

Notes to the Condensed Interim Financial Statements (unaudited)

1 BASIS OF PREPARATION

The condensed interim financial statements are unaudited but have been reviewed by the Audit Committee.

The condensed interim financial statements have 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 Hong Kong Society of Accountants.

The principal accounting policies and basis of preparation used in the preparation of these condensed interim financial statements are the same as those used in the Group's audited financial statements for the year ended 30th June, 2003, except for the SSAP 12 (Revised) "Income taxes" which is effective and has been adopted for the first time in preparation of the current period's condensed consolidated financial statements.

On the adoption of the SSAP 12 (Revised) "Income taxes", deferred taxation is provided in full, using the liability method, on the temporary differences arising between the tax bases of assets/liabilities and their carrying amounts in the accounts with limited exceptions. Deferred taxation is determined by reference to the taxation rate enacted or substantively enacted on the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In previous years, deferred taxation was 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. Future deferred tax benefits were not recognised unless their realisation was assured beyond reasonable doubt. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparative figure have been restated to conform the changed policy. The shareholders' equity as at 1st July, 2003 was restated and decreased by HK\$390,651,000 which comprised decrease in retained profits of HK\$379,631,000 and investment property revaluation reserve of HK\$11,020,000 (as at 1st July, 2002: the shareholders' equity was decreased by HK\$329,501,000, which comprised decrease in retained profits of HK\$319,151,000 and investment property revaluation reserve of HK\$10,350,000). The effect of change to income tax for the six months ended 31st December, 2003 is an increase in the charge of HK\$20,288,000 (31st December, 2002: HK\$4,598,000).

2 SEGMENTAL INFORMATION

Business segments

The business upon which the Group reports its primary segment information is as follows:

| | | |
|------------------|---|--|
| Property leasing | – | property rental |
| Hotel operation | – | hotel operations and management |
| Department store | – | department store operations and management |
| Infrastructure | – | infrastructure project investment |
| Others | – | sale of properties, provision of cleaning and security guard services and provision of information technology services |

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2 SEGMENTAL INFORMATION (cont'd)

Business segments (cont'd)

Segment information about these businesses is presented below:

For the six months ended 31st December, 2003

| | Property leasing HK\$'000 | Hotel operation HK\$'000 | Department store HK\$'000 | Infra- structure HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--|---------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------|--------------------------|--------------------------|
| INCOME AND RESULTS | | | | | | | |
| Turnover | 285,836 | 40,986 | 62,470 | 98,450 | 113,832 | — | 601,574 |
| Other operating income | 1,163 | — | 375 | 6,566 | 35,204 | — | 43,308 |
| External income | 286,999 | 40,986 | 62,845 | 105,016 | 149,036 | — | 644,882 |
| Inter-segment income | 28,263 | — | — | — | 2,626 | (30,889) | — |
| Total income | <u>315,262</u> | <u>40,986</u> | <u>62,845</u> | <u>105,016</u> | <u>151,662</u> | <u>(30,889)</u> | <u>644,882</u> |
| Inter-segment sales were charged at prices determined by management with reference to market prices. | | | | | | | |
| Segment results | <u>177,740</u> | <u>(1,814)</u> | <u>2,485</u> | <u>69,731</u> | <u>(5,046)</u> | <u>—</u> | <u>243,096</u> |
| Interest income | | | | | | | 6,907 |
| Profit on disposal of investments in securities | — | — | — | — | 1,262 | — | 1,262 |
| Unrealised holding gain on investments in securities | — | — | — | — | 132,988 | — | 132,988 |
| Profit on disposal of bridges | — | — | — | 104,332 | — | — | 104,332 |
| Impairment loss on toll highway operating rights, property, plant and equipment recognised | — | — | — | (53,179) | (435) | — | (53,614) |
| Unallocated corporate expenses | | | | | | | (6,719) |
| Profit from operations | | | | | | | 428,252 |
| Finance costs | | | | | | | (9,344) |
| Share of results of associates | | | | | | | 632,102 |
| Amortisation of goodwill | | | | | | | (25,277) |
| Profit before taxation | | | | | | | 1,025,733 |
| Taxation | | | | | | | (181,639) |
| Profit before minority interests | | | | | | | 844,094 |
| Minority interests | | | | | | | (22,012) |
| Net profit for the period | | | | | | | <u>822,082</u> |

