

1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” and Appendix 16 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30 June 2002 except for the changes 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 results 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 exchange rates ruling at the balance sheet date. The effect of such change is immaterial to the financial statements.

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

A revised classification of activities from which cash flows are derived has been made. As a result, cash flow during the period has been reclassified by operating, investing and financing activities. For the period ended 31 December 2001, net cash outflow from taxation of HK\$106.3 million has been reclassified as operating cash flow, dividend and interest received of HK\$66.6 million have been reclassified as investing cash flow, finance costs paid of HK\$233.6 million and dividends paid of HK\$886.2 million have been reclassified as financing cash flow.

(d) SSAP 34 “Employee benefits”

This new SSAP 34 prescribes the accounting and disclosure requirements for employee benefits. This has had no major impact on the interim financial statements.

2. SEGMENT INFORMATION

	Segment revenue		Segment results	
	2002	2001	2002	2001
	HK\$Million	HK\$Million	HK\$Million	HK\$Million
(a) Business segment				
Property leasing	973.0	936.8	707.6	717.1
Property sales				
– investment properties	101.0	305.8	33.0	83.7
	1,074.0	1,242.6	740.6	800.8
Other income (Note)			49.8	55.6
Administrative expenses			(42.4)	(39.5)
Finance costs			(138.4)	(116.5)
Operating profit			609.6	700.4
Share of results of jointly controlled entities – property leasing			36.5	29.2
Profit before taxation			646.1	729.6

Note: Other income includes hotel results of HK\$1.5 million, the operations of which have ceased with effect from 31 December 2002.

(b) Geographical segment

Group				
Hong Kong	956.6	1,154.8	661.5	753.7
Mainland China	117.4	87.8	79.1	47.1
	1,074.0	1,242.6	740.6	800.8
Jointly controlled entities				
Hong Kong			14.5	15.4
Mainland China			22.0	13.8
			36.5	29.2

3. OPERATING PROFIT

	2002 HK\$Million	2001 HK\$Million
Operating profit is arrived at after charging:		
Finance costs		
Interest on borrowings	197.1	224.5
Other ancillary borrowing costs	19.2	8.9
	216.3	233.4
Total borrowing costs	216.3	233.4
Less: Borrowing costs capitalised	(77.9)	(116.9)
	138.4	116.5
Cost of investment properties sold	66.1	212.9
Depreciation	8.0	14.7
and after crediting:		
Interest income	28.1	55.6

4. TAXATION

- (a) Provision for Hong Kong profits tax has been made at 16% on the estimated assessable profits for the period. No provision has been made for PRC income tax for the period as tax allowances are available to offset PRC taxable income for the period. No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

	2002 HK\$Million	2001 HK\$Million
Group		
Hong Kong	55.4	59.5
Jointly controlled entities		
Hong Kong	2.2	2.2
	57.6	61.7

- (b) The Group is currently in discussion with the Inland Revenue Department regarding a dispute over the deductibility of certain interest payments in previous years' tax computations. As at the balance sheet date, the outcome of the said dispute remained undetermined and substantial tax provision has previously been made in the accounts on the grounds of prudence.

5. PREFERENCE DIVIDEND

The convertible cumulative preference shares of HK\$7,500 each issued in November 1993 bear dividend at 5.5% per annum on a reference amount of US\$1,000 each. The preference dividend is in respect of the six months ended 31 December 2002.

6. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of HK\$546.6 million (2001: HK\$633.9 million) and the weighted average number of 2,889.3 million (2001: 2,890.3 million) ordinary shares in issue during the period.

The calculation of diluted earnings per ordinary share is based on the adjusted net profit attributable to ordinary shareholders of HK\$606.8 million and the weighted average number of 3,272.7 million ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

No diluted earnings per ordinary share is presented for last period as the Company's convertible cumulative preference shares did not give rise to any dilution.

7. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors with the following ageing analysis:

	31/12/2002 HK\$Million	30/6/2002 HK\$Million
Within 1 month	48.2	87.6
1 – 3 months	7.1	18.3
Over 3 months	1.0	2.2
	56.3	108.1

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

	31/12/2002 HK\$Million	30/6/2002 HK\$Million
Within 1 month	269.2	277.7
Over 3 months	255.7	299.3
	524.9	577.0

9. RESERVES

	Share premium	Investment property revaluation reserve	Capital reserve on consolidation	Capital redemption reserve	Exchange reserve	Retained profits	Total
	HK\$Million	HK\$Million	HK\$Million	HK\$Million	HK\$Million	HK\$Million	HK\$Million
At 1 July 2002	8,464.5	4,641.4	275.6	1,308.4	13.8	7,676.1	22,379.8
Profit for the period	-	-	-	-	-	546.6	546.6
Ordinary dividend paid	-	-	-	-	-	(837.9)	(837.9)
Property disposal	-	(24.9)	(0.3)	-	-	-	(25.2)
Exchange difference	-	-	-	-	0.6	-	0.6
At 31 December 2002	8,464.5	4,616.5	275.3	1,308.4	14.4	7,384.8	22,063.9

10. NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

- (a) Net cash used in investing activities during the period included the payment for purchase of subsidiaries which had the following effects on the Group's assets and liabilities.

	2002 HK\$Million
Net assets acquired:	
Fixed assets	1,220.0
Cash and bank balances	121.7
Others	(94.5)
Total purchase price and associated costs	1,247.2
Less: cash of subsidiaries acquired	(121.7)
Net cash used in acquisition of subsidiaries	1,125.5

- (b) Analysis of the balances of cash and cash equivalents

	2002 HK\$Million	2001 HK\$Million
Cash and bank balances	3,094.1	3,788.0
Bank overdrafts	(0.8)	(2.0)
	3,093.3	3,786.0

11. COMMITMENTS

Capital commitments outstanding at 31 December 2002 not provided for in the accounts were as follows:

	31/12/2002 HK\$Million	30/6/2002 HK\$Million
Contracted for	88.9	–
Authorised but not contracted for	1,010.9	975.0
	1,099.8	975.0

12. RELATED PARTY TRANSACTIONS

- (a) The Group acquired the entire interests representing 74.1% A shares and 69.6% B shares in Grand Hotel Holdings Limited from its ultimate holding company, Hang Lung Group Limited and certain fellow subsidiaries at a total consideration of HK\$924.3 million upon the completion of a sale and purchase agreement on 9 October 2002.
- (b) The Group contributed funds as capital investment, to a jointly controlled entity for the development of The Grand Gateway, a property project in Shanghai and the amount outstanding at 31 December 2002 was HK\$1,138.6 million (30/6/2002 : HK\$1,127.3 million).
- (c) A fellow subsidiary of the Company contributed funds as capital investment, to a subsidiary of the Company for the development of Plaza 66, a property project in Shanghai. The amount outstanding at 31 December 2002 was HK\$307.2 million (30/6/2002 : HK\$313.5 million).