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If you have sold or transferred all your shares in Henderson China Holdings Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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恒基中國集團有限公司*
HENDERSON CHINA HOLDINGS LIMITED

Incorporated in Bermuda with limited liability
(Stock Code: 0246)

PROPOSED PRIVATISATION BY



恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

**BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA)
INVOLVING THE CANCELLATION OF
ALL THE ISSUED SHARES OF HK\$1.00 EACH
IN HENDERSON CHINA HOLDINGS LIMITED
HELD BY THE SCHEME SHAREHOLDERS (AS DEFINED HEREIN)**

Financial Adviser to Henderson Land Development Company Limited

Morgan Stanley

**Independent financial adviser to the Independent Board Committee
(as defined herein) of Henderson China Holdings Limited**



PLATINUM
Securities

A letter from the board of directors of Henderson China Holdings Limited is set out on pages 8 to 17 of this document. An explanatory statement regarding the Proposal (as defined herein) is set out on pages 46 to 63 of this document. A letter from the Independent Board Committee (as defined herein) containing their advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on page 18 of this document. A letter from the independent financial adviser, Platinum Securities Company Limited, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 19 to 45 of this document.

The action to be taken by the Shareholders (as defined herein) are set out on page 62 of this document.

Notices convening the Court Meeting (as defined herein) and the Special General Meeting (as defined herein) both to be held on Friday, 22nd July, 2005 are set out on pages 157 to 160 of this document. Whether or not you are able to attend the Meetings (as defined herein), you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions respectively printed thereon, and to lodge them with Henderson China Holdings Limited's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event so as to reach them not later than 48 hours before the time appointed for holding of the relevant Meeting. In the case of the pink form of proxy, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This document is issued jointly by Henderson China Holdings Limited and Henderson Land Development Company Limited.

* For identification purposes only

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DEFINITIONS

In this document (other than the Scheme, the Notice of the Court Meeting and the Notice of the Special General Meeting), the following expressions have the following meanings, unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to such expression under the Takeovers Code
“Adjusted NAV”	adjusted consolidated net asset value of the HCHL Group which is based on the NAV and adjusted for certain items as set out in section 7 of Appendix I to this document
“Announcement”	the announcement dated 19th May, 2005 issued jointly by HCHL and HLD relating to, inter alia, the Proposal and published in the South China Morning Post, Sing Tao Daily, the Hong Kong Economic Journal and the Hong Kong Economic Times on 20th May, 2005
“Announcement Date”	19th May, 2005, being the date of the Announcement
“associate(s)”	has the meaning ascribed to such expression under the Takeovers Code
“Authorisations”	all the necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“Board”	the board of directors of HCHL
“Cancellation Price”	the cancellation price of HK\$8.00 per Scheme Share payable in cash by HLD to the Scheme Shareholders
“Canon International”	Canon International Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of Potential Enterprises Limited which is wholly-owned by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Shau Kee and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, all of whom are directors of HLD and HCHL
“Companies Act”	the Companies Act 1981 of Bermuda
“Condition(s)”	the conditions or any of them to which the Proposal is subject, which are set out in the section entitled “Conditions of the Proposal” in the Explanatory Statement on pages 47 to 49 of this document

DEFINITIONS

“Controlling Parties”	Primeford, Timsland and Quantum, all indirect wholly-owned subsidiaries of HLD and are beneficially interested in an aggregate of approximately 65.32% of the issued share capital of HCHL as at the Latest Practicable Date
“Court Meeting”	a meeting of the Scheme Shareholders convened by the direction of the Supreme Court at which the Scheme will be voted on, which will be held in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Friday, 22nd July, 2005 at 11:00 a.m., Hong Kong, notice of which is set out on pages 157 and 158 of this document, or any adjournment thereof
“DTZ”	DTZ Debenham Tie Leung Limited, an independent professional property valuer
“Effective Date”	the date on which the Scheme, if approved, becomes effective, which is expected to be Friday, 12th August, 2005 (Bermuda time)
“Excluded Parties”	Canon International, Mr. Jackson Woo Ka Biu and Ms. Carmen Woo Ka Man, all beneficially interested in an aggregate of approximately 5.14% of the issued share capital of HCHL as at the Latest Practicable Date
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate for the time being of the Executive Director
“Explanatory Statement”	the explanatory statement as set out on pages 46 to 63 of this document in compliance with Section 100 of the Companies Act
“HCHL”	Henderson China Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are currently listed on the Main Board of the Stock Exchange
“HCHL Group”	HCHL and its subsidiaries
“HLD”	Henderson Land Development Company Limited, the controlling shareholder indirectly interested in approximately 65.32% of the issued share capital of HCHL and a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“HLD Group”	HLD and its subsidiaries

DEFINITIONS

“HLD Shares”	ordinary shares of HK\$2.00 each in the capital of HLD
“holder”	a registered holder of shares including a person entitled by transmission to be registered as such and joint holders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of HCHL, comprising Mr. Liang Shangli and Mr. Leung Yuk Kwong both of whom are independent non-executive directors of HCHL, which has been established for the purpose of advising the Independent Shareholders in relation to the Proposal
“Independent Shareholders”	Shareholders other than the Controlling Parties and the Excluded Parties
“Latest Practicable Date”	16th June, 2005, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meetings”	the Court Meeting and the Special General Meeting or any of them, as the case may be
“Messrs. Lee”	Messrs. Lee Shau Kee, Lee Ka Kit and Lee Ka Shing, all of whom are directors of HCHL and HLD
“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited, a company incorporated in Hong Kong, which is licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the SFO, being the financial adviser to HLD in connection with the Proposal
“Non-compete Agreement”	the non-compete agreement between the Parent Company, Messrs. Lee and HCHL dated 15th March, 1996
“NAV”	the consolidated net asset value of the HCHL Group as at 31st December, 2004 based on the unaudited financial statements of the HCHL Group for the six months ended 31st December, 2004 as set out in the latest interim report of HCHL despatched to the Shareholders on 30th March, 2005

DEFINITIONS

“Parent Company”	Henderson Development Limited, the controlling shareholder of HLD which owns approximately 61.87% in HLD and a private company incorporated in Hong Kong with limited liability
“Platinum”	Platinum Securities Company Limited, licensed to carry out Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO, and the independent financial adviser to the Independent Board Committee
“Primeford”	Primeford Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“PER”	price to earnings ratio
“PRC”	the People’s Republic of China
“Price Increase Announcement”	the announcement dated 3rd June, 2005 issued jointly by HCHL and HLD relating to, inter alia, increase in cancellation price from HK\$7.50 per Scheme Share to HK\$8.00 per Scheme Share and published in South China Morning Post and the Hong Kong Economic Journal on 6th June, 2005
“Proposal”	the proposal for the privatisation of HCHL by HLD by way of the Scheme
“Quantum”	Quantum Overseas Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“Record Time”	5:00 p.m. Hong Kong time on Friday, 12th August, 2005 for determining entitlements under the Scheme
“Register”	the register of members of HCHL
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Scheme”	the scheme of arrangement between HCHL and the Scheme Shareholders under Section 99 of the Companies Act as set out on pages 151 to 156 of this document, with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Supreme Court involving the cancellation of all the Scheme Shares
“Scheme Share(s)”	Share(s) held by the Scheme Shareholders as at the Record Time
“Scheme Shareholder(s)”	Shareholder(s) of HCHL other than the Controlling Parties
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of Shares
“Shares”	shares of HK\$1.00 each in the share capital of HCHL
“Special General Meeting”	the special general meeting of HCHL to be held at 11:30 a.m. on Friday, 22nd July, 2005 in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong, notice of which is set out on pages 159 and 160 of this document, or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to such expression under the Listing Rules
“Supreme Court”	the Supreme Court of Bermuda
“Takeovers Code”	the Code on Takeovers and Mergers
“Timsland”	Timsland Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“trading day”	a day on which the Stock Exchange is open for trading in securities
“HK\$” and “cents”	Hong Kong dollar(s), the lawful currency of Hong Kong for the time being
“%”	per cent.

