

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 26.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15 March 2002.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial report except for the changes in accounting policies as explained in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

During 2002, the Group adopted the following SSAPs for the first time.

(a) SSAP 34 “Employee benefits”

In prior years, retirement benefit costs were charged to the profit and loss account based on actuarial determinations of contributions payable in that year, using the attained age method.

With effect from 1 January 2002, in order to comply with SSAP 34, the Group adopted a new accounting policy for defined benefit retirement plans. Under the new policy, the Group’s net obligation in respect of its defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group’s obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation of the Group’s net obligation results in a negative amount, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) SSAP 34 "Employee benefits" (cont'd)

As a result of the adoption of this accounting policy, the Group's profit for the period has been decreased by HK\$379,000 and the net assets as at 30 June 2002 have been increased by HK\$5,163,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits for the period. No restatement of the comparative information has been made.

(b) SSAP 10 "Accounting for investments in associates"

With effect from 1 January 2002, the Group adopted the equity method of accounting for the investments in associates. Under the equity method, investment in an associate is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the period.

In prior years, the equity method of accounting for associates was not adopted as the results and net assets of these associates were not material to the Group. The investments in associates were previously recorded at cost less provision made and included in non-current financial assets. There is no impact on the Group's net assets as at 31 December 2001 and 30 June 2002 nor the Group's profit for the six months ended 30 June 2001 and 2002.

(c) SSAP 1 (revised) "Presentation of financial statements", SSAP 15 (revised) "Cash flow statements" and SSAP 33 "Discontinuing operations"

Certain presentational changes have been made in accordance with SSAP 1 (revised), SSAP 15 (revised) and SSAP 33.

3. SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, and are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group enterprises within a single segment.

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

3. SEGMENTAL REPORTING (CONT'D)

The Group is currently organized into three main operating segments, namely (i) Property development and investment, (ii) Ferry, shipyard and related operations, and (iii) Travel and hotel operations.

The segmental information for the six months ended 30 June 2002 and 2001 about these business segments is presented below:

(a) Segmental Revenue

| | Total revenue | | Elimination of Inter-segment revenue | | Revenue from external customers | |
|---|--------------------------|-----------|--------------------------------------|----------|---------------------------------|-----------|
| | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Property development and investment (note c) | 362,875 | 907,999 | — | 1,384 | 362,875 | 906,615 |
| Ferry, shipyard and related operations | 77,681 | 79,218 | 898 | 831 | 76,783 | 78,387 |
| Travel and hotel operations | 54,084 | 60,209 | 3 | 3 | 54,081 | 60,206 |
| Others (note d) | 24,252 | 14,462 | 18,916 | 10,976 | 5,336 | 3,486 |
| | 518,892 | 1,061,888 | 19,817 | 13,194 | 499,075 | 1,048,694 |
| Analysed by: | | | | | | |
| Turnover | | | | | 493,958 | 1,046,211 |
| Other revenue | | | | | 5,117 | 2,483 |
| | | | | | 499,075 | 1,048,694 |

3. SEGMENTAL REPORTING (CONT'D)

(b) Segmental Result

| | Profit/(loss) | |
|--|---------------------------------|----------------|
| | from operations | |
| | Six months ended 30 June | |
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| | <hr/> | <hr/> |
| Continuing operations | | |
| Property development and investment (note c) | 141,681 | 248,061 |
| Ferry, shipyard and related operations | (3,183) | 15,677 |
| Travel and hotel operations | 1,700 | 4,031 |
| Others (note d) | 375 | (1,978) |
| | <hr/> | <hr/> |
| | 140,573 | 265,791 |
| | | |
| Discontinuing operations | | |
| Passenger ferry operation (note 4) | — | 7,012 |
| | <hr/> | <hr/> |
| | 140,573 | 272,803 |
| | <hr/> <hr/> | <hr/> <hr/> |

- (c) Included in the segmental revenue and segmental result of the property development and investment operations for the six months ended 30 June 2001 were the proceeds, being the third and final instalment, from the disposal of the right to 50% of the sales proceeds of the domestic portion of the redevelopment referred to in note 20 of HK\$900,000,000 and the profits derived from the subject disposal of HK\$294,218,000 respectively.

The segmental result of the property development and investment operations for the six months ended 30 June 2001 also included impairment loss in respect of the shipyard property of HK\$41,224,000.

- (d) The "Others" segmental result mainly comprises financial income, investment income and corporate expenses.

4. OTHER NET INCOME

Included in other net income for the six months ended 30 June 2001 was HK\$21,685,000 which represented the surplus arising from termination of the Company's "Office Staff Retirement Scheme" and "Outdoor Staff Retirement Scheme".

