
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2001

1. ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in the Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) except that comparative figures are not presented either for the condensed consolidated statement of recognised gains and losses or for the condensed consolidated cash flow statement, being the first cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Listing Rules. Also, these statements have been prepared in accordance with the significant accounting policies set out in the Group’s audited financial statements for the year ended 31st December, 2000, except for the change in accounting policy as described below.

Several new accounting standards issued by the HKSA have become effective for this financial period. The only standard that has resulted in a change in accounting policy is SSAP 30 “Business Combinations”. In adopting SSAP 30, the Group has elected not to restate goodwill/capital reserve previously eliminated against/credited to reserves. Accordingly goodwill/capital reserve arising on acquisitions prior to 1st January, 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. Where it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years. On disposal of a subsidiary, associate or jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from non-current assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

2. SEGMENTAL INFORMATION

The turnover and contribution to profit from operations by each of the principal activities of the Group are as follows:

	Turnover		Contribution to profit from operations	
	Six months ended		Six months ended	
	30th June,		30th June,	
	2001	2000	2001	2000
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Investment, finance and corporate services	706,365	513,622	405,859	273,330
Sale of properties and property based investments	82,956	–	1,820	(627)
Property rental and management services	60,368	47,337	19,421	(28,526)
Hotel operations	9,223	–	220	–
Other sale of goods	435	639	(107)	(129)
	<u>859,347</u>	<u>561,598</u>	<u>427,213</u>	<u>244,048</u>
Other finance costs			(65,606)	(44,244)
Warrant reserve released on warrants expired during the period			–	43,487
Share of results of associates			60,668	87,302
Share of results of jointly controlled entities			26,944	24,761
Profit before taxation			<u>449,219</u>	<u>355,354</u>

During the period under review, less than 10% of the operations of the Group in terms of both turnover and contribution to profit from operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

3. FINANCE COSTS

	Six months ended 30th June, 2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Finance costs included in:		
Cost of sales	29,179	18,188
Other finance costs	65,606	44,244
Total finance costs	<u>94,785</u>	<u>62,432</u>

4. PROFIT FROM OPERATIONS

	Six months ended 30th June, 2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation	11,492	5,543
Impairment loss provision for property under development	–	32,200
Net realised loss on trading securities	10,574	–
Net unrealised loss on trading securities	–	6,939
and after crediting:		
Amortisation of capital reserve	19,955	–
Amortisation of negative goodwill	12,875	–
Interest income	551,184	437,162
Profit on dealing in foreign currencies	1,423	–
Profit on derivatives	3,875	–
Profit on disposal of investment properties	5,690	–
Profit on disposal of leasehold land and building	685	–
Profit on disposal of non-trading securities	12,998	362
Profit on other dealing activities	116	–
Net realised profit on trading securities	–	11,369
Net unrealised profit on trading securities	<u>43,202</u>	<u>–</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

5. TAXATION

	Six months ended 30th June, 2001	2000
	Unaudited	Unaudited
	<u>HK\$'000</u>	<u>HK\$'000</u>
The charge comprises:		
Hong Kong Profits Tax	45,389	44,219
Taxation outside Hong Kong	182	–
Share of taxation attributable to associates	13,002	10,804
Share of taxation attributable to jointly controlled entities	<u>2,246</u>	<u>2,325</u>
	<u><u>60,819</u></u>	<u><u>57,348</u></u>

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

There was no significant unprovided deferred tax for the period.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$189,309,000 (2000: HK\$168,439,000) and on the weighted average number of 3,431,080,231 (2000: 3,380,604,152) shares in issue during the period.

No diluted earnings per share has been presented for the current period because the Company has no outstanding options or warrants.

Diluted earnings per share for the corresponding period in 2000 was calculated based on the profit attributable to shareholders of HK\$168,439,000 and 3,426,083,263 shares, which was the weighted average number of 3,380,604,152 shares in issue during the period plus the weighted average number of 45,479,111 shares deemed to be issued at no consideration if all the outstanding warrants had been exercised.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

7. INTEREST IN ASSOCIATES/INTEREST IN JOINTLY CONTROLLED ENTITIES

In the current period, the Group's interest in Allied Kajima Limited has been reclassified as an interest in a jointly controlled entity instead of interest in an associate as in the past, following a review to comply with new accounting standards. Prior year amounts have been reclassified in order to reflect a consistent presentation.

8. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	30th June, 2001	31st December, 2000
	Unaudited	Audited
	<u>HK\$'000</u>	<u>HK\$'000</u>
Loans and advances to consumer finance customers	2,415,141	2,050,606
Provision for bad and doubtful debts	<u>(119,400)</u>	<u>(101,111)</u>
	2,295,741	1,949,495
Less: Due within one year	<u>1,828,604</u>	<u>1,546,148</u>
Due after one year	<u><u>467,137</u></u>	<u><u>403,347</u></u>

Loans made to consumer finance customers are approved by officers or the credit committee as appropriate according to the level of loan amounts. The average credit terms of such loans range from six to eighteen months.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

9. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

The average credit terms of the Group range from 30 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivable totalling HK\$2,799,504,000 (At 31st December, 2000: HK\$138,705,000), the aging analysis of which is as follows:

	30th June, 2001 Unaudited HK\$'000	31st December, 2000 Audited HK\$'000
Aged:		
0 to 30 days	2,523,731	62,317
31 to 180 days	90,850	67,857
181 to 365 day	185,531	11,257
Over 365 days	311,165	103,215
	3,111,277	244,646
Provision for bad and doubtful debts	(311,773)	(105,941)
	<u>2,799,504</u>	<u>138,705</u>

Included in the above balance of HK\$3,111,277,000 (At 31st December, 2000: HK\$244,646,000) are term loans totalling HK\$1,332,471,000 (At 31st December, 2000: HK\$148,367,000), the maturity profile of which is shown in note 19.

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770 million shares in Tian An China Investments Company Limited ("Tian An") to Millennium Touch Limited ("MT"). These 770 million Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31st December, 2000. MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770 million Tian An shares to discharge the indebtedness owed by MT or foreclosing on the shares.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

9. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

MT has defaulted under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group for the year ended 31st December, 2000 by marking to market those 770 million Tian An shares at the closing market price of HK\$0.134 as at 31st December, 2000. Despite the rise in market price of Tian An shares at the closing market price of HK\$0.19 as at 30th June, 2001, no adjustment of the said unrealised loss or write-back was accounted for in the income statement. The amount due from MT after the unrealised loss as at 30th June, 2001 was HK\$103,180,000 (At 31st December, 2000: Nil).

There were listed and unlisted securities of clients held as collateral against secured margin loans and term loans. The market value of the listed securities as at 30th June, 2001 was HK\$7,266 million (At 31st December, 2000: Nil).

The credit of trade receivables in respect of other finance business including secured margin loans and secured term loans are approved and reviewed by the respective committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific provisions are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such provisions.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

10. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payable of HK\$727,540,000 (At 31st December, 2000: HK\$143,147,000), the aging analysis of which is stated as follows:

	30th June, 2001 Unaudited HK\$'000	31st December, 2000 Audited HK\$'000
Aged:		
0 to 30 days	529,129	42,768
31 to 180 days	14,559	21,223
181 to 365 days	11,696	51,895
Over 365 days	172,156	27,261
	<u>727,540</u>	<u>143,147</u>

11. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 2000, 31st December, 2000 and 30th June, 2001	<u>6,500,000,000</u>	<u>1,300,000</u>
Issued and fully paid:		
At 1st January, 2000	3,119,349,939	623,870
Exercise of share options	1,000,000	200
Exercise of warrant subscription rights	390,388,369	78,078
Shares repurchased	<u>(57,074,000)</u>	<u>(11,415)</u>
At 31st December, 2000	3,453,664,308	690,733
Shares repurchased	<u>(38,090,000)</u>	<u>(7,618)</u>
At 30th June, 2001	<u>3,415,574,308</u>	<u>683,115</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*For the six months ended 30th June, 2001***12. REVALUATION RESERVES**