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2 SEGMENTAL INFORMATION (cont'd)

Business segments (cont'd)

For the six months ended 31st December, 2002 (restated)

| | Property leasing HK\$'000 | Hotel operation HK\$'000 | Department store HK\$'000 | Infra- structure HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------|--------------------------|--------------------------|
| INCOME AND RESULTS | | | | | | | |
| Turnover | 275,365 | 44,544 | 61,873 | 112,648 | 106,369 | — | 600,799 |
| Other operating income | 1,301 | — | 298 | 85 | 36,749 | — | 38,433 |
| External income | 276,666 | 44,544 | 62,171 | 112,733 | 143,118 | — | 639,232 |
| Inter-segment income | 30,611 | — | — | — | 2,576 | (33,187) | — |
| Total income | <u>307,277</u> | <u>44,544</u> | <u>62,171</u> | <u>112,733</u> | <u>145,694</u> | <u>(33,187)</u> | <u>639,232</u> |

Inter-segment sales were charged at prices determined by management with reference to market prices.

| | | | | | | | |
|--|----------------|----------------|--------------|---------------|---------------|----------|------------------|
| Segment results | <u>156,383</u> | <u>(2,948)</u> | <u>(544)</u> | <u>74,662</u> | <u>16,169</u> | <u>—</u> | 243,722 |
| Interest income | | | | | | | 17,002 |
| Loss on disposal of investments in securities | — | — | — | — | (253) | — | (253) |
| Unrealised holding loss on investments in securities | — | — | — | — | (39,711) | — | (39,711) |
| Impairment loss on property, plant and equipment recognised | — | — | — | — | (14,318) | — | (14,318) |
| Unallocated corporate expenses | | | | | | | <u>(11,412)</u> |
| Profit from operations | | | | | | | 195,030 |
| Finance costs | | | | | | | (19,668) |
| Share of results of associates | | | | | | | 747,738 |
| Amortisation of goodwill | | | | | | | <u>(22,000)</u> |
| Profit before taxation | | | | | | | 901,100 |
| Taxation | | | | | | | <u>(106,454)</u> |
| Profit before minority interests | | | | | | | 794,646 |
| Minority interests | | | | | | | <u>(20,687)</u> |
| Net profit for the period | | | | | | | <u>773,959</u> |

Notes to the Condensed Interim Financial Statements (unaudited)

2 SEGMENTAL INFORMATION (cont'd)

Geographical segments

The Group's sale of properties, property leasing, hotel operation, department store operation, security guard services and information technology services are carried out in Hong Kong. Infrastructure is carried out in other regions of the People's Republic of China ("PRC").

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

For the six months ended 31st December, 2003

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|------------------------|-----------------------|-----------------|--------------------------|
| Turnover | 501,969 | 99,605 | 601,574 |
| Other operating income | 37,228 | 6,080 | 43,308 |
| External income | 539,197 | 105,685 | 644,882 |

For the six months ended 31st December, 2002

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|------------------------|-----------------------|-----------------|--------------------------|
| Turnover | 482,523 | 118,276 | 600,799 |
| Other operating income | 36,266 | 2,167 | 38,433 |
| External income | 518,789 | 120,443 | 639,232 |

Notes to the Condensed Interim Financial Statements (unaudited)

3 PROFIT BEFORE TAXATION

The consolidated profit from ordinary activities before taxation is arrived for the period at after charging:

(a) Finance costs

| | For the six months ended 31st December, | |
|-----------------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Interest on: | | |
| — Bank loans and overdrafts | 8,444 | 17,890 |
| — Finance leases | 4 | 45 |
| — Other borrowings | 896 | 1,733 |
| | <u>9,344</u> | <u>19,668</u> |

(b) Items other than those separately disclosed in Notes 2 and 3(a):

| | For the six months ended 31st December, | |
|---------------------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Amortisation and depreciation | 30,818 | 35,451 |
| Staff costs | 105,098 | 103,413 |
| Cost of sales | | |
| — completed properties for sale | 684 | 304 |
| — inventories | 62,796 | 63,999 |

