

Notes To The Accounts

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of Henderson China Holdings Limited and all of its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

Goodwill arising on consolidation represents the excess of the cost of investments in subsidiaries over the fair value of the net tangible assets at the respective dates of acquisition. Goodwill is written off on acquisition. The excess of the fair value of the net tangible assets of subsidiaries over the cost of investments is credited to capital reserve. On disposal of a subsidiary, the attributable amount of capital reserve is included in calculating the profit or loss on disposal.

(d) Interest in 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 in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

An associate is a company in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

On disposal of an associate during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Notes To The Accounts (cont'd)

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Other investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:—

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:—
 - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by a qualified valuer of the Group and at least every three years by external qualified valuers; and
 - land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation.
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:—
 - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of asset and are recognised in the profit and loss account on the date of retirement or disposal.

(h) Properties held for and under development

Properties held for and under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

Notes To The Accounts (cont'd)

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(i) Completed properties for sale**

Completed properties for sale remaining unsold at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(j) Development expenditure

Construction and other costs, including borrowing costs and expenses relating to the marketing and sale of development properties prior to the issuance of a completion certificate by the relevant government authorities, are included as part of properties held for/under development. Interest payable on loans relating to properties held for/under development is capitalised up to the date of completion of the properties.

(k) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:—

(i) Sale of properties

Revenue arising from the development of properties for sale together with the interest earned on instalment sale of properties are recognised upon the sale of properties or the issuance of the completion certificate by the relevant government authorities, whichever is later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under debtors, prepayment and deposits.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest earned on loans and advances to customers and investee company and bank deposits are accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

(iv) Management and sales commission

Management and sales commission is recognised as the relevant services are rendered.

(v) Guaranteed return on investment

Guaranteed return on investment is recognised on a straight-line basis over the construction period of the relevant development project on the total development costs incurred and at the applicable rate of return.

(l) Depreciation**(i) Investment properties**

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

(ii) Properties held for and under development

No depreciation is provided on properties held for and under development.

(iii) Land and buildings held for own use

Land and buildings held for own use are depreciated on a straight-line basis over the remaining terms of the respective leases or 40 years if shorter.

(iv) Other fixed assets

Other fixed assets are stated at cost, less depreciation. Depreciation is provided on a straight-line basis over their estimated useful lives as follows:—

Leasehold improvements, furniture, fixtures and office equipment	—	5 years
Motor vehicles and yacht	—	4 to 5 years

Notes To The Accounts (cont'd)

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Translation of foreign currencies

Foreign currency transactions, inclusive of those entered into by the Company's subsidiaries and associates established outside Hong Kong, the operations and cash flows of which have a direct impact upon those of the Company, during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The accounts of other subsidiaries and associates expressed in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising thereon are dealt with as a movement in reserves.

(n) Operating leases

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

(i) Assets held for use in operating leases

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

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(o) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

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

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to construction which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) Retirement costs

The Group operates a defined contribution scheme and a Mandatory Provident Fund Scheme (the "MPF Scheme"). The regular cost of providing retirement benefits of the defined contribution scheme is charged to the profit and loss account at 4% or 6% of the eligible employees' basic salaries depending on the length of services. For the MPF Scheme, in addition to the minimum benefits set out in the MPF Ordinance, the Group provides certain voluntary top-up benefits to the employees. The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its employees of the subsidiaries in the PRC. The Group contributes a certain percentage of the employees' payroll to fund the benefits.

(r) Related parties

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

Notes To The Accounts (cont'd)

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are primarily property development and investment, project management, property management, finance and investment holding in the PRC.