EXPECTED TIMETABLE

2005

<p>Latest time for lodging transfers of the Shares to qualify for entitlement to attend and vote at the Court Meeting and the Special General Meeting</p>	<p>4:00 p.m. on Friday, 15th July, 2005</p>
<p>Register closed for determination of entitlements to attend and vote at the Court Meeting and the Special General Meeting (<i>Note 1</i>)</p>	<p>Monday, 18th July, 2005 to Friday, 22nd July, 2005 (both dates inclusive)</p>
<p>Latest time for lodging forms of proxy in respect of (<i>Notes 2 and 4</i>):</p>	
<p>Court Meeting</p>	<p>11:00 a.m. on Wednesday, 20th July, 2005</p>
<p>Special General Meeting</p>	<p>11:30 a.m. on Wednesday, 20th July, 2005</p>
<p>Suspension of dealings in Shares</p>	<p>9:30 a.m. on Friday, 22nd July, 2005</p>
<p>Court Meeting (<i>Note 3</i>)</p>	<p>11:00 a.m. on Friday, 22nd July, 2005</p>
<p>Special General Meeting (<i>Note 3</i>)</p>	<p>11:30 a.m. on Friday, 22nd July, 2005 or so soon thereafter as the Court Meeting shall have been concluded or adjourned</p>
<p>Press announcement of the results of the Meetings in South China Morning Post and Hong Kong Economic Journal</p>	<p>Monday, 25th July, 2005</p>
<p>Resumption of dealings in the Shares</p>	<p>9:30 a.m. on Monday, 25th July, 2005</p>
<p>Supreme Court hearing of the petition to sanction the Scheme (<i>Note 4</i>)</p>	<p>Friday, 5th August, 2005</p>
<p>Press announcement of the results of hearing of the petition to sanction the Scheme in South China Morning Post and Hong Kong Economic Journal</p>	<p>Monday, 8th August, 2005</p>
<p>Last day for dealings in the Shares</p>	<p>Monday, 8th August, 2005</p>
<p>Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme</p>	<p>4:00 p.m. on Thursday, 11th August, 2005</p>
<p>Book close date (<i>Note 5</i>)</p>	<p>Friday, 12th August, 2005</p>
<p>Record Time</p>	<p>5:00 p.m. on Friday, 12th August, 2005</p>
<p>Effective Date (<i>Notes 4 and 6</i>)</p>	<p>Friday, 12th August, 2005</p>

EXPECTED TIMETABLE

Press announcement on Effective Date and withdrawal of listing in South China Morning Post and Hong Kong Economic Journal Monday, 15th August, 2005

Withdrawal of the listing of the Shares on the Stock Exchange becomes effective (*Note 6*) 9:30 a.m. on Monday, 15th August, 2005

Cheques for cash entitlements under the Scheme to be despatched on or before Monday, 22nd August, 2005

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any such change.

Notes:

1. The registers of members of HCHL kept in Bermuda and Hong Kong will be closed during such period for the purpose of determining entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Special General Meeting. This book close period is not for determining entitlements under the Scheme.
2. Forms of proxy should be lodged with HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than the relevant times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for the Special General Meeting must be lodged, not later than the time and date stated above. Completion and return of a form of proxy for either the Court Meeting or the Special General Meeting will not preclude a Shareholder from attending and voting in person at the relevant Meeting. In such event, the returned form of proxy will be deemed to have been revoked.
3. The Court Meeting and the Special General Meeting will be held in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out on pages 157 and 158 and the notice of the Special General Meeting set out on pages 159 and 160 of this document for details.
4. All references in this document to times and dates are references to Hong Kong times and dates other than references to the expected date for the Supreme Court hearing of the petition to sanction the Scheme and the Effective Date, which are references to the relevant dates in Bermuda. For the period from the date of this document to 29th October, 2005, Bermuda time is 11 hours behind Hong Kong time and will be 12 hours behind Hong Kong time thereafter.
5. The registers of members of HCHL kept in Bermuda and Hong Kong will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
6. The Scheme will become effective when it is sanctioned (with or without modification) by the Supreme Court and a copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration. Independent Shareholders should note the Conditions of the Proposal set out on pages 47 to 49 of this document. It is expected that the listing of the Shares on the Stock Exchange will be withdrawn with effect from 9:30 a.m. on Monday, 15th August, 2005.



恒基中國集團有限公司*
HENDERSON CHINA HOLDINGS LIMITED

Incorporated in Bermuda with limited liability
(Stock Code: 0246)

Executive Directors:

Mr. Lee Ka Kit (*Chairman and President*)
Dr. Lee Shau Kee
Mr. Colin Lam Ko Yin
Mr. Lee King Yue
Mr. Leung Sing
Mr. Lee Ka Shing
Mr. Patrick Kwok Ping Ho
Mr. Ho Wing Fun
Mr. Cheung Fong Ming

Registered Office:

Clarendon House,
Church Street,
Hamilton HM 11,
Bermuda

Hong Kong Head Office and

Principal Place of Business:
72-76/F, Two International Finance Centre
8 Finance Street, Central,
Hong Kong

Non-executive Directors:

Mr. Wong Ying Wai
Mr. Kan Fook Yee
Mr. Philip Yuen Pak Yiu

Independent Non-executive Directors:

Mr. Liang Shangli
Mr. Gordon Kwong Che Keung
Mr. Leung Yuk Kwong

20th June, 2005

To Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
HENDERSON CHINA HOLDINGS LIMITED BY
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT**

INTRODUCTION

It was jointly announced by HLD and HCHL on 19th May, 2005 that on 17th May, 2005, HLD, three of whose indirect wholly-owned subsidiaries comprising the Controlling Parties holding 325,133,977 Shares representing approximately 65.32% of the issued share capital of HCHL,

* For identification purposes only

LETTER FROM THE BOARD

requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of HCHL by way of a scheme of arrangement under Section 99 of the Companies Act involving the cancellation and extinguishment of all the Scheme Shares in consideration of the payment of the cancellation price of HK\$7.50 per Scheme Share.

It was jointly announced by HLD and HCHL on 3rd June, 2005 that in order to make the cancellation price more attractive to the Scheme Shareholders, HLD had decided to increase the cancellation price as originally announced on 19th May, 2005 from HK\$7.50 per Scheme Share to HK\$8.00 per Scheme Share, representing an increase of approximately 6.67%. HLD has stated that it would not further increase the Cancellation Price. Following such announcement, HLD will not be allowed to increase the Cancellation Price, save in wholly exceptional circumstances, as a result of the provisions of Rule 18.3 of the Takeovers Code.

Upon the Scheme becoming effective, HCHL will become a wholly-owned subsidiary of HLD. HCHL will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Effective Date.

It is the intention of HLD to maintain the existing businesses of the HCHL Group upon the privatisation of HCHL.

