

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December, 2004

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 Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public 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, 2004.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently 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:

Six months ended 31st December, 2004

	Property HK\$	Security HK\$	Financing HK\$	Hotel HK\$	Building management and services HK\$	Elimination HK\$	Consolidated HK\$
REVENUE							
Turnover							
Property rental	423,730,637	-	-	-	-	-	423,730,637
Property sales	2,150,444,412	-	-	-	-	-	2,150,444,412
Hotel operations	-	-	-	144,068,699	-	-	144,068,699
Management services	32,924,817	-	-	-	175,915,837	-	208,840,654
Share investment and dealing	-	21,663,512	-	-	-	-	21,663,512
Financing	-	-	13,490,540	-	-	-	13,490,540
	<u>2,607,099,866</u>	<u>21,663,512</u>	<u>13,490,540</u>	<u>144,068,699</u>	<u>175,915,837</u>	-	<u>2,962,238,454</u>
Other operating income	8,283,595	53,293	676,693	-	8,249,918	-	17,263,499
Inter-segment sales*	-	-	-	-	7,227,668	(7,227,668)	-
Total revenue	<u>2,615,383,461</u>	<u>21,716,805</u>	<u>14,167,233</u>	<u>144,068,699</u>	<u>191,393,423</u>	<u>(7,227,668)</u>	<u>2,979,501,953</u>
SEGMENT RESULT	<u>1,092,829,447</u>	<u>161,403,597</u>	<u>14,167,233</u>	<u>70,907,980</u>	<u>75,049,076</u>	-	<u>1,414,357,333</u>
Unallocated corporate expenses							<u>(207,937,195)</u>
Profit from operations							<u>1,206,420,138</u>

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3. SEGMENT INFORMATION (continued)

Business segments (continued)

Six months ended 31st December, 2003

	Property HK\$	Security HK\$	Financing HK\$	Hotel HK\$	Building management and services HK\$	Elimination HK\$	Consolidated HK\$
REVENUE							
Turnover							
Property rental	415,246,219	-	-	-	-	-	415,246,219
Property sales	2,594,720,610	-	-	-	-	-	2,594,720,610
Hotel operations	-	-	-	129,511,422	-	-	129,511,422
Management services	32,684,285	-	-	-	173,656,186	-	206,340,471
Share investment and dealing	-	20,452,698	-	-	-	-	20,452,698
Financing	-	-	30,121,897	-	-	-	30,121,897
	<u>3,042,651,114</u>	<u>20,452,698</u>	<u>30,121,897</u>	<u>129,511,422</u>	<u>173,656,186</u>	<u>-</u>	<u>3,396,393,317</u>
Other operating income	10,713,401	1,738,014	1,835,603	-	4,750,328	-	19,037,346
Inter-segment sales*	-	-	-	-	12,410,949	(12,410,949)	-
	<u>3,053,364,515</u>	<u>22,190,712</u>	<u>31,957,500</u>	<u>129,511,422</u>	<u>190,817,463</u>	<u>(12,410,949)</u>	<u>3,415,430,663</u>
Total revenue							
SEGMENT RESULT	<u>822,452,773</u>	<u>118,047,378</u>	<u>31,957,500</u>	<u>62,637,270</u>	<u>78,279,792</u>	<u>-</u>	<u>1,113,374,713</u>
Unallocated corporate expenses							<u>(173,582,017)</u>
Profit from operations							<u>939,792,696</u>

* Inter-segment sales were charged at cost plus margin basis as agreed between both parties.

4. PROFIT FROM OPERATIONS

	Six months ended	
	31st December, 2004 HK\$	31st December, 2003 HK\$
Profit from operations has been arrived at after charging:		
Cost of hotel inventories	13,419,165	11,994,412
Depreciation	9,137,837	8,023,390

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For the six months ended 31st December, 2004

5. FINANCE INCOME

	Six months ended	
	31st December, 2004 HK\$	31st December, 2003 HK\$
Interest income on:		
advances to associates	22,355,066	30,073,491
advances to investee companies	3,416,640	3,450,391
bank deposits	5,246,015	13,599,037
	<u>31,017,721</u>	<u>47,122,919</u>

6. FINANCE COSTS

	Six months ended	
	31st December, 2004 HK\$	31st December, 2003 HK\$
Interests on borrowings	85,540,078	116,446,927
Provision for premium on redemption of convertible notes	–	8,423,671
Amortisation of issue costs of convertible bonds/notes	795,028	3,787,405
Loan facility arrangement fees and finance charges	5,112,121	13,853,811
	<u>91,447,227</u>	<u>142,511,814</u>
<i>Less:</i> Amount capitalised to properties under development	<u>(22,327,828)</u>	<u>(31,536,930)</u>
	<u>69,119,399</u>	<u>110,974,884</u>

7. RESULTS ATTRIBUTABLE TO ASSOCIATES

Results attributable to associates include amortisation of goodwill arising on acquisition of associates of HK\$6,477,214 (*six months ended 31st December, 2003: HK\$6,477,214*) and release of negative goodwill arising on acquisition of an associate of HK\$2,564,199 (*six months ended 31st December, 2003: HK\$2,564,199*).

