

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1 PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

(b) BASIS OF PREPARATION OF THE ACCOUNTS

The measurement basis used in the preparation of the accounts is historical cost modified by the marking to market of certain investments in securities and the revaluation of investment properties as explained in accounting policy 1(g) and 1(h)3 respectively below.

(c) BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of Hang Lung Development Company, Limited and its subsidiaries made up to 30 June each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively. All material intercompany transactions are eliminated on consolidation.

(d) SUBSIDIARIES

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the income statement.

(e) JOINTLY CONTROLLED ENTITIES

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

The Group's interests in jointly controlled entities are accounted for in the consolidated accounts under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the jointly controlled entities. The consolidated income statement reflects the Group's share of the post-acquisition results of operations of the jointly controlled entities for the year.

1	PRINCIPAL ACCOUNTING POLICIES	<i>(continued)</i>
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(e) JOINTLY CONTROLLED ENTITIES *(continued)*

In the Company's balance sheet, interests in jointly controlled entities are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each jointly controlled entity individually. The results of jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable at the balance sheet date.

(f) CAPITAL RESERVE OR GOODWILL ON CONSOLIDATION

Capital reserve or goodwill arising on consolidation represents the excess or deficit respectively of the fair value of the separable net assets of the subsidiaries and jointly controlled entities at the respective acquisition dates over the value of the consideration paid. Goodwill is written off directly to reserves in the year in which it arises. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of capital reserve or goodwill is included in the calculation of the profit or loss on disposal.

(g) INVESTMENTS IN SECURITIES

Investments in securities intended to be held on a continuing basis, for an identified long term purpose which are not investments in subsidiaries and jointly controlled entities, are classified as unlisted investments and are carried at cost less provision for diminution in value which is other than temporary as considered by the directors by reference to the fair

values. Results of these investments are included in the consolidated income statement only to the extent of dividends and interests received and receivable. Any such provisions are recognised as an expense in the consolidated income statement.

All other investments are stated at fair value in the balance sheet. Changes in fair value are dealt with in the consolidated income statement.

(h) PROPERTIES**1. Properties under development for sale**

Properties under development for sale are classified under current assets and stated at the lower of cost and net realisable value. Property development costs include borrowing costs capitalised, if any, and professional fees, plus attributable profit taken to date, less sums received from stakeholders. Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

When a development property is sold in advance of completion, recognition of profit commences when the sale and purchase agreement has been signed. The profits recognised in a year are computed as a proportion of the total estimated profit to completion and such proportion is calculated by reference to the degree of completion for the property and the terms of payment for the properties pre-sold, with due allowance for contingencies.

1	PRINCIPAL ACCOUNTING POLICIES	<i>(continued)</i>
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(h) PROPERTIES *(continued)***2. Completed properties for sale**

Completed properties for sale are classified under current assets and stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

When properties are sold, the carrying amount of those properties is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties, arising from an increase in net realisable value, is recognised as a reduction in the amount of properties recognised as an expense in the period in which the reversal occurs.

3. Investment properties

Investment properties are properties held as long term capital investments for rental purposes. They are stated at their open market value which is assessed annually by external qualified valuers, except for investment properties with an unexpired lease term of 20 years or less which are stated at amortised cost. Surpluses arising on revaluation are credited to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses on a portfolio basis and thereafter taken to the

consolidated income statement. Revaluation surpluses or deficits are dealt with in the consolidated income statement upon disposal.

Properties under development are stated at cost, including borrowing costs capitalised, if any, and professional fees, less any provision for diminution in value which is other than temporary as considered necessary by the directors. A property developed for rental purposes is classified as an investment property when the construction work and development have been completed.

4. Hotel properties

Hotel properties are carried at their previously stated valuations.

5. Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation.

1	PRINCIPAL ACCOUNTING POLICIES <i>(continued)</i>
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(h) PROPERTIES *(continued)***6. Leased assets**

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in accounting policy 1(i) below. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in accounting policy 1(l)2 below.

(i) DEPRECIATION**1. Investment properties**

No depreciation is provided for investment properties with an unexpired lease term of over 20 years as the valuation takes into account the state of each property at the date of valuation.

Depreciation is provided for investment properties with an unexpired lease term of 20 years or less. It is calculated to write off the carrying value on a straight line basis over the remaining term of the leases.

2. Properties under development

No depreciation is provided for properties under development.

3. Hotel properties

No depreciation is provided in respect of hotel properties with an unexpired lease term of over 20 years. It is the Group's policy to maintain the hotel properties in such condition that their value is not diminished by the passage of time and the related expenditure is charged to the consolidated income statement in the year in which it is incurred so that any element of depreciation would be immaterial.

1	PRINCIPAL ACCOUNTING POLICIES	<i>(continued)</i>
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(i) DEPRECIATION *(continued)***4. Other fixed assets**

Depreciation on other fixed assets is provided so as to write off the cost on a straight line basis over their estimated useful lives as follows:

Leasehold land	unexpired lease term
Buildings	50 years or unexpired lease term, whichever is shorter
Furniture and equipment	4 - 20 years
Hotel operating assets	3 - 10 years
Motor vehicles	5 years

(j) STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost is computed on a first-in first-out basis. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(k) BORROWING COSTS

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(l) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

1. Sale of properties

Revenue from sale of completed properties is recognised upon signing of the sale and purchase agreements and revenue from pre-sale of properties under development is recognised over the course of development on the basis as stipulated in accounting policy 1(h)1.