(a) Turnover represents proceeds from the sale of properties, rental and interest income, management and sales commission, and guaranteed return on investment. The amount of each significant category of revenue included in turnover during the year is as follows:—

	2001 HK\$'000	2000 HK\$'000
Sale of properties	268,571	104,778
Rental income	66,156	65,330
Interest income	103,833	134,694
Management and sales commissions	31,173	33,798
Guaranteed return on investment	13,516	17,440
	<u>483,249</u>	<u>356,040</u>

(b) The analysis of contribution to profit from operations less finance costs is as follows:—

	2001 HK\$'000	2000 HK\$'000
Sale of properties	50,463	23,747
Rental income	64,852	63,390
Interest income	103,833	134,694
Management and sales commissions	31,173	31,835
Guaranteed return on investment	13,516	17,440
	<u>263,837</u>	<u>271,106</u>
Less: other expenses net of other income	23,135	17,925
	<u>240,702</u>	<u>253,181</u>

No geographical analysis of each segment is shown as less than 10% of the Group's turnover and profit from operations are outside the PRC.

3 OTHER NET INCOME

	2001 HK\$'000	2000 HK\$'000
Net loss on disposal of fixed assets	—	(6)
Exchange (loss) / gain	(1,302)	1,418
Write back of construction costs	66,170	44,000
Net loss on disposal of investment in associates	(4,461)	—
Others	17	—
	<u>60,424</u>	<u>45,412</u>

Notes To The Accounts (cont'd)

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging / (crediting):—

(a) Finance costs

	2001 HK\$'000	2000 HK\$'000
Bank interest	97,697	101,949
Interest on loans wholly repayable within five years	32,251	30,464
Other borrowing costs	200	1,953
Total borrowing costs	<u>130,148</u>	<u>134,366</u>
Less: Amount capitalised*	<u>124,209</u>	<u>125,992</u>
	<u>5,939</u>	<u>8,374</u>

* Borrowing costs have been capitalised at a rate of 6.54% (2000: 6.31%) per annum.

(b) Other items

	2001 HK\$'000	2000 HK\$'000
Staff costs (including retirement costs of HK\$1,675,000 (2000: HK\$1,753,000))	54,673	54,587
Less: Amount capitalised (including retirement costs of HK\$1,218,000 (2000: HK\$1,329,000))	<u>41,365</u>	<u>40,775</u>
	<u>13,308</u>	<u>13,812</u>
Provision for doubtful debts	<u>17,946</u>	<u>843</u>
Depreciation	3,653	4,724
Less: Amount capitalised	<u>2,784</u>	<u>3,429</u>
	<u>869</u>	<u>1,295</u>
Auditors' remuneration	<u>2,006</u>	<u>1,979</u>
Cost of completed properties for sale	<u>204,434</u>	<u>75,791</u>
Operating lease charges	1,775	3,496
Less: Amount capitalised	<u>1,504</u>	<u>2,876</u>
	<u>271</u>	<u>620</u>
Rental receivables net of outgoings HK\$1,304,000 (2000: HK\$1,940,000)	<u>(64,852)</u>	<u>(63,390)</u>

Notes To The Accounts (cont'd)

5 SHARE OF LOSSES LESS PROFITS OF ASSOCIATES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of losses less profits before taxation	61,209	103,703
Attributable taxation	6,425	1,741
	<u>67,634</u>	<u>105,444</u>

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax at 16% (2000: 16%) on the estimated assessable profits for the year	685	613
Overprovision of Hong Kong Profits Tax in respect of prior years	(1,922)	(1,973)
Taxation outside Hong Kong provided for at the applicable rates of taxation on the estimated assessable profits for the year arising in the relevant tax jurisdictions	18,598	1,221
Overprovision of taxation outside Hong Kong in respect of prior years	(21,202)	—
	<u>(3,841)</u>	<u>(139)</u>

(b) Taxation in the consolidated balance sheet represents:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	685	613
Provision for overseas tax for the year	18,598	1,221
Balance of profits tax provision relating to previous year	130,773	162,129
	<u>150,056</u>	<u>163,963</u>

(c) Deferred taxation

No provision for deferred taxation has been made in the accounts as the directors consider that no liability would be likely to arise as a result of the reversal of timing differences in the foreseeable future. The major components of potential deferred taxation assets not recognised are as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Depreciation in excess of related depreciation allowances	1,559	1,311
Unutilised tax losses	1,644	8,239
	<u>3,203</u>	<u>9,550</u>

