

Notes to the Interim Financial Statements (unaudited)

1 BASIS OF PREPARATION

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

The interim financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The principal accounting policies adopted in the 2001 annual accounts have been applied to the interim financial statements, except that the Group has in the current period adopted the following revised SSAPs issued by HKSA which became effective for accounting periods commencing on or after 1st January, 2001:

(a) Dividends

In prior years, dividends proposed or declared after balance sheet date in respect of an accounting period were recognised as a liability at the balance sheet date. With effect from 1st July, 2001, in order to comply with SSAP 9 (revised) "Events after the balance sheet date", the company recognises a liability for dividends in the accounting period in which they are declared by directors or approved by shareholders. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior year. The effect of this change has resulted in an increase of HK\$29,807,000 in shareholders' funds as at 1st July, 2001, representing the proposed final dividend for the year ended 30th June, 2001.

(b) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

In note 2 to the interim financial statements, the Group has disclosed segment revenue and results as defined under SSAP 26 "Segment Reporting". In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary format and geographical as the secondary reporting format.

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1 BASIS OF PREPARATION (cont'd)

(c) Goodwill

In accordance with SSAP 30 "Business Combinations", goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities after 1st July, 2001 is recognised as an asset in the balance sheet and amortised to the profit and loss account on a straight line basis over its estimated useful life. Negative goodwill arising on acquisition after 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Upon disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

In prior years, goodwill was written off on acquisition. With the transitional provisions in SSAP 30, the Group has elected not to restate goodwill (negative goodwill) previously written off (credited to reserves). However, any impairment arising on such goodwill is recognised in the profit and loss account in accordance with the newly issued SSAP 31 "Impairment of Assets". This change in accounting policy has no significant impact on the financial statements.

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2 SEGMENTAL INFORMATION

The principal activities of the Group during the period consisted of property development, property investment, finance, project management and property management in the People's Republic of China (the "PRC").

(a) The Group's turnover and profit from operations are analysed as follows:

By principal activity:

For the six months ended 31st December, 2001

	Property development HK\$'000	Property investment HK\$'000	Finance HK\$'000	Management and sales commissions HK\$'000	Guaranteed return on investment HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Turnover	<u>262,451</u>	<u>24,683</u>	<u>31,388</u>	<u>10,099</u>	<u>3,680</u>	<u>—</u>	<u>332,301</u>
Revenue from external customers	<u>262,451</u>	<u>24,683</u>	<u>31,388</u>	<u>10,099</u>	<u>3,680</u>	<u>—</u>	<u>332,301</u>
Segment result	<u>30,363</u>	<u>19,294</u>	<u>30,228</u>	<u>10,099</u>	<u>3,680</u>	<u>—</u>	<u>93,664</u>
Profit from operations							<u>93,664</u>

For the six months ended 31st December, 2000

	Property development HK\$'000	Property investment HK\$'000	Finance HK\$'000	Management and sales commissions HK\$'000	Guaranteed return on investment HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Turnover	<u>21,342</u>	<u>23,397</u>	<u>20,247</u>	<u>11,971</u>	<u>6,186</u>	<u>—</u>	<u>83,143</u>
Revenue from external customers	<u>21,342</u>	<u>23,397</u>	<u>20,247</u>	<u>11,971</u>	<u>6,186</u>	<u>—</u>	<u>83,143</u>
Segment result	<u>(2,209)</u>	<u>16,479</u>	<u>19,497</u>	<u>11,971</u>	<u>6,186</u>	<u>—</u>	<u>51,924</u>
Profit from operations							<u>51,924</u>

(b) The Group's turnover and profit from operations are principally derived from operations in the PRC and accordingly, an analysis of such activities by geographical area of operations is not shown.

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3 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The consolidated profit from ordinary activities before taxation is arrived at after charging:

(a) Finance costs

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Bank interest	40,376	41,404
Interest on loans wholly repayable within five years	9,730	17,888
Other borrowing costs	2,903	533
Total borrowing costs	53,009	59,825
Less: Amount capitalised *	(47,600)	(56,328)
	5,409	3,497

* Borrowing costs have been capitalised approximately at the rate of 4.21% (2000: 7.70%) per annum.

(b) Other items

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Staff costs	26,626	32,725
Less: Amount capitalised	(19,191)	(31,089)
	7,435	1,636
Depreciation	9,798	360
Less: Amount capitalised	(48)	(64)
	9,750	296
Cost of completed properties for sale	184,250	11,999

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4 TAXATION

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

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
The Group		
— Outside Hong Kong	2,139	8,917
Associates	4,995	2,870
Tax indemnity (Note 5 & 16(a))	(2,019)	—
	<u>5,115</u>	<u>11,787</u>

No provision has been made for Hong Kong Profits Tax as the Group did not have any assessable income subject to Hong Kong Profits Tax during the period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the period on the estimated assessable profits arising in the relevant foreign jurisdiction during the period.

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

5 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.

