

## 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 amount 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\$52,411,677 as at 30th June, 2003 (at 30th June, 2002: decrease of retained profits of HK\$44,066,783). The net profit for the six months ended 31st December, 2003 has been increased by HK\$211,772 (six months ended 31st December, 2002: increase of net loss of HK\$5,002,816). 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\$
<b>REVENUE</b>							
Turnover							
Property rental	428,654,984	—	—	—	—	—	428,654,984
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	—	30,664,529	—	—	—	—	30,664,529
Financing	—	—	30,121,897	—	—	—	30,121,897
	3,056,059,879	30,664,529	30,121,897	129,511,422	173,656,186	—	3,420,013,913
Other operating income	10,713,401	3,822,783	1,835,603	—	3,111,635	—	19,483,422
Inter-segment sales*	—	—	—	—	12,410,949	(12,410,949)	—
Total revenue	3,066,773,280	34,487,312	31,957,500	129,511,422	189,178,770	(12,410,949)	3,439,497,335
<b>SEGMENT RESULT</b>	<b>832,370,621</b>	<b>331,084,959</b>	<b>31,957,500</b>	<b>62,637,270</b>	<b>76,641,099</b>	<b>—</b>	<b>1,334,691,449</b>
Unallocated corporate expenses							(160,991,396)
Profit from operations							1,173,700,053

## 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	433,625,523	—	—	—	—	—	433,625,523
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	—	31,478,776	—	—	—	—	31,478,776
Financing	—	—	65,685,192	—	—	—	65,685,192
	<u>2,651,718,001</u>	<u>31,478,776</u>	<u>65,685,192</u>	<u>115,331,296</u>	<u>162,170,583</u>	<u>—</u>	<u>3,026,383,848</u>
Other operating income	6,287,425	2,378,515	105,674	—	13,993,674	—	22,765,288
Inter-segment sales*	—	—	—	—	11,574,090	(11,574,090)	—
Total revenue	<u>2,658,005,426</u>	<u>33,857,291</u>	<u>65,790,866</u>	<u>115,331,296</u>	<u>187,738,347</u>	<u>(11,574,090)</u>	<u>3,049,149,136</u>
SEGMENT RESULT	<u>642,620,726</u>	<u>(342,449,284)</u>	<u>65,790,866</u>	<u>48,303,730</u>	<u>86,931,278</u>	<u>—</u>	<u>501,197,316</u>
Unallocated corporate expenses							(163,080,053)
Profit from operations							<u>338,117,263</u>

\* Inter-segment sales were charged at costs 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 (crediting):		
Cost of hotel inventories	11,994,412	11,678,185
Depreciation	8,053,232	8,206,710
Release of negative goodwill, included in administrative expenses	<u>(18,063,006)</u>	<u>(13,990,971)</u>

### 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	<u>13,661,750</u>	<u>20,135,096</u>
	<u>47,185,632</u>	<u>57,291,125</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	156,593,949	266,360,170
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	15,061,617	10,522,889
	<u>183,866,642</u>	<u>289,094,135</u>
<i>Less:</i> Amount capitalised to properties under development	(31,536,930)	(18,514,299)
	<u>152,329,712</u>	<u>270,579,836</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	82,145,155	60,713,560
Taxation in other jurisdictions	324,052	1,595,532
Deferred tax	(3,387,207)	1,700,584
	<u>79,082,000</u>	<u>64,009,676</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>90,086,505</u>	<u>74,659,591</u>

Hong Kong Profits Tax is calculated at 17.5% (16% or 17.5% for six months ended 31st December, 2002, as appropriate) of the estimated assessable profits for the six months ended 31st December, 2003. Taxation in other jurisdictions is provided for in accordance with the respective local requirements.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

### 8. INCOME TAX EXPENSE (Continued)

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 Sing-Ho Finance Company Limited (“Sing-Ho Finance”), a wholly-owned subsidiary of the Company’s listed subsidiary, Sino Land Company Limited (“Sino Land”). 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 City Empire Limited (“City Empire”), a wholly-owned subsidiary of Sino Land. 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.

