

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

a. Basis of Preparation

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

b. Basis of Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30th June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either co-terminus with the financial statements of the Company or cover a year ended not more than six months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation.

The Group has adopted the accounting policy for goodwill in accordance with Statement of Standard Accounting Practice (SSAP) 30, "Business Combination" issued by the Hong Kong Society of Accountants. Goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities after 1st July 2001 is recognized as an asset in the balance sheet and amortised to the profit and loss account on a straight line basis over its estimated useful life. Negative goodwill arising on acquisitions after 1st July 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Upon disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

In prior years, goodwill was taken to reserves in the year it arose. With the transitional provisions in SSAP 30, the Group has elected not to restate goodwill or negative goodwill previously eliminated against or credited to reserves. However, any impairment arising on such goodwill is recognized in the profit and loss account in accordance with the newly issued SSAP 31 "Impairment of Assets". This change in accounting policy has no significant impact on the financial statements. Goodwill previously charged to reserves and not yet recognized in the profit and loss account is insignificant.

Minority interests in the consolidated profit and loss account and balance sheet represents the interests of third parties outside the Group in the results and net assets of subsidiaries.

c. Turnover

Turnover derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from property letting under operating leases, revenue from hotel operations and revenue derived from other business activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, internet infrastructure and enabling services. It does not include the turnover of associates and jointly controlled entities.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies (Cont'd)**d. Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group which will result in increases in equity and these benefits can be measured reliably, on the following basis:

(i) Property Sales

Revenue and profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, revenue and profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sales proceeds receivable over the interest-free period.

(ii) Rental Income

Rental income from properties letting under operating leases is recognized on straight line basis over the lease terms.

(iii) Hotel Operation

Revenue from hotel operation is recognized upon provision of services.

(iv) Interest Income

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

(v) Construction

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

(vi) Investment Income

Income from securities and other investments is recognized when the right to receive payment is established.

(vii) Use of Internet Services Centre Facilities

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

(viii) Other Income

Property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

1. Principal Accounting Policies (Cont'd)

e. 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. Investments in subsidiaries are carried in the balance sheet of the Company at cost less provision for impairment in value.

f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post-acquisition changes in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

g. Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the parties has unilateral control.

(i) Jointly Controlled Entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post-acquisition changes in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

(ii) Jointly Controlled Assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies (Cont'd)**g. Joint Ventures (Cont'd)***(ii) Jointly Controlled Assets (Cont'd)*

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

h. Investments in Securities*(i) Investments*

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less provision for impairment in value. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities which are intended to be held to maturity are measured at amortized cost, less any impairment losses recognized, if necessary, in the balance sheet. The amortization of any discount or premium arising on acquisition is aggregated with other investment income receivable over the period from the dates of acquisition to the dates of maturity so as to give a constant yield on the investment.

(ii) Marketable Securities

Marketable securities, which are that part of liquid assets temporarily invested in debt and equity securities, are stated at fair value, with unrealized gains and losses included in net profit or loss for the year.

i. Properties*(i) Land Pending Development*

Land pending development, which is stated at cost less provision for impairment in value made by the executive directors, embraces all land acquired pending any definite intention whether to develop it for long-term retention or for sale. When the intention is clear and action initiated, land to be developed for long-term retention is reclassified as fixed assets whereas land to be developed for sale and expected to be realized in the normal course of the Group's property development cycle is reclassified as stocks under current assets.

(ii) Investment Properties

Investment properties are completed properties which are income producing and held for their investment potential on a long-term basis. Investment properties are included in fixed assets at open market value on the basis of an annual professional valuation related to properties on the basis that increases in valuations are credited to the investment property revaluation reserve and decreases in valuations are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to the profit and loss account. Upon disposal of an investment property, the revaluation surplus or deficit realized is transferred to profit and loss account in calculating the profit or loss on disposal.

1. Principal Accounting Policies (Cont'd)

i. Properties (Cont'd)

(iii) Hotel Properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at open market value on the basis of an annual professional valuation related to individual hotel properties.

(iv) Properties Under Development

Properties under development for long-term retention are classified under fixed assets and are stated at cost less provision for impairment in value. These properties are reclassified as investment properties or other properties as the case may be upon completion of the development.