2. Rental income

Rental income under operating leases is recognised on a straight line basis over the terms of the respective leases. Contingent rentals are recognised as income in the accounting period in which they are earned.

3. Hotel revenue

Revenue from hotel operations is recognised when services are rendered.

4. Interest income

Interest on bank deposits and mortgage loans is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

5. Dividends

Dividends are recognised when the right to receive payment is established.

1	PRINCIPAL ACCOUNTING POLICIES	<i>(continued)</i>
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(m) DEFERRED TAXATION

Deferred taxation is 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 are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) RELATED PARTIES

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange prevailing at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies and the results of overseas subsidiaries and jointly controlled entities are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement with the exception of those arising from the retranslation of opening foreign currency net investments which are dealt with in the exchange fluctuation reserve.

2 TURNOVER AND PROFIT BEFORE TAXATION

The principal activities of the Company are investment holding and, through its subsidiaries, property development for sale, property leasing for rental income, hotel owning and management and other investments. The Group also operates in car park management and property management, and through its jointly controlled entities, the Group is involved in the operation of restaurants and dry-cleaning.

As the majority of the activities of the Group during the year were carried out in Hong Kong, a geographical analysis of turnover and profit before taxation is not included.

An analysis of the Group's turnover and profit before taxation from the principal activities is as follows:

	Group	
	2001	2000
	\$Million	\$Million
(a) Turnover		
Property sales	3,247.5	86.3
Property leasing	2,020.8	2,051.0
Hotel owning and management	269.8	253.2
Other operations	40.5	37.7
Interest income	244.8	393.6
	5,823.4	2,821.8
(b) Profit before taxation		
Property sales	183.0	32.3
Property leasing	1,644.7	1,591.4
Hotel owning and management	81.1	59.6
Other operations	197.9	97.3
Net interest (expenses)/income	(234.7)	17.7
	1,872.0	1,798.3
Less: Administrative expenses	(148.2)	(136.7)
	1,723.8	1,661.6

3 OTHER REVENUE

	Group	
	2001	2000
	\$Million	\$Million
Profit on disposal of listed investments	20.9	—
Dividend income from listed investments	25.5	—
Unrealised gains on listed investments	119.6	—
	166.0	—

4 OPERATING PROFIT

	Group	
	2001	2000
	\$Million	\$Million
Operating profit is arrived at after charging/(crediting):		
(a) Finance costs		
Interest on bank loans and other borrowings repayable within 5 years	652.3	657.4
Finance lease charges	62.9	64.6
Other ancillary borrowing costs	34.2	27.6
Total borrowing costs	749.4	749.6
Less: Borrowing costs capitalised (Note)	(247.8)	(361.7)
	501.6	387.9
(b) Other items		
Auditors' remuneration	7.1	7.7
Depreciation	58.6	52.2
Profit on disposal of investment properties	(320.2)	(8.1)
Included in cost of property sales:—		
Cost of inventories	2,656.6	85.4
Cost of investment properties	442.2	3.9
Staff costs	356.2	324.4
Rental income less direct outgoings of \$370.8 million (2000: \$499.3 million)	(1,650.0)	(1,551.7)

Note : The borrowing costs have been capitalised at an average rate of 6.3% (2000: 7.1%) per annum for properties under development.

5 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Directors' emoluments disclosed pursuant to Sections 161 and 161A of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001	2000
	\$Million	\$Million
Fees		
Independent Non-Executive Directors	0.4	0.4
Other directors	0.8	0.8
Salaries, allowances and benefits in kind	7.0	6.8
Group's contributions to pension scheme	0.6	0.5
Discretionary bonuses	9.9	8.7
	18.7	17.2

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme, details of which are disclosed under the paragraph "Directors' interests in shares" in the directors' report.

The number of directors whose emoluments fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil — \$1,000,000	5	5
\$1,500,001 — \$2,000,000	1	1
\$3,000,001 — \$3,500,000	—	1
\$3,500,001 — \$4,000,000	—	1
\$4,000,001 — \$4,500,000	2	—
\$8,000,001 — \$8,500,000	1	1
	9	9

5 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

The emoluments of the five highest paid individuals in the Group, including three directors for both 2001 and 2000, are as follows:

	Group	
	2001	2000
	\$Million	\$Million
Fees	0.5	0.4
Salaries, allowances and benefits in kind	9.1	8.7
Group's contributions to pension scheme	0.8	0.8
Discretionary bonuses	11.0	9.7
	21.4	19.6

The emoluments of the five highest paid individuals, including three directors for both 2001 and 2000, fell within the following bands:

