

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended December 31, 2001 except for the changes in accounting policies as described below.

(a) SSAP 1 (Revised) “Presentation of financial statements”

The consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity.

(b) SSAP 11 (Revised) “Foreign currency translation”

The profit and loss accounts of foreign enterprises are translated into Hong Kong dollars at the weighted average exchange rates during the period. This is a change in accounting policy from prior years where these were translated at the exchange rates ruling at the balance sheet date. The effect of such change is not material to the accounts.

(c) SSAP 15 (Revised) “Cash flow statement”

A revised classification of activities from which cash flows are derived has been made.

With effect from January 1, 2002, with the introduction of SSAP 15 (Revised) “Cash flow statements”, the Group defines cash and cash equivalents as cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement. The accounting policy has been adopted retrospectively. In adjusting prior year’s figures, cash and cash equivalents as at January 1, 2001 and 2002 were restated and increased by HK\$2 million and HK\$10 million respectively. In addition, certain presentational changes have been made on adoption of SSAP 15 (Revised).

1. BASIS OF PREPARATION OF THE ACCOUNTS (Continued)

(d) SSAP 34 “Employee benefits”

Defined benefit schemes provide benefits to the employees based on their final pay and number of years of service. In prior years, contributions to defined benefit schemes were charged against profit and loss account in the period in which they were payable to the schemes. The contributions were determined based on the value of the retirement schemes’ assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations and were determined by a qualified actuary on the basis of triennial valuations using the attained age method. The assets of the scheme are held separately from those of the Group in independently administered funds.

On January 1, 2002, the Group adopted SSAP 34 “Employee benefits”. In accordance with this standard, retirement benefit costs for defined benefit schemes are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The retirement benefit obligation is measured at the present value of the estimated future cash outflows by reference to the market yield on high quality corporate bonds which have a similar term as the related liabilities. Plan assets are measured at fair value. Actuarial gains and losses are recognised over the remaining service lives of employees. The effect of such change is not material to the accounts.

2. TURNOVER AND OPERATING PROFIT

(a) Segment information

	Segment Revenue		Segment Results	
	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million (Restated)	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million (Restated)
<i>Business segments</i>				
Property investment	2,286	2,226	1,608	1,480
Hong Kong	1,880	1,819	1,489	1,395
China	105	78	24	3
Hotels	301	329	95	82
Communications, media and entertainment ("CME")	1,762	1,463	203	97
Pay television	877	802	154	185
Internet and multimedia	246	132	31	(51)
i-CABLE	1,123	934	185	134
Telecommunications	572	463	3	(44)
Others	67	66	15	7
Logistics	1,478	1,552	786	809
Terminals	1,260	1,375	709	768
Other logistics business	218	177	77	41
	5,526	5,241	2,597	2,386
Property development	99	581	3	9
Investment and others	186	212	65	205
Inter-segment revenue (<i>Note</i>)	(235)	(231)	–	–
	5,576	5,803	2,665	2,600
Unallocated income and expenses			(126)	(127)
Operating profit			2,539	2,473
Borrowing costs			(383)	(632)
Net other charges				
Property development			(204)	–
Investment and others			(43)	–
Associates				
Property development			(119)	(167)
Investment and others			7	9
Profit before taxation			1,797	1,683

2. TURNOVER AND OPERATING PROFIT (Continued)

(a) Segment information (Continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million (Restated)
Property investment	90	92
Hong Kong	88	89
Hotels	2	3
CME	44	39
Pay television	18	15
Internet and multimedia	1	–
i-CABLE	19	15
Telecommunications	20	14
Others	5	10
Logistics	8	8
Investment and others	93	92
	235	231

Geographical segments

During the period, more than 90 per cent of the operations of the Group in terms of the above items was in Hong Kong.