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For the six months ended 31st December, 2004

8. INCOME TAX EXPENSE

	Six months ended	
	31st December,	31st December,
	2004	2003
	HK\$	HK\$
The charge comprises:		
Taxation attributable to the Company and its subsidiaries		
Hong Kong Profits Tax	129,987,694	82,057,376
Other jurisdictions	9,877,100	–
Deferred taxation	2,240,309	(3,387,207)
	142,105,103	78,670,169
Share of taxation attributable to associates		
Hong Kong Profits Tax	100,513,301	9,843,764
Deferred taxation	2,879,028	1,160,741
	103,392,329	11,004,505
	245,497,432	89,674,674

Hong Kong Profits Tax is calculated at 17.5% (six months ended 31st December, 2003: 17.5%) of the estimated assessable profits for the period.

Taxes on profits assessable in the People's Republic of China and elsewhere have been calculated at rates of taxation prevailing in the country and the regions in which the Group operates.

The Inland Revenue Department ("IRD") initiated tax inquiries for the years of assessment 1995/96, 1996/97 and 1997/98, on a wholly-owned subsidiary, Sing-Ho Finance Company Limited ("Sing-Ho Finance"). Notices of assessment for additional tax in an aggregate sum of approximately HK\$165,514,000 were issued to Sing-Ho Finance for the years under review and objections were lodged with the IRD by Sing-Ho Finance. The IRD also initiated a tax inquiry for the years of assessment 1998/99 to 2001/02 on another wholly-owned subsidiary, City Empire Limited ("City Empire"). Notices of assessment for additional tax of approximately HK\$263,438,000 were issued to City Empire for the years under review and objections were lodged with the IRD by City Empire. In the opinion of the Directors, in view of the tax inquiries are still at the stage of collation of evidence, the ultimate outcome of these tax inquiries cannot presently be determined with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made.

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For the six months ended 31st December, 2004

9. DIVIDEND

	Six months ended	
	31st December, 2004 HK\$	31st December, 2003 HK\$
Final dividend for the year ended 30th June, 2004 of HK7 cents (year ended 30th June, 2003: HK2 cents) with a scrip dividend option per share	301,421,608	77,726,686

The Directors determined that an interim dividend for the six months ended 31st December, 2004 of HK8.5 cents (six months ended 31st December, 2003: HK5 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 19th April, 2005.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	31st December, 2004 HK\$	31st December, 2003 HK\$
Earnings for the purpose of basic earnings per share	1,409,327,220	607,053,909
Effect of dilutive potential ordinary shares:		
Reduction of finance costs, net of tax	<u>2,979,167</u>	<u>30,279,447</u>
Earnings for the purpose of diluted earnings per share	<u>1,412,306,387</u>	<u>637,333,356</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,307,877,462	3,887,691,551
Effect of dilutive potential ordinary shares:		
Convertible bonds/notes	<u>47,130,906</u>	<u>375,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,355,008,368</u>	<u>4,262,691,551</u>

11. INVESTMENT PROPERTIES

During the six months ended 31st December, 2004, certain properties under development were transferred to investment properties amounting to HK\$111,861,403 (six months ended 31st December, 2003: HK\$151,184,995).

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For the six months ended 31st December, 2004

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2004, additions to property, plant and equipment amounted to HK\$9,590,383 (six months ended 31st December, 2003: HK\$4,338,765).

13. INTERESTS IN ASSOCIATES

	31st December, 2004 HK\$	30th June, 2004 HK\$
Share of net assets	3,047,931,180	2,517,969,742
Goodwill	148,975,930	155,453,144
Negative goodwill	(87,182,747)	(89,746,946)
	3,109,724,363	2,583,675,940
Advances to associates, less allowances	7,842,049,313	7,883,811,545
	10,951,773,676	10,467,487,485

The IRD initiated tax inquiries for the years of assessment 1994/95 to 2002/03 on a wholly-owned subsidiary, Wide Harvest Investment Limited (“WHI”), of one of the Group’s associates, Million Success Limited (“MSL”), and for the years of assessment 1994/95 to 1997/98 on a wholly-owned subsidiary, Murdoch Investments Inc. (“MII”), of one of the Group’s associates, Erleigh Investment Limited. Notices of assessment for additional tax in the aggregate amounts of approximately HK\$396,088,000 and HK\$37,759,000 were issued to WHI and MII for the years under review, respectively, and objections were lodged with the IRD by WHI and MII. The effective share of the amount attributable to the Group as at 31st December, 2004 is estimated to be approximately HK\$99,022,000 and HK\$16,992,000, respectively. In view of the tax inquiries are still at the stage of collation of evidence, the management of WHI and of MII are of the opinion that the ultimate outcome of the tax inquiries cannot presently be determined 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 and of MII.

