

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 31st December, 2002*

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June, 2002, except as described below.

In the current period, the Group adopted, for the first time, the following new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### **Foreign Currencies**

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group’s exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

### **Cash Flow Statements**

In the current period, the Group adopted SSAP 15 (Revised) “Cash flow statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of subsidiaries outside Hong Kong have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents has had no significant effect on the disclosures for the current or prior accounting periods.

### **Employee Benefits**

In the current period, the Group adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 3. SEGMENT INFORMATION

#### Business segments

For management purposes, the Group is organised into five operating divisions – property, security, financing, hotel and building management and services. These operating divisions are the basis on which the Group reports its primary segment information as follows:

Six months ended 31st December, 2002

|                                 | Property<br>HK\$     | Security<br>HK\$     | Financing<br>HK\$ | Hotel<br>HK\$      | Building<br>management<br>and services<br>HK\$ | Elimination<br>HK\$ | Consolidated<br>HK\$ |
|---------------------------------|----------------------|----------------------|-------------------|--------------------|--|---------------------|----------------------|
| REVENUE                         |                      |                      |                   |                    |  |                     |                      |
| Turnover                        |                      |                      |                   |                    |  |                     |                      |
| Property rental                 | 420,122,208          | –                    | –                 | –                  | –  | –                   | 420,122,208          |
| Property sales                  | 2,188,060,651        | –                    | –                 | –                  | –  | –                   | 2,188,060,651        |
| Hotel operations                | –                    | –                    | –                 | 115,331,296        | –  | –                   | 115,331,296          |
| Management services             | 30,031,827           | –                    | –                 | –                  | 162,170,583                                    | –                   | 192,202,410          |
| Share investment<br>and dealing | –                    | 17,696,686           | –                 | –                  | –  | –                   | 17,696,686           |
| Financing                       | –                    | –                    | 65,685,192        | –                  | –  | –                   | 65,685,192           |
|                                 | 2,638,214,686        | 17,696,686           | 65,685,192        | 115,331,296        | 162,170,583                                    | –                   | 2,999,098,443        |
| Other operating income          | 6,287,425            | 3,640,433            | 105,674           | –                  | 14,816,364                                     | –                   | 24,849,896           |
| Inter-segment sales*            | –                    | –                    | –                 | –                  | 11,574,090                                     | (11,574,090)        | –                    |
| Total revenue                   | <u>2,644,502,111</u> | <u>21,337,119</u>    | <u>65,790,866</u> | <u>115,331,296</u> | <u>188,561,037</u>                             | <u>(11,574,090)</u> | <u>3,023,948,339</u> |
| SEGMENT RESULT                  | <u>631,870,857</u>   | <u>(240,749,554)</u> | <u>65,790,866</u> | <u>57,945,370</u>  | <u>87,753,968</u>                              | <u>–</u>            | <u>602,611,507</u>   |
| Unallocated corporate expenses  |                      |                      |                   |                    |  |                     | <u>(183,094,790)</u> |
| Profit from operations          |                      |                      |                   |                    |  |                     | <u>419,516,717</u>   |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 3. SEGMENT INFORMATION (Continued)

Six months ended 31st December, 2001

|                                 | Property<br>HK\$   | Security<br>HK\$     | Financing<br>HK\$ | Hotel<br>HK\$      | Building<br>management<br>and services<br>HK\$ | Elimination<br>HK\$ | Consolidated<br>HK\$ |
|---------------------------------|--------------------|----------------------|-------------------|--------------------|--|---------------------|----------------------|
| REVENUE                         |                    |                      |                   |                    |  |                     |                      |
| Turnover                        |                    |                      |                   |                    |  |                     |                      |
| Property rental                 | 415,048,985        | -                    | -                 | -                  | -  | -                   | 415,048,985          |
| Property sales                  | 501,312,607        | -                    | -                 | -                  | -  | -                   | 501,312,607          |
| Hotel operations                | -                  | -                    | -                 | 102,079,493        | -  | -                   | 102,079,493          |
| Management services             | 24,035,057         | -                    | -                 | -                  | 165,319,749                                    | -                   | 189,354,806          |
| Share investment and<br>dealing | -                  | 22,341,132           | -                 | -                  | -  | -                   | 22,341,132           |
| Financing                       | -                  | -                    | 3,060,439         | -                  | -  | -                   | 3,060,439            |
|                                 | <u>940,396,649</u> | <u>22,341,132</u>    | <u>3,060,439</u>  | <u>102,079,493</u> | <u>165,319,749</u>                             | <u>-</u>            | <u>1,233,197,462</u> |
| Other operating income          | 7,616,903          | 1,694,864            | 1,617,686         | -                  | 7,883,458                                      | -                   | 18,812,911           |
| Inter-segment sales*            | -                  | -                    | -                 | -                  | 9,156,615                                      | (9,156,615)         | -                    |
|                                 | <u>-</u>           | <u>-</u>             | <u>-</u>          | <u>-</u>           | <u>9,156,615</u>                               | <u>(9,156,615)</u>  | <u>-</u>             |
| Total revenue                   | <u>948,013,552</u> | <u>24,035,996</u>    | <u>4,678,125</u>  | <u>102,079,493</u> | <u>182,359,822</u>                             | <u>(9,156,615)</u>  | <u>1,252,010,373</u> |
| SEGMENT RESULT                  | <u>677,388,406</u> | <u>(259,213,378)</u> | <u>4,678,125</u>  | <u>46,322,987</u>  | <u>78,764,411</u>                              | <u>-</u>            | <u>547,940,551</u>   |
| Unallocated corporate expenses  |                    |                      |                   |                    |  |                     | <u>(179,558,919)</u> |
| Profit from operations          |                    |                      |                   |                    |  |                     | <u>368,381,632</u>   |

