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, 2002 except for the changes in accounting policies as described below.

SSAP 12 (Revised) "Income taxes"

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from January 1, 2003, in order to comply with Statement of Standard Accounting Practice 12 (Revised) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The effect of adopting of the new accounting policy has been applied retrospectively. The shareholders' funds as at January 1, 2003 and January 1, 2002 were restated and decreased by HK$979 million, which comprised revenue reserves of HK$690 million and investment properties revaluation reserves of HK$289 million, and HK$886 million, which comprised revenue reserves of HK$646 million and investment properties revaluation reserves of HK$240 million, respectively. The adjustments represented the deferred tax liability recognised in respect of temporary difference arising from fixed assets net of deferred tax assets in respect of tax losses recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The effect of change to income tax for the six months ended June 30, 2003 is an increased charge of HK$95 million (30/6/2002: HK$21 million).

2. Turnover and operating profits

a. Segment information

i. Business segments

	Segment Revenue		Segment Results	
	30/06/2003 HK$ Million	30/06/2002 HK$ Million (Restated)	30/06/2003 HK$ Million	30/06/2002 HK$ Million
Property investment	2,092	2,217	1,448	1,608
Hong Kong	1,805	1,846	1,430	1,489
China	90	72	28	24
Hotels	197	299	(10)	95
Communication, media and entertainment ("CME")	1,748	1,762	199	203
Pay television	844	877	210	154
Internet and multimedia	193	246	(48)	31
i-CABLE	1,037	1,123	162	185
Telecommunications	615	572	19	3
Others	96	67	18	15
Logistics	1,532	1,478	854	786
Terminals	1,367	1,260	820	709
Other logistics business	165	218	34	77
	5,372	5,457	2,501	2,597
Property development	102	99	(13)	3
Investment and others	114	142	15	65
Inter-segment revenue (Note)	(125)	(122)	–	–
	5,463	5,576	2,503	2,665
Unallocated income and expenses			(135)	(126)
Operating profit			2,368	2,539
Borrowing costs			(305)	(383)
Net other charges				
Property development			–	(204)
Investment and others			–	(43)
Associates				
Property development			44	(119)
Investment and others			10	7
Profit before taxation			2,117	1,797

2. Turnover and operating profits (Continued)

a. Segment information (Continued)

i. Business segments (Continued)

Note: Inter-segment revenue eliminated on consolidation included:

	30/06/2003 HK$ Million	30/06/2002 HK$ Million (Restated)
Property investment	49	54
CME	68	44
Pay television	19	18
Internet and multimedia	1	1
i-CABLE	20	19
Telecommunications	22	20
Others	26	5
Logistics	6	8
Investment and others	2	16
	125	122

ii. 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 profits (Continued)

b. *Operating profit is arrived at after charging:*

	30/06/2003 HK$ Million	30/06/2002 HK$ Million
Depreciation		
– assets held for use under operating leases	40	30
– other assets	494	496
Amortisation of prepaid expenses and programming library	53	110
Amortisation of goodwill	11	11
Staff costs, including retirement scheme costs HK$45 million (2002: HK$58 million)	989	991
Auditors' remuneration		
Audit services	4	4
Other services	1	1
Cost of properties sold during the period	104	88
and crediting:		
Rental income less direct outgoings, including contingent rentals HK$47 million (2002: HK$26 million)	1,516	1,536
Interest income	60	86
Dividend income from listed securities	31	24
Dividend income from unlisted securities	29	63

3. Other net loss

Other net loss represents a net loss on disposal of investments.

4. Borrowing costs

	30/06/2003 HK$ Million	30/06/2002 HK$ Million
Interest on:–		
Bank loans and overdrafts	207	175
Other loans repayable within five years	75	147
Other loans repayable after more than five years	–	62
Other borrowing costs	55	64
	337	448
Less: Amount capitalised	(32)	(65)
Net borrowing costs for the period	305	383

The Group's average borrowing cost for the period was 3.1% per annum (2002: 3.8% per annum).

5. Net other charges

Net other charges for the corresponding period in 2002 comprised provisions of HK$204 million for properties under development and for sale and provision of HK$43 million for impairment in value of investments. No such items incurred for the period under review.

6. Share of profits less losses of associates

Share of profits of associates was HK$54 million for the period under review. The losses of HK$112 million in previous corresponding period were principally comprised the attributable losses in respect of provisions for impairment in value of the Bellagio development.

7. 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 17.5 per cent (2002: 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:

	30/06/2003 HK$ Million	30/06/2002 HK$ Million (Restated)
Current tax		
Hong Kong profits tax	377	235
Underprovision for Hong Kong profits tax relating to prior years	18	47
Overseas taxation	–	8
	395	290
Deferred taxation		
Origination and reversal of temporary differences	(25)	14
Effect of increase in tax rate on deferred tax	99	–
	74	14
Share of associates' current Hong Kong profits tax	1	2
	470	306

d. No ne of the taxation payable in the balance sheet is expected to be settled after more than one year.