### 9. DIVIDEND

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

### 10. EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended</b>	
	<b>31st December, 2003</b>	31st December, 2002
	<b>HK\$</b>	<b>HK\$</b>
		(As restated)
Earnings (loss) for the purpose of basic earnings (loss) per share	<b>510,037,538</b>	<u>(57,469,808)</u>
Adjustment to the share of results of a subsidiary, based on dilution of its earnings per share	<u>(13,704,568)</u>	
Earnings for the purpose of diluted earnings per share	<u><b>496,332,970</b></u>	
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	<u><b>1,367,905,827</b></u>	<u>1,367,905,827</u>

No diluted loss per share has been presented for the six months ended 31st December, 2002 as there was no dilutive effect on the assumed conversion of dilutive potential ordinary shares of a subsidiary.

### 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*).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

### 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2003, additions to property, plant and equipment amounted to HK\$4,338,911 (six months ended 31st December, 2002: HK\$5,125,211).

### 13. INTERESTS IN ASSOCIATES

	<b>31st December, 2003 HK\$</b>	30th June, 2003 HK\$ (As restated)
Share of net assets	<b>1,049,112,614</b>	1,628,741,265
Goodwill	<b>161,930,358</b>	168,407,572
Negative goodwill	<b>(92,311,145)</b>	(94,875,344)
	<b>1,118,731,827</b>	1,702,273,493
Advances to associates, less allowances	<b>8,723,707,681</b>	9,378,941,664
	<b>9,842,439,508</b>	11,081,215,157

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\$54,000,000 and HK\$8,000,000, 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.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

### 15. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are trade receivables of HK\$143,343,103 (30th June 2003: HK\$405,071,031) mainly comprising sales proceeds receivables and rental receivables which are billed in advance and settlements are expected upon receipts of billings.

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

	<b>31st December, 2003 HK\$</b>	30th June, 2003 HK\$
0 – 30 days	<b>68,211,536</b>	343,724,049
31 – 60 days	<b>19,684,129</b>	10,720,029
61 – 90 days	<b>8,084,933</b>	8,555,179
Over 90 days	<b>47,362,505</b>	42,071,774
	<b><u>143,343,103</u></b>	<b><u>405,071,031</u></b>

Trade receivables over 90 days amounting to HK\$47,362,505 (30th June 2003: HK\$42,071,774) are sufficiently covered by rental deposits received from the respective tenants and no allowance is required for these receivables under the Group's allowance policy.

### 16. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are trade payables of HK\$116,683,175 (30th June 2003: HK\$100,730,647).

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

	<b>31st December, 2003 HK\$</b>	30th June, 2003 HK\$
0 – 30 days	<b>95,525,681</b>	36,608,482
31 – 60 days	<b>5,690,140</b>	9,701,886
61 – 90 days	<b>898,667</b>	1,217,255
Over 90 days	<b>14,568,687</b>	53,203,024
	<b><u>116,683,175</u></b>	<b><u>100,730,647</u></b>

### 17. PLEDGE OF ASSETS

(a) At 31st December, 2003, the aggregate facilities of bank loans, overdrafts and other loans amounting to HK\$15,935,847,824 (30th June 2003: HK\$14,675,879,838) were secured by certain of the Group's listed investments, properties, bank deposits, bank balances and shares of Sino Land. At that date, the facilities were utilised to the extent of HK\$9,122,221,074 (30th June 2003: HK\$8,794,601,238).

(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 Sino Land.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2003

### 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:

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

- (c) At 31st December, 2003 and 30th June, 2003, Sino Land and a wholly-owned subsidiary of Sino Land are parties to a legal claim and counterclaim in respect of the termination of a sale and purchase agreement dated 19th December, 1996 between Sino Land and its 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 Sino Land.