As at the date of this document, the Controlling Parties are beneficially interested in an aggregate of 325,133,977 Shares, representing approximately 65.32% of the issued share capital of HCHL. Such Shares, by reason of the fact that the Controlling Parties are all indirect wholly-owned subsidiaries of HLD, will not form part of the Scheme Shares, and accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. Although as stated in the Announcement, Shares held by the Controlling Parties will not be voted at the Special General Meeting, in view of the absence of any prohibition restricting the Controlling Parties from attending and voting at the Special General Meeting, the Controlling Parties now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

In view of the interests of HLD in the Proposal and the relationships between the Excluded Parties and HLD as explained in the following paragraph, all of the 25,584,095 Shares of the Excluded Parties which represent approximately 5.14% of the issued share capital of HCHL, although forming part of the Scheme Shares, will not be represented or voted at the Court Meeting as the Excluded Parties are presumed to be parties acting in concert with HLD under the Takeovers Code. Although it was also stated in the Announcement that the Excluded Parties will abstain from voting on the Scheme at the Meetings, in view of the absence of any prohibition restricting the Excluded Parties (other than Mr. Jackson Woo Ka Biu who confirmed, in seeking ruling from the Executive that Rule 2.4 of the Takeovers Code is not applicable to the Proposal, that he will not take part or vote as a Shareholder at any meetings of the Shareholders to approve the Proposal) from attending and voting at the Special General Meeting, the Excluded Parties other than Mr. Jackson Woo Ka Biu now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

LETTER FROM THE BOARD

As at the date of this document, Canon International is beneficially interested in 24,328,000 Shares, Mr. Jackson Woo Ka Biu is beneficially interested in 544,802 Shares and Ms. Carmen Woo Ka Man is beneficially interested in 711,293 Shares, representing approximately 4.89%, approximately 0.11% and approximately 0.14%, respectively of the issued share capital of HCHL. Canon International is a company ultimately controlled by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Shau Kee and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, all of whom are directors of HLD. Mr. Jackson Woo Ka Biu is the son of, and an alternate director of HLD to, Sir Po-shing Woo who is a non-executive director of HLD. Ms. Carmen Woo Ka Man is the daughter of Sir Po-shing Woo and the sister of Mr. Jackson Woo Ka Biu. Canon International, Mr. Jackson Woo Ka Biu and Ms. Carmen Woo Ka Man are presumed to be parties acting in concert with HLD under the Takeovers Code.

HLD has appointed Morgan Stanley as its financial adviser in connection with the Proposal.

The Board comprises fifteen directors, nine of whom are executive directors, three are non-executive directors and the remaining three are independent non-executive directors. As Mr. Gordon Kwong Che Keung is an independent non-executive director of HLD and Henderson Investment Limited, a subsidiary of HLD, he is not considered to be independent under the Takeovers Code to opine on the terms of the Proposal. As a result, the Independent Board Committee comprising Mr. Liang Shangli and Mr. Leung Yuk Kwong, both being independent non-executive directors of HCHL appointed by the Board, has been established to make a recommendation to the Independent Shareholders in respect of the Proposal.

Platinum has been appointed by the Board as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

The table below sets out the ownership of the Shares in issue, including those beneficially owned by the Controlling Parties and the Excluded Parties, as at the Latest Practicable Date:-

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Primeford	175,000,000	35.16	175,000,000	53.82
Timsland	75,233,977	15.11	75,233,977	23.14
Quantum	<u>74,900,000</u>	<u>15.05</u>	<u>74,900,000</u>	<u>23.04</u>
<i>Aggregate number of Shares of the Controlling Parties</i>	<u>325,133,977</u>	<u>65.32</u>	<u>325,133,977</u>	<u>100</u>
Jackson Woo Ka Bui (<i>note 1</i>)	544,802	0.11	—	—
Carmen Woo Ka Man (<i>note 2</i>)	711,293	0.14	—	—
Canon International (<i>note 3</i>)	<u>24,328,000</u>	<u>4.89</u>	—	—
<i>Aggregate number of Shares of the Excluded Parties</i>	<u>25,584,095</u>	<u>5.14</u>	—	—
<i>Aggregate number of Shares of the Controlling Parties and the Excluded Parties</i>	350,718,072	70.46	325,133,977	100
Independent Shareholders	<u>147,058,133</u>	<u>29.54</u>	—	—
Total	<u>497,776,205</u>	<u>100.00</u>	<u>325,133,977</u>	<u>100.00</u>
Scheme Shareholders (<i>note 4</i>)	172,642,228	34.68	—	—

Notes:

- Mr. Jackson Woo Ka Bui is the son of, and an alternate director of HLD to, Sir Po-shing Woo who is a non-executive director of HLD and therefore is presumed to be a party acting in concert with HLD under the Takeovers Code.
- Ms. Carmen Woo Ka Man is the daughter of Sir Po-shing Woo and the sister of Mr. Jackson Woo Ka Bui and therefore is presumed to be a party acting in concert with HLD under the Takeovers Code.
- Canon International is a company ultimately controlled by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Shau Kee and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, all of whom are directors of HLD. Canon International is presumed to be a party acting in concert with HLD under the Takeovers Code.
- The total number of Scheme Shares equals the aggregate number of Shares held by the Excluded Parties and the Independent Shareholders.

Assuming that no further Shares will be issued or repurchased between the Latest Practicable Date and the Record Time, all of the 172,642,228 Scheme Shares then in issue will be cancelled and extinguished.

LETTER FROM THE BOARD

SUMMARY OF THE PROPOSAL

The purpose of this document is to give you further information regarding the Proposal and to give you notices of the Court Meeting and the Special General Meeting. Your attention is also drawn to the letter from the Independent Board Committee, the letter from Platinum to the Independent Board Committee, the Explanatory Statement and the Scheme, all of which form part of this document.

It is proposed that, subject to the Conditions being fulfilled or, if applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the issued share capital of HCHL under Section 46 of the Companies Act. Accordingly, HCHL will become a wholly-owned subsidiary of HLD. The Scheme also provides that, in consideration of the cancellation and extinguishment of the Scheme Shares, all of the Scheme Shareholders whose names appear on the Register at the Record Time will be entitled to receive the Cancellation Price, which is HK\$8.00 for each Scheme Share held.

Payment of the Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous rights to which HLD may otherwise be, or claim to be, entitled against any holder of Scheme Shares.

On the bases of the Cancellation Price and of a total of 172,642,228 Scheme Shares and 325,133,977 Shares held by the Controlling Parties outstanding as at the Latest Practicable Date, the entire issued share capital of HCHL is valued at approximately HK\$3,982 million under the Proposal. The amount of cash required for the payment of the Cancellation Price is approximately HK\$1,381 million. HLD has stated that it intended to finance the payment of the Cancellation Price from internal resources and/or bank borrowings. HLD has, among others, two syndicated loan facilities of which an amount of HK\$3,750,000,000 and an amount of HK\$3,700,000,000 are available to HLD for use under the respective credit facilities and their respective facility agents are Standard Chartered Bank (Hong Kong) Limited and BNP Paribas Hong Kong Branch. The payment of interest on, and repayment of or security for, any loan facilities will not depend to any significant extent on the business of HCHL. HLD may consider, in the event of favourable market conditions, to refinance the syndicated loan facility in relation to which BNP Paribas Hong Kong Branch is acting as facility agent prior to its final maturity. In such circumstance, an amount of up to approximately HK\$1,381 million required for the payment of the Cancellation Price will be earmarked by HLD out of the undrawn amount in the syndicated loan facility in relation to which Standard Chartered Bank (Hong Kong) Limited is acting as facility agent for such purpose and such earmarked facility amount shall not be used for any other purpose until the payment in full of the Cancellation Price or until the Proposal lapses.

Morgan Stanley is satisfied that sufficient financial resources are available to HLD for the implementation of the Proposal.

The Proposal will become effective and binding on HCHL and all of the Scheme Shareholders, including the Excluded Parties and their nominees in whose names some of the Shares beneficially owned by them are registered, provided that the Conditions are fulfilled, or if applicable waived.

LETTER FROM THE BOARD

The Scheme will lapse if it does not become effective on or before 30th November, 2005 or such later date as HLD and HCHL may agree or as the Supreme Court may allow and the Scheme Shareholders will be notified accordingly by press announcements.

Assuming that the Scheme becomes effective on Friday, 12th August, 2005, cheques for the Cancellation Price are expected to be despatched to the Scheme Shareholders on or before Monday, 22nd August, 2005.