Properties under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

Cost of property in the course of development comprises land cost and development costs during the development period.

(v) Stocks of Completed Properties

Completed properties remaining unsold at year end are stated at the lower of cost and net realizable value.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

(vi) Other Properties

Other properties are properties held for production or administrative purposes and are included in fixed assets at cost less accumulated depreciation and impairment loss, if any.

j. Depreciation

(i) Investment Properties

No depreciation is provided on investment property except where the unexpired term of the lease of the investment property is twenty years or less, in which case the then carrying amount is amortized on a straight line basis over the remaining unexpired term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies (Cont'd)**j. Depreciation (Cont'd)***(ii) Hotel Properties*

No depreciation is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of these assets and their high residual values, any depreciation would be insignificant. The related repair and maintenance expenditure is charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalized.

(iii) Properties Under Development

No depreciation is provided on properties under development.

(iv) Other Properties

The cost of leasehold land and construction cost of buildings thereon are depreciated on a straight line basis over the term of the lease.

(v) Other Fixed Assets

Other fixed assets including equipment, furniture, fixtures and vehicles are stated at cost less depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from 10 per cent to 33.3 per cent per annum.

k. Capitalization of Borrowing Costs

Borrowing costs are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale.

l. Materials

Materials comprising mainly building materials and hotel stocks are valued at cost, calculated on a weighted average cost basis, less provisions, if any.

m. Translation of Foreign Currencies

Foreign currency transactions during the year are converted into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and financial statements of overseas subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of the balance sheet. Exchange differences arising from the translation of the financial statements of overseas subsidiaries, associates and jointly controlled entities are taken directly to reserves. All other exchange differences are dealt with in the profit and loss account.

1. Principal Accounting Policies (Cont'd)

n. Deferred Taxation

Deferred taxation is provided, using the liability method, on all material timing differences other than those which are not expected to crystallize in the foreseeable future. Deferred tax asset is not recognized unless its realization is certain.

o. Dividends

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet dates are not recognized as liabilities at the balance sheet dates, but are disclosed as separate components of equity on the balance sheet. This change in accounting policy has been applied retrospectively, resulting in an increase in the shareholders' funds as at 1st July 2001 by HK\$2,401 million and 1st July 2000 by HK\$2,881 million, representing the proposed final dividend for the year ended 30th June 2001 and 2000 respectively.

p. Segment Reporting

The Group has disclosed segment revenue and results as defined under SSAP 26 "Segment Reporting". In accordance with the Group's internal financial reporting, the Group has determined that business segments be represented as the primary reporting format. Comparative figures of segment disclosures have been changed to conform with the current year's presentation.

q. Financial Instruments and Derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

r. Retirement Benefits

The retirement benefit costs charged to the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution schemes and Mandatory Provident Fund Schemes.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. SEGMENT INFORMATION**(i) Segment Results***(a) The Company and its subsidiaries*

The Group's turnover and contribution to profit from operations before finance cost by business segments are analysed as follows:

	Turnover		Profit from Operations before Finance Cost	
	2002	2001	2002	2001
Property				
Property sales	16,164	8,218	4,044	3,625
Rental income	5,336	5,392	4,087	4,073
	21,500	13,610	8,131	7,698
Hotel operation	561	590	189	195
Other business activities	3,312	3,501	398	374
	25,373	17,701	8,718	8,267
Other revenue			394	547
Unallocated administrative expenses			(497)	(485)
Profit from operations			8,615	8,329

Other business activities comprise revenue and profit derived from other activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, internet infrastructure and enabling services.

Less than 10 per cent of the operations of the Group in terms of turnover and operating results were carried on outside Hong Kong.

