            | Ordinary            | 25%   | –        | Property development |

**17. INVESTMENTS IN SECURITIES**

## THE GROUP

|   | Other securities |                  |
|---|------------------|------------------|
|   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Equity securities:                                  |                  |                  |
| Listed in Hong Kong                                 | 1,057,222        | 1,623,930        |
| Other investments:                                  |                  |                  |
| Club debentures                                     | 2,831            | 2,831            |
| Unlisted shares                                     | 136,856          | 136,856          |
| Amounts due therefrom                               | 685,483          | 668,276          |
|   | 822,339          | 805,132          |
| Less: Impairment losses                             | (128,333)        | (134,558)        |
|   | 694,006          | 670,574          |
|   | 696,837          | 673,405          |
|   | 1,754,059        | 2,297,335        |
| Market value of securities listed in Hong Kong      | 1,057,222        | 1,623,930        |
| Carrying amount analysed for reporting purposes as: |                  |                  |
| Non-current   | 1,754,059        | 2,297,335        |

## THE COMPANY

|  | Other securities |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Other investments:                                 |                  |                  |
| Club debentures                                    | 2,831            | 2,831            |
| Carrying amount analysed for reporting purpose as: |                  |                  |
| Non-current  | 2,831            | 2,831            |

**18. NEGATIVE GOODWILL**

|  | THE GROUP<br>2001<br>HK\$'000 |
|--|-------------------------------|
| Negative goodwill arising on acquisition of additional interest<br>in a subsidiary during the year and balance at 31 December 2001 | 1,196                         |
| Released to income during the year and balance at 31 December 2001   | (60)                          |
| Carrying amount at 31 December 2001  | <b>1,136</b>                  |

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of twenty years.

**19. STAFF HOUSING LOANS, SECURED**

|  | THE GROUP<br>AND THE COMPANY |                  |
|--|------------------------------|------------------|
|  | 2001<br>HK\$'000             | 2000<br>HK\$'000 |
| Staff housing loans, secured                                 | 23,700                       | 31,481           |
| Less: Amounts due within one year shown under current assets | (2,764)                      | (2,583)          |
|  | <b>20,936</b>                | <b>28,898</b>    |

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% per annum.

**20. ACCOUNTS RECEIVABLE**

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

**21. CREDITORS AND ACCRUALS**

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

**22. ADVANCES FROM INVESTEEES**

The advances are unsecured, interest free and are not repayable within one year.



**23. AMOUNTS DUE TO MINORITY SHAREHOLDERS**

The amounts are unsecured, interest free and are not repayable within one year.

**24. LONG TERM LOAN**

The amount was due to the ultimate holding company of a minority shareholder of a subsidiary and was unsecured, bore interest at the rate of 1.5% per annum over HIBOR and was not repayable within one year.

**25. LONG TERM BANK LOANS**

|   | THE GROUP<br>AND THE COMPANY |                  |
|---|------------------------------|------------------|
|   | 2001<br>HK\$'000             | 2000<br>HK\$'000 |
| Bank loans, unsecured   | <b>3,228,471</b>             | 2,705,500        |
| The bank loans are repayable as follows:                          |                              |                  |
| Within one year   | <b>139,837</b>               | 815,500          |
| More than one year, but not exceeding two years                   | <b>435,500</b>               | 150,000          |
| More than two years, but not exceeding five years                 | <b>2,172,634</b>             | 1,740,000        |
| More than five years  | <b>480,500</b>               | –                |
|   | <b>3,228,471</b>             | 2,705,500        |
| Less: Amounts due within one year shown under current liabilities | <b>(139,837)</b>             | (815,500)        |
|   | <b>3,088,634</b>             | 1,890,000        |

**26. FLOATING RATE NOTES**

|  | THE GROUP        |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Floating rate notes  | 2,400,000        | 2,400,000        |
| Less: Unamortised notes issue expenses                           | (3,406)          | (6,261)          |
|  | <b>2,396,594</b> | 2,393,739        |
| Less: Amount due within one year shown under current liabilities | (1,999,547)      | –                |
|  | <b>397,047</b>   | 2,393,739        |

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.

