

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) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(f).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is accounted for in accordance with note 1(f).

(d) Associates

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

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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(f). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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 consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(f).

Notes to the Accounts *(cont'd)***1 SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)***(e) Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:—

- for acquisitions before 1st July, 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and
- for acquisitions on or after 1st July, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisition of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:—

- for acquisitions before 1st July, 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1st July, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable / amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:—

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(f) 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) All other securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (iv) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheet 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;
 - land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see note 1(m)) and impairment losses (see note 1(i)); and
 - other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(m)) and impairment losses (see note 1(i)).
- (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) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (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 the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(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 provision considered necessary by the directors.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:—

- other fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for note 1(f) as specified in notes 1(c) and (d)); and
- positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently.

Notes to the Accounts *(cont'd)***1 SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)***(i) Impairment of assets** *(cont'd)***(ii) Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) 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.

(k) 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.

(l) 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 creditors and accrued expenses.

(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 commissions

Management and sales commissions are 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.

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) 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

(n) Cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Mandatory Provident Fund Scheme

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of intangible assets, properties held for development, properties under development and completed properties for sale not yet recognised as an expense.

(iii) Defined contribution scheme

Contributions to the scheme are expensed as incurred, except to the extent that they are included in the cost of intangible assets, properties held for development, properties under development and completed properties for sale not yet recognised as an expense. Contributions are reduced by forfeited contributions arising from employees who leave the scheme prior to becoming fully vested in the employer's contributions.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Accounts *(cont'd)***1 SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)***(q) 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 results of other subsidiaries and associates expressed in foreign currencies are translated at the average exchange rates for the year; balance sheet items are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising thereon are dealt with as a movement in reserves.

(r) Leased assets

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(m) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(l)(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. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

(s) 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.

(t) 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.

(u) 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.

(v) 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 risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

1 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(v) Segment reporting** (cont'd)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group comprises the following main business segments:—

- Property development — the development and sale of properties
- Property investment — the leasing of properties to generate rental income
- Finance — the provision of financing to generate interest income
- Management and sales commissions — the provision of property management services to generate management income
- Guaranteed return on investment — the investment of Tianjin An-Ju project to generate guaranteed return

(a) Revenue and results

	Property development		Property investment		Finance		Management and sales commissions		Guaranteed return on investment		Unallocated		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	91,042	398,391	41,291	67,503	40,931	81,865	15,066	26,168	—	3,685	—	—	188,330	577,612
External revenue	91,042	398,391	41,291	67,503	40,931	81,865	15,066	26,168	—	3,685	—	—	188,330	577,612
Segment result	(201,929)	43,341	(124,317)	20,673	35,626	64,603	(3,462)	25,131	—	3,685	(8,123)	1,217	(302,205)	158,650
(Loss) / profit from operations													(302,205)	158,650
Finance costs													(16,637)	(8,141)
													(318,842)	150,509
Share of losses less profits of associates	(26,703)	4,131	(36,017)	2,632	—	—	—	—	—	—	229	(14,217)	(62,491)	(7,454)
(Loss) / profit from ordinary activities before taxation													(381,333)	143,055
Taxation													(17,493)	(6,554)
(Loss) / profit from ordinary activities after taxation													(398,826)	136,501
Minority interests													3,643	(3,615)
(Loss) / profit attributable to shareholders													(395,183)	132,886

Notes to the Accounts (cont'd)

2 SEGMENTAL INFORMATION (cont'd)

(b) Assets and liabilities

	Property development		Property investment		Finance		Management and sales commissions		Guaranteed return on investment		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	6,024,050	5,380,774	3,264,237	3,500,681	141,806	125,691	61,275	44,278	—	—	1,022,477	783,761	10,513,845	9,835,185
Interest in associates	(25,450)	140,029	(11,267)	740,097	832,352	789,801	—	—	—	—	1,515	19,852	797,150	1,689,779
Total assets													11,310,995	11,524,964
Segment liabilities	(217,895)	(216,171)	(102,289)	(117,242)	(16,486)	(12,640)	(13,712)	(4,912)	—	—	(3,026,942)	(2,578,493)	(3,377,324)	(2,929,458)

(c) Other information

	Property development		Property investment		Finance		Management and sales commissions		Guaranteed return on investment	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation & amortisation	1,317	466	1,230	186	57	57	161	59	—	—
Capital expenditures	5,471	239	6,588	2,117	—	—	461	1	—	—
Provisions on property projects	262,500	—	—	—	—	—	—	—	—	—
Bad debts written off / provision	31	—	37,436	48	2,945	5,000	—	—	—	—

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

3 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.