	Number of individuals	
	2001	2000
\$2,000,001 — \$2,500,000	2	2
\$3,000,001 — \$3,500,000	—	1
\$3,500,001 — \$4,000,000	—	1
\$4,000,001 — \$4,500,000	2	—
\$8,000,001 — \$8,500,000	1	1
	5	5

6 TAXATION

	Group	
	2001	2000
	\$Million	\$Million
(a) Taxation in the consolidated income statement represents:		
Provision for Hong Kong profits tax at 16% for the year	162.1	188.1
Underprovision in respect of previous years	139.0	16.3
Deferred taxation (Note 21)	(0.1)	(0.8)
Share of jointly controlled entities' taxation	6.5	11.6
	307.5	215.2
(b) Taxation in the consolidated balance sheet represents:		
Provision for Hong Kong profits tax for the year	162.1	188.1
Overseas tax provision relating to previous years	0.2	0.2
Provision for Hong Kong profits tax relating to previous years	179.9	511.8
	342.2	700.1

7 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net profit attributable to shareholders includes a profit of \$964.7 million (2000: \$775.8 million) which has been dealt with in the accounts of the Company.

8 DIVIDENDS

	2001	2000
	\$Million	\$Million
Interim dividend paid of 12 cents (2000: 12 cents) per share	158.7	159.5
Proposed final dividend of 32 cents (2000: 40.5 cents) per share	423.2	535.6
	581.9	695.1

9 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the net profit attributable to shareholders of \$744.5 million (2000: \$873.1 million) and the weighted average number of 1,322.7 million (2000: 1,328.3 million) shares in issue during the year.

(b) The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders of \$744.5 million and the weighted average number of 1,324.7 million shares after adjusting for the effects of all dilutive potential shares. No diluted earnings per share was presented for last year as the Company's share options did not give rise to any dilution.

(c) Reconciliations

	2001
	Number of shares
Weighted average number of shares used in calculating basic earnings per share	1,322,677,862
Deemed issue of shares for no consideration	2,068,047
Weighted average number of shares used in calculating diluted earnings per share	1,324,745,909

10 FIXED ASSETS — GROUP

	Investment properties	Properties under development	Hotel properties in Hong Kong on long leases	Other fixed assets	Total
	\$Million	\$Million	\$Million	\$Million	\$Million

Cost or valuation:

At 1 July 2000	26,716.6	5,939.7	1,475.8	632.9	34,765.0
Additions	209.4	1,124.1	—	28.7	1,362.2
Transfers	3,029.0	(3,029.0)	—	—	—
Disposals	(797.0)	—	—	(4.1)	(801.1)
Deficit on revaluation	(467.3)	—	—	—	(467.3)

At 30 June 2001	28,690.7	4,034.8	1,475.8	657.5	34,858.8
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Accumulated depreciation:

At 1 July 2000	140.1	—	—	379.6	519.7
Charge for the year	20.6	—	—	38.0	58.6
Written back on disposals	—	—	—	(3.9)	(3.9)

At 30 June 2001	160.7	—	—	413.7	574.4
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Net book value:

At 30 June 2001	28,530.0	4,034.8	1,475.8	243.8	34,284.4
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At 30 June 2000	26,576.5	5,939.7	1,475.8	253.3	34,245.3
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Cost or valuation of the fixed assets at 30 June 2001 is made up as follows:

Valuation	28,416.7	—	1,450.5	—	29,867.2
Cost	274.0	4,034.8	25.3	657.5	4,991.6
	28,690.7	4,034.8	1,475.8	657.5	34,858.8

10 FIXED ASSETS — GROUP *(continued)*

An analysis of net book value of properties is as follows:

	Investment properties		Properties under development	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Long leases in Hong Kong	17,589.7	18,051.5	663.7	625.2
Long leases outside Hong Kong	455.0	513.3	—	—
Medium term leases in Hong Kong	6,222.0	6,059.0	1,767.7	1,462.3
Medium term leases outside Hong Kong	4,150.0	1,920.0	1,603.4	3,852.2
Short lease in Hong Kong	113.3	32.7	—	—
	28,530.0	26,576.5	4,034.8	5,939.7

All major investment properties of the Group held under long and medium term leases were revalued as at 30 June 2001 by Chesterton Petty Limited, chartered surveyors, on an open market value basis calculated on total rental income after taking into account reversionary income potential.

The net book value of investment properties of the Group of \$28,530.0 million (2000: \$26,576.5 million) includes an amount of \$2,103.0 million (2000: \$1,953.0 million) in respect of an asset held under a finance lease.

The hotel properties held by the Group are carried at their previously stated valuations based on a professional valuation made by Chesterton Petty Limited, chartered surveyors, on an open market value basis as at 30 September 1988.

The net book value of other fixed assets of the Group of \$243.8 million (2000: \$253.3 million) includes amounts of \$11.2 million (2000: \$11.3 million) and \$6.2 million (2000: \$6.3 million) in respect of land and buildings held in and outside Hong Kong respectively on long leases.