Out of the total amount, a sum of HK\$7,012,000 was attributable to staff in connection with the passenger ferry operation which was discontinued in January 2000. This sum was included in "Passenger ferry operation" under discontinuing operations in note 3(b). The remaining balance of the surplus was included in the "Ferry, shipyard and related operations" segment.

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2002 | 2001 |
| | HK\$'000 | <i>HK\$'000</i> |
| (a) Finance cost | | |
| Interest on bank advances and other borrowings repayable within five years | — | 18,757 |
| Other borrowing costs | — | 12 |
| | — | 18,769 |
| Less: Borrowing costs capitalised into properties under development | — | (18,769) |
| | — | — |
| | <u>—</u> | <u>—</u> |
| In 2001, the borrowing costs have been capitalised at a rate of 4.94% to 7.75% per annum in respect of properties under development. | | |
| (b) Other items | | |
| Cost of inventories | 223,446 | 630,923 |
| Depreciation | 7,261 | 11,220 |
| Dividend income from listed investments | (698) | (580) |
| Profit on sale of listed investments | — | (194) |
| | <u>—</u> | <u>—</u> |

6. TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2002 | 2001 |
| | HK\$'000 | <i>HK\$'000</i> |
| Provision for Hong Kong profits tax for the period | 744 | 2,128 |
| (Over)/under provision in respect of prior years | (232) | 27,428 |
| | 512 | 29,556 |
| Deferred taxation | — | (15,000) |
| | 512 | 14,556 |
| Share of taxation of associates | 14 | — |
| | 526 | 14,556 |

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2002 less relief for available tax loss where applicable at 16% (2001: 16%).

A provision of HK\$27,428,000 was made for the six months ended 30 June 2001 for possible tax liabilities in respect of disputes with the Inland Revenue Department regarding the deductibility of depreciation allowances on certain fixed assets of the Company for the years of assessment from 1995/96 to 2000/01, resulting in a reduction of tax recoverable of HK\$23,824,000. The relevant deferred tax provision of HK\$15,000,000 previously made in respect of the depreciation allowances in dispute was transferred to the profit and loss account during that period.

7. DIVIDENDS

Six months ended 30 June

| 2002 | 2001 |
|-----------------|-----------------|
| <i>HK\$'000</i> | <i>HK\$'000</i> |

- (a) Dividend attributable to the interim period

Interim dividend declared after the interim period end
of 8 cents per share (2001: 8 cents per share)

| | |
|---------------|--------|
| 28,503 | 28,503 |
|---------------|--------|

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

- (b) Dividend attributable to the previous financial year, approved and paid during the interim period

Final dividend in respect of the previous financial year,
approved and paid during the interim period,
of 20 cents per share (2001: 20 cents per share)

| | |
|---------------|--------|
| 71,254 | 71,254 |
|---------------|--------|

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$139,950,000 (2001: HK\$258,247,000) and 356,273,883 (2001: 356,273,883) ordinary shares in issue during the period.

There was no potential dilution of earnings per share during the period or the corresponding period last year.

9. FIXED ASSETS

| | Properties <i>HK\$'000</i> | Plant and equipment <i>HK\$'000</i> | Sub-total <i>HK\$'000</i> | Investment properties <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------|-------------------------------|---|------------------------------|---|--------------------------|
| Cost or valuation: | | | | | |
| At 1 January 2002 | 292,791 | 605,135 | 897,926 | 150,500 | 1,048,426 |
| Additions | — | 133 | 133 | — | 133 |
| Disposals | — | (178,236) | (178,236) | — | (178,236) |
| | <u>292,791</u> | <u>427,032</u> | <u>719,823</u> | <u>150,500</u> | <u>870,323</u> |
| At 30 June 2002 | 292,791 | 427,032 | 719,823 | 150,500 | 870,323 |
| Aggregate depreciation: | | | | | |
| At 1 January 2002 | 84,301 | 457,155 | 541,456 | — | 541,456 |
| Charge for the period | 1,845 | 5,416 | 7,261 | — | 7,261 |
| Written back on disposals | — | (178,233) | (178,233) | — | (178,233) |
| | <u>86,146</u> | <u>284,338</u> | <u>370,484</u> | <u>—</u> | <u>370,484</u> |
| At 30 June 2002 | 86,146 | 284,338 | 370,484 | — | 370,484 |
| Net book value: | | | | | |
| At 30 June 2002 | <u>206,645</u> | <u>142,694</u> | <u>349,339</u> | <u>150,500</u> | <u>499,839</u> |
| At 31 December 2001 | <u>208,490</u> | <u>147,980</u> | <u>356,470</u> | <u>150,500</u> | <u>506,970</u> |

10. INTEREST IN ASSOCIATES

| | At 30 June 2002 HK\$'000 | At 31 December 2001 HK\$'000 |
|-----------------------------|--------------------------------|------------------------------------|
| Share of net assets | — | — |
| Amounts due from associates | <u>179,172</u> | <u>10,042</u> |
| | 179,172 | 10,042 |
| Less: Provision | <u>(6,375)</u> | <u>(6,462)</u> |
| | <u>172,797</u> | <u>3,580</u> |

All of the associates are incorporated and operated in Hong Kong.

