

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of 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 30th June, 2003, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” (“SSAP 12 (Revised)”) in the current period.

Income taxes

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In prior periods, partial provision was made for deferred tax using the income statement liability method in which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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 amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. This change in accounting policy has resulted in a decrease of retained profits of HK\$102,765,004 at 30th June, 2003 (at 30th June, 2002: decrease of retained profits of HK\$86,883,006). The net profit for the six months ended 31st December, 2003 has been increased by HK\$396,496 (six months ended 31st December, 2002: decrease of net profit of HK\$9,584,491). This change in accounting policy has also resulted in an increase of goodwill arising from the acquisition of an associate for the year ended 30th June, 1997 from HK\$179,717,551 to HK\$252,916,351.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into five operating divisions - property, security, financing, hotel and building management and services. These operating divisions are the basis on which the Group reports its primary segment information:

Six months ended 31st December, 2003

	Property HK\$	Security HK\$	Financing HK\$	Hotel HK\$	Building management and services HK\$	Elimination HK\$	Consolidated HK\$
REVENUE							
Turnover							
Property rental	415,246,219	—	—	—	—	—	415,246,219
Property sales	2,594,720,610	—	—	—	—	—	2,594,720,610
Hotel operations	—	—	—	129,511,422	—	—	129,511,422
Management services	32,684,285	—	—	—	173,656,186	—	206,340,471
Share investment and dealing	—	20,452,698	—	—	—	—	20,452,698
Financing	—	—	30,121,897	—	—	—	30,121,897
	<u>3,042,651,114</u>	<u>20,452,698</u>	<u>30,121,897</u>	<u>129,511,422</u>	<u>173,656,186</u>	<u>—</u>	<u>3,396,393,317</u>
Other operating income	10,713,401	1,738,014	1,835,603	—	4,750,328	—	19,037,346
Inter-segment sales *	—	—	—	—	12,410,949	(12,410,949)	—
Total revenue	<u>3,053,364,515</u>	<u>22,190,712</u>	<u>31,957,500</u>	<u>129,511,422</u>	<u>190,817,463</u>	<u>(12,410,949)</u>	<u>3,415,430,663</u>
SEGMENT RESULT	<u>822,452,773</u>	<u>118,047,378</u>	<u>31,957,500</u>	<u>62,637,270</u>	<u>78,279,792</u>	<u>—</u>	<u>1,113,374,713</u>
Unallocated corporate expenses							<u>(173,582,017)</u>
Profit from operations							<u>939,792,696</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Six months ended 31st December, 2002

	Property HK\$	Security HK\$	Financing HK\$	Hotel HK\$	Building management and services HK\$	Elimination HK\$	Consolidated HK\$
REVENUE							
Turnover							
Property rental	420,122,208	—	—	—	—	—	420,122,208
Property sales	2,188,060,651	—	—	—	—	—	2,188,060,651
Hotel operations	—	—	—	115,331,296	—	—	115,331,296
Management services	30,031,827	—	—	—	162,170,583	—	192,202,410
Share investment and dealing	—	17,696,686	—	—	—	—	17,696,686
Financing	—	—	65,685,192	—	—	—	65,685,192
	<u>2,638,214,686</u>	<u>17,696,686</u>	<u>65,685,192</u>	<u>115,331,296</u>	<u>162,170,583</u>	<u>—</u>	<u>2,999,098,443</u>
Other operating income	6,287,425	1,923,854	105,674	—	14,816,364	—	23,133,317
Inter-segment sales *	—	—	—	—	11,574,090	(11,574,090)	—
Total revenue	<u>2,644,502,111</u>	<u>19,620,540</u>	<u>65,790,866</u>	<u>115,331,296</u>	<u>188,561,037</u>	<u>(11,574,090)</u>	<u>3,022,231,760</u>
SEGMENT RESULT	<u>631,870,857</u>	<u>(242,466,133)</u>	<u>65,790,866</u>	<u>48,303,730</u>	<u>87,753,968</u>	<u>—</u>	<u>591,253,288</u>
Unallocated corporate expenses							<u>(171,736,571)</u>
Profit from operations							<u>419,516,717</u>

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

4. PROFIT FROM OPERATIONS

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$
Profit from operations has been arrived at after charging:		
Cost of hotel inventories	11,994,412	11,678,185
Depreciation	8,023,390	8,157,327

5. FINANCE INCOME

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$
Interest income on		
advances to associates	30,073,491	33,676,465
advances to investee companies	3,450,391	3,479,564
bank deposits	13,599,037	20,075,134
	<u>47,122,919</u>	<u>57,231,163</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