Notes To The Accounts (cont'd)

6 TAXATION (cont'd)**(c) Deferred taxation** (cont'd)

No provision for deferred taxation has been made in respect of the revaluation surpluses arising on investment properties as pursuant to an indemnity deed dated 15th March, 1996, Henderson Land Development Company Limited ("Henderson Land") will indemnify the Group's share of the Land Appreciation Tax ("LAT") and PRC income tax arising on the disposal of such properties as set out in note 7.

7 TAX INDEMNITY

Tax indemnity represents indemnity receivable from an intermediate holding company, Henderson Land, pursuant to an indemnity deed dated 15th March, 1996 in respect of PRC income tax and LAT payable by the Group in consequence of the disposal by the Group of any of its property interests owned by the Group as at 31st December, 1995 ("Property Interests") insofar as such taxation is attributable to the difference between (i) the value attributed to the relevant Property Interests in the valuation of the Group's Property Interests by DTZ Debenham Tie Leung Limited (formerly C.Y. Leung & Company Limited) as at 31st December, 1995 ("the Valuation") and (ii) the aggregate of the attributable costs of such Property Interests incurred up to 31st December, 1995 and the attributable amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of such Property Interests, on the assumption that such Property Interests are disposed of at the value attributed to them in the Valuation and computed by reference to the current rates and legislation governing PRC income tax and LAT.

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$53,238,000 (2000: HK\$1,838,000) which has been dealt with in the accounts of the Company.

9 DIVIDENDS

	The Company	
	2001 HK\$'000	2000 HK\$'000
Interim dividend paid at HK\$0.06 (2000: HK\$0.06) per share	29,807	29,807
Final dividend proposed at HK\$0.06 (2000: HK\$0.10) per share	29,807	49,678
	<u>59,614</u>	<u>79,485</u>

10 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$167,716,000 (2000: HK\$146,210,000) and on the weighted average of 496,776,205 ordinary shares (2000: 496,776,205 ordinary shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year is not shown as the existence of outstanding options during the year ended 30th June, 2001 has an anti-dilutive effect on the calculation of diluted earnings per share for the year. There was no potential dilution of earnings per share during 2000.

Notes To The Accounts (cont'd)

11 FIXED ASSETS

The Group:—

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles and yacht HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Total HK\$'000
Cost or valuation:—							
At 1st July, 2000	8,737	8,829	23,535	25,178	66,279	2,166,000	2,232,279
Additions	—	8,588	1,015	—	9,603	69,475	79,078
Disposals	(555)	(23)	(28)	(28)	(634)	—	(634)
Deficit on revaluation	—	—	—	—	—	(69,475)	(69,475)
At 30th June, 2001	8,182	17,394	24,522	25,150	75,248	2,166,000	2,241,248
Representing:							
Cost	8,182	17,394	24,522	25,150	75,248	—	75,248
Valuation 2001	—	—	—	—	—	2,166,000	2,166,000
	8,182	17,394	24,522	25,150	75,248	2,166,000	2,241,248
Aggregate depreciation:—							
At 1st July, 2000	1,584	7,295	20,776	22,367	52,022	—	52,022
Charge for the year	185	474	1,090	1,904	3,653	—	3,653
Written back on disposal	(442)	(5)	(26)	(23)	(496)	—	(496)
At 30th June, 2001	1,327	7,764	21,840	24,248	55,179	—	55,179
Net book value:—							
At 30th June, 2001	6,855	9,630	2,682	902	20,069	2,166,000	2,186,069
At 30th June, 2000	7,153	1,534	2,759	2,811	14,257	2,166,000	2,180,257

The analysis of net book value of properties is as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Outside Hong Kong under long leases	4,144	4,247
under medium-term leases	2,168,711	2,168,906
	2,172,855	2,173,153

The Group's investment properties were revalued as at 30th June, 2001 by Mr. Augustine Wong, the Group's professional valuer who is an associate member of the Hong Kong Institute of Surveyors, on an open market value basis calculated on total rental income taking into account reversionary income potential.