\* Inter-segment sales were charged on a percentage of costs incurred as agreed between both parties.

### 4. PROFIT FROM OPERATIONS

|  | Six months ended               |                                |
|--|--------------------------------|--------------------------------|
|  | 31st December,<br>2002<br>HK\$ | 31st December,<br>2001<br>HK\$ |
| Profit from operations has been arrived at after charging: |                                |                                |
| Cost of hotel inventories                                  | <b>11,678,185</b>              | 11,770,825                     |
| Depreciation   | <b>8,157,327</b>               | 6,847,303                      |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 5. FINANCE INCOME

|                                  | Six months ended               |                                |
|----------------------------------|--------------------------------|--------------------------------|
|                                  | 31st December,<br>2002<br>HK\$ | 31st December,<br>2001<br>HK\$ |
| Interest income on               |                                |                                |
| – advances to associates         | 33,676,465                     | 44,377,528                     |
| – advances to investee companies | 3,479,564                      | 3,537,410                      |
| – bank deposits                  | 20,075,134                     | 11,998,960                     |
|                                  | <u>57,231,163</u>              | <u>59,913,898</u>              |

### 6. FINANCE COSTS

|  | Six months ended               |                                |
|--|--------------------------------|--------------------------------|
|  | 31st December,<br>2002<br>HK\$ | 31st December,<br>2001<br>HK\$ |
| Interest on borrowings   | 211,474,170                    | 273,524,665                    |
| Provision for premium on redemption of convertible notes/bonds   | 8,423,671                      | 27,630,227                     |
| Amortisation of issue costs of convertible notes/bonds           | 3,787,405                      | 3,048,030                      |
| Loan facility arrangement fees and finance charges               | 10,420,490                     | 15,524,934                     |
|  | <u>234,105,736</u>             | <u>319,727,856</u>             |
| <i>Less:</i> Amounts capitalised to properties under development | <u>(18,514,299)</u>            | <u>(29,060,241)</u>            |
|  | <u>215,591,437</u>             | <u>290,667,615</u>             |

### 7. SHARE OF RESULTS OF ASSOCIATES

The share of results of associates includes amortisation of associates' goodwill of HK\$4,647,244 (six months ended 31st December, 2001: HK\$4,647,244) and release of associates' negative goodwill of HK\$2,564,199 (six months ended 31st December, 2001: Nil).

### 8. TAXATION

|   | Six months ended               |                                |
|---|--------------------------------|--------------------------------|
|   | 31st December,<br>2002<br>HK\$ | 31st December,<br>2001<br>HK\$ |
| Hong Kong Profits Tax:                                    |                                |                                |
| Taxation attributable to the Company and its subsidiaries | 60,713,560                     | 28,013,995                     |
| Share of taxation attributable to associates              | 4,595,978                      | 9,493,758                      |
|   | <u>65,309,538</u>              | <u>37,507,753</u>              |

Hong Kong Profits Tax is calculated at 16% or 17.5%, as appropriate (six months ended 31st December, 2001: 16%), of the estimated assessable profits for the period.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 9. DIVIDENDS

|   | Six months ended               |                                |
|---|--------------------------------|--------------------------------|
|   | 31st December,<br>2002<br>HK\$ | 31st December,<br>2001<br>HK\$ |
| Final dividend for the year ended 30th June, 2002<br>of HK2 cents (year ended 30th June, 2001 of HK2 cents)<br>with a scrip dividend option per share | <u>77,288,637</u>              | <u>76,821,664</u>              |

The Directors determined that an interim dividend for the six months ended 31st December, 2002 of HK2 cents (*six months ended 31st December, 2001: HK2 cents*) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 16th April, 2003.

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of HK\$157,797,243 (*six months ended 31st December, 2001: HK\$195,529,507*) and on the weighted average of 3,869,689,847 (*six months ended 31st December, 2001: 3,852,541,638*) ordinary shares in issue throughout the period.

No diluted earnings per share has been presented for both periods as the effect of the assumed conversion of the Company's outstanding convertible notes/bonds would result in an increase in earnings per share.

### 11. INVESTMENT PROPERTIES

During the six months ended 31st December, 2002, certain properties under development were transferred to investment properties amounting to HK\$167,937,960 (*six months ended 31st December, 2001: HK\$499,028,625*).