27. SHARE CAPITAL

|  | THE COMPANY      |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Ordinary shares of HK\$5 each            |                  |                  |
| Authorised:                              |                  |                  |
| <b>At 1 January and 31 December</b>      | <b>7,250,000</b> | 7,250,000        |
| Issued and fully paid:                   |                  |                  |
| At 1 January                             | 5,151,256        | 5,183,810        |
| Issued pursuant to scrip dividend scheme | 40,080           | 18,481           |
| Shares repurchased and cancelled         | (34,820)         | (51,035)         |
| <b>At 31 December</b>                    | <b>5,156,516</b> | 5,151,256        |

During the year, 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                        |
| July                | 2,033,000                            | 10.05           | 8.95        | 18,849,934                        |
| September           | 1,550,000                            | 7.65            | 7.15        | 11,659,561                        |

The above shares were cancelled upon repurchase.

## 28. EXECUTIVE SHARE OPTION SCHEME

On 28 April 1995, an Executive Share Option Scheme was approved by the shareholders under which the Directors of the Company may, at their discretion, offer any employee (including any director) of the Company or of any of its wholly-owned subsidiary options to subscribe for shares (the “Shares”) in the Company subject to the terms and conditions stipulated in the Executive Share Option Scheme.

At 31 December 2001, the Company had outstanding options granted to qualifying employees (including Directors) of the Company and its wholly-owned subsidiaries to subscribe for shares of the Company as follows:

| Date of grant    | Exercise price per share<br>HK\$ | Exercise period                      | Number of options outstanding |
|------------------|----------------------------------|--------------------------------------|-------------------------------|
| 3 May 1995       | 13.46                            | 3 May 1997 to 2 May 2005             | 900,000                       |
| 7 January 1999   | 9.22                             | 7 January 2001 to 6 January 2009     | 1,350,000                     |
| 23 December 1999 | 7.54                             | 23 December 2001 to 22 December 2009 | 1,200,000                     |
|                  |                                  |                                      | 3,450,000                     |

The consideration paid on each grant of options was HK\$1.00. During the year, certain granted options to subscribe for 1,125,000 shares of the Company lapsed on resignation of the grantee.

The maximum number of Shares in respect of which options may be granted under the Executive Share Option Scheme (together with the Shares issued and issuable under the Executive Share Option Scheme) by the Company to or for the benefit of employees may not exceed in nominal value three percent of the issued share capital of the Company (excluding Shares issued pursuant to the Executive Share Option Scheme) from time to time.

## 29. ACCUMULATED PROFITS

|                                      | THE GROUP        |                  | THE COMPANY      |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| At 1 January                         | 3,436,247        | 3,110,025        | 4,077,068        | 4,211,773        |
| Share repurchased and cancelled:     |                  |                  |                  |                  |
| – Nominal value of share repurchased | (34,820)         | (51,035)         | (34,820)         | (51,035)         |
| – Premium on shares repurchased      | (29,500)         | (39,836)         | (29,500)         | (39,836)         |
| – Share repurchase expenses          | –                | (16)             | –                | (16)             |
| Net profit for the year              | 600,343          | 850,173          | 336,548          | 389,246          |
| Profit available for distribution    | 3,972,270        | 3,869,311        | 4,349,296        | 4,510,132        |
| Dividends                            | (391,598)        | (433,064)        | (391,598)        | (433,064)        |
| <b>At 31 December</b>                | <b>3,580,672</b> | <b>3,436,247</b> | <b>3,957,698</b> | <b>4,077,068</b> |

The accumulated profits of the Group include accumulated losses of HK\$88,130,335 (2000: HK\$85,792,248) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2001 amounted to HK\$4,057,697,703 (2000: HK\$4,177,068,123), being its accumulated profits and general reserve at that date.