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4 TAXATION

| | For the six months ended 31st December, | |
|---------------------------------------|---|------------------|
| | 2003 | 2002 restated |
| | HK\$'000 | HK\$'000 |
| The Group | | |
| — Hong Kong | 25,337 | 15,974 |
| — PRC | 6,799 | 6,256 |
| | <u>32,136</u> | <u>22,230</u> |
| Deferred taxation | 20,288 | 4,598 |
| Share of tax on results of associates | 129,215 | 79,626 |
| | <u>181,639</u> | <u>106,454</u> |

Provision for Hong Kong profits tax has been made at 17.5% (2002: 16%) on the estimated assessable profits for the period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the period on the estimated assessable profits arising in the relevant foreign jurisdiction during the period.

5 DIVIDENDS

| | For the six months ended 31st December, | |
|--|---|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Interim dividend at HK\$0.11 per share (2002: HK\$0.11 per share) | <u>309,906</u> | <u>309,906</u> |

6 EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the period of HK\$822,082,000 (2002 restated: HK\$773,959,000) and on 2,817,327,395 (2002: 2,817,327,395) ordinary shares in issue during the period. Diluted earnings per share is not shown as there were no dilutive potential shares in existence for the six months ended 31st December, 2003 and 31st December, 2002.

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7 FIXED ASSETS

| | Investment properties HK\$'000 | Property, plant and equipment HK\$'000 | Total HK\$'000 |
|---|--------------------------------------|---|-------------------|
| Costs or valuation | | | |
| At 1st July, 2003 | 3,948,186 | 2,628,198 | 6,576,384 |
| Additions | 452 | 5,705 | 6,157 |
| Disposals | — | (182,910) | (182,910) |
| At 31st December, 2003 | <u>3,948,638</u> | <u>2,450,993</u> | <u>6,399,631</u> |
| Depreciation, amortisation and impairment | | | |
| At 1st July, 2003 | — | 457,287 | 457,287 |
| Charge for the period | — | 30,818 | 30,818 |
| Written back on disposals | — | (82,609) | (82,609) |
| Impairment loss | — | 53,614 | 53,614 |
| At 31st December, 2003 | <u>—</u> | <u>459,110</u> | <u>459,110</u> |
| Net book value or valuation | | | |
| At 31st December, 2003 | <u>3,948,638</u> | <u>1,991,883</u> | <u>5,940,521</u> |
| At 30th June, 2003 | <u>3,948,186</u> | <u>2,170,911</u> | <u>6,119,097</u> |

The Group's investment and hotel properties were revalued as at 30th June, 2003 by an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited, on an open market value basis. In the opinion of the directors, there is no significant change in the value of the Group's fixed assets during the period.

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8 DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties are payable in advance by the tenants. In respect of retailing, most of the transactions are being on cash basis. Other trade debtors settle their accounts according to the payment terms as stated in contracts. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The ageing analysis of trade debtors (net of allowances for bad debts) is as follows:

| | At 31st December, 2003 HK\$'000 | At 30th June, 2003 HK\$'000 |
|--|---------------------------------------|-----------------------------------|
| Under 1 month overdue | 20,969 | 57,410 |
| More than 1 month overdue but less than 3 months overdue | 30,598 | 23,983 |
| More than 3 months overdue but less than 6 months overdue | 3,225 | 6,206 |
| Over 6 months overdue | 5,070 | 3,879 |
| | <u>59,862</u> | <u>91,478</u> |
| Prepayments, deposits and other receivable | 175,028 | 164,249 |
| | <u>234,890</u> | <u>255,727</u> |

9 CREDITORS AND ACCRUED EXPENSES

The ageing analysis of trade payables included in creditors and accrued expenses by due date is as follows:

| | At 31st December, 2003 HK\$'000 | At 30th June, 2003 HK\$'000 |
|--|---------------------------------------|-----------------------------------|
| Due within 1 month or on demand | 168,129 | 110,620 |
| Due after 1 month but within 3 months | 30,406 | 42,139 |
| Due after 3 months but within 6 months | 3,819 | 4,155 |
| Due after 6 months | 5,820 | 5,757 |
| | <u>208,174</u> | <u>162,671</u> |
| Rental deposits and other payable | 89,074 | 97,946 |
| | <u>297,248</u> | <u>260,617</u> |