### 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2002, additions to property, plant and equipment amounted to HK\$5,120,042 (*six months ended 31st December, 2001: HK\$25,365,406*).

### 13. INTERESTS IN ASSOCIATES

|   | 31st December,<br>2002<br>HK\$ | 30th June,<br>2002<br>HK\$ |
|---|--------------------------------|----------------------------|
| Share of net assets                                       | 2,436,030,647                  | 2,563,270,441              |
| Goodwill  | 125,475,596                    | 130,122,840                |
| Negative goodwill   | (97,439,542)                   | (100,003,741)              |
| Advances to associates, less allowance for doubtful debts | <u>8,875,645,041</u>           | <u>9,219,884,594</u>       |
|   | <u>11,339,711,742</u>          | <u>11,813,274,134</u>      |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 13. INTERESTS IN ASSOCIATES (Continued)

The Inland Revenue Department (the “IRD”) initiated a tax inquiry for the years of assessment 1994/95 to 2001/02 on a wholly-owned subsidiary, Wide Harvest Investment Limited (“WHI”), of the Group’s associate, Million Success Limited (“MSL”). Notices of additional assessment in an amount of approximately HK\$406,000,000 were issued to WHI for the years under review and objections were properly lodged with the IRD by WHI. The effective share of the amount attributable to the Group as at 31st December, 2002 is estimated to be approximately HK\$102,000,000. As the tax inquiry is still at its preliminary stage of fact finding and the fact finding process is likely to continue for some time, the ultimate outcome of the tax inquiry, which may not be known for some years, cannot presently be determined by the management of WHI with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of WHI as at 31st December, 2002.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.

### 14. LOANS RECEIVABLE

The Group offers loans to buyers of properties sold by the Group and the repayment terms of the loans are specified in the respective loan agreements.

### 15. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are trade receivables of HK\$121,417,199 (30th June, 2002: HK\$110,246,363) comprising mainly of rental receivables which are billed in advance and settlement are expected upon receipt of billings.

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

|              | <b>31st December,</b> | 30th June,  |
|--------------|-----------------------|-------------|
|              | <b>2002</b>           | 2002        |
|              | <b>HK\$</b>           | <b>HK\$</b> |
| 0 – 30 days  | <b>68,637,808</b>     | 51,044,761  |
| 31 – 60 days | <b>12,386,182</b>     | 5,175,369   |
| 61 – 90 days | <b>4,369,647</b>      | 4,053,142   |
| Over 90 days | <b>36,023,562</b>     | 49,973,091  |
|              | <b>121,417,199</b>    | 110,246,363 |

Trade receivables over 90 days amounting to HK\$36,023,562 (30th June, 2002: HK\$49,973,091) are sufficiently covered by rental deposits received from the respective tenants and no provision is required for these receivables under the Group’s provision policy.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2002

### 16. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are trade payables of HK\$153,654,315 (30th June, 2002: HK\$102,519,775).

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

|              | <b>31st December,<br/>2002<br/>HK\$</b> | 30th June,<br>2002<br>HK\$ |
|--------------|---|----------------------------|
| 0 – 30 days  | <b>95,082,364</b>                       | 56,781,885                 |
| 31 – 60 days | <b>15,795,604</b>                       | 27,050,075                 |
| 61 – 90 days | <b>38,179,139</b>                       | 2,287,755                  |
| Over 90 days | <b>4,597,208</b>                        | 16,400,060                 |
|              | <b><u>153,654,315</u></b>               | <b><u>102,519,775</u></b>  |

### 17. CONTINGENCIES AND COMMITMENTS

At the balance sheet date, the Group had the following commitments and contingent liabilities not provided for in the financial statements:

|  | <b>31st December,<br/>2002<br/>HK\$</b> | 30th June,<br>2002<br>HK\$  |
|--|---|-----------------------------|
| (a) Commitments in respect of property development expenditure:                      |   |                             |
| Authorised but not contracted for  | <b>15,189,680</b>                       | 101,831,529                 |
| Contracted but not provided for  | <b>3,196,533,074</b>                    | 2,582,818,009               |
|  | <b><u>3,211,722,754</u></b>             | <b><u>2,684,649,538</u></b> |
| (b) Guarantees in respect of banking facilities and other liabilities of associates: |   |                             |
| Utilised   | <b>2,497,344,773</b>                    | 2,293,486,403               |
| Not utilised   | <b>1,228,503,561</b>                    | 955,964,667                 |
|  | <b><u>3,725,848,334</u></b>             | <b><u>3,249,451,070</u></b> |

(c) At 31st December, 2002 and 30th June, 2002, the Company and a wholly-owned subsidiary were parties to a legal claim and counterclaim in respect of the termination of a sale and purchase agreement dated 19th December, 1996 between the Company and the subsidiary and Hang Lung Development Company Limited and its subsidiary. In the opinion of the Directors, since these claim and counterclaim are being contested, likelihood of the conclusion of the case within a short period of time is remote at the present stage of the legal proceedings. Accordingly, no provision for contingency has been made.