FINANCIAL EFFECTS OF THE PROPOSAL

Share Price

The Cancellation Price of HK\$8.00 per Scheme Share represents:

- a premium of approximately 66.67% over the closing price of HK\$4.80 per Share as quoted on the Stock Exchange on 13th May, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 60.97% over the average closing price of approximately HK\$4.97 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 13th May, 2005;
- a premium of approximately 64.27% over the average closing price of approximately HK\$4.87 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 13th May, 2005;
- a premium of approximately 64.61% over the average closing price of approximately HK\$4.86 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 13th May, 2005;
- a premium of approximately 86.05% over the average closing price of approximately HK\$4.30 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 13th May, 2005;
- a premium of approximately 2.56% over the closing price of HK\$7.80 per Share as quoted on the Stock Exchange on 2nd June, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Price Increase Announcement); and
- a premium of approximately 8.11% over the closing price of HK\$7.40 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Historical share price information on the Shares is set out in the section headed “Market Prices” in Appendix III to this document.

LETTER FROM THE BOARD

Net Assets

The Cancellation Price represents:

- (i) a discount of approximately 42.69% over the NAV per Share of approximately HK\$13.96; and
- (ii) a discount of approximately 36.05% over the Adjusted NAV per Share of approximately HK\$12.51.

Earnings

The unaudited consolidated loss attributable to the Shareholders for the six months ended 31st December, 2004 was approximately HK\$12 million, representing a loss per Share of approximately 2 cents.

The HCHL Group's audited consolidated profit attributable to the Shareholders for the year ended 30th June, 2004 was approximately HK\$16 million, representing earnings per Share of approximately 3 cents. The HCHL Group's audited consolidated loss attributable to the Shareholders in respect of the previous financial year was approximately HK\$399 million which is equivalent to loss per Share of approximately 80 cents.

Based on the earnings per Share for the twelve months ended 31st December, 2004, the Cancellation Price would represent a PER for Shares of approximately 114. This represents a premium of approximately 66.67% over the PER of approximately 69 based on the closing price of HK\$4.80 per Share on 13th May, 2005.

Dividend Yield

Based on the Cancellation Price and the dividends approved and paid during the 12 months ended 31st December, 2004, the dividend yield for the Shares would be approximately 0.8%.

BACKGROUND TO, AND REASONS FOR, THE PROPOSAL

Your attention is drawn to the section headed "Background to, and reasons for, the Proposal" in the Explanatory Statement on pages 50 and 51 of this document.

INFORMATION RELATING TO HCHL GROUP AND FUTURE INTENTIONS

Your attention is drawn to the sections headed "Information relating to the HCHL Group" and "Future intentions" in the Explanatory Statement on pages 51 to 57 of this document.

OTHER INFORMATION

Mr. Jackson Woo Ka Biu is the son of, and an alternate director of HLD to, Sir Po-shing Woo who is a non-executive director of HLD and is presumed to be a party acting in concert with HLD under the Takeovers Code. As at the Latest Practicable Date, Mr. Jackson Woo Ka Biu was interested in 544,802 Shares. In view of the relatively insignificant interest of Mr. Jackson Woo Ka Biu in the Shares representing only approximately 0.11% of the entire issued share capital of HCHL and the confirmation by Mr. Jackson Woo Ka Biu to the Executive prior to the Announcement confirming that (1) he has not been involved, or participated as an alternate director to Sir Po-shing Woo, in HLD's decision making process as regards the making of the Proposal; and (2) at any time prior to the Effective Date or the date on which the Scheme lapses (whichever is the earlier): (i) he will not be involved, or participate as an alternate director to Sir Po-shing Woo, in HLD's decision making process as regards the making of the Proposal; (ii) he will not take part or vote as a Shareholder at any meetings of the Shareholders to approve the Proposal; and (iii) he will receive no ancillary benefit, and will be treated no differently than the other Shareholders, in respect of the Proposal, the Executive has ruled that Rule 2.4 of the Takeovers Code is not applicable to the Proposal.

MEETINGS AND ACTION TO BE TAKEN BY THE SHAREHOLDERS

As you will see from the notices of Meetings set out on pages 157 to 160 of this document, the Meetings have been convened to be held at 11:00 a.m. and 11:30 a.m. respectively in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong on Friday, 22nd July, 2005.

In accordance with the direction of the Supreme Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). In so far as the sanction of the Scheme by the Supreme Court is concerned, such a resolution will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. As explained above, however, such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 147,058,133 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounted to 14,705,813 Shares.

Immediately following the Court Meeting, the Special General Meeting has been convened for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the Special General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting.

LETTER FROM THE BOARD

As at the date of this document, the Controlling Parties are beneficially interested in an aggregate of 325,133,977 Shares, representing approximately 65.32% of the issued share capital of HCHL. Such Shares, by reason of the fact that the Controlling Parties are all indirect wholly-owned subsidiaries of HLD, will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. Although as stated in the Announcement, Shares held by the Controlling Parties will not be voted at the Special General Meeting, in view of the absence of any prohibition restricting the Controlling Parties from attending and voting at the Special General Meeting, the Controlling Parties now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme. In addition, the Excluded Parties, who as at the date of this document are collectively beneficially interested in 25,584,095 Shares representing approximately 5.14% of the issued share capital of HCHL, and their nominees in whose names some of the Shares beneficially interested by them are registered will not, for the reasons already explained above, attend and vote at the Court Meeting in person or by proxy in their capacity as Scheme Shareholders. Although it was also stated in the Announcement that the Excluded Parties will abstain from voting on the Scheme at the Meetings, in view of the absence of any prohibition restricting the Excluded Parties (other than Mr. Jackson Woo Ka Biu who confirmed, in seeking ruling from the Executive that Rule 2.4 of the Takeovers Code is not applicable to the Proposal, that he will not take part or vote as a Shareholder at any meetings of the Shareholders to approve the Proposal) from attending and voting at the Special General Meeting, the Excluded Parties other than Mr. Jackson Woo Ka Biu now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

Whether or not you are able to attend the Meetings in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Special General Meeting in accordance with the instructions respectively printed thereon and to lodge them with HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, it is requested that this form of proxy be lodged not later than 11:00 a.m. on Wednesday, 20th July, 2005 but if it is not so lodged, it may be handed to the chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the Special General Meeting must be lodged not later than 11:30 a.m. on Wednesday, 20th July, 2005. One self-addressed, pre-paid envelope marked "For Return of Court Meeting Proxy Form and/or Special General Meeting Proxy Form — Henderson China Holdings Limited" is enclosed in order to facilitate the return by the Shareholders by post (from within Hong Kong only) of their completed forms of proxy. The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meeting and voting in person if you so wish. In the event that you attend a Meeting after having lodged the form of proxy, your form of proxy for that Meeting will be deemed to have been revoked.

LETTER FROM THE BOARD

For the purpose of determining the entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Special General Meeting, the Register will be closed from Monday, 18th July, 2005 to Friday, 22nd July, 2005 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Special General Meeting, all transfers accompanied by the relevant share certificates must be lodged with HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 15th July, 2005.

Assuming that the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Friday, 12th August, 2005. Further press announcements will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the result of the hearing of the petition for the sanction of the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the sections headed "Share certificates, dealings and listing" and "Registration and payment" in the Explanatory Statement on pages 58 and 59 of this document.

FURTHER INFORMATION

A letter from the Independent Board Committee to the Independent Shareholders as well as a letter from Platinum to the Independent Board Committee are reproduced on pages 18 to 45 of this document. We advise you to read these letters carefully before you take any action in respect of the Proposal.

In considering what action to take in connection with the Proposal, you should consider your own tax position and, if you are in any doubt, you should consult your professional advisers.

You are urged to read the Explanatory Statement as set out on pages 46 to 63 of this document, the appendices to this document, the Scheme as set out on pages 151 to 156 of this document, and the notices of the Court Meeting and the Special General Meeting as set out on pages 157 to 160 of this document.

