

Notes to the Condensed Interim Financial Statements (unaudited)

1 BASIS OF PREPARATION

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

The condensed 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 and basis of preparation used in the preparation of these condensed interim financial statements are the same as those used in the Group's audited financial statements for the year ended 30th June, 2003, except for the SSAP 12 (Revised) "Income taxes" which is effective and has been adopted for the first time in preparation of the current period's condensed consolidated financial statements.

On the adoption of the revised HK SSAP 12 (Revised) "Income taxes", deferred taxation is provided in full, using the liability method, on the temporary differences arising between the tax bases of assets / liabilities and their carrying amounts in the accounts with limited exceptions. Deferred taxation is determined by reference to the taxation rate enacted or substantively enacted on the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In previous years, deferred taxation was provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits were not recognised unless their realisation was assured beyond reasonable doubt. The adoption of the revised HK SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparative figures have been restated to conform to the changed policy. The shareholders' equity as at 1st July, 2003 was restated and decreased by HK\$193,225,000 which comprised decrease in retained profits of HK\$169,225,000 and decrease in investment property revaluation reserve of HK\$24,000,000 (as at 1st July, 2002: the shareholders' equity decreased by HK\$255,675,000, which comprised decrease in retained profits of HK\$187,200,000 and investment property revaluation reserve of HK\$68,475,000). The effect of change to income tax for the six months ended 31st December, 2003 is an increase in the charge of HK\$1,300,000 (31st December, 2002: HK\$8,120,000).

2 SEGMENTAL INFORMATION

(a) The analysis of the Group's revenue and results by business segment during the periods are as follows:

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

Notes to the Condensed Interim Financial Statements (unaudited)

2 SEGMENTAL INFORMATION (cont'd)

For the six months ended 31st December, 2003

	Property development HK\$'000	Property investment HK\$'000	Finance HK\$'000	Management and sales commissions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Turnover	19,378	21,832	4,091	7,019	—	52,320
Other revenue	60	60	—	—	13,866	13,986
External revenue	<u>19,438</u>	<u>21,892</u>	<u>4,091</u>	<u>7,019</u>	<u>13,866</u>	<u>66,306</u>
Segment result	(26,769)	(11,463)	4,085	4,058	13,866	(16,223)
Provisions on property projects	—	—	—	—	—	—
Bad debts written off	—	—	(3)	—	—	(3)
Unallocated operating expenses net of income						<u>(2,047)</u>
Loss from operations						(18,273)
Finance costs						<u>(6,705)</u>
						(24,978)
Share of losses less profits of associates	(7,556)	629	—	—	(5)	<u>(6,932)</u>
Loss from ordinary activities before taxation						(31,910)
Taxation						<u>(6,599)</u>
Loss from ordinary activities after taxation						(38,509)
Minority interests						<u>6,785</u>
Loss attributable to shareholders						<u>(31,724)</u>

Notes to the Condensed Interim Financial Statements (unaudited)

2 SEGMENTAL INFORMATION (cont'd)

For the six months ended 31st December, 2002 (restated)

	Property development HK\$'000	Property investment HK\$'000	Finance HK\$'000	Management and sales commissions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Turnover	53,706	28,295	29,563	10,289	—	121,853
Other revenue	876	63	—	—	4,927	5,866
External revenue	<u>54,582</u>	<u>28,358</u>	<u>29,563</u>	<u>10,289</u>	<u>4,927</u>	<u>127,719</u>
Segment result	(1,528)	368	29,489	1,951	4,927	35,207
Provisions on property projects	(98,000)	—	—	—	—	(98,000)
Bad debts written off	—	(37,467)	(369)	—	—	(37,836)
Unallocated operating expenses net of income						<u>(3,568)</u>
Loss from operations						(104,197)
Finance costs						<u>(10,831)</u>
						(115,028)
Share of profits less losses of associates	8,675	7,152	—	—	(2,112)	<u>13,715</u>
Loss from ordinary activities before taxation						(101,313)
Taxation						<u>(8,046)</u>
Loss from ordinary activities after taxation						(109,359)
Minority interests						<u>4,865</u>
Loss attributable to shareholders						<u>(104,494)</u>

- (b) No geographical analysis of the Group's revenue and results is shown as less than 10% of the Group's operations are outside the People's Republic of China ("PRC").