The Group's share of LAT and PRC income tax arising on any disposal of such revalued investment properties are estimated at approximately HK\$21,254,000 (2000: HK\$36,886,000) and HK\$16,365,000 (2000: HK\$28,402,000) respectively. Pursuant to an indemnity deed dated 15th March, 1996, Henderson Land will indemnify the Group's share of the LAT and PRC income tax liabilities of HK\$21,254,000 (2000: HK\$36,886,000) and HK\$16,365,000 (2000: HK\$28,402,000) respectively (Note 7).

Notes To The Accounts (cont'd)

11 FIXED ASSETS (cont'd)

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$2,166,000,000 (2000: \$2,166,000,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:—

	2001 HK\$'000	2000 HK\$'000
Within 1 year	56,509	69,198
After 1 year but within 5 years	89,703	129,634
After 5 years	32,173	45,184
	<u>178,385</u>	<u>244,016</u>

12 INTEREST IN SUBSIDIARIES

	The Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	5,983,727	6,009,656
Less: Provision	(4,631)	—
	<u>5,979,097</u>	<u>6,009,657</u>
Amount due to subsidiaries	(9,582)	(9,527)
	<u>5,969,515</u>	<u>6,000,130</u>

Details of principal subsidiaries are shown on pages 59 to 63.

Notes To The Accounts (cont'd)

13 INTEREST IN ASSOCIATES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted investments				
Share of net (liabilities) / assets	(52,727)	56,896	—	—
Loans to associates	1,782,760	1,752,037	49	47
Loans from associates	(19,105)	(19,105)	—	—
	<u>1,710,928</u>	<u>1,789,828</u>	<u>49</u>	<u>47</u>

Details of principal associates are shown on page 64.

14 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Investment securities — equity securities		
Listed outside Hong Kong	20,314	16,042
Unlisted	53,461	54,174
Total	<u>73,775</u>	<u>70,216</u>
Market value of listed securities	<u>23,842</u>	<u>23,440</u>

15 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2001 HK\$'000	2000 HK\$'000
Outside Hong Kong in the PRC	<u>3,657,342</u>	<u>3,488,383</u>

Included in the balance at 30th June, 2001 are properties held for development carried at net realisable value of HK\$1,162,795,000 (2000: HK\$1,098,838,000) as estimated by the directors after taking into account a valuation report prepared by Debenham Tie Leung Limited dated 30th September, 2000 in respect of certain properties of the Group.

Notes To The Accounts (cont'd)

16 INSTALMENTS RECEIVABLE

- (a) This represents the principal content of instalments receivable from the sale of flats after twelve months from the balance sheet date. The amounts receivable within twelve months from the balance sheet date are included under current assets.
- (b) The ageing analysis of instalments receivable net of provision included under current assets is as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Not over 1 month	119,638	35,797
Over 1 month to 3 months	3,250	5,259
Over 3 months to 6 months	1,616	2,461
Over 6 months	49,383	39,909
	<u>173,887</u>	<u>83,426</u>

17 LOANS RECEIVABLE

	The Group	
	2001 HK\$'000	2000 HK\$'000
Amount due from investee company	—	391,147
Current portion included as current assets	294,314	—
	<u>294,314</u>	<u>391,147</u>

Amount due from investee company represents funds advanced by the Group pursuant to a financing arrangement for certain government-sponsored An-Ju housing projects in Tianjin, the PRC, under which the Group is entitled to a guaranteed fixed return.

