

Notes to the Interim Financial Statements

(Expressed in millions of Hong Kong dollars)

1. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 30th June 2003, except for the change in accounting policy as described below.

In prior years, deferred tax liabilities were 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 were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt.

With effect from 1st July 2003, the Group has adopted the revised SSAP 12 "Income Taxes" to account for deferred tax. In accordance with the revised SSAP 12, deferred tax liabilities are provided in full, using the liability method, on all temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profits, while deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and the comparative figures have been restated accordingly. In adjusting prior year figures, the opening retained profits and property revaluation reserves as at 1st July 2003 have been reduced by HK\$1,002 million and HK\$68 million (2002: HK\$788 million and HK\$56 million) respectively which represented the unprovided net deferred tax liabilities for subsidiaries, jointly controlled and associated companies. In addition, this change in accounting policy has resulted in a decrease of HK\$87 million and HK\$77 million in the Group's profit attributable to shareholders for the six months ended 31st December 2003 and 31st December 2002 respectively. The effect of this change in accounting policy on the various other balance sheet items as at 30th June 2003 is set out in Note 6.

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

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2. 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 Six months ended 31st December		Profit from Operations before Finance Cost Six months ended 31st December	
	2003	2002	2003	2002
Property				
Property sales	3,019	8,889	534	1,477
Rental income	2,489	2,601	1,852	1,959
	5,508	11,490	2,386	3,436
Hotel operation	301	302	115	111
Telecommunications	1,549	–	243	–
Other businesses	1,345	1,782	288	270
	8,703	13,574	3,032	3,817
Other revenue			379	53
Unallocated administrative expenses			(249)	(248)
Profit from operations			3,162	3,622

Telecommunications represent revenue and profits derived from the provision of mobile telecommunications and related services by Smartone Telecommunications Holdings Limited which became the Group's subsidiary in January 2003 and the result before then was included in the Group's share of profits of associates.

Other businesses 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.

Other revenue includes mainly investment income from bonds and other investments.

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

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2. SEGMENT RESULTS (cont'd)

(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 Six months ended 31st December	
	2003	2002
Property		
Property sales	51	8
Rental income	123	146
	174	154
Telecommunications	-	69
Other businesses	276	385
Profit from operations	450	608
Finance cost	(94)	(136)
Profit before taxation	356	472

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

	Attributable Profit Six months ended 31st December	
	2003	2002
Property		
Property sales	585	1,485
Rental income	1,975	2,105
	2,560	3,590
Hotel operation	115	111
Telecommunications	243	69
Other businesses	564	655
Other revenue	379	53
Unallocated administrative expenses	(249)	(248)
Net finance cost – Group	(82)	(125)
– Associates and jointly controlled entities	(94)	(136)
Profit on disposal of long-term investments	39	321
Profit before taxation	3,475	4,290

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3. NET FINANCE COST

	Six months ended 31st December	
	2003	2002
Interest expenses on		
Bank loans and overdrafts	117	221
Other loans wholly repayable within five years	37	62
Other loans not wholly repayable within five years	17	29
	171	312
Less : Portion capitalized	(65)	(123)
	106	189
Interest income on bank deposits	(24)	(64)
	82	125

4. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS

	Six months ended 31st December	
	2003	2002
Profit on disposal of interests in jointly controlled entities	-	303
Profit on disposal of long-term investments	39	18
	39	321

5. PROFIT BEFORE TAXATION

	Six months ended 31st December	
	2003	2002
Profit before taxation is arrived at after charging/(crediting):		
Cost of properties sold	2,348	6,974
Depreciation	303	117
Dividend income from listed and unlisted investments	(34)	(4)
Interest income from listed and unlisted debt securities	(192)	(108)
Net realized and unrealized holding gains/losses on marketable securities	(92)	47

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6. TAXATION

	Six months ended 31st December	
	2003	2002
Company and subsidiaries		
Hong Kong profits tax	327	512
Deferred taxation	86	58
	413	570
Share of taxation		
Associates	43	41
Jointly controlled entities	35	22
	491	633

Hong Kong profits tax is provided at the rate of 17.5 per cent (2002: 17.5 per cent) based on the estimated assessable profits for the period.