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Sale of properties	91,042	398,391
Rental income	41,291	67,503
Interest income	40,931	81,865
Management and sales commissions	15,066	26,168
Guaranteed return on investment	—	3,685
	<u>188,330</u>	<u>577,612</u>

4 OTHER NET INCOME / (LOSS)

	The Group	
	2003 HK\$'000	2002 HK\$'000
Loss on disposal of fixed assets	(596)	(9,037)
Exchange (loss) / gain	(1,729)	1,231
(Loss) / profit on disposal of interest in associates	(78,294)	4,351
Profit on disposal of interest in subsidiaries	99,530	—
Others	(26)	(57)
	<u>18,885</u>	<u>(3,512)</u>

5 OTHER OPERATING EXPENSES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Provisions on property projects	262,500	—
Bad debts written off / provision	44,566	5,048
Others	15,403	5,510
	<u>322,469</u>	<u>10,558</u>

Notes to the Accounts (cont'd)

6 (LOSS) / PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Finance costs

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bank interest	42,428	74,597
Interest on loans wholly repayable within five years	16,828	17,423
Other borrowing costs	1,111	3,800
Total borrowing costs	60,367	95,820
Less: amount capitalised*	43,730	87,679
	<u>16,637</u>	<u>8,141</u>

* Borrowing costs have been capitalised at a rate of 2.50% (2002: 3.96%) per annum.

(b) Staff costs

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Contributions to defined contribution plan	1,636	1,735
Salaries, wages and other benefits	60,866	51,593
	62,502	53,328
Less: amount capitalised (including contributions to defined contribution plan of HK\$850,000 (2002: HK\$1,441,000))	18,981	30,677
	<u>43,521</u>	<u>22,651</u>

6 (LOSS) / PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (cont'd)

(Loss) / profit from ordinary activities before taxation is arrived at after charging / (crediting):— (cont'd)

(c) Other items

	The Group	
	2003 HK\$'000	2002 HK\$'000
Depreciation	2,803	1,584
Less: amount capitalised	<u>—</u>	<u>679</u>
	<u>2,803</u>	<u>905</u>
Auditors' remuneration — audit services	<u>1,945</u>	<u>2,039</u>
Cost of completed properties for sale	<u>68,083</u>	<u>292,439</u>
Operating lease charges	2,127	2,163
Less: amount capitalised	<u>1,464</u>	<u>1,712</u>
	<u>663</u>	<u>451</u>
Rental receivables net of outgoings HK\$1,575,000 (2002: HK\$2,814,000)	<u>(39,716)</u>	<u>(64,689)</u>
Dividends from unlisted investment securities	<u>(4,888)</u>	<u>—</u>

7 SHARE OF LOSSES LESS PROFITS OF ASSOCIATES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Share of losses less profits before taxation	62,491	7,454
Attributable taxation	<u>(3,264)</u>	<u>14,256</u>
	<u>59,227</u>	<u>21,710</u>

Notes to the Accounts (cont'd)

8 TAXATION

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax at 17.5% (2002: 16%) on the estimated assessable profits for the year	394	649
Under / (over) provision of Hong Kong Profits Tax in respect of prior years	6	(36)
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	26,959	4,039
Overprovision of taxation outside Hong Kong in respect of prior years	(5,975)	(188)
Tax refund for taxation outside Hong Kong in respect of prior years	(102)	—
	<u>21,282</u>	<u>4,464</u>

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year	394	649
Provision for taxation outside Hong Kong for the year	26,959	4,039
Balance of profits tax provision relating to previous years	111,238	125,255
	<u>138,591</u>	<u>129,943</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	
	2003	2002
	HK\$'000	HK\$'000
Depreciation in excess of related depreciation allowances	2,066	2,152
Unutilised tax losses	2,506	1,882
	<u>4,572</u>	<u>4,034</u>

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 9.

9 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.

10 (LOSS) / PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss) / profit attributable to shareholders includes a profit of HK\$83,387,000 (2002: HK\$68,675,000) which has been dealt with in the accounts of the Company.