(b) Associates and jointly controlled entities

The Group's share of profits less losses of associates and jointly controlled entities by business segments is analysed as follows:

	Share of Profits Less Losses before Taxation	
	2002	2001
Property		
Property sales	793	1,236
Rental income	345	328
	1,138	1,564
Other business activities	946	477
Profit from operations	2,084	2,041
Finance cost	(367)	(459)
	1,717	1,582

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in millions of Hong Kong dollars)

2. Segment Information (Cont'd)

(i) Segment Results (Cont'd)

(c) Combined results of the Group and its share of results of associates and jointly controlled entities by business segments

	Attributable Profit	
	2002	2001
Property		
Property sales	4,837	4,861
Rental income	4,432	4,401
	9,269	9,262
Hotel operation	189	195
Other business activities	1,344	851
	10,802	10,308
Other revenue	394	547
Unallocated administrative expenses	(497)	(485)
Profit from operations	10,699	10,370

(ii) Assets and Liabilities

The Group's assets and liabilities by business segments are analysed as follows:

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Liabilities
At 30th June 2002				
Property				
Development	41,271	8,995	50,266	(6,997)
Investment	85,536	10,011	95,547	(1,842)
	126,807	19,006	145,813	(8,839)
Hotel operation	4,540	–	4,540	(60)
Other business activities	5,468	5,946	11,414	(3,264)
	136,815	24,952	161,767	(12,163)
Bank balances and deposits			8,272	–
Bank and other borrowings			–	(28,329)
Unallocated corporate assets/(liabilities)			3,954	(3,327)
Total assets/(liabilities)			173,993	(43,819)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

2. Segment Information (Cont'd)

(ii) Assets and Liabilities (Cont'd)

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Liabilities
At 30th June 2001				
Property				
Development	42,364	10,205	52,569	(9,813)
Investment	89,560	10,162	99,722	(2,491)
	131,924	20,367	152,291	(12,304)
Hotel operation	4,296	–	4,296	(66)
Other business activities	5,817	4,705	10,522	(4,290)
	142,037	25,072	167,109	(16,660)
Bank balances and deposits			9,061	–
Bank and other borrowings			–	(28,992)
Unallocated corporate assets/(liabilities)			2,772	(3,272)
Total assets/(liabilities)			178,942	(48,924)

Less than 10 per cent of the Group's assets situated outside Hong Kong.

The Group's depreciation and capital expenditure by business segments are analysed as follows:

	Depreciation		Capital Expenditure	
	2002	2001	2002	2001
Property				
Development	3	7	1,921	1,642
Investment	8	14	871	6,896
	11	21	2,792	8,538
Hotel operation	14	14	21	28
Other business activities	203	176	156	606
Unallocated corporate assets	23	12	5	7
	251	223	2,974	9,179

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

3. NET FINANCE COST

	2002	2001
Interest expense on		
Bank loans and overdrafts	637	1,551
Other loans wholly repayable within 5 years	267	568
Other loans not wholly repayable within 5 years	65	96
	969	2,215
Less: Portion capitalized	(317)	(593)
	652	1,622
Interest income on bank deposits	(86)	(464)
	566	1,158

Interest is capitalized at an average annual rate of approximately 2.9 per cent (2001: 6.3 per cent).

4. PROVISION FOR IMPAIRMENT OF INVESTMENTS AND RESTRUCTURING COSTS

During the year, SUNeVision Holdings Limited, the Group's subsidiary, carried out a restructuring programme of its business, incurring one-off costs amounting to HK\$131 million and also made a HK\$356 million provision for impairment of technology investments.

5. PROFIT BEFORE TAXATION

	2002	2001
Profit before taxation is arrived at after charging:		
Cost of properties sold	11,622	4,119
Depreciation	251	223
Staff costs (including directors' emoluments and retirement schemes contributions)	1,819	1,865
Auditors' remuneration	7	7
and crediting:		
Dividend income from:		
listed investments	22	74
unlisted investments	41	3
Interest income from:		
listed investments	139	11
Profit on disposal of marketable securities	13	104
Net holding gain on marketable securities	58	42

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

6. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

	2002	2001
Directors' emoluments:-		
Fees	1	1
Salaries, allowances and benefits in kind	16	17
Bonuses	17	28
Retirement scheme contributions	1	1
	35	47

Fees paid to independent non-executive directors amounted to HK\$160,000 (2001: HK\$200,000). They received HK\$700,000 (2001: HK\$700,000) as other emoluments.