8. Dividends

a. Dividends attributable to the period

	30/06/2003 HK$ Million	30/06/2002 HK$ Million
Proposed after the balance sheet date:		
12 cents (2002: 28 cents) per share	294	685
Distribution in specie in the form of shares in i-CABLE Communications Limited ("i-CABLE Shares") equivalent to 20.75 cents per share	508	–
	802	685

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

The distribution in specie represents the 244.7 million i-CABLE shares to be distributed to the Company's Shareholders with value of HK$508 million, calculated on basis of the closing price on August 19, 2003.

The book cost of those 244.7 million i-CABLE shares is HK$189 million. Compared to the market value mentioned above, there would be a deemed profit of approximately HK$319 million.

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

	30/06/2003 HK$ Million	30/06/2002 HK$ Million
Final dividend in respect of the previous financial year, approved during the period, of 28 cents (2002: 50 cents) per share	685	1,223

9. Earnings per share

The calculation of earnings per share is based on the earnings for the period of HK$1,309 million (2002: HK$1,181 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 million ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on earnings for the period of HK$1,309 million (2002: HK$1,181 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 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, 2003 has no dilutive effect on the calculation of diluted earnings per share for the period ended June 30, 2003.

10. 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, 2003 as follows:

	30/06/2003 HK$ Million	31/12/2002 HK$ Million
0 – 30 days	292	398
31 – 60 days	216	164
61 – 90 days	53	34
Over 90 days	68	43
	629	639

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.

11. Trade and other payables

Included in this item are trade creditors with an ageing analysis as at June 30, 2003 as follows:

	30/06/2003 HK$ Million	31/12/2002 HK$ Million
0 – 30 days	146	218
31 – 60 days	59	100
61 – 90 days	40	64
Over 90 days	146	153
	391	535

12. Share capital

	30/06/2003 No. of share Million	31/12/2002 No. of share Million	30/06/2003 HK$ Million	31/12/2002 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	2,447	2,447	2,447
Exercise of share options	–	–	–	–
Balance at June 30/December 31	2,447	2,447	2,447	2,447

13. 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, 2003							
– as previously reported	7,742	7	30,298	(229)	(482)	9,895	47,231
– prior year adjustment (Note 1)	–	–	(289)	–	–	(690)	(979)
	7,742	7	30,009	(229)	(482)	9,205	46,252
Dividends approved in respect of the previous year	–	–	–	–	–	(685)	(685)
Transferred to the profit and loss account on disposal of non-trading securities	–	–	–	4	–	–	4
Revaluation surplus							
– non-trading securities	–	–	–	50	–	–	50
Exchange reserves/others	–	–	–	–	4	–	4
Profit for the period	–	–	–	–	–	1,256	1,256
Balance at June 30, 2003	7,742	7	30,009	(175)	(478)	9,776	46,881
b. Associates							
Balance at January 1, 2003	–	–	–	(1)	–	(964)	(965)
Revaluation surplus							
– non-trading securities	–	–	–	1	–	–	1
Profit for the period	–	–	–	–	–	53	53
Balance at June 30, 2003	–	–	–	–	–	(911)	(911)
Total reserves							
At June 30, 2003	7,742	7	30,009	(175)	(478)	8,865	45,970
At December 31, 2002 (Restated)	7,742	7	30,009	(230)	(482)	8,241	45,287

14. 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, 2003:

a. Loans totalling HK$3,426 million (31/12/2002: HK$4,332 million) advanced by the Group to certain associates, in proportion of the Group's respective shareholdings thereof, involved in the Sorrento (as described in more detail in (b) below) and Bellagio property development projects 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 1997 and 1994 from complying with the relevant connected transaction requirements (as set out in further detail under (b) hereunder for Sorrento property development). 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 15(b), 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.

15. Contingent liabilities

As at June 30, 2003:

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$27,820 million (31/12/2002: HK$26,256 million).

b. 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 the Sorrento property development project by the subsidiary of an associate.

c. Forward exchange contracts amounting to HK$5,616 million (31/12/2002: HK$5,616 million).

16. Commitments

	30/06/2003 HK$ Million	31/12/2002 HK$ Million
a. Capital commitments		
No provision has been made in the accounts for planned capital expenditure of	3,856	4,408
In respect of which contracts have been entered into for	1,227	1,763

16. Commitments (Continued)

b. The Company's subsidiary, Modern Terminals Limited ("Modern Terminals"), had entered into a Joint Development Agreement ("JDA") with Hong Kong International Terminals Limited ("HIT") and Asia Container Terminals Limited ("ACT") to jointly procure the construction of Container Terminal 9. The total cost of construction for the whole Container Terminal 9 is estimated by the Directors to be HK$4.8 billion with a target completion date in 2005. Modern Terminals, ACT and HIT have agreed to share the construction cost at an agreed ratio as stipulated in the JDA.

Furthermore, under a Berth Swap Agreement with ACT, upon the completion of the whole of Container Terminal 9, Modern Terminals will transfer to ACT all of its rights, title and interest in Container Terminal 8 West and ACT will transfer to Modern Terminals all of its rights, title and interest in Container Terminal 9.

17. Comparative figures

Certain comparative figures have been adjusted as a result of changes in accounting policies for income taxes in order to comply with SSAP 12 (Revised), detail of which is set out in Note 1.

18. Review of unaudited interim accounts

The unaudited interim accounts for the six months ended June 30, 2003 have been reviewed by the audit committee of the Company.