11 DIVIDENDS

(a) Dividends attributable to the year

	The Company	
	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of HK\$0.03 (2002: HK\$0.06) per share	14,903	29,807
Final dividend proposed after the balance sheet date of HK\$0.03 (2002: HK\$0.06) per share	14,903	29,807
	<u>29,806</u>	<u>59,614</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Company	
	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, at HK\$0.06 (2002: HK\$0.06) per share	29,807	29,807

12 (LOSS) / EARNINGS PER SHARE

The calculation of (loss) / earnings per share is based on the loss attributable to shareholders of HK\$395,183,000 (2002: profit of HK\$132,886,000) and on 496,776,205 ordinary shares (2002: 496,776,205 ordinary shares) in issue during the year. There was no potential dilution of loss per share during the year and no potential dilution of earnings per share for 2002.

13 CHANGES IN ACCOUNTING POLICIES

Translation of accounts of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st July, 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Group translated the results of foreign enterprises at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

Notes to the Accounts (cont'd)

14 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, 2002	3,312	9,600	25,991	25,150	64,053	3,410,600	3,474,653
Additions	—	4,794	7,255	493	12,542	—	12,542
Disposals	—	—	(140)	—	(140)	(3,778)	(3,918)
Deficit on revaluation	—	—	—	—	—	(223,222)	(223,222)
At 30th June, 2003	<u>3,312</u>	<u>14,394</u>	<u>33,106</u>	<u>25,643</u>	<u>76,455</u>	<u>3,183,600</u>	<u>3,260,055</u>
Representing:—							
Cost	3,312	14,394	33,106	25,643	76,455	—	76,455
Valuation 2003	—	—	—	—	—	3,183,600	3,183,600
	<u>3,312</u>	<u>14,394</u>	<u>33,106</u>	<u>25,643</u>	<u>76,455</u>	<u>3,183,600</u>	<u>3,260,055</u>
Aggregate depreciation:—							
At 1st July, 2002	680	8,306	22,697	24,258	55,941	—	55,941
Charge for the year	80	1,045	1,658	20	2,803	—	2,803
Written back on disposal	—	—	(50)	—	(50)	—	(50)
At 30th June, 2003	<u>760</u>	<u>9,351</u>	<u>24,305</u>	<u>24,278</u>	<u>58,694</u>	<u>—</u>	<u>58,694</u>
Net book value:—							
At 30th June, 2003	<u>2,552</u>	<u>5,043</u>	<u>8,801</u>	<u>1,365</u>	<u>17,761</u>	<u>3,183,600</u>	<u>3,201,361</u>
At 30th June, 2002	<u>2,632</u>	<u>1,294</u>	<u>3,294</u>	<u>892</u>	<u>8,112</u>	<u>3,410,600</u>	<u>3,418,712</u>

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Outside Hong Kong under long leases	—	—
under medium-term leases	<u>3,186,152</u>	<u>3,413,232</u>
	<u>3,186,152</u>	<u>3,413,232</u>

The Group's investment properties were revalued as at 30th June, 2003 by an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited 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\$47,684,000 (2002: HK\$100,722,000) and HK\$36,626,000 (2002: HK\$77,556,000) 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\$47,684,000 (2002: HK\$100,722,000) and HK\$36,626,000 (2002: HK\$77,556,000) respectively (note 9).

14 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 income 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 HK\$3,183,600,000 (2002: HK\$3,410,600,000).

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Within 1 year	42,021	80,483
After 1 year but within 5 years	62,027	101,637
After 5 years	83,630	25,093
	<u>187,678</u>	<u>207,213</u>

15 INTEREST IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	6,064,742	5,997,196
Less: impairment loss	(12,648)	(5,707)
	<u>6,052,095</u>	<u>5,991,490</u>
Amounts due to subsidiaries	(18,244)	(269)
	<u>6,033,851</u>	<u>5,991,221</u>

Details of principal subsidiaries are shown on pages 66 to 70.

16 INTEREST IN ASSOCIATES

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investments				
Share of net liabilities	(315,017)	(107,386)	—	—
Loans to associates	1,131,272	1,816,270	65	47
Loans from associates	(19,105)	(19,105)	—	—
	<u>797,150</u>	<u>1,689,779</u>	<u>65</u>	<u>47</u>

Included in the balance of loans to associates at 30th June, 2002 was an amount of HK\$695,849,000, which has been reclassified to loans receivable during the year (note 20(b)).