Notes to the Condensed Interim Financial Statements (unaudited)

3 OTHER OPERATING EXPENSES

	For the six months ended 31st December,	
	2003 HK\$'000	2002 HK\$'000
Provisions on property projects	—	98,000
Bad debts written off	3	37,836
	<u>3</u>	<u>135,836</u>

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Finance costs

	For the six months ended 31st December,	
	2003 HK\$'000	2002 HK\$'000
Bank interest	13,470	25,679
Interest on loans wholly repayable within five years	3,331	9,265
Other borrowing costs	363	743
Total borrowing costs	17,164	35,687
Less: amount capitalised *	(10,459)	(24,856)
	<u>6,705</u>	<u>10,831</u>

* Borrowing costs have been capitalised approximately at the rate of 0.68% (2002: 1.58%) per annum.

Notes to the Condensed Interim Financial Statements (unaudited)

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION (cont'd)

(b) Items other than those separately disclosed in Note 3 to 4(a):

	For the six months ended 31st December,	
	2003 HK\$'000	2002 HK\$'000
Staff costs	32,332	29,189
Less: amount capitalised	<u>(10,036)</u>	<u>(15,206)</u>
	<u>22,296</u>	<u>13,983</u>
Depreciation	1,826	747
Less: amount capitalised	<u>(12)</u>	<u>(40)</u>
	<u>1,814</u>	<u>707</u>
Cost of completed properties for sale	<u>14,873</u>	<u>40,029</u>
Profit on disposal of fixed assets	<u>(2,179)</u>	<u>(4)</u>
Dividends from investment securities	<u>(13,691)</u>	<u>(4,888)</u>

Notes to the Condensed Interim Financial Statements (unaudited)

5 TAXATION

Taxation in the consolidated profit and loss account represents:

	For the six months ended 31st December,	
	2003	2002
	HK\$'000	restated HK\$'000
The Group		
Hong Kong — profits tax	(1)	—
Hong Kong — deferred taxation	5,200	2,300
Outside Hong Kong — profits tax	(1,403)	4,007
Outside Hong Kong — deferred taxation	(6,500)	(10,420)
Associates	(3,895)	(4,367)
Tax Indemnity (Note 6 and 16(a))	—	434
	<u>(6,599)</u>	<u>(8,046)</u>

Provision for Hong Kong profits tax has been made at 17.5% (2002: 16%) on the estimated assessable profits for 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.

6 TAX INDEMNITY

Tax indemnity represents indemnity receivable from an intermediate holding company, Henderson Land Development Company Limited ("Henderson Land"), pursuant to an indemnity deed dated 15th March, 1996 in respect of PRC income tax and Land Appreciation Tax ("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.

Notes to the Condensed Interim Financial Statements (unaudited)

7 DIVIDENDS

- (a) Dividends attributable to the interim period

	For the six months ended 31st December,	
	2003 HK\$'000	2002 HK\$'000
Interim dividend declared after the interim period end at HK\$0.03 per share (2002: HK\$0.03 per share)	<u>14,903</u>	<u>14,903</u>

The interim dividend declared 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 interim period

	For the six months ended 31st December,	
	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, at HK\$0.03 per share (2002: HK\$0.06 per share)	<u>14,903</u>	<u>29,807</u>

8 LOSS PER SHARE

- (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$31,724,000 (2002 restated: HK\$104,494,000) and on 496,776,205 ordinary shares (2002: 496,776,205 ordinary shares) in issue during the period.

- (b) Diluted loss per share

Diluted loss per share for the period is not shown as the existence of outstanding options during the period ended 31st December, 2003 has an anti-dilutive effect on the calculation of diluted loss per share for the period. There was no potential dilution of loss per share during the corresponding period in 2002.