6. FINANCE COSTS

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$
Interests on borrowings	116,446,927	211,474,170
Provision for premium on redemption of convertible notes	8,423,671	8,423,671
Amortisation of issue costs of convertible notes	3,787,405	3,787,405
Loan facility arrangement fees and finance charges	13,853,811	10,420,490
	<u>142,511,814</u>	<u>234,105,736</u>
<i>Less:</i> Amount capitalised to properties under development	(31,536,930)	(18,514,299)
	<u>110,974,884</u>	<u>215,591,437</u>

7. SHARE OF RESULTS OF ASSOCIATES

The share of results of associates includes amortisation of associates' goodwill of HK\$6,477,214 (*six months ended 31st December, 2002: HK\$6,477,214 as restated*) and release of associates' negative goodwill of HK\$2,564,199 (*six months ended 31st December, 2002: HK\$2,564,199*).

8. INCOME TAX EXPENSE

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$ (As restated)
The charge comprises:		
Taxation attributable to the Company and its subsidiaries		
Hong Kong Profits Tax	82,057,376	60,713,560
Deferred tax	(3,387,207)	1,700,584
	<u>78,670,169</u>	<u>62,414,144</u>
Share of taxation attributable to associates		
Hong Kong Profits Tax	9,843,764	4,595,978
Deferred tax	1,160,741	6,053,937
	<u>11,004,505</u>	<u>10,649,915</u>
	<u>89,674,674</u>	<u>73,064,059</u>

Hong Kong Profits Tax is calculated at 17.5% (*16% or 17.5% for the six months ended 31st December, 2002, as appropriate*) of the estimated assessable profit for the six months ended 31st December, 2003.

On 27th March, 2002 and 14th March, 2003, the Inland Revenue Department ("IRD") initiated tax inquiries for the years of assessment 1995/96 and 1996/97, respectively, on a wholly-owned subsidiary, Sing-Ho Finance Company Limited ("Sing-Ho Finance"). Notices of assessment for additional tax in an aggregate sum of approximately HK\$60,000,000 were issued to Sing-Ho Finance for the years under review and objections were properly lodged with the IRD by Sing-Ho Finance. On 20th August, 2003, IRD also initiated a tax inquiry for the years of assessment 1998/99 to 2001/02 on a wholly-owned subsidiary, City Empire Limited ("City Empire"). Notices of assessment for additional tax of approximately HK\$263,438,000 was issued to City Empire for the years under review and objections were properly lodged with the IRD by City Empire. In the opinion of the Directors, in view of the tax inquiries are still at the stage of collation of evidence, the ultimate outcome of these tax inquiries cannot presently be determined with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

9. DIVIDEND

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$
Final dividend for the year ended 30th June, 2003 of HK 2 cents (<i>year ended 30th June, 2002: HK 2 cents</i>) with a scrip dividend option per share	<u>77,726,686</u>	<u>77,288,637</u>

The Directors determined that an interim dividend for the six months ended 31st December, 2003 of HK5 cents (*six months ended 31st December, 2002: HK 2 cents*) per share would be paid to the shareholders of the Company whose names appear in the Register to Members on 19th April, 2004.

10. EARNINGS PER SHARE

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

	Six months ended	
	31st December, 2003 HK\$	31st December, 2002 HK\$
		(As restated)
Earnings for the purpose of basic earnings per share	607,053,909	148,212,752
Effect of dilutive potential ordinary shares:		
Interest and premium on convertible notes	<u>30,279,447</u>	<u>30,279,447</u>
Earnings for the purpose of diluted earnings per share	<u>637,333,356</u>	<u>178,492,199</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,887,691,551	3,869,689,847
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>375,000,000</u>	<u>375,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,262,691,551</u>	<u>4,244,689,847</u>

No diluted earnings per share has been presented for the six months ended 31st December, 2002 as the effect of the assumed conversion of the Group's outstanding convertible notes would result in an increase in earnings per share.

11. INVESTMENT PROPERTIES

During the six months ended 31st December, 2003, certain properties under development were transferred to investment properties amounting to HK\$151,184,995 (*six months ended 31st December, 2002: HK\$167,937,960*).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2003, additions to property, plant and equipment amounted to HK\$4,338,765 (*six months ended 31st December, 2002: HK\$5,120,042*).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

13. INTERESTS IN ASSOCIATES

	31st December, 2003 HK\$	30th June, 2003 HK\$ (As restated)
Share of net assets	1,016,102,062	1,595,730,713
Goodwill	161,930,358	168,407,572
Negative goodwill	(92,311,145)	(94,875,344)
	1,085,721,275	1,669,262,941
Advances to associates, less allowances	8,723,706,363	9,378,940,346
	9,809,427,638	11,048,203,287