The Group leases out its investment properties under operating leases and subleases in respect of those under finance lease. The leases typically run for an initial period of two to five years, with an option to renew the leases after that date at which time all terms are renegotiated. Lease payments are usually adjusted regularly to reflect market rentals and include contingent rentals, calculated based on a percentage of the turnover of the tenants and the amount of contingent rentals received for the year is \$13.8 million (2000: \$10.2 million).

10 FIXED ASSETS — GROUP *(continued)*

At 30 June 2001, total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	Subleases	Other leases	Total
	\$Million	\$Million	\$Million
Within 1 year	124.4	1,617.0	1,741.4
After 1 year but within 5 years	255.3	1,814.8	2,070.1
After 5 years	308.1	308.9	617.0
	687.8	3,740.7	4,428.5

11 INTEREST IN SUBSIDIARIES

	Company	
	2001	2000
	\$Million	\$Million
Unlisted shares, at cost less provision	170.7	170.7
Amounts due from subsidiaries	13,410.2	13,342.6
Amounts due to subsidiaries	(268.1)	(314.6)
	13,312.8	13,198.7

Details of principal subsidiaries are set out in note 30.

12 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Unlisted shares, at cost	—	—	5.9	5.9
Share of net assets	269.4	598.2	—	—
	269.4	598.2	5.9	5.9
Amounts due from jointly controlled entities	1,605.6	1,677.0	5.0	5.8
Amounts due to jointly controlled entities	(11.2)	(15.5)	(8.8)	(13.8)
	1,863.8	2,259.7	2.1	(2.1)

Details of principal jointly controlled entities are set out in note 31.

13 LOANS AND INVESTMENTS

	Group	
	2001	2000
	\$Million	\$Million
Unlisted investments in Hong Kong	50.1	16.1
Advances less provision	28.8	33.8
	78.9	49.9
Listed investments outside Hong Kong	146.1	—
Mortgage loans (Note)	148.4	203.5
	373.4	253.4
Market value of listed investments outside Hong Kong	146.1	—

Note : The mortgage loans are secured on properties. The amounts receivable within one year from the balance sheet date are included under current assets.

14 INVENTORIES

	Group	
	2001	2000
	\$Million	\$Million
Properties under development (Note)		
— Hong Kong	8,406.5	4,562.3
Completed properties for sale		
— Hong Kong	256.9	2,530.6
— outside Hong Kong	102.3	169.3
Stocks	3.7	4.1
	8,769.4	7,266.3

The amount of inventories (included above) carried at net realisable value is \$1,296.8 million (2000: \$3,296.2 million).

Note: Properties under development in the amount of \$5,920.1 million (2000: \$1,876.4 million) are not expected to be completed for sale within one year.

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Mortgage loans	5.7	4.9	—	—
Debtors, deposits and prepayments	228.9	205.0	0.3	0.5
	234.6	209.9	0.3	0.5

15 TRADE AND OTHER RECEIVABLES *(continued)*

Included in trade and other receivables are trade debtors with the following ageing analysis:

	Group	
	2001	2000
	\$Million	\$Million
Within 1 month	77.1	43.2
1 - 3 months	22.7	17.3
Over 3 months	10.6	13.2
	110.4	73.7

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

16 INVESTMENTS

The amount represents listed investments in Hong Kong carried at market value as of 30 June 2001.

17 BANK LOANS AND OVERDRAFTS

At 30 June, bank loans and overdrafts were unsecured and repayable as follows:

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Within 1 year or on demand	5,049.9	5,616.2	35.0	172.5
After 1 year but within 2 years	—	3,330.0	—	—
After 2 years but within 5 years	7,270.0	510.0	—	—
Total after 1 year but within 5 years (Note 19)	7,270.0	3,840.0	—	—
	12,319.9	9,456.2	35.0	172.5

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Land premium payable	—	1,021.0	—	—
Creditors and accrued expenses (Note i)	1,209.0	1,415.5	6.2	5.9
Deposits received (Note ii)	839.6	824.9	—	—
	2,048.6	3,261.4	6.2	5.9

Notes: (i) Creditors and accrued expenses include retention money payable of \$84.1 million (2000: \$82.5 million) which is not expected to be settled within one year.

(ii) Deposits received of \$514.4 million (2000: \$476.3 million) are not expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis:

	Group	
	2001	2000
	\$Million	\$Million
Within 1 month	412.7	465.2
Over 3 months	646.6	456.7
	1,059.3	921.9

19 LONG TERM LIABILITIES

	Group	
	2001	2000
	\$Million	\$Million
Bank loans — unsecured (Note 17)	7,270.0	3,840.0
Finance lease obligations (Note 20)	848.8	882.6
Floating rate notes due 2004 (Note)	540.0	540.0
Deferred taxation (Note 21)	0.6	0.7
Land premium	0.7	0.7
	8,660.1	5,264.0

Note: The floating rate notes were issued by the Company's subsidiary and were listed in October 1999 on The Stock Exchange of Hong Kong Limited.