**30. OTHER RESERVES**

|   | Share<br>premium<br>account<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 |
|---|---|--|--|
| <b>THE GROUP</b>  |   |  |  |
| At 1 January 2000   |   |  |  |
| – as original stated  | 1,258,363                               | 8,345,106  | 1,654,177  |
| – prior year adjustment, derecognition of liability for final dividend for 1999                               | –                                       | –  | –  |
| – as restated   | 1,258,363                               | 8,345,106  | 1,654,177  |
| Premium on issue of shares pursuant to scrip dividend scheme  | 14,189                                  | –  | –  |
| Share issue expenses  | (14)                                    | –  | –  |
| Shares repurchased and cancelled  | –                                       | –  | –  |
| Unrealised loss on investments in other securities  | –                                       | –  | (190,050)  |
| Recognition of unrealised gain on disposal of investments in other securities transferred to income statement | –                                       | –  | (293,922)  |
| Surplus on revaluation of investment properties   | –                                       | 3,253,384  | –  |
| Surplus on revaluation of land and buildings  | –                                       | –  | –  |
| Surplus on revaluation of investment properties shared by minority shareholders                               | –                                       | (189,533)  | –  |
| Share of reserve of an associate  | –                                       | –  | –  |
| Realisation on disposal of investment properties transferred to income statement                              | –                                       | (250)  | –  |
| Final dividend for 1999 paid  | –                                       | –  | –  |
| Amount set aside for 2000 dividend  | –                                       | –  | –  |
| Interim dividend for 2000 paid  | –                                       | –  | –  |
| At 31 December 2000   | 1,272,538                               | 11,408,707   | 1,170,205  |
| Premium on issue of shares pursuant to scrip dividend scheme  | 30,847                                  | –  | –  |
| Share issue expenses  | (31)                                    | –  | –  |
| Shares repurchased and cancelled  | –                                       | –  | –  |
| Unrealised loss on investments in other securities  | –                                       | –  | (566,708)  |
| Deficit on revaluation of investment properties   | –                                       | (1,972,248)  | –  |
| Deficit on revaluation of land and buildings  | –                                       | –  | –  |
| Deficit on revaluation of investment properties shared by minority shareholders                               | –                                       | 131,703  | –  |
| Reversed on disposal of an associate  | –                                       | –  | –  |
| Final dividend for 2000 paid  | –                                       | –  | –  |
| Amount set aside for 2001 dividend  | –                                       | –  | –  |
| Interim dividend for 2001 paid  | –                                       | –  | –  |
| <b>At 31 December 2001</b>  | <b>1,303,354</b>                        | <b>9,568,162</b>   | <b>603,497</b>                                   |

| Asset<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Dividend<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|---|--------------------------------|------------------------------------|--|--------------------------------|---------------------------------|-------------------|
| 8,719                                       | 500,718                        | (12,736)                           | 69,140                                       | 100,000                        | –                               | 11,923,487        |
| –   | –                              | –                                  | –  | –                              | 309,170                         | 309,170           |
| 8,719                                       | 500,718                        | (12,736)                           | 69,140                                       | 100,000                        | 309,170                         | 12,232,657        |
| –   | –                              | –                                  | –  | –                              | –                               | 14,189            |
| –   | –                              | –                                  | –  | –                              | –                               | (14)              |
| –   | –                              | –                                  | 51,035                                       | –                              | –                               | 51,035            |
| –   | –                              | –                                  | –  | –                              | –                               | (190,050)         |
| –   | –                              | –                                  | –  | –                              | –                               | (293,922)         |
| –   | –                              | –                                  | –  | –                              | –                               | 3,253,384         |
| 2,833                                       | –                              | –                                  | –  | –                              | –                               | 2,833             |
| –   | –                              | –                                  | –  | –                              | –                               | (189,533)         |
| –   | 384                            | –                                  | –  | –                              | –                               | 384               |
| –   | –                              | –                                  | –  | –                              | –                               | (250)             |
| –   | –                              | –                                  | –  | –                              | (309,170)                       | (309,170)         |
| –   | –                              | –                                  | –  | –                              | 433,064                         | 433,064           |
| –   | –                              | –                                  | –  | –                              | (113,686)                       | (113,686)         |
| 11,552                                      | 501,102                        | (12,736)                           | 120,175                                      | 100,000                        | 319,378                         | 14,890,921        |
| –   | –                              | –                                  | –  | –                              | –                               | 30,847            |
| –   | –                              | –                                  | –  | –                              | –                               | (31)              |
| –   | –                              | –                                  | 34,820                                       | –                              | –                               | 34,820            |
| –   | –                              | –                                  | –  | –                              | –                               | (566,708)         |
| –   | –                              | –                                  | –  | –                              | –                               | (1,972,248)       |
| (2,823)                                     | –                              | –                                  | –  | –                              | –                               | (2,823)           |
| –   | –                              | –                                  | –  | –                              | –                               | 131,703           |
| –   | 1,133                          | 12,736                             | –  | –                              | –                               | 13,869            |
| –   | –                              | –                                  | –  | –                              | (319,378)                       | (319,378)         |
| –   | –                              | –                                  | –  | –                              | 391,598                         | 391,598           |
| –   | –                              | –                                  | –  | –                              | (102,833)                       | (102,833)         |
| <b>8,729</b>                                | <b>502,235</b>                 | <b>–</b>                           | <b>154,995</b>                               | <b>100,000</b>                 | <b>288,765</b>                  | <b>12,529,737</b> |