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 of the loans is specified in the respective loan agreements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2004

15. ACCOUNTS AND OTHER RECEIVABLES

Included in accounts and other receivables are trade receivables of HK\$90,270,178 (30th June, 2004: HK\$97,659,576) mainly comprising rental receivables, which are billed in advance and settlement are expected upon receipt of billings, and sales proceeds receivables.

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

	31st December, 2004 HK\$	30th June, 2004 HK\$
0 – 30 days	35,768,630	46,899,315
31 – 60 days	11,348,200	5,607,267
61 – 90 days	4,653,359	5,531,392
Over 90 days	38,499,989	39,621,602
	<u>90,270,178</u>	<u>97,659,576</u>

Trade receivables over 90 days amounting to HK\$38,499,989 (30th June, 2004: HK\$39,621,602) are sufficiently covered by rental deposits received from the respective tenants and no allowance is required for these receivables under the Group's allowance policy.

16. ACCOUNTS AND OTHER PAYABLES

Included in accounts and other payables are trade payables of HK\$109,483,790 (30th June, 2004: HK\$54,121,726).

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

	31st December, 2004 HK\$	30th June, 2004 HK\$
0 – 30 days	100,183,492	48,246,869
31 – 60 days	4,739,673	1,419,455
61 – 90 days	149,562	336,045
Over 90 days	4,411,063	4,119,357
	<u>109,483,790</u>	<u>54,121,726</u>

17. BORROWINGS

During the six months ended 31st December, 2004, the Group issued HK\$2,500,000,000 1.625% guaranteed convertible bonds due in 2009 (the "Bonds"). The Bonds carry a right to convert at any time from 30th December, 2004 to 30th October, 2009 into ordinary shares of the Company at an initial conversion price of HK\$9.225 per share (subject to adjustment).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

For the six months ended 31st December, 2004

18. PLEDGE OF ASSETS

- (a) At 31st December, 2004, the aggregate facilities of bank loans, overdrafts and other loans amounting to HK\$13,895,431,012 (30th June, 2004: HK\$11,918,419,585) were secured by certain of the Group's listed investments, properties, bank deposits and bank balances. At that date, the facilities were utilised to the extent of HK\$6,708,291,262 (30th June, 2004: HK\$5,849,473,585).
- (b) At 31st December, 2004, investments and the benefits in the advances to certain associates were pledged or assigned to secure loan facilities made available by banks or financial institutions to such associates. The Group's attributable portion of these facilities amounted to HK\$2,801,721,667 (30th June, 2004: HK\$2,699,860,049), of which HK\$2,441,961,578 (30th June, 2004: HK\$2,537,624,606) were utilised by the associates and guaranteed by the Company.

19. COMMITMENTS AND CONTINGENT LIABILITIES

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

	31st December, 2004 HK\$	30th June, 2004 HK\$
(a) Commitments in respect of property development expenditure:		
Authorised but not contracted for	111,089,814	46,056,752
Contracted but not provided for	2,359,982,195	2,760,051,382
	<u>2,471,072,009</u>	<u>2,806,108,134</u>
(b) Guarantees in respect of banking facilities and other liabilities of associates:		
Utilised	2,441,961,578	2,537,624,606
Not utilised	362,265,089	164,740,443
	<u>2,804,226,667</u>	<u>2,702,365,049</u>
(c) On 19th December, 1996, the Company and its wholly-owned subsidiary, Mariner International Hotels Limited (collectively referred to as "Mariner"), entered into an agreement (the "Agreement") with Hang Lung Development Company Limited and its subsidiary, Atlas Limited (collectively referred to as "Hang Lung") to acquire a company which owned a property in Yau Kom Tau, Tsuen Wan, New Territories, which was to be developed into a hotel. The total consideration payable by Mariner for the purchase was HK\$1,070,000,000, in respect of which a deposit and part payments in the total sum of HK\$321,000,000 were paid by Mariner to Hang Lung pursuant to the Agreement. On 30th June, 1998, Mariner terminated the Agreement. This termination gave rise to litigation between Mariner and Hang Lung. There has been a trial of the issue of which party repudiated the Agreement. On this issue the trial judge gave judgment for Hang Lung on the 2nd day of August, 2004.		

On legal advice Mariner lodged an appeal against the judgment. The appeal will be heard in November 2005. On the basis of the uncertainty of the outcome of the pending appeal, the Directors are of the opinion that no provision in respect of the deposit and other liabilities is required for the six month period ended 31st December, 2004.