Notes to the Condensed Financial Statements

For the six months ended 30 June 2003

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 2002, except as described below.

In the current period, the Group has adopted, for the first time, the revised SSAP 12 "Income Taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Accumulated profits as at 1 January 2002 have been reduced by HK$96.3 million which is the cumulative effect of the change in policy on the results up to 31 December 2001. The balances on the Group's investment properties and assets revaluation reserves at 1 January 2002 have been reduced by HK$4.3 million and HK$1.4 million respectively, representing the deferred tax liabilities recognised in respect of the revaluation surpluses on the Group's properties at that date. The effect of the changes is an increased charge to taxation in the current period of HK$17.3 million (30.6.2002: HK$5.9 million).

The Group's accounting policy for taxation following the adoption of SSAP 12 (Revised) is stated below.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. TURNOVER

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	HK$'000
Turnover comprises:		
Gross rental income from properties	**593,452**	619,227
Income from property sales	**—**	800
Management fee and security service income	**2,079**	1,280
	595,531	621,307

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	
	30.6.2003	30.6.2002
	HK$'000	HK$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	**53,984**	50,045
Retirement benefits scheme contributions	**2,399**	2,296
Forfeited contributions	**(420)**	(717)
	55,963	51,624
Depreciation	**2,287**	2,878
Exchange loss	**1,631**	—
Rental income arising from operating leases less out-goings	**(486,956)**	(504,961)
Dividends from		
- listed investments	**(14,770)**	(749)
- unlisted investments	**(1,772)**	(7,367)
Interest income	**(1,051)**	(3,735)
Gain on property sales	**—**	(750)

Notes to the Condensed Financial Statements

For the six months ended 30 June 2003

5. FINANCE COSTS

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	HK$'000
Interest on		
- bank loans, overdrafts and other loans:		
wholly repayable within five years	**28,847**	43,152
not wholly repayable within five years	**10,056**	6,705
- floating rate notes	**5,507**	18,756
- fixed rate notes	**54,602**	45,497
	99,012	114,110
Net interest received from currency and interest rate swaps		
- due within five years	**(859)**	—
- due after five years	**(15,569)**	—
Amortisation of fixed rate notes and floating rate notes issue expenses	**1,015**	1,386
Bank charges	**4,473**	4,237
Medium Term Note Programme expenses	**—**	40
	88,072	119,773

6. TAXATION

	Six months ended	
	30.6.2003	30.6.2002 (restated)
	HK$'000	HK$'000
Current tax	**34,385**	44,715
Underprovision in previous periods	**48,000**	—
Deferred tax		
- Current period	**7,185**	5,862
- Attributable to change in tax rate	**10,126**	—
	99,696	50,577

The charge comprises Hong Kong Profits Tax calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period.

In March 2003, the Hong Kong government proposed that the rate for Hong Kong Profits Tax will be increased to 17.5% with effect from the 2003/2004 year of assessment, which was passed by the Legislative Council on 25 June 2003. This increase is taken into account in the preparation of the Group's 2003 interim financial report.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 13).

7. DIVIDENDS

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	HK$'000
Interim dividend - HK10 cents per share (2002: HK10 cents)	**104,044**	103,355

During the period, a dividend of HK26.5 cents (2001: HK28 cents) per share, which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2002. The scrip dividend alternatives were accepted by the shareholders as follows:

	HK$'000
Final dividend paid:	
Cash	237,878
Share alternative	36,296
	274,174

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2003	30.6.2002 (restated)
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	**250,896**	288,309
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,035,196**	1,031,527
Effect of dilutive potential ordinary shares:		
Share options	**N/A**	89
Weighted average number of ordinary shares for the purposes of diluted earnings per share		1,031,616

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.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2003

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$1,276,000 and HK$166,708,000, respectively (1.1.2002 to 31.12.2002: HK$11,872,000 and HK$362,465,000, 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 2003 and 31 December 2002 were less than 90 days old.

11. LONG TERM BANK LOANS

	30.6.2003	31.12.2002
	HK$'000	HK$'000
Bank loans, unsecured	**3,943,658**	3,746,861
The bank loans are repayable as follows:		
Within one year	**1,071,835**	737,638
More than one year, but not exceeding two years	**314,200**	685,600
More than two years, but not exceeding five years	**1,306,400**	1,617,600
More than five years	**1,251,223**	706,023
	3,943,658	3,746,861
Less: Amounts due within one year shown under current liabilities	**(1,071,835)**	(737,638)
	2,871,823	3,009,223

12. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 30 June 2003 and 31 December 2002 were less than 90 days old.

13. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the period.