Number of directors whose emoluments fell within:-

Emoluments Band			Number of Directors	Number of Directors
HK\$M		HK\$M		
0	–	1.0	7	8
1.5	–	2.0	4	4
2.5	–	3.0	1	–
4.0	–	4.5	–	2
4.5	–	5.0	–	1
5.5	–	6.0	1	–
6.0	–	6.5	1	–
12.5	–	13.0	1	–
25.5	–	26.0	–	1
			15	16

The above analysis included three (2001: two) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining two (2001: three) individuals are:

	2002	2001
Salaries, allowances and benefits in kind and retirement scheme contributions	6	10
Bonuses	1	10
	7	20

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in millions of Hong Kong dollars)

6. Directors' Emoluments And Five Highest Paid Individuals (Cont'd)

Number of employees whose emoluments fell within:-

Emoluments Band			Number of Employees	Number of Employees
HK\$M		HK\$M		
3.0	–	3.5	1	–
3.5	–	4.0	1	–
5.0	–	5.5	–	1
6.0	–	6.5	–	1
8.0	–	8.5	–	1
			2	3

7. STAFF RETIREMENT SCHEMES

The Group operates a number of defined contribution schemes for all qualified employees. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions to these schemes are made by both the employers and employees at rates ranging from 5 per cent to 10 per cent on the employees' salary.

With effect from 1st December 2000, the Group sets up an employer sponsored scheme ("MPF Scheme") for other employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at specific rates. Contributions of the Group to the MPF Scheme are charged to profit and loss account as incurred.

Total contributions to the retirement schemes made by the Group during the year amounted to HK\$99 million (2001: HK\$91 million). Forfeited contributions for the year of HK\$7 million (2001: HK\$9 million) were used to reduce the existing level of contributions.

8. TAXATION

	2002	2001
Hong Kong		
The Company and subsidiaries	687	722
Under/(over) provision in prior year	(5)	19
	682	741
Associates	85	59
Jointly controlled entities	105	58
	872	858

(a) Hong Kong profits tax is provided at the rate of 16 per cent (2001: 16 per cent) based on the estimated assessable profits for the year.

(b) No provision for deferred taxation has been made as the aggregate effect of all timing differences is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Profit attributable to shareholders dealt with in the profit and loss account of the Company amounts to HK\$6,719 million (2001: HK\$8,419 million).

10. DIVIDENDS

	2002	2001
Interim dividend of HK\$0.55 per share based on 2,401 million shares (2001: HK\$0.55 per share based on 2,401 million shares) paid	1,321	1,321
Proposed final dividend of HK\$1.00 per share based on 2,401 million shares (2001: HK\$1.00 per share based on 2,401 million shares)	2,401	2,401
Proposed special cash dividend of HK\$0.60 per share based on 2,401 million shares (2001: Nil)	1,441	–
	5,163	3,722

The proposed final and special cash dividend after the balance sheet date have not been recognized as liabilities at the balance sheet date but are disclosed as separate components of equity on the face of the balance sheet. The shareholders' funds as at 1st July 2001 have been restated to include HK\$2,401 million proposed final dividend for the year ended 30th June 2001, pursuant to the adoption of SSAP 9 (Revised).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on HK\$8,519 million (2001: HK\$8,330 million) being profit attributable to shareholders and on 2,400,907,362 shares in issue throughout both 2002 and 2001.

No diluted earnings per share for the year ended 30th June, 2002 is presented as there are no potential dilutive ordinary shares. The calculation of diluted earnings per share for the year ended 30th June 2001 is based on HK\$8,330 million being profit attributable to shareholders and on the weighted average number of 2,400,935,185 shares after adjusting for the dilutive effects of all potential ordinary shares.

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(Expressed in millions of Hong Kong dollars)