18 DEBTORS, PREPAYMENT AND DEPOSITS

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

The ageing analysis of trade debtors is as follows:—

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Not over 1 month	56,335	52,231	—	—
Over 1 month to 3 months	3,890	6,296	—	—
Over 3 months to 6 months	6,863	1,761	—	—
Over 6 months	85,922	37,439	—	—
	<u>153,010</u>	<u>97,727</u>	<u>—</u>	<u>—</u>
Less: Provision for bad debts	(2,073)	(1,603)	—	—
	<u>150,937</u>	<u>96,124</u>	<u>—</u>	<u>—</u>
Prepayments, deposits and other receivable	440,734	395,852	129,412	125,064
	<u>591,671</u>	<u>491,976</u>	<u>129,412</u>	<u>125,064</u>

The above balances include HK\$429,314,000 (2000: HK\$347,655,000) which are not expected to be settled within one year.

Notes To The Accounts (cont'd)

19 BANK LOANS AND OVERDRAFTS

	The Group	
	2001 HK\$'000	2000 HK\$'000
At 30th June, 2001, the bank loans and overdrafts were repayable as follows:—		
Within 1 year or on demand	528,228	725,117
After 1 year but within 2 years	700,000	900,000
After 2 year but within 5 years	735,582	—
	<u>1,963,810</u>	<u>1,625,117</u>

The Group has unsecured banking facilities, amounting to HK\$4,614,844,000 (2000: HK\$3,621,747,000), of which HK\$1,963,810,000 (2000: HK\$1,625,117,000) were utilised at 30th June, 2001.

20 CREDITORS AND ACCRUED EXPENSES

Included in creditors and accrued expenses are trade creditors with the following ageing analysis:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Due within 1 month and on demand	12,642	—
Due after 1 month but within 3 months	69,200	443
Due after 3 months but within 6 months	64,191	1,470
Due after 6 months	217,930	202,744
	<u>363,963</u>	<u>204,657</u>
Rental and other deposits	18,218	19,333
Other payables	203,408	115,972
	<u>585,589</u>	<u>339,962</u>

The above balances include HK\$136,019,000 (2000: HK\$178,638,000) which are not expected to be settled within one year.

21 AMOUNTS DUE TO FELLOW SUBSIDIARIES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Amounts due to fellow subsidiaries	502,773	699,468

The amounts due to fellow subsidiaries are unsecured, will not be repayable within the next twelve months and are interest free with the exception of loans totalling HK\$282,594,000 (2000: HK\$482,729,000) which carrying interest at the prevailing Hong Kong Inter-bank Offer Rates.

Notes To The Accounts (cont'd)

22 SHARE CAPITAL

	Number of shares		Nominal value	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Authorised:—				
Ordinary shares of HK\$1.00 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:—				
Ordinary shares of HK\$1.00 each	<u>496,776</u>	<u>496,776</u>	<u>496,776</u>	<u>496,776</u>

Pursuant to a resolution passed at an extraordinary general meeting of the Company held on 15th March, 1996, a share option scheme was approved and adopted by the Company under which the directors are authorised to grant options to subscribe for shares of the Company (the "Shares") not exceeding in total 10% of the Company's issued share capital from time to time. Consideration of HK\$1.00 per grant of options is payable by each grantee.

The exercise price of the options is to be determined by the directors and will not be less than 80% of the average closing price of the Shares on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date of offer of such options or the nominal value of the Shares, whichever is the higher. The options are exercisable at any time within three years commencing on the expiry of six months after the date on which the options are accepted or 14th March, 2006, whichever is the earlier.

During the year, 5,000,000 options were granted to certain directors and employees of the Company at a consideration of HK\$1.00 per grant of options.

Details of options granted to subscribe for Shares of the Company during the year were as follows:—

Date of grant	Number of share options granted	Exercise price per share HK\$	Exercisable period — 3 years commencing on	Number of share options lapsed/ exercised	Number of share options outstanding at 30th June, 2001
12 December 2000	1,000,000	4.00	18 June 2001	1,000,000 (Note)	—
12 December 2000	1,000,000	4.00	28 June 2001	—	1,000,000
21 February 2001	1,500,000	4.00	21 August 2001	—	1,500,000
2 May 2001	1,500,000	4.00	2 November 2001	—	1,500,000

Note: These options were lapsed due to the resignation of the grantee.