Yours faithfully,
For and on behalf of the Board
Lee Ka Kit
Chairman



恒基中國集團有限公司*
HENDERSON CHINA HOLDINGS LIMITED

Incorporated in Bermuda with limited liability
(Stock Code: 0246)

20th June, 2005

To the Independent Shareholders

Dear Sirs or Madam,

**PROPOSED PRIVATISATION OF
HENDERSON CHINA HOLDINGS LIMITED BY
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT**

It was jointly announced by HLD and HCHL on 19th May, 2005 that on 17th May, 2005, HLD had requested the directors of HCHL to put forward the Proposal to the Scheme Shareholders for the purpose of acquiring their interests in HCHL at the cancellation price of HK\$7.50 per Scheme Share. It was further announced on 3rd June, 2005 that in order to make the cancellation price more attractive to the Scheme Shareholders, HLD had decided to increase the cancellation price from HK\$7.50 per Scheme Share to HK\$8.00 per Scheme Share, representing an increase of approximately 6.67%. Details of the Proposal are set out in the section entitled "Letter from the Board" as set out on pages 8 to 17 of a document issued jointly by HCHL and HLD dated 20th June, 2005 (the "Document"), of which this letter forms part. For the purpose of the Proposal, we have been appointed as members of the Independent Board Committee to give a recommendation to the Independent Shareholders as to how they should vote on the Proposal. Platinum has been appointed as the independent financial adviser to advise us in connection with the Proposal. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Document.

Having considered the terms of the Scheme and the opinion of Platinum and, in particular, the factors, reasons and recommendations as set out in the letter from Platinum on pages 21 to 45 of the Document, we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to approve and give effect to the Proposal at the Special General Meeting.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the Explanatory Statement and (iii) the Appendices which form part of the Explanatory Statement, in particular, the property valuations in Appendix II.

Yours faithfully,
Independent Board Committee

Mr. Liang Shangli
Independent Non-executive Director

Mr. Leung Yuk Kwong
Independent Non-executive Director

* For identification purposes only

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee for the purpose of incorporation into this document.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road, Central
Hong Kong

Telephone (852) 2841 7000
Facsimile (852) 2522 2700

20th June, 2005

To the Independent Board Committee

Dear Sir,

**PROPOSED PRIVATISATION OF HENDERSON CHINA HOLDINGS LIMITED
BY HENDERSON LAND DEVELOPMENT COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 99 OF THE COMPANIES ACT)**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee with respect to the Proposal for the proposed privatisation of HCHL by HLD by way of the Scheme. Details of the Scheme are contained in the scheme document dated 20th June, 2005 issued jointly by HLD and HCHL (the “Scheme Document”) of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document.

Platinum has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Proposal, in particular the Cancellation Price, are fair and reasonable as far as the Independent Shareholders are concerned.

Platinum is independent from, and is not associated with, HLD, HCHL or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal. We will receive a fee from HCHL for the delivery of this letter. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from HLD, HCHL or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

INDEPENDENT BOARD COMMITTEE

The Board comprises fifteen directors, nine of whom are executive directors, three are non-executive directors and the remaining three are independent non-executive directors. Amongst the three independent non-executive directors, Mr. Gordon Kwong Che Keung is an independent non-executive director of HLD and Henderson Investment Limited, a subsidiary of HLD, and he is not considered to be independent under the Takeovers Code to opine on the terms of the Proposal. As a result, Mr. Liang Shangli and Mr. Leung Yuk Kwong, the independent non-executive directors of HCHL, have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Proposal.

In formulating our opinion, we have relied on the information and facts supplied by, the opinions expressed by and the representations of, the Board and management of HCHL concerning the HCHL Group, the Proposal and the Scheme, including those facts, opinions and representations set out in the Scheme Document. Examples of such information include financial information, terms of the Proposal, current business operations, future prospects and valuation reports. We have assumed that all such information is true and accurate in all material respects as at the date hereof. The Board have confirmed that they take full responsibility for the contents of the Scheme Document.

We have no reason to believe that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Scheme Document. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the HCHL Group. The Board has confirmed that no material facts have been omitted from the information supplied to us. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Proposal and the Scheme.

TERMS OF THE PROPOSAL

In summary, the Proposal involves the following principal terms:

- (i) all the Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished under Section 46 of the Companies Act. In return, the Scheme Shareholders will receive HK\$8.00 in cash from HLD for every Scheme Share held;
- (ii) the issued share capital of HCHL will be reduced and HCHL will become a wholly-owned subsidiary of HLD and the listing of the Shares on the Stock Exchange will be withdrawn;
- (iii) based on the Cancellation Price and a total of 172,642,228 Scheme Shares outstanding as at the Latest Practicable Date, the amount of consideration required for the payment of the Cancellation Price is approximately HK\$1,381 million;

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

- (iv) HLD has stated that it intends to finance the payment of the Cancellation Price from internal resources and/or bank borrowings; and
- (v) the Scheme will lapse if it does not become effective on or before 30th November, 2005 or such later date as HLD and HCHL may agree or as the Supreme Court may allow and the Scheme Shareholders will be notified accordingly by press announcements.

Further details of the terms and conditions of the Proposal are set out in the Explanatory Statement in the Scheme Document.

In so far as the sanction of the Scheme by the Supreme Court is concerned, such a resolution will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. However, such a resolution will only be considered to have been passed under the Takeovers Code if: (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders.

Following the Court Meeting, the Special General Meeting will be held for the purpose of considering and, if though fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the Special General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation relating to the terms of the Proposal and giving our independent financial advice to the Independent Board Committee, we have considered the following principal factors and reasons:

A. Background to, and reasons for, the Proposal

1. Business of HCHL

HCHL is a company incorporated in Bermuda with limited liability, the shares of which have been listed on the Stock Exchange since 28th March, 1996. The principal business activities of the HCHL Group are property development and investment, project management, property management, finance and investment holding in the PRC.

2. *Increase in the Cancellation Price*

It was announced on 3rd June, 2005 that, to make the Cancellation Price more attractive to the Scheme Shareholders, the initial cancellation price under the Proposal was increased by HLD from the HK\$7.50 per Scheme Share originally announced on 19th May, 2005 to HK\$8.00 per Scheme Share, representing an increase of approximately 6.67%. HLD has stated that it would not further increase the Cancellation Price, save in wholly exceptional circumstances, as a result of the provisions of Rule 18.3 of the Takeovers Code.

3. *Rationale for the Proposal*

As stated in the letter from the Board and the Explanatory Statement in the Scheme Document, HLD has identified a number of reasons for and benefits of the Proposal. These include:

- (i) the trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the past six months preceding the Announcement Date has been less than 0.1% of the number of issued Shares;
- (ii) since HCHL is owned as to approximately 65.32% by HLD, the directors of HLD believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of HLD; and
- (iii) the principal activities of both HLD and HCHL include property development and investment, finance, project management and property management. The consolidation of such active operations of HLD and HCHL is expected to result in better utilisation of resources for both HLD and HCHL and, therefore, the resultant consolidated business is expected to result in a more efficient operation with a more cost-effective group structure by making HCHL a wholly-owned subsidiary of HLD.

As a result of the Proposal, an opportunity is available for all the Scheme Shareholders to realise their investments in HCHL at a premium to the prevailing market price of the Shares. We consider the terms of the Proposal are in the interest of the Scheme Shareholders especially after we have reviewed other aspects of the Proposal which we will discuss in the ensuing sections of this letter.