12. FIXED ASSETS

The Group	Investment Properties	Hotel Properties	Properties under Development	Other Properties	Other Fixed Assets	Total
(a) Movement during year						
Cost or valuation						
At beginning of year	79,628	4,210	7,540	2,548	1,741	95,667
Additions	85	20	785	–	163	1,053
Transfer in	250	–	–	80	–	330
Disposals	(175)	–	(54)	–	(209)	(438)
Cost adjustments	(410)	(110)	–	–	–	(520)
Transfer out	–	–	(19)	–	(2)	(21)
Revaluation surplus/ (deficit)	(4,273)	350	–	–	–	(3,923)
At end of year	75,105	4,470	8,252	2,628	1,693	92,148
Accumulated depreciation						
At beginning of year	–	–	–	289	680	969
Charge for the year	–	–	–	88	163	251
Disposals	–	–	–	–	(60)	(60)
Transfer out	–	–	–	–	(1)	(1)
At end of year	–	–	–	377	782	1,159
Net book value at 30/6/2002	75,105	4,470	8,252	2,251	911	90,989
Net book value at 30/6/2001	79,628	4,210	7,540	2,259	1,061	94,698
(b) Basis of book value						
2002 professional valuation	75,105	4,470	–	–	–	79,575
Cost	–	–	8,252	2,628	1,693	12,573
	75,105	4,470	8,252	2,628	1,693	92,148

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

12. Fixed Assets (Cont'd)

(c) Net book value of properties shown above comprises:

	2002	2001
Land in Hong Kong held under long lease (not less than 50 years)		
Investment properties	16,690	18,363
Hotel properties	1,490	1,400
Other properties	529	541
	18,709	20,304
Medium-term lease (less than 50 years but not less than 10 years)		
Investment properties	56,543	59,409
Hotel properties	2,980	2,810
Properties under development	8,163	7,448
Other properties	1,722	1,718
	69,408	71,385
Land outside Hong Kong held under long lease (not less than 50 years)		
Investment properties	663	686
Properties under development	89	92
	752	778
Medium-term lease (less than 50 years but not less than 10 years)		
Investment properties	1,209	1,170
	90,078	93,637

(d) Investment properties and hotel properties revaluation

The Group's investment properties and hotel properties have been revalued as at 30th June 2002 by Messrs. Knight Frank and Chesterton Petty, Chartered Surveyors on an open market value basis.

(e) Gross rental receivable from and profit on disposal of the Group's investment properties during the year amounted to HK\$4,964 million (2001: HK\$5,008 million) and HK\$97 million (2001: HK\$289 million) respectively.

(f) The carrying amount of properties under development as at 30th June 2002 included interest capitalized in the amount of HK\$891 million (2001: HK\$707 million).

13. SUBSIDIARIES**The Company**

	2002	2001
Unlisted shares, at cost	30,076	30,076

Particulars regarding principal subsidiaries are set out on pages 134 to 138.

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(Expressed in millions of Hong Kong dollars)

14. ASSOCIATES**The Group**

	2002	2001
Share of net assets		
Listed in Hong Kong	2,985	2,624
Unlisted	352	230
Amounts due from associates	1,804	2,221
Amounts due to associates	(35)	(32)
	5,106	5,043
Market value of Hong Kong listed shares	7,034	4,887

Particulars regarding principal associates are set out on page 140.

15. JOINTLY CONTROLLED ENTITIES

	2002		2001	
	The Group	The Company	The Group	The Company
Unlisted shares, at cost		4		4
Share of net assets, unlisted	926		2,978	
Amounts due from jointly controlled entities	19,056	3	17,798	1
Amounts due to jointly controlled entities	(136)	–	(747)	(69)
	19,846	7	20,029	(64)

Particulars regarding principal jointly controlled entities are set out on page 139.

16. INVESTMENTS

	2002		2001	
	The Group	The Company	The Group	The Company
Listed held-to-maturity debt securities, overseas	1,917	–	532	–
Unlisted held-to-maturity debt securities	125	–	61	–
Listed equity securities, Hong Kong	369	–	525	–
Unlisted equity securities	698	–	1,004	–
	3,109	–	2,122	–
Amounts due from investee companies	98	–	98	–
Amounts due to investee companies	(18)	(2)	(28)	(3)
	3,189	(2)	2,192	(3)
Market value				
Listed overseas	1,973	–	544	–
Listed in Hong Kong	397	–	580	–
	2,370	–	1,124	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

17. STOCKS**The Group**

	2002	2001
Properties under development	22,314	22,496
Stocks of completed properties	2,834	2,785
Materials	52	53
	25,200	25,334

The amount of the above stocks that are carried at net realizable value was HK\$1,079 million (2001: HK\$1,259 million).