30. OTHER RESERVES *continued*

|  | Share<br>premium<br>account<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Dividend<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--|--|--------------------------------|---------------------------------|-------------------|
| THE COMPANY  |   |  |  |                                |                                 |                   |
| At 1 January 2000  |   |  |  |                                |                                 |                   |
| – as original stated   | 1,258,363                               | 1,951,499  | 69,140                                       | 100,000                        | –                               | 3,379,002         |
| – prior year adjustment,<br>derecognition of<br>liability for final<br>dividend for 1999 | –                                       | –  | –  | –                              | 309,170                         | 309,170           |
| – as restated  | 1,258,363                               | 1,951,499  | 69,140                                       | 100,000                        | 309,170                         | 3,688,172         |
| Premium on issue of<br>shares pursuant to<br>scrip dividend scheme                       | 14,189                                  | –  | –  | –                              | –                               | 14,189            |
| Share issue expenses   | (14)                                    | –  | –  | –                              | –                               | (14)              |
| Surplus on revaluation of<br>investment properties                                       | –                                       | 488,737  | –  | –                              | –                               | 488,737           |
| Shares repurchased and<br>cancelled  | –                                       | –  | 51,035                                       | –                              | –                               | 51,035            |
| Final dividend for 1999 paid   | –                                       | –  | –  | –                              | (309,170)                       | (309,170)         |
| Amount set aside for<br>2000 dividend  | –                                       | –  | –  | –                              | 433,064                         | 433,064           |
| Interim dividend for<br>2000 paid  | –                                       | –  | –  | –                              | (113,686)                       | (113,686)         |
| At 31 December 2000  | 1,272,538                               | 2,440,236  | 120,175                                      | 100,000                        | 319,378                         | 4,252,327         |
| Premium on issue of<br>shares pursuant to<br>scrip dividend scheme                       | 30,847                                  | –  | –  | –                              | –                               | 30,847            |
| Share issue expenses   | (31)                                    | –  | –  | –                              | –                               | (31)              |
| Deficit on revaluation<br>of investment properties                                       | –                                       | (241,331)  | –  | –                              | –                               | (241,331)         |
| Shares repurchased and<br>cancelled  | –                                       | –  | 34,820                                       | –                              | –                               | 34,820            |
| Final dividend for 2000 paid   | –                                       | –  | –  | –                              | (319,378)                       | (319,378)         |
| Amount set aside for<br>2001 dividend  | –                                       | –  | –  | –                              | 391,598                         | 391,598           |
| Interim dividend for<br>2001 paid  | –                                       | –  | –  | –                              | (102,833)                       | (102,833)         |
| <b>At 31 December 2001</b>   | <b>1,303,354</b>                        | <b>2,198,905</b>   | <b>154,995</b>                               | <b>100,000</b>                 | <b>288,765</b>                  | <b>4,046,019</b>  |

**30. OTHER RESERVES** *continued*

(a) Included in the above are the following Group's share of post-acquisition reserves of the associates:

|                        | Capital<br>reserve<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------|--------------------------------|------------------------------------|-------------------|
| At 1 January 2001      | 2,130                          | (12,736)                           | (10,606)          |
| Change during the year | (2,130)                        | 12,736                             | 10,606            |
| At 31 December 2001    | –                              | –                                  | –                 |

(b) General reserve

General reserve was set up from the transfer of accumulated profits.

