

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 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 2003.

## 3. PRIOR PERIOD ADJUSTMENT

The effect on adoption of the revised SSAP 12 "Income Taxes" ("SSAP 12 (Revised)") on the Group's interests in associates was not accounted for in the interim report for the six months ended 30 June 2003 and the annual financial statements for the year ended 31 December 2003. Comparative amounts for 2003 have been restated accordingly. Accumulated profits and share of revaluation reserve as at 1 January 2004 have been reduced by HK\$9,614,000 and HK\$13,776,000 respectively. The balances on the Group's interests in associates at 1 January 2004 have been reduced by HK\$23,390,000, representing the share of the deferred tax liabilities recognised by the associate. The effect of the changes is a decrease in share of losses of associates, a decrease in release of negative goodwill arising on acquisition of an associate and an increase in taxation for the six months ended 30 June 2003 of HK\$462,000, HK\$652,000 and HK\$4,616,000 respectively.

## 4. TURNOVER

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Turnover comprises:		
Gross rental income from properties	559,784	593,452
Management fee and security service income	2,142	2,079
	561,926	595,531

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

## 5. WRITE BACK OF IMPAIRMENT LOSS ON INVESTMENTS IN SECURITIES

The amount represents the write back of the carrying amounts of the investments in securities to their estimated recoverable amounts.

## 6. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	56,938	53,984
Retirement benefits scheme contributions	2,447	2,399
Forfeited contributions	(5,686)	(420)
	<u>53,699</u>	<u>55,963</u>
Depreciation	2,429	2,287
Exchange loss	37	1,631
Rental income arising from operating leases less out-goings	(440,564)	(486,956)
Dividends from		
- listed investments	(12,010)	(14,770)
- unlisted investments	—	(1,772)
Interest income	(688)	(1,051)
	<u><u>(688)</u></u>	<u><u>(1,051)</u></u>

## 7. FINANCE COSTS

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Interest on		
- bank loans, overdrafts and other loans:		
wholly repayable within five years	10,817	28,847
not wholly repayable within five years	4,494	10,056
- floating rate notes	3,095	5,507
- fixed rate notes	54,509	54,602
	<u>72,915</u>	<u>99,012</u>
Net interest paid (received) from currency and interest rate swaps		
- due within five years	21,144	(859)
- due after five years	(24,057)	(15,569)
Amortisation of fixed rate notes and floating rate notes		
issue expenses	1,015	1,015
Bank charges	6,133	3,526
Hedging expenses	1,171	947
	<u><u>78,321</u></u>	<u><u>88,072</u></u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

### 8. TAXATION

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000 (restated)
Current tax	25,166	34,385
Underprovision in previous periods	55,000	48,000
Deferred tax		
- Current period	7,286	7,185
- Attributable to change in tax rate	—	10,126
	<u>87,452</u>	<u>99,696</u>
Taxation attributable to the Company and its subsidiaries	87,452	99,696
Share of taxation attributable to an associate	4,618	4,616
	<u>92,070</u>	<u>104,312</u>

The charge comprises Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

The Company received notices of additional assessment from the Inland Revenue Department disallowing the deduction claim for interest expenses in prior years. Management has reviewed the basis on which the interest expenses were disallowed, and an additional tax provision of HK\$55 million was made accordingly during the current period.

### 9. DIVIDENDS

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Interim dividend - HK10 cents per share (2003: HK10 cents)	104,793	104,044
Additional prior year's dividend paid on exercise of share option subsequent to 31 December 2003	80	—
	<u>104,873</u>	<u>104,044</u>

During the period, a dividend of HK26.5 cents (2002: HK26.5 cents) per share, which included scrip dividend alternatives offered to shareholders, was paid to shareholders as the final dividend for 2003. The scrip dividend alternatives were accepted by the shareholders as follows:

	HK\$'000
Final dividend paid:	
Cash	228,203
Share alternative	48,343
	<u>276,546</u>

## 10. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>30.6.2004</b>	30.6.2003
	<b>HK\$'000</b>	HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the period)	<b>304,885</b>	246,090
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,044,241</b>	1,035,196
Effect of dilutive potential ordinary shares:		
Share options	<b>419</b>	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>1,044,660</b>	

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.