Notes to the Condensed Interim Financial Statements (unaudited)

10 SHARE CAPITAL

| | At 31st December, 2003 HK\$'000 | At 30th June, 2003 HK\$'000 |
|--|---------------------------------------|-----------------------------------|
| Authorised: | | |
| 3,000,000,000 ordinary shares of HK\$0.2 each | <u>600,000</u> | <u>600,000</u> |
| Issued and fully paid: | | |
| 2,817,327,395 (2002: 2,817,327,395) ordinary shares of HK\$0.2 each | <u>563,466</u> | <u>563,466</u> |

There was no movement in the share capital of the Company in either the current or the prior interim reporting period.

11 RESERVES

| | Investment property revaluation reserve HK\$'000 | Other property revaluation reserve HK\$'000 | Capital reserve HK\$'000 | Share premium account HK\$'000 | Dividend reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|------------------------------------|--|---|--------------------------------|---|---------------------------------|---------------------------------|-------------------|
| At 1st July, 2003 | | | | | | | |
| As previously report | 1,455,855 | 370,524 | 12,909 | 6,158,568 | 309,906 | 10,768,843 | 19,076,605 |
| Prior period adjustment (Note 1) | (11,020) | — | — | — | — | (379,631) | (390,651) |
| As restated | 1,444,835 | 370,524 | 12,909 | 6,158,568 | 309,906 | 10,389,212 | 18,685,954 |
| Final dividend paid | — | — | — | — | (309,906) | — | (309,906) |
| Surplus on revaluation | | | | | | | |
| Associates | 13,254 | — | — | — | — | — | 13,254 |
| Net profit for the period | — | — | — | — | — | 822,082 | 822,082 |
| Realisation of revaluation reserve | (1,157) | — | — | — | — | — | (1,157) |
| Interim Dividend proposed | — | — | — | — | 309,906 | (309,906) | — |
| At 31st December, 2003 | <u>1,456,932</u> | <u>370,524</u> | <u>12,909</u> | <u>6,158,568</u> | <u>309,906</u> | <u>10,901,388</u> | <u>19,210,227</u> |

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12 CAPITAL COMMITMENTS

| | At 31st December, 2003 HK\$'000 | At 30th June, 2003 HK\$'000 |
|---|---------------------------------------|-----------------------------------|
| Contracted commitments for the acquisition of property, plant and equipment and for property development and renovation expenditure | <u>14,579</u> | <u>14,579</u> |
| Contracted commitments for system development costs | <u>276</u> | <u>907</u> |

13 OPERATING LEASE COMMITMENTS

At 31st December, 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | At 31st December, 2003 HK\$'000 | At 30th June, 2003 HK\$'000 |
|---|---------------------------------------|-----------------------------------|
| Not later than one year | 73,608 | 85,292 |
| Later than one year and not later than five years | 49,946 | 111,865 |
| Later than five years | — | 152,082 |
| | <u>123,554</u> | <u>349,239</u> |

Operating lease commitments represent rentals payable by the Group for retail shopping centre, telecommunication network facilities and certain of its office premises. The leases for retail shopping centre and office premises are negotiated for terms of six months to ten years at fixed rental. Some of leases for telecommunications network facilities are with no specific terms while the remaining leases typically run for an initial period of three months, six months or one year, with an option to renew the lease upon the expiry of the initial lease term. None of the leases for telecommunication network facilities includes contingent rentals.

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14 RELATED PARTY TRANSACTIONS

The Group entered into the following significant transactions with fellow subsidiaries:

| | For the six months ended 31st December, | |
|-------------------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Security guard service income | 22,290 | 23,938 |
| Agency commission paid | 8,693 | 8,730 |
| Building management fee paid | 26,696 | 29,293 |
| Interest expenses | 99 | 1,325 |
| Rental expenses | 38,187 | 36,987 |

Note: Apart from the above interest-bearing advances with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-Bank Offer Rate or with interest at market rates, the other transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.

15 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 1.