	Property revaluation reserve	Investment revaluation reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2000	180,234	(24,859)	155,375
Surplus (deficit) arising on revaluation	(86,374)	6,505	(79,869)
Adjustment due to overprovision for construction costs	578	–	578
Share of post-acquisition reserve movements of associates	16,793	28,972	45,765
Released on disposal	(11,061)	(1,962)	(13,023)
	<hr/>	<hr/>	<hr/>
At 31st December, 2000	100,170	8,656	108,826
Transfer to income statement due to reduction in attributable reserve of an associate	10,318	–	10,318
Surplus arising on revaluation	–	4,605	4,605
Adjustment due to change in shareholdings in a subsidiary	–	(1,353)	(1,353)
Share of post-acquisition reserve movements of associates	–	2,180	2,180
Released on disposal of non-trading securities	–	(6,773)	(6,773)
	<hr/>	<hr/>	<hr/>
At 30th June, 2001	<u>110,488</u>	<u>7,315</u>	<u>117,803</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

13. ACCUMULATED PROFITS

	<u>HK\$'000</u>
At 1st January, 2000	1,407,087
Loss attributable to shareholders	(119,174)
Premium on shares repurchased	(24,297)
Transfer to capital redemption reserve on shares repurchased	<u>(11,415)</u>
At 31st December, 2000	1,252,201
Profit attributable to shareholders	189,309
Premium on shares repurchased	(11,020)
Transfer to capital redemption reserve on shares repurchased	(7,618)
Transfer to capital reserve by an associate	<u>(437)</u>
At 30th June, 2001	<u><u>1,422,435</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*For the six months ended 30th June, 2001***14. OTHER RESERVES**

	Share premium	Capital redemption reserve	Translation reserve	Non distributable reserve	Capital (goodwill) reserve	Warrant reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2000	1,505,681	-	(86,387)	55,226	228,411	119,276	1,822,207
Premium on issue of shares	313,011	-	-	-	-	-	313,011
Exercise of warrant subscription rights	75,789	-	-	-	-	(75,789)	-
Transfer from accumulated profits on share repurchase	-	11,415	-	-	-	-	11,415
Acquisition of additional interest in a subsidiary	-	-	-	-	126,640	-	126,640
Amortisation of capital reserve in respect of acquisition of shares in a subsidiary	-	-	-	-	(19,306)	-	(19,306)
Share of post-acquisition reserve movements of associates	-	-	(39,750)	-	(2,293)	-	(42,043)
Exchange differences on translation of operations outside Hong Kong	-	-	(1,474)	-	-	-	(1,474)
Acquisition of additional shares in associates	-	-	-	-	74,907	-	74,907
Acquisition of associates	-	-	-	-	(6,909)	-	(6,909)
Released on disposal of a property based subsidiary	-	-	(480)	-	-	-	(480)
Translation differences released in connection with the winding up of subsidiaries	-	-	26,415	-	-	-	26,415
Released on expiry of warrants	-	-	-	-	-	(43,487)	(43,487)
At 31st December, 2000	1,894,481	11,415	(101,676)	55,226	401,450	-	2,260,896

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)*For the six months ended 30th June, 2001***14. OTHER RESERVES (CONT'D)**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Non distributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Warrant reserve HK\$'000	Total HK\$'000
At 31st December, 2000	1,894,481	11,415	(101,676)	55,226	401,450	-	2,260,896
Share of post-acquisition reserve movements of associates	-	-	27	-	-	-	27
Share of post-acquisition reserve movements of jointly controlled entities	-	-	(16,927)	-	-	-	(16,927)
Exchange differences on translation of operations outside Hong Kong	-	-	199	-	-	-	199
Released on winding up of subsidiaries	-	-	(22)	-	418	-	396
Released on disposal of non-trading securities	-	-	2,193	-	4,385	-	6,578
Amortisation of capital reserve	-	-	-	-	(16,200)	-	(16,200)
Transferred on reclassification of an associate to a subsidiary	-	-	144	-	(111)	-	33
Transfer from accumulated profits on shares repurchased	-	7,618	-	-	-	-	7,618
Transferred from accumulated profits by an associate	-	-	-	-	437	-	437
At 30th June, 2001	<u>1,894,481</u>	<u>19,033</u>	<u>(116,062)</u>	<u>55,226</u>	<u>390,379</u>	<u>-</u>	<u>2,243,057</u>

Note

Note: The balance comprises goodwill of HK\$16,068,000 (At 31st December, 2000: HK\$20,871,000) and capital reserve of HK\$406,447,000 (At 31st December, 2000: HK\$ 422,321,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