## 11. 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\$1,168,000 and HK\$30,568,000, respectively (1.1.2003 to 31.12.2003: HK\$1,909,000 and HK\$417,852,000, respectively).

## 12. OTHER RECEIVABLE, PREPAYMENTS AND DEPOSITS

At 31 December 2003, other receivable of HK\$6,100,000, represented the long-term portion of unamortised incentives granted to tenants, was reclassified from current assets to non-current assets.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

### 13. ACCOUNTS RECEIVABLE

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 30 June 2004 and 31 December 2003 were less than 90 days old.

### 14. LONG TERM BANK LOANS

	<b>30.6.2004</b>	31.12.2003
	<b>HK\$'000</b>	HK\$'000
Bank loans, unsecured	<b><u>3,866,800</u></b>	<u>3,962,423</u>
The bank loans are repayable as follows:		
Within one year	<b>109,000</b>	78,000
More than one year, but not exceeding two years	—	668,300
More than two years, but not exceeding five years	<b>2,317,800</b>	1,626,423
More than five years	<b><u>1,440,000</u></b>	<u>1,589,700</u>
	<b>3,866,800</b>	3,962,423
Less: Amounts due within one year shown under current liabilities	<b><u>(109,000)</u></b>	<u>(78,000)</u>
	<b><u>3,757,800</u></b>	<u>3,884,423</u>

### 15. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 30 June 2004 and 31 December 2003 were less than 90 days old.

## 16. 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 30.6.2004					
	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	184,167	6,852	152	(10)	(10,761)	180,400
Charge (credit) to income for the period	8,227	—	(76)	2	(867)	7,286
<b>At 30 June</b>	<b>192,394</b>	<b>6,852</b>	<b>76</b>	<b>(8)</b>	<b>(11,628)</b>	<b>187,686</b>
	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	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
<b>At 30 June</b>	<b>135,244</b>	<b>6,130</b>	<b>243</b>	<b>(54)</b>	<b>(10,108)</b>	<b>131,455</b>

At 30 June 2004, the Group has unused tax losses of HK\$1,158 million (31.12.2003: HK\$1,170 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$66 million (31.12.2003: HK\$61 million) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$1,092 million (31.12.2003: HK\$1,109 million) 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 2004

### 17. CAPITAL COMMITMENTS

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

	<b>30.6.2004</b>	31.12.2003
	<b>HK\$'000</b>	HK\$'000
Investment properties:		
Contracted for but not provided in the financial statements	<b>48,456</b>	37,600

### 18. RELATED PARTY AND CONNECTED TRANSACTIONS

#### A. Related party transactions

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

	Notes	<b>Substantial shareholder</b>		<b>Directors</b>	
		<b>1.1.2004 to 30.6.2004 HK\$'000</b>	1.1.2003 to 30.6.2003 HK\$'000	<b>1.1.2004 to 30.6.2004 HK\$'000</b>	1.1.2003 to 30.6.2003 HK\$'000
Repairs and maintenance expenses		—	—	—	9,784
Gross rental income	(a)	<b>2,250</b>	2,523	<b>10,039</b>	18,187
Construction cost for investment properties	(b)	—	—	<b>19,981</b>	7,212

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

	Notes	<b>Substantial shareholder</b>		<b>Directors</b>	
		<b>30.6.2004 HK\$'000</b>	31.12.2003 HK\$'000	<b>30.6.2004 HK\$'000</b>	31.12.2003 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to		—	—	—	2,248
Construction cost payable to	(b)	—	—	<b>1,807</b>	5,248
Amount due to a minority shareholder	(c)	—	—	<b>94,443</b>	92,843

## 18. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

### A. Related party transactions (continued)

Notes:

- (a) 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.
- (b) Dr. 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 Ltd. whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

- (c) The sum represents outstanding loan advanced by Jebesen 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. Hans Michael Jebesen is a director and shareholder of Jebesen and Company Limited.