20 FINANCE LEASE OBLIGATIONS

Total minimum lease payments under finance lease and their present values are as follows:

	Present value of minimum lease payments	Interest expenses relating to future periods	Total minimum lease payments
	2001		
	\$Million	\$Million	\$Million
Amounts payable			
Within 1 year	33.8	60.8	94.6
After 1 year but within 5 years	206.2	212.3	418.5
After 5 years	642.6	159.7	802.3
	848.8	372.0	1,220.8
	882.6	432.8	1,315.4

	2000		
	\$Million	\$Million	\$Million
Amounts payable			
Within 1 year	27.7	62.9	90.6
After 1 year but within 5 years	176.3	225.7	402.0
After 5 years	706.3	207.2	913.5
	882.6	432.9	1,315.5
	910.3	495.8	1,406.1

21 DEFERRED TAXATION

	Group	
	2001	2000
	\$Million	\$Million
Movements on deferred taxation comprise:		
Balance at 1 July	0.7	1.5
Transfer to the consolidated income statement (Note 6(a))	(0.1)	(0.8)
Balance at 30 June	0.6	0.7

Deferred taxation represents depreciation allowances in excess of related depreciation. Deferred tax asset of \$23.6 million (2000: \$5.1 million) being the future benefit of tax losses of \$104.5 million (2000: \$65.6 million) less future taxation arising from balancing charges upon disposal of investment properties of \$80.9 million (2000: \$60.5 million), has not been recognised as its realisation is not assured beyond reasonable doubt.

22 MINORITY INTERESTS

	Group	
	2001	2000
	\$Million	\$Million
Share of equity and reserves in subsidiaries	12,894.0	13,001.9
Contributions from minority shareholders	2,092.7	1,896.2
	14,986.7	14,898.1

23 SHARE CAPITAL

	2001		2000	
	Number of shares of \$1 each	\$Million	Number of shares of \$1 each	\$Million
Authorised				
At 30 June	2,000,000,000	2,000.0	2,000,000,000	2,000.0
Issued and fully paid				
At 1 July	1,324,738,242	1,324.7	1,328,730,242	1,328.7
Shares issued under share option scheme	214,000	0.2	—	—
Shares repurchased	(2,674,000)	(2.6)	(3,992,000)	(4.0)
At 30 June	1,322,278,242	1,322.3	1,324,738,242	1,324.7

Repurchase of shares

During the year, the Company repurchased 2,674,000 of its own shares on The Stock Exchange of Hong Kong Limited, details of which are shown below:

Month	Number of shares	Highest price paid	Lowest price paid	Aggregate consideration paid
		\$	\$	\$Million
July 2000	1,485,000	6.05	6.00	9.0
August 2000	792,000	6.25	6.00	4.8
April 2001	397,000	6.55	6.45	2.6
Total	2,674,000			16.4

The aggregate consideration of \$16.4 million paid was charged against retained profits and the nominal value of the shares repurchased of \$2.6 million was transferred to capital redemption reserve. All such shares were cancelled upon repurchase.

23 SHARE CAPITAL *(continued)*
Share Option Scheme

On 1 December 2000 options to subscribe for 1,150,000 shares of the Company were granted to a number of employees under the Company's Share Option Scheme and the subscription price per share payable on exercise of each option is \$5.49. Each of the grantees paid \$1 to the Company as consideration for the options granted to them.

During the year, options were exercised to subscribe for 214,000 shares of the Company at a consideration of \$1,309,680 and 1,100,000 options were lapsed due to the resignation of some option holders.

At 30 June 2001, the outstanding options were summarised as follows:—

Date option granted	Period during which options exercisable*	Exercise price	Number of options outstanding at the year end
24 February 2000	24 February 2001 to 23 February 2010	\$6.12	12,136,000
1 December 2000	30 November 2001 to 29 November 2010	\$5.49	1,150,000

* Subject to change by the Board at its discretion to an earlier but not a later date.

24 RESERVES

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Capital reserves:				
Share premium	2,167.4	2,166.3	2,167.4	2,166.3
Property revaluation reserve				
— investment properties	2,825.1	3,502.3	—	—
— hotel properties	477.0	477.0	—	—
Capital reserve on consolidation	1,068.6	1,087.1	—	—
Share of post-acquisition capital reserves of jointly controlled entities	188.2	176.6	—	—
Capital redemption reserve	26.1	23.5	26.1	23.5
Other capital reserves	423.1	455.4	—	—
	7,175.5	7,888.2	2,193.5	2,189.8
Revenue reserves:				
General reserve	275.0	275.0	861.6	861.6
Retained profits	9,950.6	9,804.4	8,473.4	8,107.0
	10,225.6	10,079.4	9,335.0	8,968.6
	17,401.1	17,967.6	11,528.5	11,158.4

24 RESERVES *(continued)*

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Movements in capital reserves:				
Balance at 1 July	7,888.2	7,429.5	2,189.8	2,185.8
Share premium arising on shares issued under share option scheme	1.1	—	1.1	—
Revaluation of investment properties				
— (deficit)/surplus for the year	(589.2)	406.7	—	—
— surplus realised on property disposal	(88.0)	(2.4)	—	—
Capital reserve on consolidation				
— increase in investment in a subsidiary	3.1	20.8	—	—
— realised on property disposal	(21.6)	(1.2)	—	—
Capital reserves of jointly controlled entities				
— revaluation surplus for the year	11.6	19.6	—	—
Capital redemption reserve				
— repurchase of shares	2.6	4.0	2.6	4.0
Other capital reserves				
— exchange difference	(32.3)	11.4	—	—
— realised on property disposal	—	(0.2)	—	—
Balance at 30 June	7,175.5	7,888.2	2,193.5	2,189.8