Details of principal associates are shown on page 71.

Notes to the Accounts (cont'd)

17 INVESTMENTS IN SECURITIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Investment securities — equity securities		
Listed outside Hong Kong	20,314	20,314
Unlisted	53,464	53,461
Total	<u>73,778</u>	<u>73,775</u>
Market value of listed securities	<u>20,331</u>	<u>23,788</u>

18 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2003 HK\$'000	2002 HK\$'000
Outside Hong Kong in the PRC	<u>3,395,956</u>	<u>3,790,336</u>

Included in the balance at 30th June, 2003 are properties held for development carried at net realisable value of HK\$1,276,249,000 (2002: HK\$1,220,084,000) as estimated by the directors after taking into account a valuation report prepared by DTZ Debenham Tie Leung Limited dated 30th September, 2003 in respect of certain properties of the Group.

19 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) under current assets is as follows:—

	The Group	
	2003 HK\$'000	2002 HK\$'000
Under 1 month overdue	19,284	45,799
More than 1 month overdue but less than 3 months overdue	824	1,145
More than 3 months overdue but less than 6 months overdue	1,351	1,907
More than 6 months overdue	<u>17,527</u>	<u>37,660</u>
	<u>38,986</u>	<u>86,511</u>

20 LOANS RECEIVABLE

	The Group	
	2003 HK\$'000	2002 HK\$'000
Amounts due from investee companies	<u>901,459</u>	<u>205,610</u>

Amounts due from investee companies represent:—

- (a) HK\$205,610,000 (2002: HK\$205,610,000) 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 interest income, management commission and guaranteed return on investment; and
- (b) HK\$695,849,000 (note 16) loans advanced by the Group to an investee company, a former associate of the Group.

During the year, a master sale and purchase agreement was signed by the Group in connection with the purchase of a property in the PRC from the former associate at a consideration of US\$124,000,000. The Group paid US\$38,500,000, which is equivalent to HK\$300,251,000 as a deposit for the acquisition (note 21). Upon signing of a formal property acquisition agreement, the loans advanced to the former associate will be paid as part of the consideration for the acquisition of the property.

21 DEBTORS, PREPAYMENTS AND DEPOSITS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchaser pursuant to the terms of the sale and purchase agreement. Monthly rent in respect of leasing properties are payable in advance by tenants. Other trade debtors settle their accounts according to the payment terms as stated in the contracts. 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 (net of provision for bad debts) is as follows:—

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Under 1 month overdue	42,645	42,873	—	—
More than 1 month overdue but less than 3 months overdue	1,671	7,153	—	—
More than 3 months overdue but less than 6 months overdue	4,417	14,318	—	—
More than 6 months overdue	<u>173,869</u>	<u>168,661</u>	<u>—</u>	<u>—</u>
	222,602	233,005	—	—
Prepayments, deposits and other receivables	<u>606,010</u>	<u>305,078</u>	<u>113,046</u>	<u>116,752</u>
	<u>828,612</u>	<u>538,083</u>	<u>113,046</u>	<u>116,752</u>

Included in the balances at 30th June, 2003 is a deposit of HK\$300,251,000 paid for an acquisition of a property in the PRC (note 20(b)).

The above balances include HK\$378,338,000 (2002: HK\$357,010,000) which are not expected to be recovered within one year.

Notes to the Accounts (cont'd)

22 BANK LOANS AND OVERDRAFTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
At 30th June, 2003, the bank loans and overdrafts were repayable as follows:—		
Within 1 year or on demand	332,201	467,744
After 1 year but within 2 years	1,350,075	597,143
After 2 years but within 5 years	71,000	759,316
	<u>1,753,276</u>	<u>1,824,203</u>

The Group has unsecured banking facilities, amounting to HK\$4,976,932,000 (2002: HK\$4,802,863,000), of which HK\$1,753,276,000 (2002: HK\$1,824,203,000) were utilised at 30th June, 2003.

23 CREDITORS AND ACCRUED EXPENSES

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Trade creditors:—		
Due within 1 month and on demand	835	4,130
Due after 1 month but within 3 months	6,295	1,003
Due after 3 months but within 6 months	9,271	36,990
Due after 6 months	145,065	140,818
	<u>161,466</u>	<u>182,941</u>
Rental and other deposits	23,233	24,466
Other payables	172,335	150,603
	<u>357,034</u>	<u>358,010</u>

The above balances include HK\$112,533,000 (2002: HK\$117,399,000) which are not expected to be settled within one year.