B. Historical financial performance and future growth

An extract of the key financials from the audited consolidated results of the HCHL Group for the three years ended 30th June, 2004 and the unaudited consolidated results for the six months ended 31st December, 2003 and 2004 are set out below:

Table 1: Key financials of HCHL Group for the three years ended 30th June, 2004 and six months ended 31st December, 2003 and 2004

	For the year ended 30th June,			For the six months ended 31st December,	
	2002	2003	2004	2003	2004
		(restated) ¹			
	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Turnover	578	188	93	52	35
Profit/(loss) from operations	159	(290)	42	(18)	(13)
Profit/(loss) before taxation	143	(367)	(12)	(32)	(8)
Profit/(loss) attributable to the Shareholders	133	(399)	16	(32)	(12)

Note¹: HCHL Group's 2003 results were restated due to the adoption of a revised accounting standard.

Source: Annual reports and accounts and interim reports of HCHL Group

1. Turnover and profitability

As illustrated in Table 1 above, the overall turnover of HCHL Group was a downward trend, decreasing from approximately HK\$578 million in 2002 to approximately HK\$188 million in 2003 and subsequently to approximately HK\$93 million in 2004. Furthermore, the turnover amount of approximately HK\$35 million for the six months ended 31st December, 2004 represents approximately 67% of the total turnover for the corresponding period in the previous year. The turnover of HCHL Group was generated from the principal businesses including:

- (i) property development;
- (ii) property investment;
- (iii) finance; and
- (iv) management and sales commissions.

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

Table 2 and Table 3 below is a summary of the turnover and the performance of each revenue segment of HCHL Group for the three years ended 30th June, 2004 and six months ended 31st December, 2004.

Table 2: A breakdown of the turnover of HCHL Group by segment

	For the financial year ended 30th June,						For the six months ended 31st December,	
	2002		2003 (restated) ¹		2004		2004	
	Revenue & other revenue	% of total turnover	Revenue & other revenue	% of total turnover	Revenue & other revenue	% of total turnover	Revenue & other revenue	% of total turnover
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Property development . . .	398,391	68.97	91,042	48.35	28,532	30.57	6,429	15.52
Property investment . . .	67,503	11.69	41,291	21.92	43,796	46.93	21,544	52.03
Finance	81,865	14.17	40,931	21.73	6,406	6.86	2,175	5.25
Management and sales								
commissions	26,168	4.53	15,066	8.00	14,595	15.64	4,579	11.06
Others and unallocated . .	3,685	0.64	—	—	—	—	6,686	16.14
Total	577,612	100.00	188,330	100.00	93,329	100.00	41,413	100.00

Note¹: HCHL Group's 2003 results were restated due to the adoption of a revised accounting standard.

Source: Annual reports and accounts and interim report of HCHL Group

Table 3: A breakdown of the segmental performance result of HCHL Group

	For the financial year ended 30th June,			For the six months ended 31st December,
	2002	2003 (restated) ¹	2004	2004
	Operating profit/ (loss)			Operating profit/ (loss)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Property development	43,341	(191,934)	228,959	(4,696)
Property investment	20,673	(124,317)	(122,847)	(13,397)
Finance	64,603	37,835	6,258	2,166
Management and sales				
commissions	25,131	(3,462)	7,032	272
Others and unallocated	4,902	(8,123)	(77,820)	2,320
Total	158,650	(290,001)	41,582	(13,335)

Note¹: HCHL Group's 2003 results were restated due to the adoption of a revised accounting standard.

Source: Annual reports and accounts and interim report of HCHL Group

As illustrated in Table 2 above, approximately 70% of HCHL Group's total turnover was contributed by the property development and investment segments for the last three financial periods. Furthermore, Table 3 above illustrates the significant impact of the property development and investment segments to the overall performance of HCHL Group during these financial periods.

Set out below is a brief review of the performance of each of these two segments during the above periods.

(a) *Property development*

The revenue of the property development segment was mainly derived from the sale of properties and construction of properties. By its nature, turnover of property developments are subject to large variations, depending on the timing of completion of major property development projects.

Performance of property developments is highly correlated to the overall market environment. For the financial year of 2003, both segmental turnover and operating results decreased dramatically, mainly due to the 911 terrorist incident in the United States of America and the Iraqi War which significantly affected the overall global economy. As a result, a segmental loss of approximately HK\$192 million was reported.

For the financial year of 2004, overall segmental performance improved mainly due to the recovery from the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the rapid development of the PRC property market in the second half of the financial year. As a result, despite the segmental turnover further decreased to approximately HK\$29 million from approximately HK\$91 million in 2003, a segmental profit of approximately HK\$229 million was reported mainly due to the write back of provisions previously made by the HCHL Group on certain property projects which amounted to approximately HK\$264 million during the financial year of 2004.

For the six months ended 31st December, 2004, however, the segmental performance was hit by the austerity measures of the PRC that were aimed to cool down the overheated PRC economy, and the implementation of credit tightening policies, which had put the property sales turnover and property prices under pressure, hence, a resultant segmental turnover of approximately HK\$6 million and a segmental loss of approximately HK\$5 million were reported.

(b) *Property investment*

The property investment segment accounted for approximately 11.7%, 21.9%, 46.9% and 52.0% of HCHL Group's total revenue for the three years ended 30th June, 2004 and six months ended 31st December, 2004 respectively. This business segment has been loss-making since the financial year of 2003.

Revenue from the segment was mainly derived from property rental revenue from the leasing of HCHL Group's properties. The significant increase in the overall contribution of the property investment segment to the overall turnover of HCHL Group over the past three and a half years was mainly due to the reduced turnover contribution from the property development segment of HCHL Group. Although the segmental turnover was relatively stable for the financial years of 2003 and 2004, at approximately HK\$41 million and approximately HK\$44 million respectively, the corresponding segmental losses were approximately HK\$124 million and approximately HK\$123 million respectively which were mainly due to the 911 incident, the Iraqi War and SARS that created significant pressure on the PRC overall property rental market, especially in cities such as Shanghai and Beijing. For the six months ended 31st December, 2004, the segmental turnover was approximately HK\$22 million and the segmental loss was approximately HK\$13 million.

2. Profit attributable to the Shareholders

For the financial year of 2003, HCHL Group made its first time net loss since its listing in 1996. A loss from operation of approximately HK\$290 million was made compared to a profit from operation of approximately HK\$159 million for the financial year of 2002. This loss was mainly due to the 911 incident and the Iraqi War which significantly affected the overall economy in the PRC during that year. A profit from operation of approximately HK\$42 million was recorded for the financial year of 2004 which was mainly due to the recovery from the outbreak of SARS and the rapid development of the PRC property market in the second half of the year. For the six months ended 31st December, 2004, HCHL Group recorded a loss from operation of approximately HK\$13 million mainly due to the imposition by the PRC government of a series of macroeconomic measures in an attempt to cool down the overheated PRC economy and the implementation of credit tightening policies.

Meanwhile, profit attributable to the Shareholders has been volatile, recording a gain of approximately HK\$133 million to a loss of approximately HK\$399 million and then subsequently to a gain of approximately HK\$16 million for the three financial years ended 30th June, 2004. Furthermore, HCHL Group recorded a loss of approximately HK\$12 million for the six months ended 31st December, 2004.

HCHL Group's profit from operations and net profit attributable to the Shareholders for the recent periods have been volatile. The Proposal could be considered to be a good opportunity for the Scheme Shareholders to realise their investment in HCHL for other higher growth or more stable investment alternatives. The swapping of lower growth and volatile investments for higher growth and more stable investments is especially conducive when the Cancellation Price is at a premium to the prevailing market price of the Shares. We believe this opportunity for the Scheme Shareholders to switch out of a lower growth and volatile investment, at a premium to market, to higher growth and more stable investments, is in the interest of the Scheme Shareholders.