Particulars of associates are listed as follows:

| | % of equity interest held by | | Principal activities |
|---------------------------|------------------------------|--------------|----------------------|
| | The Company | Subsidiaries | |
| 2OK Company Limited | — | 50 | Financing |
| Celelight Company Limited | 33.34 | — | Trading of fuel oil |
| Authian Estates Limited | — | 50 | Property investment |

11. INVENTORIES

The amount of spare parts and consumables carried at net realizable value is HK\$6,589,000 (at 31 December 2001: HK\$7,344,000).

12. DEBTORS AND PREPAYMENTS

All of the debtors and prepayments except for HK\$33,065,000 (at 31 December 2001: HK\$21,149,000) are expected to be recovered within one year. Included in the amount was retention money recoverable of HK\$24,626,000 (at 31 December 2001: HK\$12,717,000).

Included in debtors and prepayments are proceeds receivable from pre-sale of properties under development and trade debtors (excluding retention money recoverable and net of specific provisions for bad and doubtful debts) with the following aging analysis:

| | At 30 June 2002 HK\$'000 | At 31 December 2001 HK\$'000 |
|--|---|------------------------------------|
| Current | 350,386 | 286,304 |
| 1 to 3 months overdue | 5,176 | 4,736 |
| More than 3 months overdue but less than 12 months overdue | 194 | 1,356 |
| More than 12 months overdue | 484 | 364 |
| | <u>356,240</u> | <u>292,760</u> |

Debts are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are required to settle all outstanding balances before any further credit is granted.

13. CASH AND CASH EQUIVALENTS

| | At 30 June 2002 HK\$'000 | At 31 December 2001 HK\$'000 |
|--|---|------------------------------------|
| Deposits with banks and other financial institutions | 764,517 | 157,136 |
| Cash at bank and in hand | 14,346 | 16,455 |
| | <u>778,863</u> | <u>173,591</u> |

14. CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges except for HK\$58,012,000 (at 31 December 2001: HK\$29,959,000), mainly represented by retention money payable, are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following aging analysis:

| | At 30 June 2002 HK\$'000 | At 31 December 2001 HK\$'000 |
|---------------------------------|---|------------------------------------|
| Due within 1 month or on demand | 79,054 | 150,854 |
| Due after 6 months | 58,012 | 29,959 |
| | <u>137,066</u> | <u>180,813</u> |

15. DEPOSITS RECEIVED

These represent proceeds, to the extent not yet recognised as turnover, and deposit received from the pre-sale of certain residential units of the development at 8 Fuk Lee Street, "Metro Harbour View".

16. SHARE CAPITAL

| | No. of share ('000) | Amount HK\$'000 |
|--|---------------------------------|----------------------------|
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$1 each at 1 January 2002 and 30 June 2002 | <u>550,000</u> | <u>550,000</u> |
| <i>Issued and fully paid:</i> | | |
| Ordinary shares of HK\$1 each at 1 January 2002 and 30 June 2002 | <u>356,274</u> | <u>356,274</u> |

17. RESERVES

| | Share premium <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Securities revaluation reserve <i>HK\$'000</i> | Other capital reserves <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|--|---|---|--|--------------------------|
| At 1 January 2002 | | | | | | |
| - as previously reported | 1,398,527 | 518,863 | (10,886) | 5,599 | 643,325 | 2,555,428 |
| - prior period adjustment: retirement schemes surplus (note 2(a)) | — | — | — | — | 5,542 | 5,542 |
| - as restated | 1,398,527 | 518,863 | (10,886) | 5,599 | 648,867 | 2,560,970 |
| Dividend approved in respect of the previous financial year | — | — | — | — | (71,254) | (71,254) |
| Revaluation surplus | — | — | 1,086 | — | — | 1,086 |
| Realisation of revaluation reserves on disposal | — | (42,579) | — | — | — | (42,579) |
| Realisation of inter-company profits | — | — | — | (3) | — | (3) |
| Profit for the period | — | — | — | — | 139,950 | 139,950 |
| At 30 June 2002 | 1,398,527 | 476,284 | (9,800) | 5,596 | 717,563 | 2,588,170 |

18. CAPITAL AND OTHER COMMITMENTS

(a) Capital commitments outstanding not provided for in the Group's accounts were as follows:

| | At 30 June 2002 <i>HK\$'000</i> | At 31 December 2001 <i>HK\$'000</i> |
|----------------|---------------------------------------|---|
| Contracted for | 202,427 | 241,835 |

(b) At 30 June 2002, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK\$1,130,437,000 (at 31 December 2001: HK\$1,353,697,000), 50% of which was recoverable under the arrangement referred to in note 20.