(c) Capital reserve

Capital reserve comprises negative goodwill of HK\$516,142,884 (2000: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

**31. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
|--|------------------|------------------|
| Profit before taxation   | 778,623          | 1,033,126        |
| Impairment loss arising (reversed) in respect of interests in associates                   | 4,880            | (3,419)          |
| Impairment loss reversed in respect of investments in securities                           | (6,225)          | –                |
| Share of results of associates   | 2,338            | (4,210)          |
| Net interest expenses  | 297,927          | 417,626          |
| Dividend income  | (14,408)         | (11,830)         |
| Depreciation   | 6,029            | 5,624            |
| Gain on property sales   | –                | (350)            |
| Gain on disposal of an associate   | (33,531)         | –                |
| Gain on disposal of investments in other securities  | –                | (293,842)        |
| Gain on disposal of property, plant and equipment  | –                | (20)             |
| Gain on repurchase of convertible bonds  | –                | (2)              |
| Exchange loss on advances from investees   | –                | 3,193            |
| Amortisation of convertible bonds and floating rate notes issue expenses                   | 2,855            | 5,123            |
| Release of negative goodwill arising on acquisition of additional interest in a subsidiary | (60)             | –                |
| (Increase) decrease in accounts receivable, prepayments and deposits                       | (41,142)         | 2,513            |
| Decrease in staff housing loans, secured   | 7,781            | 25,802           |
| Decrease in rental deposits from tenants, creditors and accruals                           | (19,856)         | (12,346)         |
| Net cash inflow from operating activities  | 985,211          | 1,166,988        |



**32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

|   | Share capital<br>and share<br>premium<br>HK\$'000 | Bank loans,<br>other loans<br>and other<br>financing<br>HK\$'000 |
|---|---|--|
| At 1 January 2000   | 6,442,173   | 6,609,827  |
| Share issue expenses  | (14)  | –  |
| Repurchase of own shares  | (90,887)  | –  |
| New unsecured bank loans  | –   | 2,305,500  |
| Repayment of unsecured bank loans   | –   | (2,290,000)  |
| Repurchase of convertible bonds   | –   | (923,374)  |
| Advances from investees   | –   | 9,763  |
| <b>Net cash outflow from financing</b>  | <b>(90,901)</b>                                   | <b>(898,111)</b>   |
| Exchange loss on advances from investees  | –   | 3,193  |
| Dividend income from investees  | –   | (4,790)  |
| Premium on share repurchase   | 39,852  | –  |
| Gain on repurchase of convertible bonds   | –   | (2)  |
| Amortisation of convertible bonds and floating rate notes issue expenses                        | –   | 5,123  |
| Issue of shares pursuant to scrip dividend scheme<br>for 1999 final and 2000 interim dividends  | 32,670  | –  |
|   | 72,522  | 3,524  |
| At 31 December 2000 and 1 January 2001  | 6,423,794   | 5,715,240  |
| Share issue expenses  | (31)  | –  |
| Repurchase of own shares  | (64,320)  | –  |
| New unsecured bank loans  | –   | 1,604,814  |
| Repayment of unsecured bank loans   | –   | (1,081,843)  |
| Repayment of long term loan in respect of acquisition<br>of additional interest in a subsidiary | –   | (263,754)  |
| Repayment of advances from investees  | –   | (1,115)  |
| <b>Net cash (outflow) inflow from financing</b>   | <b>(64,351)</b>                                   | <b>258,102</b>   |
| Dividend income from investees  | –   | (5,796)  |
| Premium on share repurchase   | 29,500  | –  |
| Amortisation of convertible bonds and floating rate notes issue expenses                        | –   | 2,855  |
| Issue of shares pursuant to scrip dividend scheme<br>for 2000 final and 2001 interim dividends  | 70,927  | –  |
|   | 100,427   | (2,941)  |
| <b>At 31 December 2001</b>  | <b>6,459,870</b>                                  | <b>5,970,401</b>   |

