

**Notes to the Condensed Interim Financial Statements (unaudited)**

**1 BASIS OF PREPARATION**

These condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") except that they have only reviewed the figures in respect of the six months ended 31st December, 2004, and did not review the comparatives for the six months ended 31st December, 2003. KPMG's independent review report to the Board of Directors is included on page 34.

These condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKICPA and the disclosure requirements set out in Appendix 16 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are the same as those used in the Group's audited accounts for the year ended 30th June, 2004.

**2 RECENTLY ISSUED ACCOUNTING STANDARDS**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the condensed interim financial statements for the six months ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**3 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)**
**3 SEGMENTAL INFORMATION (cont'd)**
**For the six months ended 31st December, 2004**

	Property development HK\$'000	Property investment HK\$'000	Finance HK\$'000	Management and sales commissions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Turnover	6,429	21,484	2,175	4,579	–	34,667
Other revenue	–	60	–	–	6,686	6,746
External revenue	<u>6,429</u>	<u>21,544</u>	<u>2,175</u>	<u>4,579</u>	<u>6,686</u>	<u>41,413</u>
Segment result	<u>(4,696)</u>	<u>(13,397)</u>	<u>2,166</u>	<u>272</u>	<u>2,320</u>	<u>(13,335)</u>
Loss from operations						(13,335)
Finance costs						(1,477)
						(14,812)
Share of profits less losses of associates	4,723	2,099	–	–	(139)	6,683
Loss from ordinary activities before taxation						(8,129)
Income tax						(10,985)
Loss from ordinary activities after taxation						(19,114)
Minority interests						7,027
Loss attributable to shareholders						<u>(12,087)</u>

**Notes to the Condensed Interim Financial Statements (unaudited)**

**3 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	<u>(26,769)</u>	<u>(11,463)</u>	<u>4,082</u>	<u>4,058</u>	<u>11,819</u>	<u>(18,273)</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)
Income tax						<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>

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

**Notes to the Condensed Interim Financial Statements (unaudited)**
**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,	
	2004 HK\$'000	2003 HK\$'000
Bank interest	13,197	13,470
Interest on loans wholly repayable within five years	1,246	3,331
Other borrowing costs	498	363
Total borrowing costs	14,941	17,164
Less: amount capitalised *	(13,464)	(10,459)
	<u>1,477</u>	<u>6,705</u>

\* Borrowing costs have been capitalised approximately at the rate of 1.28% (2003: 1.36%) per annum.

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

	For the six months ended 31st December,	
	2004 HK\$'000	2003 HK\$'000
Staff costs	27,956	32,332
Less: amount capitalised	(16,164)	(10,036)
	<u>11,792</u>	<u>22,296</u>
Depreciation	2,350	1,826
Less: amount capitalised	(13)	(12)
	<u>2,337</u>	<u>1,814</u>
Cost of completed properties for sale	<u>5,162</u>	<u>14,873</u>
Gain on disposal of fixed assets	<u>(617)</u>	<u>(2,179)</u>
Dividends from unlisted investment securities	<u>(5,857)</u>	<u>(13,691)</u>

**Notes to the Condensed Interim Financial Statements (unaudited)**

**5 INCOME TAX**

Income tax in the consolidated profit and loss account represents:

	For the six months ended 31st December,	
	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries		
Current tax – provision for Hong Kong Profits Tax	(1)	(1)
Current tax – outside Hong Kong	(3,038)	(1,403)
Deferred tax	(7,688)	(1,300)
Associates	(262)	(3,895)
Tax indemnity (Note 6 and 17(a))	4	–
	<u>(10,985)</u>	<u>(6,599)</u>

Provision for Hong Kong Profits Tax has been made at 17.5% (2003: 17.5%) 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 tax jurisdictions 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,	
	2004	2003
	HK\$'000	HK\$'000
Interim dividend declared after the interim period end at HK\$0.03 per share (2003: HK\$0.03 per share)	<u>14,933</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,	
	2004	2003
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, at HK\$0.03 per share (2003: HK\$0.03 per share)	<u>14,933</u>	<u>14,903</u>

**8 LOSS PER SHARE**

The calculation of loss per share is based on the loss attributable to shareholders of HK\$12,087,000 (2003: HK\$31,724,000) and on 497,776,205 ordinary shares (2003: 496,776,205 ordinary shares) in issue during the period. There was no potential dilution of loss per share for both periods.