C. Dividend

The following table shows the dividend-related statistics of HCHL for the previous five financial years and for the six months ended 31st December, 2004:

Table 4: Dividend-related statistics of HCHL

<u>For the year ended 30th June,</u>	<u>Dividend</u>	<u>Earnings /</u>	<u>Dividend</u>	<u>Average</u>	<u>Dividend</u>
	<u>per Share</u>	<u>(losses) per</u>	<u>payout ratio</u>	<u>daily closing</u>	<u>yield</u>
	<u>(HK\$)</u>	<u>Share</u>	<u>(%)</u>	<u>price of the</u>	<u>(%)</u>
				<u>Shares</u>	
2000	0.16	0.29	55.17	3.93	4.07
2001	0.12	0.34	35.29	3.41	3.52
2002	0.12	0.27	44.44	3.44	3.49
2003	0.06	(0.80)	N/A	2.88	2.08
2004	0.06	0.03	200.00	3.92	1.53
For the six months ended					
31st December, 2004	0.03	(0.02)	N/A	3.85	0.78

Source: Bloomberg, annual reports and accounts and interim report of HCHL Group

The dividend per Share has been gradually decreasing over the past five financial years, from HK\$0.16 per Share for the financial year of 2000 to HK\$0.06 per Share for the financial year of 2004. However, the dividend payout ratio has increased from approximately 55.17% to approximately 200% during the corresponding period. The dividend yield calculated by using the respective annual average daily closing price of the Shares also showed an overall decreasing trend since the financial year of 2000, with the dividend yield dropping from approximately 4.07% to approximately 1.53% for the financial year of 2004. Moreover, the dividend yield of HCHL further dropped to approximately 0.78% for the six months ended 31st December, 2004, which is relatively low compared to the average Hang Seng Index yield for the same period of approximately 3.15%.

As HCHL currently does not have a corporate dividend policy regarding the minimum dividend payout amount for each financial period, and in light of the decreasing trend in dividend payment in the recent period, there is no assurance that the Shareholders will continue to receive dividends in the coming years.

In light of the above, we are of the view that the Proposal, in particular with the Cancellation Price representing a premium to the prevailing market price of the Shares, offers the Scheme Shareholders an opportunity to swap their investments in the Shares into other potentially higher yield investments, which is in the interest of the Scheme Shareholders.

D. Share price performance

Table 5 below sets out the highest and lowest closing prices and the average daily closing prices of the Shares of each of the months between 1st November, 2004 and up to 13th May, 2005 which is the last trading day prior to the issue of the Announcement (the “Pre-suspension Day”):

Table 5: Share price performance of HCHL

Month	Closing price of the Shares		Monthly average daily closing price of the Shares
	Highest	Lowest	
	(HK\$)	(HK\$)	(HK\$)
2004			
November	3.95	3.83	3.88
December	4.20	3.80	3.95
2005			
January	5.05	4.05	4.29
February	5.80	4.90	5.13
March	5.00	4.58	4.77
April	5.00	4.63	4.83
May - (Up to the Pre-suspension Day)	5.05	4.80	4.97

Source: Bloomberg

As illustrated in Table 5 above, the highest and lowest closing prices of the Shares during this review period were HK\$5.80 (on 2nd February, 2005) and HK\$3.80 (on 13th December, 2004) respectively. The Cancellation Price represents a premium of approximately 37.93% and 110.53% over the highest and lowest closing prices of the Shares respectively during this review period.

Table 6 below shows a summary of the premiums represented by the Cancellation Price over the various closing prices of the Shares on the dates and review periods listed below:

Table 6: Comparison of the Cancellation Price to the price of the Shares

Trading day	Closing price of the Shares	Premium based on the Cancellation Price
Latest Practicable Date	7.40	8.11%
Pre-suspension Day	4.80	66.67%

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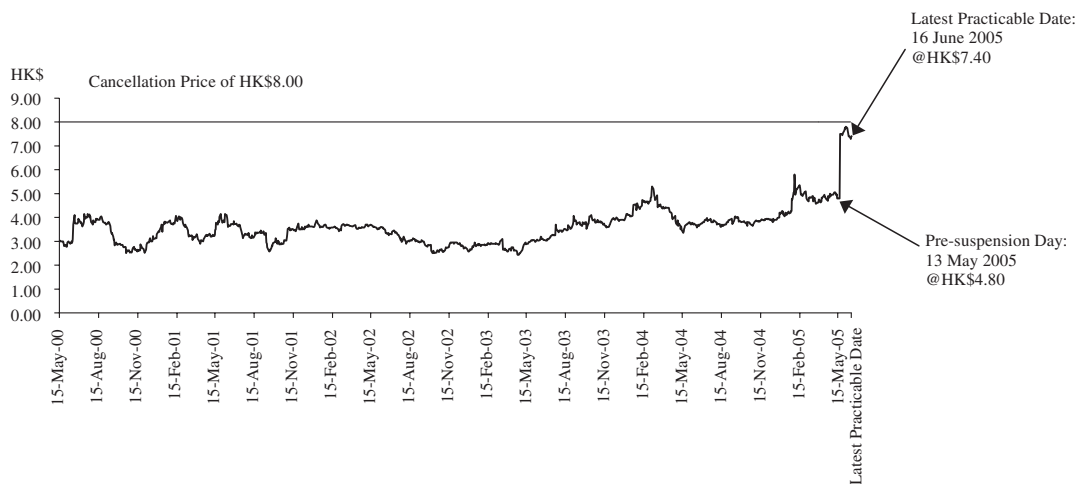
Period	Average closing price of the Shares	Premium based on the Cancellation Price
5 trading days up to and including the Pre-suspension Day	4.95	61.62%
10 trading days up to and including the Pre-suspension Day	4.97	60.97%
30 trading days up to and including the Pre-suspension Day	4.87	64.27%
60 trading days up to and including the Pre-suspension Day	4.86	64.61%
180 trading days up to and including the Pre-suspension Day	4.30	86.05%

Source: Bloomberg

The Cancellation Price, represents a premium of between approximately 86.05% and 60.97% over the lowest and highest average closing prices of the Shares respectively during the various review periods up to and including the Pre-suspension Day as set out in Table 6 above.

The chart below further illustrates the daily closing prices of the Shares quoted on the Stock Exchange from 15th May, 2000 up to the Latest Practicable Date (both dates inclusive):

Chart 1: Historical Share price performance of HCHL



Source: Bloomberg

As illustrated in Chart 1 above, the daily closing prices of the Shares were below the Cancellation Price at all times from 13th May, 2000 to the Pre-suspension Day. The Cancellation Price is at premium to the range of HK\$2.425 to HK\$5.80 at which the Shares have traded in the 5 years up to and including the Pre-suspension Day. The Cancellation Price represents a premium of approximately 229.90% and approximately 37.93% over the lowest and the highest closing prices of