### 33. CONTINGENT LIABILITIES

As at 31 December 2001, there were contingent liabilities in respect of the following:

|   | THE GROUP       |                 | THE COMPANY     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2001<br>Million | 2000<br>Million | 2001<br>Million | 2000<br>Million |
| Corporate guarantee to a third party in respect of the sale of the interest in an associate | HK\$3.6         | –               | HK\$3.6         | –               |
| Corporate guarantee to subsidiaries for issue of floating rate notes                        | –               | –               | HK\$2,400.0     | HK\$2,400.0     |
| Share of counter guarantees given to partners of property development projects              | S\$18.6         | S\$18.6         | –               | –               |
| Guarantees to bankers to provide finance to   |                 |                 |                 |                 |
| – An associate  | S\$12.0         | S\$12.0         | S\$12.0         | S\$12.0         |
| – A property development project  | S\$22.0         | S\$22.0         | S\$22.0         | S\$22.0         |

### 34. CAPITAL COMMITMENTS

As at 31 December 2001, there were capital commitments as follows:

|  | THE GROUP              |                        | THE COMPANY            |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | 2001<br>HK\$ (Million) | 2000<br>HK\$ (Million) | 2001<br>HK\$ (Million) | 2000<br>HK\$ (Million) |
| Uncalled share of shareholders' loan for property development projects | 20.2                   | 34.0                   | –                      | –                      |
| Contracted for but not provided in the financial statements:           |                        |                        |                        |                        |
| – Acquisition of investment properties                                 | 18.5                   | 12.0                   | –                      | –                      |
| – Building refurbishment   | 52.4                   | –                      | –                      | –                      |

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 31 December 2001, it is estimated that the pre-sales proceeds for these two projects are sufficient to fund the construction costs. Accordingly, the Group's maximum funding requirements for these two projects of approximately HK\$88 million (2000: HK\$98 million) is expected not to be required.

**35. LEASE COMMITMENTS**
***The Group and the Company as lessee***

As at 31 December 2001, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                       | THE GROUP        |                  | THE COMPANY      |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Within one year                       | –                | –                | <b>11,916</b>    | 12,850           |
| In the second to fifth year inclusive | –                | –                | <b>5,608</b>     | 17,523           |
|                                       | –                | –                | <b>17,524</b>    | 30,373           |

Operating lease payments represent rental payable by the Company for its staff quarters and office premises.

***The Group and the Company as lessor***

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

|                                       | THE GROUP        |                  | THE COMPANY      |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2001<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Within one year                       | <b>894,372</b>   | 1,050,360        | <b>131,887</b>   | 143,248          |
| In the second to fifth year inclusive | <b>1,240,792</b> | 1,518,592        | <b>105,997</b>   | 187,588          |
| After five years                      | <b>313,466</b>   | 345,484          | <b>16,509</b>    | 5,523            |
|                                       | <b>2,448,630</b> | 2,914,436        | <b>254,393</b>   | 336,359          |

**36. RELATED PARTY AND CONNECTED TRANSACTIONS****A. Related party transactions**

During the year, the Group has the following transactions with related parties:

| Notes  | Substantial shareholder |                  | Senior management executives |                  | Directors        |                  |
|--|-------------------------|------------------|------------------------------|------------------|------------------|------------------|
|  | 2001<br>HK\$'000        | 2000<br>HK\$'000 | 2001<br>HK\$'000             | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Interest income from staff housing loans (a)   | -                       | -                | -                            | 134              | -                | -                |
| Repairs and maintenance expenses paid to (b)   | -                       | -                | -                            | -                | 21,070           | 20,806           |
| Gross rental income from (c)   | 6,167                   | 5,936            | -                            | -                | 46,054           | 56,357           |
| Construction cost paid during the year for investment properties completed in previous years (d) | -                       | -                | -                            | -                | 179              | 8,817            |