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6 INTERIM DIVIDEND

After the balance sheet date, the following dividends have been declared by the board of directors but not provided for in the financial statements.

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Interim dividend at HK\$0.06 per share (2000: HK\$0.06 per share)	<u>29,807</u>	<u>29,807</u>

7 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\$89,208,000 (2000: HK\$39,466,000) and on 496,776,205 ordinary shares (2000: 496,776,205 ordinary shares) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for the period is not shown as the existence of outstanding options during the period ended 31st December, 2001 has an anti-dilutive effect on the calculation of diluted earnings per share for the period. There was no potential dilution of earnings per share during the corresponding period in 2000.

8 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 for bad debts included under current assets is as follows:

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Not over 1 month	115,929	119,638
Over 1 month to 3 months	5,127	3,250
Over 3 months to 6 months	6,351	1,616
Over 6 months	<u>36,630</u>	<u>49,383</u>
	<u>164,037</u>	<u>173,887</u>

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9 DEBTORS, PREPAYMENT AND DEPOSITS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchaser pursuant to the term of the sale and purchase agreement. Rent in respect of investment properties are paid by tenants in advance. 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:

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Not over 1 month	36,931	56,335
Over 1 month to 3 months	2,946	3,890
Over 3 months to 6 months	4,769	6,863
Over 6 months	116,647	85,922
	161,293	153,010
Less: Provision for bad debts	(2,073)	(2,073)
	159,220	150,937
Prepayments, deposits and other receivable	410,686	440,734
	569,906	591,671

10 CREDITORS AND ACCRUED EXPENSES

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

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Due within 1 month and on demand	7,478	12,642
Due after 1 month but within 3 months	9,501	69,200
Due after 3 months but within 6 months	—	64,191
Due after 6 months	230,766	217,930
	247,745	363,963
Rental and other deposits	28,516	18,218
Other payables	138,913	203,408
	415,174	585,589

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11 SHARE CAPITAL

	No. of shares		Nominal value	
	At 31st December, 2001 '000	At 30th June, 2001 '000	At 31st December, 2001 HK\$'000	At 30th June, 2001 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>

12 CAPITAL RESERVES

	Reserve on consolidation HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2001	71,079	4,354	75,433
Transfer from profit and loss account	<u>—</u>	<u>68</u>	<u>68</u>
At 31st December, 2001	<u>71,079</u>	<u>4,422</u>	<u>75,501</u>

Other reserve represents statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, one of the Group'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. The statutory reserve can be used to make good previous years losses, and not distributable to shareholders.

13 RETAINED PROFITS

	HK\$'000
At 1st July, 2001	
— as originally stated	1,090,425
— prior period adjustment in respect of change in accounting policy for dividend proposed (note 6)	<u>29,807</u>
— as restated	1,120,232
Retained profit for the period	89,140
Final dividend approved in respect of the previous year (note 6)	<u>(29,807)</u>
At 31st December, 2001	<u>1,179,565</u>

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14 COMMITMENTS

(a) The Group had commitments not provided for in these financial statements as follows:

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Contracted for	2,803,377	2,809,495
Authorised but not contracted for	683,816	685,408
	<u>3,487,193</u>	<u>3,494,903</u>

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

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Within 1 year	708,426	582,210
After 1 year but within 2 years	708,426	582,210
After 2 years	2,070,341	2,330,483
	<u>3,487,193</u>	<u>3,494,903</u>

(b) The Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Within 1 year	1,554	1,670
After 1 year but within 5 years	140	627
	<u>1,694</u>	<u>2,297</u>

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15 CONTINGENT LIABILITIES

Contingent liabilities of the Group were as follows:

	At 31st December, 2001 HK\$'000	At 30th June, 2001 HK\$'000
Guarantees given by the Company and its subsidiaries to financial institutions in respect of financing provided to purchasers of flats	<u>245,394</u>	<u>145,137</u>

16 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:

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Interest expenses (note i)	<u>9,730</u>	17,888
Tax indemnity (note ii) (Note 4)	<u>2,019</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) The tax indemnity represents indemnity receivable from Henderson Land Group pursuant to an indemnity deed dated 15th March, 1996 (Note 5).

(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 31st December, 2001, the advances made to the Company's subsidiaries and associates amounting to HK\$377,903,000 (30th June, 2001: HK\$377,948,000) and HK\$623,415,000 (30th June, 2001: HK\$623,415,000) respectively are unsecured. Interest payable by these subsidiaries and associates to Mr. Lee under such arrangements during the period ended 31st December, 2001 are HK\$Nil (2000: HK\$Nil) and HK\$23,930,000 (2000: HK\$Nil) respectively.

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16 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(c) Transactions with associates

	For the six months ended 31st December	
	2001 HK\$'000	2000 HK\$'000
Interest income	23,930	—
Management fee	3,576	4,253

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.

17 COMPARATIVE FIGURES

Due to the adoption of revised and new SSAPs during the current period, certain comparative figures have been reclassified or restated to conform with the current period's presentation.