24 RESERVES *(continued)*

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
Retained profits:				
At 1 July	9,804.4	9,657.1	8,107.0	8,048.2
Retained profit for the year	162.6	178.0	382.8	80.7
Aggregate consideration paid on shares repurchased	(16.4)	(21.9)	(16.4)	(21.9)
Share of aggregate consideration paid on shares repurchased by a subsidiary	—	(8.8)	—	—
At 30 June	9,950.6	9,804.4	8,473.4	8,107.0

	Group	
	2001	2000
	\$Million	\$Million
Statement of retained profits:		
Group companies	9,689.6	9,554.4
Jointly controlled entities	261.0	250.0
	9,950.6	9,804.4

The aggregate amount of the Company's reserves available for distribution to shareholders at 30 June 2001 was \$9,335.0 million (2000: \$8,968.6 million).

25 PENSION SCHEME AND COSTS

Since 1973 the Group has operated a defined contribution provident fund scheme for its employees. The assets of this scheme are held separately from those of the Group, in an independent fund administered by trustees and managed by a professional fund manager.

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are credited to reserves of the fund. Depending on the level of reserves, the trustees may credit dividends to members' accounts out of the reserves of the fund. The Group's contributions may be reduced by the forfeited contributions, but there was no such reduction of the Group's contributions during the year. Total contributions made by the Group for the year amounted to \$19.7 million (2000: \$19.1 million) and forfeited sums credited to reserves amounted to \$1.0 million (2000: \$1.1 million).

With the implementation of the Mandatory Provident Fund Schemes Ordinance on 1 December 2000, a master trust Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up and is operated by an independent service provider. Mandatory

contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of \$20,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to \$0.2 million.

As the Group's provident fund scheme is an MPF-exempt Occupational Retirement Scheme (the "ORSO Scheme"), all the existing employees were given a one-off option to elect between the ORSO and MPF schemes. Eligibility for membership of the ORSO and MPF schemes is identical, and new employees are offered the choice of joining either the ORSO or the MPF scheme.

Staff in the Company's subsidiaries operating in Shanghai, the People's Republic of China ("PRC"), are members of a retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in the PRC. The only obligation of the PRC subsidiaries is to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the retirement benefits. The local municipal government in the PRC undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. Total contribution made by the PRC subsidiaries for the year amounted to \$3.7 million (2000: \$2.2 million).

26 CONTINGENT LIABILITIES

At 30 June, contingent liabilities were as follows:

	Group		Company	
	2001	2000	2001	2000
	\$Million	\$Million	\$Million	\$Million
(a) Guarantees given to banks to secure banking facilities				
— Subsidiaries	—	—	3,330.0	4,253.6
— Jointly controlled entities	—	—	13.9	14.7
(b) Guarantees for the performance and completion of certain construction work	2.3	2.3	2.3	2.3
	2.3	2.3	3,346.2	4,270.6

27 COMMITMENTS

(a) At 30 June, capital commitments not provided for in the accounts were as follows:

	Group	
	2001	2000
	\$Million	\$Million
Contracted for	819.0	735.5

In addition, the Group's share of capital commitments of the jointly controlled entities is as follows:

	Group	
	2001	2000
	\$Million	\$Million
Contracted for	172.7	299.1
Authorised but not contracted for	110.0	140.3
	282.7	439.4

27 COMMITMENTS *(continued)*

(b) The Group leases a property under a non-cancellable operating lease expiring after 10 years. Contingent rental payable is based on a percentage of the revenue from the property. At 30 June, total future minimum lease payments to be made under this operating lease were as follows:

	Group	
	2001	2000
	\$Million	\$Million
Within 1 year	9.2	8.0
After 1 year but within 5 years	44.0	42.2
After 5 years	81.6	92.6
	134.8	142.8

28 RELATED PARTY TRANSACTIONS

The Group has a 20% interest in a jointly controlled entity which participated in the development of Package One of the MTRC Tung Chung Station Development Project. At 30 June 2001, the Group advanced to this jointly controlled entity a total of \$1,393.9 million (2000 : \$1,473.9 million). All advances are interest-free, unsecured and have no fixed settlement dates.

29 COMPARATIVE FIGURES

Current year analysis of the Group's profit before taxation from principal activities disclosed in note 2(b) is before deduction of administrative expenses as this is considered a better presentation of the Group's results. Accordingly, comparative figures for this note have been reclassified to conform with this year's presentation.