During the year, no share options were exercised to subscribe for Shares of the Company.

Notes To The Accounts (cont'd)

23 CAPITAL RESERVES

	Reserve on consolidation HK\$'000	The Group Other reserve (Note) HK\$'000	Total HK\$'000
At 1st July, 1999	65,181	4,217	69,398
Transfer from profit and loss account (Note)	—	88	88
Capital reserve arising on consolidation	5,894	—	5,894
At 30th June, 2000	71,075	4,305	75,380
At 1st July, 2000	71,075	4,305	75,380
Transfer from profit and loss account (Note)	—	49	49
Capital reserve arising on consolidation	4	—	4
At 30th June, 2001	71,079	4,354	75,433

Note: According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, one of the Company's subsidiaries is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant subsidiary's registered capital.

24 INVESTMENT PROPERTY REVALUATION RESERVE

	The Group	
	2001 HK\$'000	2000 HK\$'000
Balance at 1st July	122,752	339,952
Revaluation deficit	(52,106)	(212,633)
Share of revaluation deficit of associates	—	(4,567)
Balance at 30th June	70,646	122,752

25 RETAINED PROFITS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Balance at 1st July	982,372	915,735
Retained profit for the year	108,053	66,637
Balance at 30th June	1,090,425	982,372
Retained by:—		
Company and subsidiaries	1,255,153	1,079,466
Associates	(164,728)	(97,094)
	1,090,425	982,372

Notes To The Accounts (cont'd)

26 MINORITY INTERESTS

Included in the minority interests are long term loans totalling HK\$439,545,000 (2000: HK\$372,619,000) from the minority shareholders and joint venture partners which are unsecured, will not be repayable within the next twelve months and bear interest either at an annual rate of US Dollar Prime Rate plus 1.5% or in accordance with terms specified in the respective joint venture agreements. Interest payable to the minority shareholders and joint venture partners amounted to HK\$2,188,000 (2000: HK\$2,201,000).

27 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2001 amounted to HK\$5,666,000 (2000: HK\$12,042,000).

28 COMMITMENTS

(a) At 30th June, 2001, the Group had commitments not provided for in these accounts as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Contracted for	2,809,495	3,247,983
Authorised but not contracted for	685,408	961,656
	<u>3,494,903</u>	<u>4,209,639</u>

Based on information available at the balance sheet date, the directors estimate that the Group's commitments disclosed above are payable as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	582,210	1,260,633
After 1 year but within 2 years	582,210	887,466
After 2 years	2,330,483	2,061,540
	<u>3,494,903</u>	<u>4,209,639</u>

The above commitments will be financed by the Group's existing banking facilities and operating cash flows.

(b) At 30th June, 2001, the Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	1,670	1,098
After 1 year but within 5 years	627	1,524
	<u>2,297</u>	<u>2,622</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Notes To The Accounts (cont'd)

29 CONTINGENT LIABILITIES

At 30th June, 2001, contingent liabilities of the Group and of the Company were as follows:—

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions in respect of financing provided to purchasers of flats	145,137	123,513	—	—
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	—	—	1,463,322	874,123
	<u>145,137</u>	<u>123,513</u>	<u>1,463,322</u>	<u>874,123</u>

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with fellow subsidiaries

Details of material related party transactions between the Group and Henderson Land and its subsidiaries other than the Group (the "Henderson Land Group") and subsidiaries of Henderson Development Limited (the "Henderson Development companies") are as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Interest expenses (Note i)	(32,252)	(30,463)
Accounting fees (Note ii)	(2,000)	(2,000)
Tax indemnity (Note iii)	15,023	167
	<u>(19,229)</u>	<u>(32,296)</u>

Notes:—

- (i) Interest expenses represents interest payable on the basis of outstanding balances owed to the Henderson Land Group and Henderson Development companies by subsidiaries of the Company. Interest under these intra group financing arrangements is charged based on the prevailing Hong Kong Inter-bank Offer Rate per annum.
- (ii) Accounting fees represents charges for accounting services payable to the Henderson Land Group by subsidiaries of the Company on terms not unfavourable to the Group.
- (iii) The tax indemnity represents indemnity receivable from Henderson Land Group pursuant to an indemnity deed dated 15 March 1996 (note 7).
- (iv) The amounts due to the fellow subsidiaries at 30th June, 2001 are set out in note 21.