Notes to the Condensed Interim Financial Statements (unaudited)

9 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:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Under 1 month overdue	16,244	19,284
More than 1 month overdue but less than 3 months overdue	734	824
More than 3 months overdue but less than 6 months overdue	1,003	1,351
More than 6 months overdue	16,674	17,527
	<u>34,655</u>	<u>38,986</u>

10 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 rental 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:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Under 1 month overdue	40,561	42,645
More than 1 month overdue but less than 3 months overdue	2,618	1,671
More than 3 months overdue but less than 6 months overdue	1,585	4,417
More than 6 months overdue	181,036	173,869
	<u>225,800</u>	<u>222,602</u>
Prepayments, deposits and other receivables	263,194	606,010
	<u>488,994</u>	<u>828,612</u>

Notes to the Condensed Interim Financial Statements (unaudited)

11 CREDITORS AND ACCRUED EXPENSES

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

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Trade creditors:		
Due within 1 month and on demand	99	835
Due after 1 month but within 3 months	9,159	6,295
Due after 3 months but within 6 months	10,239	9,271
Due after 6 months	<u>136,983</u>	<u>145,065</u>
	156,480	161,466
Rental and other deposits	23,211	23,233
Other payables	<u>181,096</u>	<u>172,335</u>
	<u><u>360,787</u></u>	<u><u>357,034</u></u>

12 SHARE CAPITAL

	Number of shares		Nominal value	
	At 31st December, 2003 '000	At 30th June, 2003 '000	At 31st December, 2003 HK\$'000	At 30th June, 2003 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>

Notes to the Condensed Interim Financial Statements (unaudited)

13 RESERVES

	Share premium HK\$'000	Capital reserves HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st July, 2003					
— as previously reported	5,566,402	75,527	144,238	753,517	6,539,684
— prior period adjustment (Note 1)	—	—	(24,000)	(169,225)	(193,225)
— as restated	5,566,402	75,527	120,238	584,292	6,346,459
Dividends approved and paid in respect of the previous financial year (Note 7(b))	—	—	—	(14,903)	(14,903)
Transfer from profit and loss account to capital reserves (note)	—	42	—	(42)	—
Loss for the period	—	—	—	(31,724)	(31,724)
Realised upon disposal of properties	—	—	(1,693)	—	(1,693)
Balance at 31st December, 2003	<u>5,566,402</u>	<u>75,569</u>	<u>118,545</u>	<u>537,623</u>	<u>6,298,139</u>

note: According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, two 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.

Notes to the Condensed Interim Financial Statements (unaudited)

14 COMMITMENTS

- (a) At 31st December, 2003, the Group had commitments not provided for in these financial statements as follows:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Contracted for	1,931,199	2,312,686
Authorised but not contracted for	<u>1,754,722</u>	<u>1,649,502</u>
	<u><u>3,685,921</u></u>	<u><u>3,962,188</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:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Within 1 year	771,461	1,114,133
After 1 year but within 2 years	711,660	563,840
After 2 years	<u>2,202,800</u>	<u>2,284,215</u>
	<u><u>3,685,921</u></u>	<u><u>3,962,188</u></u>

- (b) At 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Within 1 year	1,779	1,731
After 1 year but within 5 years	<u>196</u>	<u>378</u>
	<u><u>1,975</u></u>	<u><u>2,109</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.

Notes to the Condensed Interim Financial Statements (unaudited)

15 CONTINGENT LIABILITIES

At 31st December, 2003, contingent liabilities of the Group were as follows:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Guarantees given by the Group to financial institutions in respect of financing provided to purchasers of flats	<u>236,324</u>	<u>229,320</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,	
	2003 HK\$'000	2002 HK\$'000
Interest expenses (note (i))	<u>3,331</u>	9,265
Tax indemnity (note (ii)) (Note 5)	<u>—</u>	<u>434</u>

note:

- (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) The tax indemnity represents indemnity receivable from Henderson Land Group pursuant to an indemnity deed dated 15th March, 1996 (Note 6).

Notes to the Condensed Interim Financial Statements (unaudited)

16 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 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 31st December, 2003, the advances made to the Company's subsidiaries and associates through companies controlled or owned by Mr. Lee amounting to HK\$414,441,000 (At 30th June, 2003: HK\$414,438,000) and HK\$664,322,000 (At 30th June, 2003: HK\$664,322,000) respectively are unsecured. Interest payable by these subsidiaries and associates to companies controlled or owned by Mr. Lee under such arrangements during the period ended 31st December, 2003 are HK\$Nil (2002: HK\$Nil) and HK\$Nil (2002: HK\$17,764,000) respectively.

(c) Transactions with associates

	For the six months ended 31st December,	
	2003	2002
	HK\$'000	HK\$'000
Interest income recognised	—	17,764
Management fee recognised	<u>5,140</u>	<u>3,890</u>

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

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in Note 1.