As at 31 December 2001, the Group has the following balances with related parties:

| Notes                                    | Substantial shareholder |                  | Senior management executives |                  | Directors        |                  |
|--|-------------------------|------------------|------------------------------|------------------|------------------|------------------|
|  | 2001<br>HK\$'000        | 2000<br>HK\$'000 | 2001<br>HK\$'000             | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Amount due to a minority shareholder (a) | -                       | -                | -                            | -                | 84,486           | 84,486           |
| Construction cost payable to (d)         | -                       | -                | -                            | -                | -                | 179              |

**36. RELATED PARTY AND CONNECTED TRANSACTIONS** *continued*

A. Related party transactions *continued*

Notes:

- (a) The details of the terms of staff housing loans and amount due to a minority shareholder are set out in notes 19 and 23 respectively.
- (b) Such expenses were incurred in connection with the repair and maintenance charges for lift, electrical installation and gondola services.
  - (i) In relation to the lift and electrical installation services, F. K. Hu (and his alternate, Raymond L. M. Hu) are directors of Ryoden Lift Services Limited (“RLS”) and Ryoden Engineering Contracting Company Limited (“REC”) and have an indirect equity interests in RLS and REC. RLS and REC entered into a number of lift maintenance contracts and electrical installation maintenance and repair contracts respectively with a subsidiary of the Company.
  - (ii) In relation to the gondola maintenance services, Hans M. Jebsen is a director and shareholder of Jebsen and Company Limited which entered into a number of gondola maintenance contracts with a number of the Company’s subsidiaries.

These 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 current year. Such transaction was entered into on normal commercial terms and on arm’s length basis.

**36. RELATED PARTY AND CONNECTED TRANSACTIONS** *continued***B. Connected transaction**

Under an agreement entered into on 20 August 2001, a wholly-owned subsidiary of the Company agreed to purchase (“Acquisitions”) (i) from Sincere B.V.I. Limited (“Share Vendor”) the remaining 30% interests, representing 3 fully paid “B” ordinary shares of HK\$1.00 each, in its subsidiary Lee Theatre Realty Limited (“LTRL”); and (ii) from The Sincere Company Limited (“Loan Vendor”) its total outstanding shareholder’s loan to LTRL. LTRL’s principal business is that of a holding vehicle for a property, known as “Lee Theatre Plaza” (“the Property”).

As the Share Vendor was a substantial shareholder of LTRL, and the Loan Vendor was the holding company of the Share Vendor, the Acquisitions constituted a connected transaction for the Company under the Listing Rules. A press notice regarding the Acquisitions was made on 20 August 2001 pursuant to the Listing Rules.

The total consideration for the Acquisitions, arrived at after arm’s length negotiations, was the sum of HK\$516,000,000, representing 30% of the value of the Property determined pursuant to the independent valuation, less 30% of the audited net current liabilities as at the completion. The transaction was completed on 15 September 2001.

**37. POST BALANCE SHEET EVENT**

Subsequent to 31 December 2001, Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million Medium Term Notes. The notes are guaranteed as to principal and interest by the Company bearing interest at 7% and are repayable in full in 2012.