30 PRINCIPAL SUBSIDIARIES

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Akihiro Company Limited*	2	100	100	Property development	Hong Kong
Amoy International Treasury Limited	8	60.1	—	Financial services	British Virgin Islands
Amoy Properties (China) Limited*	2	60.1	—	Investment holding	Hong Kong
Amoy Properties Limited*				Investment holding	Hong Kong
Ordinary shares	2,891,113,407	60.1	—		
Convertible cumulative preference shares	843,262,500	—	—		
Amoy Treasury Limited*	2	60.1	—	Financial services	Hong Kong
Amoy Treasury Services Limited	2	60.1	—	Investment holding	Hong Kong
Antonis Limited	10,000	60.1	—	Property leasing	Hong Kong
AP City Limited*	2	60.1	—	Property leasing	Hong Kong
AP Joy Limited*	2	60.1	—	Property development	Hong Kong
AP Properties Limited*	20	51.1	—	Property development	Hong Kong
AP Success Limited*	2	60.1	—	Property leasing	Hong Kong
AP Universal Limited	2	60.1	—	Property leasing	Hong Kong
AP Win Limited	1,000,000	60.1	—	Property leasing	Hong Kong
AP World Limited*	2	60.1	—	Property development	Hong Kong
APW Finance Limited*	2	60.1	—	Financial services	Hong Kong
Bayliner Investment Ltd.	8	100	100	Investment holding	British Virgin Islands
Believacity Limited	2	100	—	Investment holding & securities trading	Hong Kong
Bonna Estates Company Limited*	1,000,000	60.1	—	Property leasing	Hong Kong
Caddo Enterprises, Limited	4,000,000	60.1	—	Property leasing	Hong Kong

30 PRINCIPAL SUBSIDIARIES *(continued)*

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Carmana Limited	2	60.1	—	Property leasing	Hong Kong
Chi Pan Company, Limited	100,000	60.1	—	Property management	Hong Kong
Cititop Limited*	2	60.1	—	Property development	Hong Kong
Cokage Limited	2	100	100	Investment holding	Hong Kong
Country Bond Development Limited*				Investment holding	Hong Kong
'A' shares	990	58.1	—		
'B' share	1	60.1	—		
Country First Enterprises Limited*	2	100	—	Investment holding	Hong Kong
Country Link Enterprises Limited*	10,000	42.0	—	Investment holding	Hong Kong
Crest Incorporated	16	100	—	Investment holding	British Virgin Islands
Curicao Company Limited	2	100	—	Investment holding	Hong Kong
Dino Investments LLC	US\$28,620,000	52.6	—	Securities trading	United States
Dokay Limited	2	60.1	—	Property leasing	Hong Kong
Ease Smart Development Limited*				Investment holding	Hong Kong
'A' share	1	100	—		
'B' share	1	60.1	—		
Easegood Enterprises Limited*	2	60.1	—	Investment holding	Hong Kong
Elfhony-Servicos de Consultoria Financeira Lda	Euro 1,000,000	80	—	Establish chain of boutique hotels	Portugal
Ever Brilliant Investment Limited*	2	100	100	Investment holding	Hong Kong
Folabs Limited	2	100	—	Property leasing	Hong Kong
Fu Yik Company Limited	3	60.1	—	Property leasing	Hong Kong
Gala Ruby Limited	2	60.1	—	Investment holding	Hong Kong

30 PRINCIPAL SUBSIDIARIES (continued)

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Glory View Properties Limited	2	100	100	Property leasing	Hong Kong
Gowily Limited*	2	60.1	—	Property leasing	Hong Kong
Grand Hotel Group Limited*	10,200	73.7	—	Hotel operating & management	Hong Kong
Grand Hotel Holdings Limited*				Investment holding	Hong Kong
'A' shares	62,163,123	74.1	—		
'B' shares	6,000,000	69.6	—		
Grand Hotel Treasury Limited*	2	73.7	—	Financial services	Hong Kong
Grand Suite Tower Limited*	200	73.7	—	Operations of service apartments	Hong Kong
Great Cheer Development Limited*	2	100	100	Property development	Hong Kong
Hang Chui Company Limited*	2	60.1	—	Property leasing	Hong Kong
Hang Chun Company Limited*	2	100	—	Investment holding	Hong Kong
Hang Far Company Limited	2	100	100	Investment holding	Hong Kong
Hang Fine Company Limited*	200	60.1	—	Property leasing	Hong Kong
Hang Kwok Company Limited	10,000	60.1	—	Property leasing	Hong Kong
Hang Lick Company Limited	10,000	60.1	—	Property leasing	Hong Kong
Hang Lung (Administration) Limited*	10,000	100	100	Management services	Hong Kong
Hang Lung (China) Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung Financial Services Limited*	2	100	100	Financial services	Hong Kong
Hang Lung Park-In Limited*	2	60.1	—	Property leasing	Hong Kong
Hang Lung Project Management Limited	10,000	100	100	Project management	Hong Kong
Hang Lung Real Estate Agency Limited	2	100	100	Property agencies	Hong Kong
Hang Lung (Secretaries) Limited*	2	100	100	Secretarial services	Hong Kong