24 AMOUNTS DUE TO FELLOW SUBSIDIARIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Amounts due to fellow subsidiaries	<u>1,128,423</u>	<u>617,302</u>

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\$915,508,000 (2002: HK\$405,872,000) which carry interest at the prevailing Hong Kong Inter-bank Offer Rates.

25 SHARE CAPITAL

	Number of shares		Nominal value	
	2003 '000	2002 '000	2003 HK\$'000	2002 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>

26 CAPITAL RESERVES

	Reserve on consolidation HK\$'000	The Group Other reserve (note) HK\$'000	Total HK\$'000
At 1st July, 2001	71,079	4,354	75,433
Transfer from profit and loss account (note)	—	70	70
At 30th June, 2002	<u>71,079</u>	<u>4,424</u>	<u>75,503</u>
At 1st July, 2002	71,079	4,424	75,503
Transfer from profit and loss account (note)	—	24	24
At 30th June, 2003	<u>71,079</u>	<u>4,448</u>	<u>75,527</u>

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

27 INVESTMENT PROPERTY REVALUATION RESERVE

	The Group	
	2003 HK\$'000	2002 HK\$'000
Balance at 1st July	327,647	70,646
Revaluation surplus transferred to the consolidated profit and loss account on disposal of investment properties	(1,937)	—
Revaluation (deficit) / surplus	<u>(181,472)</u>	<u>257,001</u>
Balance at 30th June	<u>144,238</u>	<u>327,647</u>

Notes to the Accounts (cont'd)

28 RETAINED PROFITS

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Balance at 1st July	1,193,434	1,120,232	44,534	35,473
(Loss) / profit for the year (note 10)	(395,183)	132,886	83,387	68,675
Dividends approved in respect of the previous year (note 11(b))	(29,807)	(29,807)	(29,807)	(29,807)
Dividends declared in respect of the current year (note 11(a))	(14,903)	(29,807)	(14,903)	(29,807)
Transfer to capital reserves	(24)	(70)	—	—
Balance at 30th June	<u>753,517</u>	<u>1,193,434</u>	<u>83,211</u>	<u>44,534</u>
Retained by:—				
Company and subsidiaries	1,180,532	1,412,821		
Associates	<u>(427,015)</u>	<u>(219,387)</u>		
	<u>753,517</u>	<u>1,193,434</u>		

29 MINORITY INTERESTS

Included in the minority interests are long term loans totalling HK\$466,977,000 (2002: HK\$459,788,000) 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\$1,522,000 (2002: HK\$1,554,000).

30 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2003 amounted to HK\$83,211,000 (2002: HK\$44,534,000).

31 DEFINED CONTRIBUTION RETIREMENT PLANS

- (a) The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.
- (b) As stipulated by the regulations of the PRC, the subsidiaries in the PRC participate in basic defined contribution pension plans organised by their respective Municipal Governments under which they are governed.

Employees in the PRC are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

32 EQUITY COMPENSATION BENEFITS

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.

- (a) During the year, no share options were granted, exercised, cancelled or lapsed.
- (b) At 30th June, 2003, the details of outstanding share options 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 outstanding at 30th June, 2003	Number of share options outstanding at 30th June, 2002
12th December, 2000	1,000,000	4.00	28th June, 2001	1,000,000	1,000,000
21st February, 2001	1,500,000	4.00	21st August, 2001	1,500,000	1,500,000
2nd May, 2001	1,500,000	4.00	2nd November, 2001	<u>1,500,000</u>	<u>1,500,000</u>
				<u>4,000,000</u>	<u>4,000,000</u>

Notes to the Accounts (cont'd)

33 COMMITMENTS

(a) At 30th June, 2003, the Group had commitments not provided for in these accounts as follows:—

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted for	2,312,686	2,810,440
Authorised but not contracted for	<u>1,649,502</u>	<u>914,878</u>
	<u><u>3,962,188</u></u>	<u><u>3,725,318</u></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	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	1,114,133	645,569
After 1 year but within 2 years	563,840	644,041
After 2 years	<u>2,284,215</u>	<u>2,435,708</u>
	<u><u>3,962,188</u></u>	<u><u>3,725,318</u></u>

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

(b) At 30th June, 2003, the Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:—

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	1,731	616
After 1 year but within 5 years	<u>378</u>	<u>11</u>
	<u><u>2,109</u></u>	<u><u>627</u></u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two 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 include contingent rentals.