19. CONTINGENT LIABILITIES

At 30 June 2002, there were contingent liabilities in respect of the following:

A statement of claim was filed at the High Court of Hong Kong by the Secretary for Justice, representing the Hong Kong Government, against The Hongkong and Yaumati Ferry Company Limited (“HYF”), a wholly-owned subsidiary of the Company, and the Company in November 1999. The claim was for the sum of approximately HK\$55 million and other extra expenses in respect of a dispute over the reimbursement of certain costs incurred by the Hong Kong Government on the implementation of certain piling design to cater for the proposed redevelopment of the re-provided ferry piers in Central into new commercial and residential premises, which proposed redevelopment was not pursued due to high premium requested by the Government Lands Department. Based on legal advice, the Group is contesting this claim. The directors are of the opinion that there are grounds for HYF and the Company to resist the claim.

In addition, HYF and the Company have made a counterclaim against the Government for the sum of approximately HK\$284 million, being costs relating to the redevelopment of the Central piers. Therefore, except for legal costs which have been incurred and charged to the profit and loss account, no provision for the claim or related legal cost to be incurred has been made in the accounts.

20. MATERIAL RELATED PARTY TRANSACTIONS

In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited (“HL”) as the development and sales manager (the “Project Manager”) for the redevelopment of the Kowloon Inland Lot No. 11127 (the “Property”) in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the domestic portion of the redevelopment. An amount of HK\$9 million (2001: HK\$Nil) had been charged to the Group for the period ended 30 June 2002. As at 30 June 2002, an amount of HK\$8.7 million (at 31 December 2001: HK\$14 million) payable to the Project Manager was included in creditors and accrued charges.

In 1999, the Group entered into a development agreement (the “Agreement”) with HL and two wholly-owned subsidiaries of HL (“HL Sub”), whereby HL Sub acquired the right to 50% of any proceeds from the future sale of the part of the redevelopment intended for domestic use of the Property. During the years from 1999 to 2001, the Group had received all the instalments under the Agreement totaling HK\$1,500 million.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the domestic portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$132.8 million for the period ended 30 June 2002 (2001: HK\$70 million). As at 30 June 2002, an amount of HK\$55.6 million (at 31 December 2001: HK\$68.5 million) remained unpaid and was included in debtors and prepayments.

20. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. An amount of HK\$13.4 million (2001: HK\$Nil) had been charged to the Group for the period ended 30 June 2002. In accordance with the prime cost contract entered with the Group, an amount of HK\$280.5 million (2001: HK\$105.1 million) was charged by the main contractor during the period for the superstructure work of the development. As at 30 June 2002, an amount of HK\$106.6 million (at 31 December 2001: HK\$116.9 million) remained unpaid and was included in creditors and accrued charges.

In April 2001, a wholly-owned subsidiary of the Company was awarded a sub-contract for the provision and assembly of a footbridge and related installation of a construction site at Hung Hom Bay Reclamation at a consideration of HK\$1,922,000 by the main contractor thereof. The main contractor is a company of which HL owns 50%. All of the works have been completed in April 2002. As at 30 June 2002, an amount of HK\$0.1 million (at 31 December 2001: HK\$0.4 million) was included in debtors and prepayments.

In November 2001, the Group appointed another wholly-owned subsidiary of HL as the estate manager of the Property (except for the commercial arcade) for a term of two years from the issuance of the first occupation permit at a remuneration of 10% of the total annual expenditures (excluding the remuneration itself and expenditure of a kind not incurred annually) reasonably and necessarily incurred in the good and efficient management of the Property and the buildings thereon (except for the commercial arcade).

In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited which was set up to provide mortgage loans to the residential unit buyers of Metro Harbour View. During the six months ended 30 June 2002, the Group received management and administrative fees in the total of HK\$1.1 million from 2OK Company Limited. As at 30 June 2002, the Group has advanced a total amount of HK\$169.1 million to 2OK Company Limited to finance the latter's mortgage operation. The amount is unsecured, interest-free and has no fixed repayment terms. HL through its subsidiaries beneficiary owned the remaining 50% equity interest in 2OK Company Limited as at 30 June 2002.

As at 30 June 2002, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

Dr. Lee Shau Kee, a director of the Company, is interested in the above transactions as a substantial shareholder of HL.

The above transactions constituted connected transactions as defined in the Listing Rules and in respect of which the Group had complied with relevant requirements under Chapter 14 of the Listing Rules.