18. TRADE AND OTHER RECEIVABLES

		2002		2001	
	Note	The Group	The Company	The Group	The Company
Debtors, deposits and prepayments		5,908	142	2,864	240
Amounts due from customers for contract works	18a	107	–	76	–
Short-term loans		283	–	400	–
		6,298	142	3,340	240

Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rents in respect of leased properties are payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in contracts.

Included in trade and other receivables of the Group are trade debtors of HK\$4,495 million (2001: HK\$1,373 million), of which 94 per cent aged less than 60 days, two per cent between 61 to 90 days and four per cent more than 90 days (2001: 80 per cent, four per cent and 16 per cent respectively).

18a. Amounts due from/(to) customers for contract works**The Group**

	Note	2002	2001
Contract costs incurred plus recognized profits less recognized losses		2,086	196
Less: Progress billings		(2,022)	(135)
		64	61
Represented by:			
Due from customers included in current assets	18	107	76
Due to customers included in current liabilities	22	(43)	(15)
		64	61

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in millions of Hong Kong dollars)

19. MARKETABLE SECURITIES

The Group

	2002	2001
Equity securities, at market value		
Listed in Hong Kong	296	318
Listed overseas	15	31
Debt securities, at market value		
Listed overseas	53	50
	364	399

20. BANK BALANCES AND DEPOSITS

	2002		2001	
	The Group	The Company	The Group	The Company
Short-term bank deposits	8,035	–	8,736	–
Bank balances and cash	237	21	325	–
	8,272	21	9,061	–

21. BANK AND OTHER BORROWINGS

		2002		2001	
	Note	The Group	The Company	The Group	The Company
Unsecured bank overdrafts		42	–	53	11
Non-current bank and other borrowings due within one year	23	3,786	–	4,944	–
		3,828	–	4,997	11

22. TRADE AND OTHER PAYABLES

		2002		2001	
	Note	The Group	The Company	The Group	The Company
Creditors and accrued expenses		8,229	244	9,330	214
Amounts due to customers for contract works	18a	43	–	15	–
		8,272	244	9,345	214

Included in trade and other payables of the Group are trade creditors of HK\$501 million (2001: HK\$458 million), of which 47 per cent aged less than 60 days, 10 per cent between 61 to 90 days and 43 per cent more than 90 days (2001: 86 per cent, one per cent and 13 per cent respectively).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

23. BANK AND OTHER BORROWINGS**The Group**

	Note	2002	2001
Unsecured bank loans repayable			
Within one year		3,486	4,269
After one year, but within two years		5,477	6,380
After two years, but within five years		6,183	8,171
After five years		8,855	5,258
		24,001	24,078
Other unsecured loans repayable			
Within one year		300	675
After one year, but within two years		800	300
After two years, but within five years		2,152	2,302
After five years		1,034	1,584
		4,286	4,861
Less: Amount due within one year included under current liabilities	21	28,287 (3,786)	28,939 (4,944)
		24,501	23,995

(a) The above other unsecured loans are repayable on various dates up to April 2010 at commercial market rates.

(b) Bank loans shown above that are not wholly repayable within five years amounted to HK\$9,203 million (2001: HK\$7,208 million).

24. MINORITY INTERESTS**The Group**

	2002	2001
Share of equity and reserves in subsidiaries	638	729
Amounts due to minority shareholders	987	923
Amounts due from minority shareholders	(49)	(42)
	1,576	1,610

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

25. SHARE CAPITAL

	2002		2001	
	Number of Shares in Million	Amount	Number of Shares in Million	Amount
Authorized:				
Ordinary shares of HK\$0.50 each				
At beginning and end of year	2,900	1,450	2,900	1,450
Issued and fully paid:				
Ordinary shares of HK\$0.50 each				
At beginning and end of year	2,401	1,201	2,401	1,201

26. SHARE OPTION SCHEME

Movements in share options to subscribe for ordinary shares in the Company during the year are as follows:

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options			
			At Beginning of Year	Granted During the Year	Lapsed During the Year	At end of Year
15th February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	–	–	810,000
16th July 2001	HK\$70	16.7.2002 to 15.7.2006	–	2,121,000	–	2,121,000
			810,000	2,121,000	–	2,931,000