**38. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER 2001**

| Name of subsidiary                         | Place of incorporation | Place of operation     |
|--|------------------------|------------------------|
| Admore Investments Limited                 | Hong Kong              | Hong Kong              |
| Golden Capital Investment Limited          | Hong Kong              | Hong Kong              |
| HD Finance (BVI) Limited                   | British Virgin Islands | British Virgin Islands |
| HD Treasury (BVI) Limited                  | British Virgin Islands | British Virgin Islands |
| HD Treasury Limited                        | Hong Kong              | Hong Kong              |
| HD Treasury Management Limited             | Hong Kong              | Hong Kong              |
| Hysan China Holdings Limited               | British Virgin Islands | British Virgin Islands |
| Hysan Treasury Limited                     | Hong Kong              | Hong Kong              |
| Hysan (MTN) Limited                        | British Virgin Islands | Hong Kong              |
| Hysan Project Management (PRC) Limited     | Hong Kong              | Hong Kong              |
| Hysan Property Management Limited          | Hong Kong              | Hong Kong              |
| Kwong Hup Holding Limited                  | British Virgin Islands | British Virgin Islands |
| Kwong Wan Realty Limited                   | Hong Kong              | Hong Kong              |
| Minsal Limited                             | Hong Kong              | Hong Kong              |
| Mondsee Limited                            | Hong Kong              | Hong Kong              |
| Stangard Limited                           | Hong Kong              | Hong Kong              |
| Teamfine Enterprises Limited               | Hong Kong              | Hong Kong              |
| Tohon Development Limited                  | Hong Kong              | Hong Kong              |
| Bamboo Grove Recreational Services Limited | Hong Kong              | Hong Kong              |
| HD Investment Limited                      | British Virgin Islands | British Virgin Islands |
| Jarrow Properties Limited                  | British Virgin Islands | British Virgin Islands |
| Kochi Investments Limited                  | British Virgin Islands | British Virgin Islands |
| Lee Theatre Realty Limited                 | Hong Kong              | Hong Kong              |
| Leighton Property Company Limited          | Hong Kong              | Hong Kong              |
| Main Rise Development Limited              | Hong Kong              | Hong Kong              |
| OHA Property Company Limited               | Hong Kong              | Hong Kong              |
| Perfect Win Properties Limited             | Hong Kong              | Hong Kong              |
| Profit Team Investment Limited             | Hong Kong              | Hong Kong              |
| Silver Nicety Company Limited              | Hong Kong              | Hong Kong              |
| South Eagle Investments Limited            | British Virgin Islands | Hong Kong              |
| Barrowgate Limited                         | Hong Kong              | Hong Kong              |

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group.

| Class of share held | Issued share capital | Proportion of nominal value of issued share capital held by the Company |          | Principal activities           |
|---------------------|----------------------|---|----------|--------------------------------|
|                     |                      | indirectly  | directly |                                |
| Ordinary            | HK\$2                | –   | 100%     | Investment holding             |
| Ordinary            | HK\$2                | –   | 100%     | Investment holding             |
| Ordinary            | HK\$1                | –   | 100%     | Treasury operation             |
| Ordinary            | HK\$1                | –   | 100%     | Treasury operation             |
| Ordinary            | HK\$2                | –   | 100%     | Treasury operation             |
| Ordinary            | HK\$2                | –   | 100%     | Treasury operation             |
| Ordinary            | HK\$1                | –   | 100%     | Investment holding             |
| Ordinary            | HK\$2                | –   | 100%     | Treasury operation             |
| Ordinary            | US\$1                | –   | 100%     | Treasury operation             |
| Ordinary            | HK\$2                | –   | 100%     | Project management             |
| Ordinary            | HK\$2                | –   | 100%     | Property management            |
| Ordinary            | HK\$1                | –   | 100%     | Investment holding             |
| Ordinary            | HK\$1,000            | –   | 100%     | Property investment            |
| Ordinary            | HK\$2                | –   | 100%     | Property investment            |
| Ordinary            | HK\$2                | –   | 100%     | Property investment            |
| Ordinary            | HK\$300,000          | –   | 100%     | Provision of security services |
| Ordinary            | HK\$2                | –   | 100%     | Investment holding             |
| Ordinary            | HK\$2                | –   | 100%     | Property investment            |
| Ordinary            | HK\$2                | 100%  | –        | Resident club management       |
| Ordinary            | HK\$1                | 100%  | –        | Investment holding             |
| Ordinary            | HK\$1                | 100%  | –        | Investment holding             |
| Ordinary            | HK\$1                | 100%  | –        | Capital market investment      |
| Ordinary            | HK\$10               | 100%  | –        | Property investment            |
| Ordinary            | HK\$2                | 100%  | –        | Property investment            |
| Ordinary            | HK\$2                | 100%  | –        | Investment holding             |
| Ordinary            | HK\$2                | 100%  | –        | Property investment            |
| Ordinary            | HK\$2                | 100%  | –        | Property investment            |
| Ordinary            | HK\$2                | 100%  | –        | Investment holding             |
| Ordinary            | HK\$20               | 100%  | –        | Property investment            |
| Ordinary            | US\$1                | 100%  | –        | Property investment            |
| Ordinary            | HK\$10,000           | 65.36%  | –        | Property investment            |