**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, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Under 1 month overdue	10,520	11,585
More than 1 month overdue but less than 3 months overdue	637	669
More than 3 months overdue but less than 6 months overdue	875	979
More than 6 months overdue	19,954	17,769
	<u>31,986</u>	<u>31,002</u>

**10 DEBTORS, PREPAYMENTS AND DEPOSITS**

The Group maintains a defined credit policy. Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. 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:

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Under 1 month overdue	30,134	28,260
More than 1 month overdue but less than 3 months overdue	837	1,611
More than 3 months overdue but less than 6 months overdue	3,292	3,930
More than 6 months overdue	105,919	100,781
	<u>140,182</u>	134,582
Prepayments, deposits and other receivables	325,116	320,713
	<u>465,298</u>	<u>455,295</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, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Trade creditors:		
Due within 1 month and on demand	2,580	3,477
Due after 1 month but within 3 months	657	2,507
Due after 3 months but within 6 months	1,363	2,433
Due after 6 months	<u>129,841</u>	<u>129,676</u>
	134,441	138,093
Rental and other deposits	26,166	24,540
Other payables	<u>382,103</u>	<u>378,734</u>
	<u>542,710</u>	<u>541,367</u>

**12 SHARE CAPITAL**

	Number of shares		Nominal value	
	At 31st December, 2004 '000	At 30th June, 2004 '000	At 31st December, 2004 HK\$'000	At 30th June, 2004 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>497,776</u>	<u>497,776</u>	<u>497,776</u>	<u>497,776</u>

**Notes to the Condensed Interim Financial Statements (unaudited)**
**13 RESERVES**

	Share premium HK\$'000	Capital reserves HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1st July, 2004	5,569,402	81,716	143,036	692,859	6,487,013
Dividend approved and paid in respect of the previous financial year (Note 7(b))	-	-	-	(14,933)	(14,933)
Transfer from profit and loss account to capital reserves (note)	-	1,080	-	(1,080)	-
Loss for the period	-	-	-	(12,087)	(12,087)
Revaluation surplus transferred to the consolidated profit and loss account on disposal of investment properties	-	-	(1,917)	-	(1,917)
Revaluation deficit, net of deferred tax	-	-	(4,821)	-	(4,821)
Balance at 31st December, 2004	<u>5,569,402</u>	<u>82,796</u>	<u>136,298</u>	<u>664,759</u>	<u>6,453,255</u>

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

**14 COMMITMENTS**

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

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Contracted for	1,769,228	1,749,656
Authorised but not contracted for	2,446,834	2,777,361
	<u>4,216,062</u>	<u>4,527,017</u>

Notes to the Condensed Interim Financial Statements (unaudited)

14 COMMITMENTS (cont'd)

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, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Within 1 year	951,397	1,243,458
After 1 year but within 2 years	831,571	1,120,844
After 2 years	<u>2,433,094</u>	<u>2,162,715</u>
	<u><u>4,216,062</u></u>	<u><u>4,527,017</u></u>

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

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

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Within 1 year	2,826	886
After 1 year but within 5 years	<u>457</u>	<u>72</u>
	<u><u>3,283</u></u>	<u><u>958</u></u>

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

15 CONTINGENT LIABILITIES

Contingent liabilities of the Group were as follows:

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Guarantees given by the Company and its subsidiaries to financial institutions in respect of financing provided to purchasers of flats	<u><u>187,388</u></u>	<u><u>213,556</u></u>

**Notes to the Condensed Interim Financial Statements (unaudited)**

**16 PENDING LITIGATION**

Included in the balance of properties held for development (“PHFD”), an amount approximately of HK\$288 million is in relation to a project co-developed by a PRC joint venture partner (“JV partner”) and a subsidiary of the Group. Due to the failure of the JV partner to fulfil the terms of the joint venture agreement (“the agreement”), the subsidiary did not complete the land use right application within the time period as required by the local authority. As at 21st December, 2004, the subsidiary filed litigation against the JV partner for the breach of the agreement.

Having consulted the legal counsel, it is considered that the subsidiary had a favourable position in the above allegation and would successfully obtain the land use right. Accordingly, no provision in respect of the PHFD held by the subsidiary has been made in the condensed interim financial statements as at 31st December, 2004.

**17 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,	
	2004	2003
	HK\$'000	HK\$'000
Interest expenses (note (i))	(1,246)	(3,331)
Accounting fees paid (note (ii))	(1,000)	(1,000)
Tax indemnity (note (iii)) (Note 6)	4	–

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) 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 6).

Notes to the Condensed Interim Financial Statements (unaudited)

17 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, 2004, the advances made to the Company's subsidiaries and associates through companies controlled or owned by Mr. Lee amounting to HK\$470,464,000 (At 30th June, 2004: HK\$470,464,000) and HK\$586,821,000 (At 30th June, 2004: HK\$586,821,000) respectively are unsecured. No interest is charged to these subsidiaries and associates by the companies controlled or owned by Mr. Lee under such arrangements during the period ended 31st December, 2003 and 2004.

(c) Transactions with associates

	For the six months ended 31st December,	
	2004	2003
	HK\$'000	HK\$'000
Management fee recognised	<u>270</u>	<u>5,140</u>

(d) Transactions with related companies

- (i) 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 interim period is HK\$445,000. The rental deposit received and rental receivables are HK\$500,000 and HK\$3,683,000 respectively as at 31st December, 2004.
- (ii) The Group and one of its related companies entered into a rental agreement dated 30th March, 2004 for leasing certain units of the Group's investment properties with a monthly rental charged at 8% of the tenant's monthly turnover. According to the rental agreement, the related company is entitled to a rent-free period from 1st April, 2004 to 30th September, 2004. The total rental income and receivable from the related company during the interim period and as at 31st December, 2004 is HK\$249,000.

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.