27. SHARE PREMIUM AND RESERVES

	2002		2001	
	The Group	The Company	The Group	The Company
Share premium				
At beginning of year and end of year	17,000	17,000	17,000	17,000
Capital reserve				
At beginning of year	627	5,281	664	5,281
Goodwill on purchase of additional interest in subsidiaries	–	–	(94)	–
Net reserve on acquisition of subsidiaries	–	–	93	–
Goodwill on acquisition of associates	–	–	(36)	–
Goodwill adjustments	67	–	–	–
At end of year	694	5,281	627	5,281

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

27. Share Premium And Reserves (Cont'd)

	2002		2001	
	The Group	The Company	The Group	The Company
Property revaluation reserves				
At beginning of year	50,482	–	49,955	–
Surplus/(deficit) on revaluation of properties held by subsidiaries attributable to the Group				
– Investment properties	(4,158)	–	668	–
– Hotel properties	350	–	233	–
Surplus realized on disposal of investment properties held by subsidiaries	(72)	–	(278)	–
Share of deficit on revaluation of investment properties held by jointly controlled entities	(798)	–	(96)	–
Share of surplus on revaluation of investment properties held by associates	4	–	–	–
At end of year	45,808	–	50,482	–
Exchange reserve				
At beginning of year	7	–	(4)	–
Exchange difference arising on translation of financial statements of				
– Subsidiaries	(2)	–	6	–
– Associates	–	–	1	–
– Jointly controlled entities	2	–	4	–
At end of year	7	–	7	–
Retained profits				
At beginning of year	56,690	56,378	52,088	51,681
Goodwill adjustments	–	–	(6)	–
Profit attributable to shareholders	8,519	6,719	8,330	8,419
Interim dividend paid	(1,321)	(1,321)	(1,321)	(1,321)
Proposed final dividend	(2,401)	(2,401)	(2,401)	(2,401)
Proposed special cash dividend	(1,441)	(1,441)	–	–
At end of year	60,046	57,934	56,690	56,378
Total share premium and reserves	123,555	80,215	124,806	78,659

At the balance sheet date, retained profits of the Group included HK\$1,473 million (2001: HK\$1,030 million) retained by associates and losses of HK\$1,036 million (2001: profits of HK\$83 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30th June 2002 including the proposed dividends amounted to HK\$61,776 million (2001: HK\$58,779 million).

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in millions of Hong Kong dollars)

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2002	2001
Profit from operations	8,615	8,329
Depreciation	251	223
Profit on disposal of investment properties	(59)	(289)
Loss on disposal of other fixed assets	67	3
Profit on disposal of associates and jointly controlled entities	(19)	–
Dividends received from investments	(63)	(77)
Interest income	(216)	(242)
Provision for restructuring costs	(131)	–
Provision for diminution in value of land pending development	140	–
Provision for diminution in value of a long-term investment	–	9
Decrease in stocks	6,134	520
Decrease/(increase) in trade and other receivables	(3,010)	225
Decrease in marketable securities	35	712
Decrease in trade and other payables	(511)	(574)
Increase/(decrease) in deposits received on sale of properties	(3,513)	3,344
Net cash inflow from operating activities	7,720	12,183

(b) Purchase of subsidiaries

	2002	2001
Net assets acquired:		
Fixed assets	6	1,105
Associates	–	3
Jointly controlled entities	–	45
Trade and other receivables	11	13
Bank balances and deposits	14	57
Trade and other payables	(15)	(291)
Bank borrowings	–	(464)
Minority interests	(5)	(155)
	11	313
Less:		
Associates	–	(2)
Jointly controlled entities	(6)	(103)
	5	208
Net reserve on acquisition	–	(93)
	5	115
Satisfied by:		
Cash paid	5	115

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

28. Notes to Consolidated Cash Flow Statement (Cont'd)**(b) Purchase of subsidiaries (cont'd)**

	2002	2001
Analysis of net cash outflow/(inflow) of cash and cash equivalents in respect of the purchase of subsidiaries:		
Cash consideration paid	5	115
Bank balances and deposits acquired	(14)	(57)
	(9)	58