30 PRINCIPAL SUBSIDIARIES *(continued)*

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Hang Lung (Shanghai) Properties Limited*	2	100	—	Management services	Hong Kong
Hang Lung Treasury Limited*	2	100	100	Financial services	Hong Kong
Hanson Mortgage Limited	2	100	100	Financial services	Hong Kong
Hantak Limited*	2	100	100	Investment holding	Hong Kong
Hebo Limited*	2	100	100	Property development	Hong Kong
HL Enterprises Limited	2	100	100	Investment holding	Hong Kong
HL Mortgage (HTG) Limited	2	100	100	Financial services	Hong Kong
HL Mortgage (NP) Limited	2	100	100	Financial services	Hong Kong
Hoi Sang Limited	2	100	100	Investment holding	Hong Kong
Kindstock Limited	2	100	—	Investment holding	Hong Kong
Lakefield Estates Company Limited*	4	60.1	—	Property leasing	Hong Kong
Land Venture Limited	2	100	—	Property development	Hong Kong
Lockoo Limited	1,000,002	60.1	—	Property leasing	Hong Kong
Luckyson Investments Limited*	10,000	100	—	Property development	Hong Kong
Lungsun Mortgage (PV) Limited	20	89.7	—	Financial services	Hong Kong
Mansita Limited	2	60.1	—	Property leasing	Hong Kong
Merrysun Limited	2	100	—	Investment holding	Hong Kong
Modalton Limited*	2	73.7	—	Property leasing	Hong Kong
Nikco Limited*	2	100	—	Property leasing	Hong Kong
Ocean Time Investments Limited	10,000	100	—	Property leasing	Hong Kong
Ottringham Limited	20	60.1	—	Property leasing	Hong Kong

30 PRINCIPAL SUBSIDIARIES *(continued)*

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Palex Limited	2	60.1	—	Property leasing	Hong Kong
Paradot Limited	2	100	100	Property development	Hong Kong
Pocaliton Limited*	2	60.1	—	Property leasing	Hong Kong
Promax Limited*	2	89.7	—	Property development	Hong Kong
Prosperland Housing Limited*	1,560,000	100	100	Investment holding	Hong Kong
Purotat Limited	2	100	100	Investment holding	Hong Kong
Rago Star Limited*	2	60.1	—	Property leasing	Hong Kong
Riolo Limited*	2	60.1	—	Property leasing	Hong Kong
Ronhero Limited	2	60.1	—	Property leasing	Hong Kong
Scotat Limited*	2	89.7	—	Investment holding	Hong Kong
Stanman Properties Limited*	20	100	100	Property development	Hong Kong
Stooket Limited*	2	60.1	—	Property leasing	Hong Kong
Style Giant Limited*	2	89.7	—	Property development	Hong Kong
Success Cosmos Development Limited	2	100	100	Property development	Hong Kong
Tegraton Limited*	2	73.7	—	Property leasing	Hong Kong
Topnic Limited*	2	100	100	Property leasing	Hong Kong
Velan Limited*	2	100	100	Property development	Hong Kong
Wai Luen Investment Company, Limited	100,000	60.1	—	Property leasing	Hong Kong
Wililoy Limited	2	60.1	—	Property leasing	Hong Kong
Yangli Limited	2	60.1	—	Property leasing	Hong Kong
Yee Fly Investment Limited	1,000	100	100	Investment holding & securities trading	Hong Kong
Zarat Limited	2	60.1	—	Property leasing	Hong Kong

30 PRINCIPAL SUBSIDIARIES *(continued)*

AT 30 JUNE 2001

Equity Joint Venture in The People's Republic of China	Registered Capital (US\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.*	167,004,736	57.5	—	Property leasing	The People's Republic of China
Shanghai Heng Cheng Real Estate Development Co., Ltd.*	17,766,000	70	—	Property development	The People's Republic of China
Shanghai Kong Hui Property Development Co., Ltd.*	165,000,000	37.8	—	Property development & leasing	The People's Republic of China

* Audited by KPMG

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

31 PRINCIPAL JOINTLY CONTROLLED ENTITIES

AT 30 JUNE 2001

Company	Issued Share Capital (HK\$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Arges Limited	4	36.9	—	Restaurant operations	Hong Kong
China Top Home Holdings Limited *	10,000	50	—	Investment holding	Hong Kong
Daily Win Development Limited	400	25	—	Property leasing	Hong Kong
Guangzhou Top Home Technology Co. Ltd. *	16,500,000	50	—	Information technology	The People's Republic of China
Hang Hing Mortgage (TH) Limited	2	50	—	Financial services	Hong Kong
Hang Lung-Hakuyosha Dry Cleaning Limited	519,000	50	—	Dry and laundry cleaning	Hong Kong
Newfoundworld Finance Limited	100,000	20	—	Financial services	Hong Kong
Newfoundworld Holdings Limited	2,000,000	20	—	Investment holding	Hong Kong
Newfoundworld Limited	2,000,000	20	—	Property development	Hong Kong
Pure Jade Limited	1,000	20	—	Property development	Hong Kong
Star Play Development Limited	3	20	—	Property leasing	Hong Kong

* Audited by KPMG

The above list gives the principal jointly controlled entities of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.