15. ACQUISITION OF SUBSIDIARIES

	<i>HK\$'000</i>
Net assets acquired:	
Fixed assets	119,861
Intangible assets	3,817
Interest in associates	1,690,260
Interest in jointly controlled entities	122,282
Investments in securities	843,578
Other investments	122,411
Properties held for sale	6,375
Loans and advances to consumer finance customers	240,420
Accounts receivable, deposits and prepayments	2,742,454
Short-term bank deposits	94,550
Bank balances and cash	230,525
Accounts payable and accrued charges	(721,727)
Taxation	(25,885)
Bank borrowings	(921,710)
Deferred taxation	(2,212)
Minority interests	(2,053,404)
	<u>2,491,595</u>
Negative goodwill on acquisition	(254,201)
	<u><u>2,237,394</u></u>
Satisfied by:	
Cash	141,203
Reclassification of interest in associates	2,096,191
	<u><u>2,237,394</u></u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Cash consideration paid	(141,203)
Bank loans and overdrafts acquired	(770,997)
Bank balances and cash acquired	325,075
	<u><u>(587,125)</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

16. COMMITMENTS

	30th June, 2001	31st December, 2000
	Unaudited	Audited
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements:		
For property development projects	46,840	73,250
Others	9,330	39,360
	<u>56,170</u>	<u>112,610</u>
Other capital expenditure authorised but not contracted for	<u>2,000</u>	<u>–</u>

17. LEASE COMMITMENTS

The Group had future minimum lease payments payable under non-cancellable operating leases for each of the following periods:

	30th June, 2001	31st December, 2000
	Unaudited	Audited
	HK\$'000	HK\$'000
Operating leases in respect of rented premises:		
Within one year	51,875	19,723
In the second to fifth years inclusive	73,476	8,980
	<u>125,351</u>	<u>28,703</u>
Other operating leases:		
Within one year	5,353	–
In the second to fifth years inclusive	9,808	–
	<u>15,161</u>	<u>–</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

18. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions with related parties during the period:

(a)	(Income)/Expenses	
	30th June, 2001	30th June, 2000
	Unaudited HK\$'000	Unaudited HK\$'000
Dividend income from associates	(7,344)	(15,424)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(7,466)	(7,725)
Administration and management fees from a jointly controlled entity	(680)	(680)
Management fee from an associate	(751)	–
Rent, property management and air-conditioning fees to a jointly controlled entity	4,970	5,144
Rent, property management and air-conditioning fees from an associate	(631)	(372)
Interest income from an associate	(3,650)	(7,117)

- (b) During the period, both the Group and Kajima Overseas Asia Pte. Limited, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 30th June, 2001, the amounts lent to the Group totalled HK\$146,500,000 (At 30th June, 2000: HK\$176,500,000).
- (c) Throughout the period, the Group had a several guarantee outstanding which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of the jointly controlled entity. The guarantee provided was in proportion to the Group's interest in the jointly controlled entity and the amount at 30th June, 2001 was HK\$230,000,000 (At 30th June, 2000: HK\$260,000,000).
- (d) On 17th May, 2001, a property held by a subsidiary of the Company was disposed of to a subsidiary of an associate for a cash consideration of RMB5,000,000 (equivalent to HK\$4,713,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

19. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table list the assets and liabilities of the Group which have a term of maturity. Overdue assets are reported as on demand.

	At 30th June, 2001					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	114,817	219,708	-	-	-	334,525
Loans and advances to consumer finance customers	70,583	590,512	1,263,395	490,651	-	2,415,141
Term loans	226,276	395,827	710,368	-	-	1,332,471
Debt securities	-	13,633	-	-	-	13,633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities						
Bank loans and other borrowings	<u>42,908</u>	<u>1,569,012</u>	<u>807,490</u>	<u>569,929</u>	<u>266,582</u>	<u>3,255,921</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	At 31st December, 2000					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	41,194	153,495	-	-	-	194,689
Loans and advances to consumer finance customers	32,817	510,158	1,084,221	423,410	-	2,050,606
Term loans	93,288	3,700	51,379	-	-	148,367
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities						
Bank loans and other borrowings	<u>73,502</u>	<u>357,594</u>	<u>1,025,709</u>	<u>634,356</u>	<u>273,508</u>	<u>2,364,669</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

For the six months ended 30th June, 2001

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.