34 CONTINGENT LIABILITIES

At 30th June, 2003, contingent liabilities of the Group and of the Company were as follows:—

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions in respect of financing provided to purchasers of flats	229,320	268,670	—	—
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	—	—	1,030,791	1,023,202
	<u>229,320</u>	<u>268,670</u>	<u>1,030,791</u>	<u>1,023,202</u>

35 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	
	2003 HK\$'000	2002 HK\$'000
Interest expenses (note (i))	(16,828)	(17,423)
Accounting fees paid (note (ii))	(2,000)	(2,000)
Tax indemnity (note (iii))	525	12,166

Notes:—

- (i) Interest expenses represent 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 represent 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 15th March, 1996 (note 9).
 - (iv) The amounts due to the fellow subsidiaries at 30th June, 2003 are set out in note 24.
- (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 through companies controlled or owned by him 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, 2003, the advances made to the Company's subsidiaries and associates through companies controlled or owned by Mr Lee amounting to HK\$414,438,000 (2002: HK\$410,158,000) and HK\$664,322,000 (2002: HK\$646,116,000) respectively are unsecured. Interest payable by these subsidiaries and associates to companies controlled or owned by Mr Lee under such arrangements during the year ended 30th June, 2003 are HK\$Nil (2002: HK\$Nil) and HK\$17,943,000 (2002: HK\$39,597,000) respectively.

Notes to the Accounts (cont'd)

35 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(c) Transactions with associates

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income recognised	29,208	50,486
Management fee recognised	8,515	6,793

The amounts due to and due from the associates at the year end are set out in note 16.

(d) Transaction with a related company

The Group and one of its related companies entered into a rental agreement dated 12th August, 2002 for leasing certain units of the Group's investment properties with a monthly rental charge of HK\$250,000. The total rental income receivable from the related company during the year is HK\$2,530,000. The rental deposit received and rental receivables are HK\$500,000 and HK\$250,000 respectively as at 30th June, 2003.

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.

36 DIRECTORS' REMUNERATION

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Executives directors		
Fees	200	220
Salaries and other emoluments	3,032	4,045
Retirement scheme contributions	251	246
	<u>3,483</u>	<u>4,511</u>
Independent non-executive directors		
Fees	40	40
Other emoluments	100	100
	<u>140</u>	<u>140</u>
Non-executive directors		
Fees	40	20
Salary and other emolument	—	—
Discretionary bonus	—	—
Retirement scheme contribution	—	—
	<u>40</u>	<u>20</u>

36 DIRECTORS' REMUNERATION (cont'd)

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

HK\$	The Group	
	2003 Number of Directors	2002 Number of Directors
Nil — 1,000,000	12	12
1,000,001 — 1,500,000	1	—
1,500,001 — 2,000,000	1	1
2,000,001 — 2,500,000	—	—
2,500,001 — 3,000,000	—	1
	<u>14</u>	<u>14</u>

37 SENIOR MANAGEMENT REMUNERATION

(a) Of the five individuals with the highest emoluments, one (2002: two) of them is a director whose emolument is disclosed in note 36. The aggregate of the emoluments in respect of the other four (2002: three) individuals are as follows:—

	The Group	
	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	6,304	5,953
Retirement scheme contributions	244	286
	<u>6,548</u>	<u>6,239</u>

(b) The remuneration of four (2002: three) 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\$	The Group	
	2003 Number of Employees	2002 Number of Employees
1,500,001 — 2,000,000	4	2
2,000,001 — 2,500,000	—	—
2,500,001 — 3,000,000	—	1
3,000,001 — 3,500,000	—	—
	<u>4</u>	<u>3</u>

Notes to the Accounts *(cont'd)*

38 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

"Other operating expenses" was added on the face of the consolidated profit and loss account which management of the Group considers that it would better reflect the substance of the underlying transactions. Certain comparative figures have been reclassified in this respect to conform with the current year's presentation.

39 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2003 to be Henderson Development Limited, which is incorporated in Hong Kong.