Notes To The Accounts (cont'd)

30 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)**(b) Transactions with companies controlled by a director of the Company**

Mr. Lee Ka Kit, a director of the Company, through companies controlled or owned by him has separate interests in certain subsidiaries and associates of the Company and through which the Company holds its interest in certain development projects in the PRC. Mr. Lee had provided finance in the form of advances to these subsidiaries and associates in accordance with the percentage of his equity interest in these companies. At 30th June 2001, the advances made to the Company's subsidiaries and associates amounting to HK\$377,948,000 (2000: HK\$315,234,000) and HK\$623,415,000 (2000: HK\$575,991,000) respectively are unsecured. Interest payable by these subsidiaries and associates to Mr. Lee under such arrangements during the year ended 30th June, 2001 are HK\$Nil (2000: HK\$Nil) and HK\$50,659,000 (2000: HK\$48,065,000) respectively.

(c) Transactions with associates

	The Group	
	2001 HK\$'000	2000 HK\$'000
Interest income recognised	62,541	59,836
Management fee recognised	7,831	14,215
	<u>62,541</u>	<u>59,836</u>
	<u>7,831</u>	<u>14,215</u>

The amounts due to and due from the associates at the year end are set out in note 13.

In the opinion of the directors of the Company, the transactions with the above related parties were carried out on normal commercial terms and in the ordinary course of business.

31 DIRECTORS' REMUNERATION**(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:—**

	2001 HK\$'000	2000 HK\$'000
	Executive directors	
Fees	220	260
Salaries and other emoluments	2,651	7,317
Retirement scheme contributions	180	275
Compensation for loss of office	—	775
	<u>3,051</u>	<u>8,627</u>
Independent non-executive directors		
Fees	60	60
Other emoluments	100	—
	<u>160</u>	<u>60</u>
Non-executive director		
Fee	20	—
Salary and other emolument	597	—
Discretionary bonus	1,638	—
Retirement scheme contribution	13	—
	<u>2,268</u>	<u>—</u>

Notes To The Accounts (cont'd)

31 DIRECTORS' REMUNERATION (cont'd)

(b) The remuneration of the directors is within the following bands:—

HK\$	2001 Number of Directors	2000 Number of Directors
Nil — 1,000,000	12	13
1,000,001 — 1,500,000	2	2
1,500,001 — 2,000,000	—	—
2,000,001 — 2,500,000	1	—
2,500,001 — 3,000,000	—	1
3,000,001 — 3,500,000	—	1
	<u> </u>	<u> </u>

32 SENIOR MANAGEMENT REMUNERATION

(a) Of the five individuals with the highest emoluments, one (2000: three) of them is director whose emolument is disclosed in note 31. The aggregate of the emoluments in respect of the other four (2000: two) individuals are as follows:—

	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	8,513	2,765
Retirement scheme contributions	248	141
	<u>8,761</u>	<u>2,906</u>

(b) The remuneration of employees who were not directors during the year and who were amongst the five highest paid employees of the Group, were within the following bands:—

HK\$	2001 Number of Employees	2000 Number of Employees
1,000,001 — 1,500,000	—	1
1,500,001 — 2,000,000	2	1
2,000,001 — 2,500,000	1	—
2,500,001 — 3,000,000	—	—
3,000,001 — 3,500,000	1	—
	<u> </u>	<u> </u>

33 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2001 was Henderson Development Limited, which is incorporated in Hong Kong.