

Notes to the Condensed Financial Statements

For the six months ended 30 June 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, the revised SSAP 15 “Cash Flow Statements” (“SSAP 15 (Revised)”). The revised SSAP has introduced revised disclosure requirements which have been adopted in these condensed financial statements. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

Cash flow statements

In accordance with SSAP 15 (Revised), cash flows are classified under three headings: “cash flows from operating activities”, “cash flows from investing activities” and “cash flows from financing activities”. Interest and dividends, which were previously presented under a separate heading, should be classified on a consistent basis under either operating, investing or financing activities. Cash flows arising from taxes on income would typically be classified as operating activities, unless they can be separately identified with investing or financing activities.

In addition, cash equivalents are defined more restrictively as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3. TURNOVER

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Turnover comprises:		
Gross rental income from properties	619,227	690,439
Income from property sales	800	—
Management fee and services income	1,280	2,061
	<u>621,307</u>	<u>692,500</u>

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

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation	2,878	3,031
Staff costs	51,624	48,598
Rental income arising from operating leases less out-goings	(504,961)	(591,985)
Dividends from		
- listed investments	(749)	(6,740)
- unlisted investments	(7,367)	—
Interest income	(3,735)	(2,646)
Gain on property sales	(750)	—
	<u>(750)</u>	<u>—</u>

5. FINANCE COSTS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Interest on		
- bank loans, overdraft and other loans:		
wholly repayable within five years	43,152	100,412
not repayable within five years	6,705	—
- fixed rate notes	45,497	—
- floating rate notes	18,756	71,613
Amortisation of fixed rate notes and floating rate notes		
issue expenses	1,386	1,428
Bank charges	4,237	4,227
Medium Term Note Programme expenses	40	—
	<u>119,773</u>	<u>177,680</u>

6. TAXATION

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

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

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 tax purposes.

7. DIVIDENDS

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Interim dividend - HK\$0.10 per share (2001: HK\$0.10)	<u>103,355</u>	<u>102,988</u>

During the period, a dividend of HK\$0.28 per share (2000: HK\$0.31), which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2001. The scrip dividend alternatives were accepted by the shareholders as follows:

	HK\$'000
Final dividend paid:	
Cash	268,707
Share alternative	20,058
	<u>288,765</u>

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<u>294,171</u>	<u>306,427</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,031,527	1,030,797
Effect of dilutive potential ordinary shares:		
Share options	<u>89</u>	<u>735</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,031,616</u>	<u>1,031,532</u>

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

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

During the period, additions to the Group's property, plant and equipment and investment properties amounted to approximately HK\$3,590,000 and HK\$150,809,000, respectively (1.1.2001 to 31.12.2001: HK\$2,378,000 and HK\$178,098,000, respectively).

10. ACCOUNTS RECEIVABLE

Accounts receivables are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 30 June 2002 and 31 December 2001 were aged less than 90 days.

11. FLOATING RATE NOTES

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
Floating rate notes	400,000	2,400,000
Less: Unamortised notes issue expenses	(2,431)	(3,406)
	397,569	2,396,594
Less: Amount due within one year shown under current liabilities	—	(1,999,547)
	397,569	397,047

HD Treasury (BVI) Limited and HD Finance (BVI) Limited, wholly-owned subsidiaries of the Company, issued HK\$2,000 million and HK\$400 million 5-year floating rate notes on 27 March 1997 and 3 November 1999, respectively. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 0.565% and 1.25% over the 3-month HIBOR and are repayable in full in March 2002 and November 2004, respectively.

12. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 30 June 2002 and 31 December 2001 were aged less than 90 days.

13. FIXED RATE NOTES

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Fixed rate notes	1,559,895	—
Less: Unamortised notes issue expenses	(9,468)	—
	1,550,427	—

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million 10-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

14. CONTINGENT LIABILITIES

There were no changes in contingent liabilities of the Group since last annual report.

15. CAPITAL COMMITMENTS

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

	THE GROUP	
	30.6.2002 HK\$(Million)	31.12.2001 HK\$(Million)
Uncalled share of shareholders' loan for property development projects	12.9	20.2
Contracted for but not provided in the financial statements:		
- Acquisition of investment properties	—	18.5
- Building refurbishment	131.5	52.4
- Property, plant and equipment	0.4	—

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 30 June 2002, based on the pre-sale progress of these two properties, the Group's maximum funding requirements for these two projects of approximately HK\$88 million (31.12.2001: HK\$88 million) is expected not to be required.

16. RELATED PARTY TRANSACTIONS

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

	Notes	Substantial shareholder		Directors	
		1.1.2002 to 30.6.2002 HK\$'000	1.1.2001 to 30.6.2001 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000	1.1.2001 to 30.6.2001 HK\$'000
Repair and maintenance expenses paid to	(a)	<u>—</u>	<u>—</u>	<u>9,923</u>	<u>10,319</u>
Gross rental income from	(b)	<u>3,189</u>	<u>3,054</u>	<u>18,328</u>	<u>28,120</u>
Construction cost paid during the period for investment properties completed in previous years		<u>—</u>	<u>—</u>	<u>—</u>	<u>179</u>

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

	Note	Substantial shareholder		Directors	
		30.6.2002 HK\$'000	30.6.2001 HK\$'000	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Amount due to a minority shareholder	(c)	<u>—</u>	<u>—</u>	<u>84,486</u>	<u>84,486</u>

- (a) 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 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 Michael Jebsen is a director and shareholder of Jebsen and Company Limited which entered into a number of gondola maintenance contracts with a subsidiary of the Company.

These transactions were carried out in the normal course of business and the fees were determined with reference to market rates.

- (b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying period. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (c) The amount due to minority shareholder is unsecured, interest free and is not repayable within one year.