2. TURNOVER AND OPERATING PROFIT (Continued)

(b) Operating profit is arrived at after charging:

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million
Depreciation		
– assets held for use under operating leases	30	22
– other assets	496	429
Amortisation of prepaid expenses and programming library	110	65
Amortisation of goodwill	11	11
Staff costs, including retirement scheme costs		
HK\$58 million (2001: HK\$58 million)	991	1,001
Auditors' remuneration	4	4
Cost of properties sold during the period	88	546
and crediting:		
Rental income less direct outgoings, including contingent rentals		
HK\$26 million (2001: HK\$40 million)	1,536	1,525
Interest income	86	110
Dividend income from listed securities	24	18
Dividend income from unlisted securities	63	10

3. BORROWING COSTS

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million
Interest on:		
Bank loans and overdrafts	175	402
Other loans repayable within five years	147	236
Other loans repayable after more than five years	62	92
Other borrowing costs	64	13
	448	743
Less: Amount capitalised	(65)	(111)
Net borrowing costs for the period	383	632

The Group's average borrowing cost for the period was 3.8% per annum (2001: 6.5% per annum).

4. NET OTHER CHARGES

Net other charges for the period under review comprise provisions of HK\$204 million for properties under development and for sale and provisions of HK\$43 million for impairment in value of investments.

5. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

Share of profits less losses of associates for both periods ended June 30, 2001 and 2002 principally comprises the attributable losses in respect of provisions for the impairment in value of the Bellagio development.

6. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16 per cent (2001: 16 per cent).

(b) Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.

(c) Taxation in the consolidated profit and loss account represents:

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million
Hong Kong profits tax for the period	235	199
Underprovision for Hong Kong profits tax relating to prior years	47	–
Overseas taxation for the period	8	1
Deferred taxation	(7)	(9)
	283	191
Share of associates' Hong Kong profits tax for the period	2	–
	285	191

(d) None of the taxation payable in the balance sheet is expected to be settled after more than one year.

7. DIVIDENDS

(a) Dividends attributable to the period

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million
Interim dividend of 28 cents proposed after the balance sheet date (2001: 28 cents) per share	<u>685</u>	685

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved during the period

	30/06/2002 HK\$ Million	30/06/2001 HK\$ Million
Final dividend in respect of the previous financial year, approved during the period, of 50 cents (2001: 50 cents) per share	<u>1,223</u>	1,223

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the period of HK\$1,202 million (2001: HK\$1,145 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 million ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK\$1,202 million (2001: HK\$1,145 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 million ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the period ended June 30, 2002 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2002.

9. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at June 30, 2002 as follows:

	30/06/2002 HK\$ Million	31/12/2001 HK\$ Million
0 – 30 days	317	442
31 – 60 days	170	157
61 – 90 days	36	41
Over 90 days	45	52
	568	692

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

10. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at June 30, 2002 as follows:

	30/06/2002 HK\$ Million	31/12/2001 HK\$ Million
0 – 30 days	153	745
31 – 60 days	65	99
61 – 90 days	71	74
Over 90 days	264	311
	553	1,229

11. SHARE CAPITAL

	30/06/2002 No. of shares Million	31/12/2001 No. of shares Million	30/06/2002 HK\$ Million	31/12/2001 HK\$ Million
Authorised				
Ordinary shares of HK\$1 each	3,600	3,600	3,600	3,600
Issued and fully paid				
Balance at January 1	2,447	2,446	2,447	2,446
Exercise of share options	1	1	1	1
Balance at June 30 / December 31	2,448	2,447	2,448	2,447

12. RESERVES

	Share premium HK\$ Million	Capital redemption reserves HK\$ Million	Investment properties revaluation reserves HK\$ Million	Investments revaluation reserves HK\$ Million	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total HK\$ Million
(a) Company and subsidiaries							
Balance at January 1, 2002	7,735	7	36,156	(10)	(235)	9,003	52,656
Dividends approved in respect of the previous year	–	–	–	–	–	(1,223)	(1,223)
Exercise of share options	8	–	–	–	–	–	8
Transferred to the profit and loss account on disposal of non-trading securities	–	–	–	3	–	–	3
Transferred to the profit and loss account on impairment of non-trading securities	–	–	–	5	–	–	5
Revaluation deficit – non-trading securities	–	–	–	(116)	–	–	(116)
Reclassification	–	–	(3)	–	3	–	–
Exchange reserves / others	–	–	–	–	(10)	–	(10)
Profit for the period	–	–	–	–	–	1,316	1,316
Balance at June 30, 2002	7,743	7	36,153	(118)	(242)	9,096	52,639
(b) Associates							
Balance at January 1, 2002	–	–	–	9	–	(467)	(458)
Revaluation deficit – non-trading securities	–	–	–	(2)	–	–	(2)
Loss absorbed for the period	–	–	–	–	–	(114)	(114)
Balance at June 30, 2002	–	–	–	7	–	(581)	(574)
Total reserves At June 30, 2002	7,743	7	36,153	(111)	(242)	8,515	52,065
At December 31, 2001	7,735	7	36,156	(1)	(235)	8,536	52,198

13. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transactions during the period ended June 30, 2002:

- (a) Loans totalling HK\$4,587 million (31/12/2001: HK\$3,697 million) advanced by the Group to certain associates, in proportion of the Group's respective shareholdings thereof, involved in the Bellagio and Sorrento property developments projects (as described in more detail in (b) and (c) below) are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1994 and 1997 from complying with the relevant connected transaction requirements (as set out in further detail under (b) and (c) hereunder). The net interest earned by the Group from these loans during the period is not material in the context of these accounts.
- (b) As disclosed in Note 14(b), the Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of an associate under an agreement to develop the Bellagio property.

The same parties have also severally guaranteed loans granted to a subsidiary of the above associate to finance the property development project. The amount attributable to the Company was HK\$1,133 million (31/12/2001: HK\$1,267 million).

Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1994.

- (c) As disclosed in Note 14(c), the Company and a subsidiary, together with its controlling shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of the associate under an agreement to develop the Sorrento property.

The same parties have also severally guaranteed loans granted to a subsidiary of the above associate to finance the property development project. The amount attributable to the Company and a subsidiary was HK\$392 million (31/12/2001: HK\$866 million).

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

14. CONTINGENT LIABILITIES

As at June 30, 2002:

- (a) There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdraft, short term loan and credit facilities, bonds and notes of up to HK\$22,822 million (31/12/2001: HK\$29,849 million).
- (b) The Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project by a subsidiary of another associate. Also, all the parties have severally guaranteed loans granted to a subsidiary of the associate to finance its property development project. The amount attributable to the Company was HK\$1,133 million (31/12/2001: HK\$1,267 million).
- (c) The Company and a subsidiary together with its principal shareholder and two subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project by the subsidiary of an associate. Also, all the parties have severally guaranteed loans granted to a subsidiary of the associate to finance its property development project. The amount attributable to the Company and a subsidiary is HK\$392 million (31/12/2001: HK\$866 million).
- (d) Forward exchange contracts amounting to HK\$720 million (31/12/2001: HK\$6,537 million) will mature in 2002.

15. COMMITMENTS

	30/06/2002 HK\$ Million	31/12/2001 HK\$ Million
(a) Capital commitments		
No provision has been made in the accounts for planned capital expenditure of	4,108	4,966
In respect of which contracts have been entered into for	1,414	1,858

(b) The Company's subsidiary, Modern Terminals Limited, together with certain other third parties, have entered into a Joint Development Agreement ("JDA") to jointly procure the construction of Container Terminal 9. The total cost of construction is estimated to be HK\$4.8 billion and will be shared by respective parties at an agreed ratio as stipulated in the JDA. The financing of the construction cost is without recourse to the Company and other subsidiaries.

16. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for cash and cash equivalents in the condensed consolidated cash flow statement and the condensed consolidated statement of recognised gains and losses is replaced by the condensed consolidated statement of changes in equity in order to comply with SSAPs 15 (revised) and 1 (revised) respectively. In addition, the presentation of certain comparative figures in the segment reporting as disclosed in Note 2 to the accounts has been reclassified to conform to the current period's presentation which management consider gives a better indication of the results of the Group for the period.

17. REVIEW OF UNAUDITED INTERIM ACCOUNTS

The unaudited interim accounts for the six months ended June 30, 2002 have been reviewed by the audit committee of the Company.