The change in accounting policy in accordance with revised SSAP 12 "Income Taxes" has been applied retrospectively and the comparatives have been restated. The adjustments to the balance sheet at 30th June 2003 are as follows:

Decrease in associates	(194)
Decrease in jointly controlled entities	(9)
Increase in deferred tax liabilities	(914)
Decrease in minority interests	47
Decrease in reserves	<u>(1,070)</u>

7. EARNINGS PER SHARE

The calculation of earnings per share is based on HK\$2,840 million (2002: HK\$3,663 million) being profit attributable to shareholders and on 2,401 million shares (2002: 2,401 million shares) in issue during the period.

No diluted earnings per share is presented for the six months ended 31st December 2003 and 2002 as the exercises of all the share options outstanding during the periods have no dilutive effect on the earnings per share.

8. FIXED ASSETS

During the period, additions to fixed assets amounted to HK\$717 million and net book value of fixed assets disposed amounted to HK\$132 million.

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9. LONG-TERM INVESTMENTS

	31st December 2003	30th June 2003
Listed held-to-maturity debt securities, overseas	4,849	3,157
Listed held-to-maturity debt securities, Hong Kong	96	–
Unlisted held-to-maturity debt securities	1,246	950
Listed equity securities, overseas	158	156
Listed equity securities, Hong Kong	785	306
Unlisted equity securities	475	373
	7,609	4,942
Amounts due from investee companies	41	41
Amounts due to investee companies	(8)	(13)
	7,642	4,970
Market value		
Listed overseas	5,518	3,843
Listed in Hong Kong	868	277
	6,386	4,120

10. TRADE AND OTHER RECEIVABLES

Consideration in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent 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 are trade debtors of HK\$1,202 million (30th June 2003: HK\$1,485 million), of which 69 per cent aged less than 60 days, six per cent between 61 to 90 days and 25 per cent more than 90 days (30th June 2003: 85 per cent, five per cent and ten per cent respectively).

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors of HK\$714 million (30th June 2003: HK\$652 million), of which 57 per cent aged less than 60 days, six per cent between 61 to 90 days and 37 per cent more than 90 days (30th June 2003: 40 per cent, six per cent and 54 per cent respectively).

12. SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

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13. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions during the period between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates Six months ended 31st December		Jointly controlled entities Six months ended 31st December	
	2003	2002	2003	2002
Interest income	3	12	33	51
Rental income	2	33	1	1
Rental Expenses	-	-	7	-
Other revenue from services rendered	19	20	163	600
Purchase of goods and services	-	-	89	275

14. CONTINGENT LIABILITIES AND COMMITMENTS

The Group had contingent liabilities and commitments, so far as not provided for in the consolidated financial statements, as follows :

	31st December 2003	30th June 2003
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	974	1,426
Authorized but not contracted for	17	437
(b) Capital commitments in respect of investments		
Contracted but not provided for	144	152
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	1,006	1,097
Authorized but not contracted for	278	312
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$3,652 million (30th June 2003: HK\$3,819 million) and other guarantees of HK\$152 million (30th June 2003: HK\$202 million).		

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15. FINANCIAL INSTRUMENTS

Details of the Group's outstanding interest rate swaps (to swap into floating rate debt) and currency swaps (to hedge principal repayment of USD debt) at balance sheet date are as follows :

	Notional Principal Amount	
	31st December 2003	30th June 2003
Interest rate swaps		
- Less than 1 year	1,100	600
- 1 to 5 years	1,250	1,650
- After 5 years	400	800
	2,750	3,050
Currency swaps		
- After 5 years	234	234