Deferred tax liabilities

	Six months ended 30.6.2003					
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Deferred payments HK$'000	Retirement benefits scheme contributions HK$'000	Tax loss HK$'000	Total HK$'000
At 1 January						
- as previously reported	**1,295**	**—**	**—**	**—**	**—**	**1,295**
- adjustment on adoption of SSAP 12 (Revised)	**114,921**	**5,605**	**305**	**(67)**	**(8,440)**	**112,324**
- as restated	**116,216**	**5,605**	**305**	**(67)**	**(8,440)**	**113,619**
Charge (credit) to income for the period	**8,133**	**—**	**(91)**	**19**	**(876)**	**7,185**
Effect of change in tax rate						
- charge to income for the period	**10,895**	**—**	**29**	**(6)**	**(792)**	**10,126**
- charge to equity for the period	**—**	**525**	**—**	**—**	**—**	**525**
At 30 June	**135,244**	**6,130**	**243**	**(54)**	**(10,108)**	**131,455**

	Six months ended 30.6.2002					
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Deferred payments HK$'000	Retirement benefits scheme contributions HK$'000	Tax loss HK$'000	Total HK$'000
At 1 January						
- as previously reported	—	—	—	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	103,188	5,742	545	(208)	(7,235)	102,032
- as restated	103,188	5,742	545	(208)	(7,235)	102,032
Charge (credit) to income for the period	6,514	—	(120)	71	(603)	5,862
At 30 June	109,702	5,742	425	(137)	(7,838)	107,894

At 30 June 2003, the Group has unused tax losses of HK$766 million (31.12.2002: HK$771 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2003

14. CONTINGENT LIABILITIES

At the date of approval of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue regarding additional tax assessments disallowing certain expense deductions claimed in the tax returns for years of assessment 1995/1996 to 1999/2000 (total tax claimed: HK$193 million). Having taken separate legal advice from two leading counsel, the Directors are of the view that there are ample grounds to contest the assessments and such Group subsidiaries are pursuing objection against the additional assessments vigorously.

Apart from the above, there were no significant changes in contingent liabilities of the Group since the last annual report.

15. CAPITAL COMMITMENTS

As at balance sheet date, the Group had capital commitments in respect of the following:

	30.6.2003 HK$ Million	31.12.2002 HK$ Million
(a) Investment properties:		
Contracted for but not provided in the financial statements	**129.2**	171.4
(b) Share of capital commitments for joint ventures:		
Contracted for but not provided in the financial statements	**73.8**	7.7
(c) Additional investment in an associate:		
Authorised but not contracted for	**95.5**	—

16. RELATED PARTY TRANSACTIONS AND BALANCES

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

		Substantial shareholder		**Directors**	
	Notes	**1.1.2003 to 30.6.2003 HK$'000**	1.1.2002 to 30.6.2002 HK$'000	**1.1.2003 to 30.6.2003 HK$'000**	1.1.2002 to 30.6.2002 HK$'000
Repairs and maintenance expenses	(a)	**—**	—	**9,784**	9,923
Gross rental income	(b)	**2,523**	3,189	**18,187**	18,328
Construction cost for investment properties	(c)	**—**	—	**7,212**	—

As at balance sheet date, the Group has the following balances with related parties:

	Notes	Substantial shareholder 30.6.2003 HK$'000	Substantial shareholder 31.12.2002 HK$'000	Directors 30.6.2003 HK$'000	Directors 31.12.2002 HK$'000
Included in creditors and accruals were repairs and maintenance expenses payable to	(a)	**—**	—	**1,660**	1,737
Construction cost payable to	(c)	**—**	—	**677**	—
Amount due to a minority shareholder	(d)	**—**	—	**87,986**	84,486

Notes:

(a) Such expenses were incurred in connection with the repair and maintenance charges for escalators/lifts, electrical and gondola services.

(i) F.K. Hu (and his alternate, Raymond L.M. Hu) are directors of Ryoden Lift Services Limited ("RLS"), Ryoden Engineering Contracting Company Limited ("REC") and Ryoden Elevator Company Limited ("RE") and have indirect equity interests in each of these companies. RLS, REC and RE entered into a number of lift maintenance contracts, electrical installation maintenance and repair contracts and lifts and escalators supply and installation contract respectively with certain subsidiaries of the Company. The contract sum of one of such contracts has been included in the Caroline Centre renovation main contract (note (c) below).

(ii) 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 periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.

(c) Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Limited whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited, entered into a main contract with a subsidiary of the Company relating to the renovation project of Caroline Centre. Such transaction was entered into on normal commercial terms and on arm's length basis.

(d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non-wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is not repayable within one year.