The IRD initiated tax inquiries for the years of assessment 1994/95 to 2001/02 on a wholly-owned subsidiary, Wide Harvest Investment Limited (“WHI”), of the Group’s associate, Million Success Limited (“MSL”) and for the years of assessment 1994/95 to 1997/98 on a wholly-owned subsidiary, Murdoch Investments Inc. (“MII”), of the Group’s associate, Erleigh Investment Limited. Notices of assessment for additional tax in the aggregate amounts of approximately HK\$406,000,000 and HK\$33,000,000 were issued to WHI and MII for the years under review, respectively, and objections were properly lodged with the IRD by WHI and MII. The effective share of the amount attributable to the Group as at 31st December, 2003 is estimated to be approximately HK\$102,000,000 and HK\$15,000,000, respectively. In view of the tax inquiries are still at the stage of collation of evidence, the management of WHI and of MII are of the opinion that the ultimate outcome of the tax inquiries, which may not be known for some years, cannot presently be determined with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of WHI and of MII.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.

14. LOANS RECEIVABLE

The Group offers loans to buyers of properties sold by the Group and the repayment terms of the loans are specified in the respective loan agreements.

15. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are trade receivables of HK\$142,519,179 (30th June, 2003: HK\$404,488,915) mainly comprising sales proceeds receivables and rental receivables which are billed in advance and settlement are expected upon receipt of billings.

The following is an aged analysis of trade receivables at the reporting date:

	31st December, 2003 HK\$	30th June, 2003 HK\$
0 – 30 days	68,055,238	343,569,680
31 – 60 days	19,387,779	10,672,402
61 – 90 days	8,038,672	8,474,451
Over 90 days	47,037,490	41,772,382
	142,519,179	404,488,915

Trade receivables over 90 days amounting to HK\$47,037,490 (30th June, 2003: HK\$41,772,382) are sufficiently covered by rental deposits received from the respective tenants and no provision is required for these receivables under the Group’s provision policy.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

16. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are trade payables of HK\$111,489,454 (30th June, 2003: HK\$97,654,470).

The following is an aged analysis of trade payables at the reporting date:

	31st December, 2003 HK\$	30th June, 2003 HK\$
0 – 30 days	94,726,122	35,316,475
31 – 60 days	5,674,014	9,028,714
61 – 90 days	898,667	799,531
Over 90 days	10,190,651	52,509,750
	<u>111,489,454</u>	<u>97,654,470</u>

17. PLEDGE OF ASSETS

(a) At 31st December, 2003, the aggregate facilities of bank loans, overdrafts and other loans amounting to HK\$13,933,496,164 (30th June, 2003: HK\$12,616,308,971) were secured by certain of the Group's listed investments, properties, bank deposits and bank balances. At that date, the facilities were utilised to the extent of HK\$7,148,992,914 (30th June, 2003: HK\$6,805,030,371).

(b) At 31st December, 2003, investments and the benefits in the advances to certain associates were pledged or assigned to secure loan facilities made available by banks or financial institutions to such associates. The Group's attributable portion of these facilities amounted to HK\$3,573,148,276 (30th June, 2003: HK\$3,952,733,333), of which HK\$2,894,491,914 (30th June, 2003: HK\$2,894,146,090) was utilised and was guaranteed by the Company.

18. COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following commitments and contingent liabilities not provided for in the financial statements:

	31st December, 2003 HK\$	30th June, 2003 HK\$
(a) Commitments in respect of property development expenditure:		
Authorised but not contracted for	15,532,106	1,184,813,547
Contracted but not provided for	2,240,385,506	973,447,137
	<u>2,255,917,612</u>	<u>2,158,260,684</u>
(b) Guarantees in respect of banking facilities and other liabilities of associates		
Utilised	2,894,491,914	2,894,146,090
Not utilised	681,161,362	1,061,092,243
	<u>3,575,653,276</u>	<u>3,955,238,333</u>

(c) At 31st December, 2003 and 30th June, 2003, the Company and a wholly-owned subsidiary are parties to a legal claim and counterclaim in respect of the termination of a sale and purchase agreement dated 19th December, 1996 between the Company and the subsidiary and Hang Lung Development Company Limited and its subsidiary. The trial began on 2nd February, 2004 and is expected to last for at least fourteen weeks, if not longer. The possibility of an appeal by the losing side is considered likely by the legal advisors, and in such a case, the appeal itself may not be heard for at least a year. In the opinion of the Directors, since these claim and counterclaim are being contested, likelihood of the conclusion of the case within a short period of time is remote at the present stage of the legal proceedings. Accordingly, no provision for contingency has been made.

19. POST BALANCE SHEET EVENT

Subsequent to 31st December, 2003 and up to the date of this Report, a total of HK\$387,920,000 of convertible notes of the Group were converted into 96,980,000 shares of the Company.