(c) Analysis of changes in financing during the year

	Share capital and share premium	Bank and other borrowings	Minority interests	Total
At 1st July 2000	18,201	28,329	1,611	48,141
Net cash inflow/(outflow) from financing	–	146	(148)	(2)
Arising on purchase of subsidiaries	–	464	155	619
Minority interests in				
– profits	–	–	10	10
– investment property revaluation reserve	–	–	16	16
Dividends paid to minority shareholders	–	–	(48)	(48)
Effect of purchase of additional interest in subsidiaries	–	–	14	14
At 30th June 2001 and 1st July 2001	18,201	28,939	1,610	48,750
Net cash inflow/(outflow) from financing	–	(652)	57	(595)
Acquisition of subsidiaries	–	–	5	5
Minority interests in				
– profits	–	–	(64)	(64)
– investment property revaluation reserve	–	–	5	5
Dividends paid to minority shareholders	–	–	(18)	(18)
Effect of purchase of additional interest in a subsidiary	–	–	(19)	(19)
At 30th June 2002	18,201	28,287	1,576	48,064

(d) Analysis of the balances of cash and cash equivalents at end of year

	2002	2001
Short-term bank deposits	8,035	8,736
Bank balances and cash	237	325
Bank overdrafts	(42)	(53)
	8,230	9,008

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

29. JOINTLY CONTROLLED ASSETS

At the date of the balance sheet, the aggregate amounts of assets and liabilities recognized in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2002	2001
Investment properties	5,250	5,980
Land pending development	71	71
Land under development	2,672	1,889
Stocks of completed properties	58	58
	8,051	7,998
Creditors and accrued expenses	97	93

30. RELATED PARTY TRANSACTIONS

During the year, the Group undertook various transactions with related parties for provision of finance, lease of premises, purchasing of goods and rendering of certain services related to property construction, management and marketing activities. The following is a summary of significant transactions between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates		Jointly Controlled Entities	
	2002	2001	2002	2001
Interest income	59	131	143	357
Rental income	60	76	1	4
Other revenue from services rendered	135	63	812	1,051
Purchase of goods and services	–	–	438	442

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in Notes (14) and (15).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

31. CONTINGENT LIABILITIES AND COMMITMENTS**The Group**

At the date of the balance sheet, the Group had contingent liabilities and commitments, so far as not provided for in the consolidated financial statements, as follows:

	2002	2001
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	1,592	1,685
Authorized but not contracted for	206	363
(b) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	2,332	3,629
Authorized but not contracted for	235	156
(c) Guarantees given to banks and financial institutions in respect of facilities drawn by jointly controlled entities amounting to approximately HK\$3,789 million (2001: an associate of HK\$1,046 million and jointly controlled entities of HK\$6,652 million).		

The Company

At the date of the balance sheet, the Company had contingent liabilities, not included in the Company's financial statements, in respect of guarantees for bank and other borrowings drawn by:

	2002	2001
Subsidiaries	28,209	28,849
Associate	–	1,046
Jointly controlled entities	3,622	6,575
	31,831	36,470

32. OPERATING LEASE

At the balance sheet date, the future aggregate minimum lease income receivable by the Group under non-cancellable operating leases for land and buildings is analysed as follows:

	2002	2001
Not later than one year	3,622	3,778
Later than one year but not later than five years	3,314	3,309
Later than five years	77	84
	7,013	7,171

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

33. FINANCIAL INSTRUMENTS

Details of the Group's outstanding interest rate swaps and currency swaps at balance sheet date are as follows:

	Notional Principal Amount	
	2002	2001
Interest rate swaps		
– Less than one year	300	675
– One to five years	1,950	1,700
– After five years	800	1,250
	3,050	3,625
Currency swaps		
– After five years	234	234

Counterparties to swap transactions are reputable international financial institutions with strong credit ratings. The Group has established treasury policies and control procedures to assess and monitor the counterparty limits and exposure. The Group does not consider that it has any significant exposure to any individual counterparty, nor does it anticipate non-performance by any of its counterparties.

34. COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of adoption of the requirements of SSAP 9 (Revised) "Events after the Balance Sheet Date", SSAP 26 "Segment Reporting", details of which are set out in Note 1.

The adoption of SSAP 30 "Business Combination" has no material effect on the Group's net assets or profit attributable to shareholders for prior years and therefore no restatement is made for comparative figures.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 102 to 140 were approved by the board of directors on 26th September 2002.