### B. Connected transactions

1. As at 30 June, 2004, loans totalling HK\$617,175,561 were advanced by the Group to Barrowgate Limited ("Barrowgate" - the Group: 65.36%; Hang Seng Bank: 24.64%; Jebesen and Company Limited: 10%) for general funding purpose. Loans totalling HK\$327,255,746 were advanced by the other shareholders in proportion to their respective shareholdings. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under the Listing Rules, however, it is exempt from reporting, announcement and independent shareholders' approval requirements.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

### 18. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

#### B. Connected transactions (continued)

2. Certain transactions entered into with the Group constituted "continuing connected transactions" under the Listing Rules. Details of these transactions are set out as follows:

#### Lease granted by the Group

- (a) Lee Gardens Two, 28 Yun Ping Road, Hong Kong ("Lee Gardens Two")

The following lease arrangements were entered into by Barrowgate (property owner of Lee Gardens Two) with the following connected persons (also substantial shareholders of Barrowgate). Particulars are set out below:

Connected person	Date and duration	Premises	Annual consideration
Hang Seng Bank Limited (24.64 % equity interest in Barrowgate)	28 September 2001 for a term of 3 years	Shop unit at Ground Floor and Basement	HK\$8,277,504
Jebsen and Company Limited (10% equity interest in Barrowgate)	10 September 2003 for a term of 4 years	Offices at 28/F-31/F and 3 carparking spaces (on monthly licence) in Caroline Centre	HK\$13,870,776

- (b) Bamboo Grove, 74-86 Kennedy Road, Hong Kong ("Bamboo Grove")

Certain leases were entered into by Kwong Wan Realty Limited, a wholly-owned subsidiary of the Company and property owner of Bamboo Grove, with Lee Hysan Estate Company, Limited, a substantial shareholder of the Company (holding 40.94% interest). Details of the leases are set out below:

Connected person	Date and duration	Premises	Annual consideration
Lee Hysan Estate Company, Limited	17 October 2003 for a term of 2 years	An apartment and one carparking space	HK\$1,975,200
Lee Hysan Estate Company, Limited	12 January 2004 for a term of 2 years	An apartment and 2 carparking spaces	HK\$1,289,880

- (c) Leasing and property management services with a non-wholly-owned subsidiary and lease agreements with certain connected persons
- (i) On 25 February 2004, Hysan Property Management Limited ("HPM") and Hysan Leasing Company Limited ("HLC"), both wholly-owned subsidiaries of the Company, had entered into management agreements with Barrowgate to provide (i) leasing, marketing and lease administration services; and (ii) property management services regarding Lee Gardens Two respectively, for terms of three years and terminable by either party giving prior written notice to other party.

## 18. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

### B. Connected transactions (continued)

- (ii) Barrowgate entered into a lease agreement on 23 April 2004 and a supplemental deed on 12 July 2004 for office units at 24th and 25th Floors and car parking space in Caroline Centre, Lee Gardens Two with MF Jebsen International Limited which was a connected person by virtue of the interest of an associate of a non-executive Director.

All these transactions were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

An announcement was published on 20 July 2004 regarding the above continuing connected transactions in accordance with the Listing Rules. Regarding transactions in (c) above, a waiver has been sought from Stock Exchange by virtue of Rule 14A.42 from strict compliance with the requirements of Rules 14A.35, 14A.45 to 14A.47 of the Listing Rules.

Under the Listing Rules, the continuing connected transactions are subject to annual review requirements and details of such review will be confirmed in future annual reports and accounts of the Company.