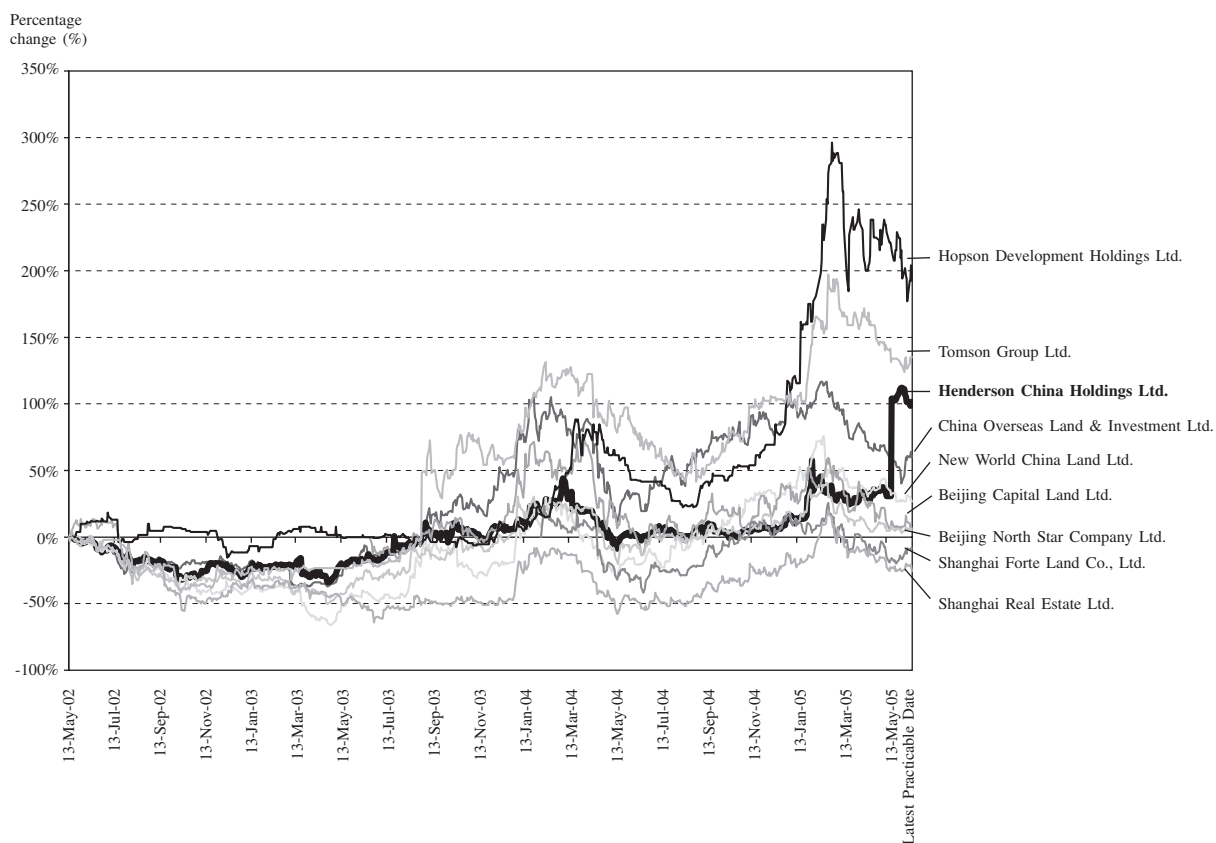
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the Shares respectively during this period. From the Announcement on 19th May, 2005 and up to the Latest Practicable Date, daily closing price of the Shares traded significantly higher, reaching as high as HK\$7.80. However, we would like to draw your attention that there is no assurance that the price of the Shares will remain at such level if the Scheme is unsuccessful or the Proposal lapses.

Furthermore, in our analysis, we have identified eight companies, the shares of which are listed on the Stock Exchange as comparable companies to HCHL. The principal activities of these companies (the “Comparable Companies”) include property investment and development in the PRC. We have selected the Comparable Companies based on a selection criteria of: (i) over 80% of their respective total turnover being generated from the property development or investment businesses in the PRC; and; (ii) with market capitalization of over HK\$2,000 million as at the Pre-suspension Day.

We have reviewed the historical share performance of HCHL in comparison with the share price performance of the Comparable Companies. This is illustrated in the chart below:

Chart 2: Comparison of the Share price performance and the Comparable Companies



Source: Bloomberg

As illustrated in Chart 2 above, the share price performance of HCHL fell within the middle of the range of the Comparable Companies.

We are of the view that, as mentioned in the section headed “Prospect of an alternative offer” below, due to the substantial stake in HCHL held by HLD, it is unlikely that any independent third party would be making an offer, better or worse than the Cancellation Price, for the Shares. Given that the historical prices of the Shares during the recent years have been significantly below the Cancellation Price and that a competing offer is not likely, an exit price higher than the Cancellation Price may not be available to the Shareholders in the near future. Therefore, we consider the Cancellation Price reasonable and in the interest of the Independent Shareholders.

E. Liquidity of the Shares

The following table sets out the trading volume of the Shares for the period commencing from 1st December, 2004 and up to and including the Latest Practicable Date:

Table 7: Trading volume of the Shares from 1st December, 2004 to the Latest Practicable Date

	Monthly trading volume of the Shares	Monthly trading volume of the Shares to the total issued Shares ¹	Monthly trading volume of the Shares to the public float of the Shares ²
2004			
December	2,511,536	0.50%	1.45%
2005			
January	8,472,270	1.70%	4.91%
February	27,395,120	5.50%	15.87%
March	6,108,590	1.23%	3.54%
April	3,488,148	0.70%	2.02%
May	30,404,129	6.11%	17.61%
- 1 May to the Pre-suspension Day . . .	2,951,040	0.59%	1.71%
- After the Pre-suspension Day and up to and including the Latest Practicable Date ³	35,438,063	7.12%	20.53%

Note¹: Based on 497,776,205 Shares in issue.

Note²: Based on the public float of approximately 172,642,228 Shares as at the Latest Practicable Date held by the Scheme Shareholders.

Note³: For the period between 20th May, 2005 to 16th June, 2005.

Source: Bloomberg

As shown in Table 7 above, the monthly trading volume of the Shares during this review period before the date of the Announcement on 19th May, 2005 was relatively low, with the lowest monthly trading volume representing only approximately 0.50% of the total issued Shares or approximately 1.45% of the Shares held by the public for the month of December 2004. Except for the month of February 2005, during which there were rumors and speculation of a proposed privatisation of HCHL which was subsequently clarified by HCHL by the issue of a press announcement dated 3rd February, 2005, the monthly trading volume of the Shares was generally below 2% of the total issued Shares or

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5% of the Shares held by the Scheme Shareholders. Since the Announcement and up to and including the Latest Practicable Date, the trading volume of the Shares has increased significantly and the monthly trading volume of the Shares in the month of May, 2005 was approximately 6.11% of the total issued Shares or approximately 17.61% of the Shares held by the Scheme Shareholders.

Based on the monthly trading volume of the Shares over the last six months, it is unlikely, in our opinion, that the relatively active trading volume of the Shares recorded in May, 2005 as a result of the Announcement will continue if the Proposal lapses. Given the relatively low level of liquidity of the Shares before the release of the Announcement, the Independent Shareholders would likely not be able to sell a significant number of their Shares in the market without depressing the market price of the Shares. The Proposal represents an opportunity for the Scheme Shareholders to dispose of their shareholdings in HCHL at the Cancellation Price. Therefore, we are of the view that the Scheme is in the interest of the Independent Shareholders as an opportunity is available to them to divest their shareholdings in HCHL at a price that is at a premium to the market price, even when their shareholdings are in sizable blocks.

F. Price earnings multiple

According to HCHL Group's audited financial statements for the year ended 30th June, 2004, the profit attributable to the Shareholders for this financial year was approximately HK\$16 million which is equivalent to earnings per Share of approximately HK\$0.03. The closing price of the Shares at HK\$4.80 on the Pre-suspension Day represents a price earnings multiple of approximately 160.00 times, whilst the Cancellation Price represents an even higher price earnings multiple of approximately 266.67 times. Set out in the table below is a comparison of the respective price earnings multiples of the Comparable Companies on the Pre-suspension Day:

Table 8: Price earnings multiple of HCHL and the Comparable Companies

	Market	Closing price	Price earnings
	capitalisation	on the Pre- suspension Day	multiple
	HK\$ million	HK\$	Times
Beijing Capital Land Limited	3,157	1.84	11.11
Beijing North Star Company Limited	2,950	1.58	11.97
China Overseas Land & Investment Limited	10,238	1.59	9.30
Hopson Development Holdings Limited	4,288	4.28	7.01
New World China Land Limited	10,623	2.83	33.02
Shanghai Real Estate Limited	1,215	0.85	5.16
Shanghai Forte Land Co., Ltd.	4,683	1.99	7.83
Tomson Group Limited	2,163	1.91	8.72
Average			11.77
HCHL on the Pre-suspension Day	2,389	4.80	160.00
HCHL at the Cancellation Price	3,982	8.00	266.67

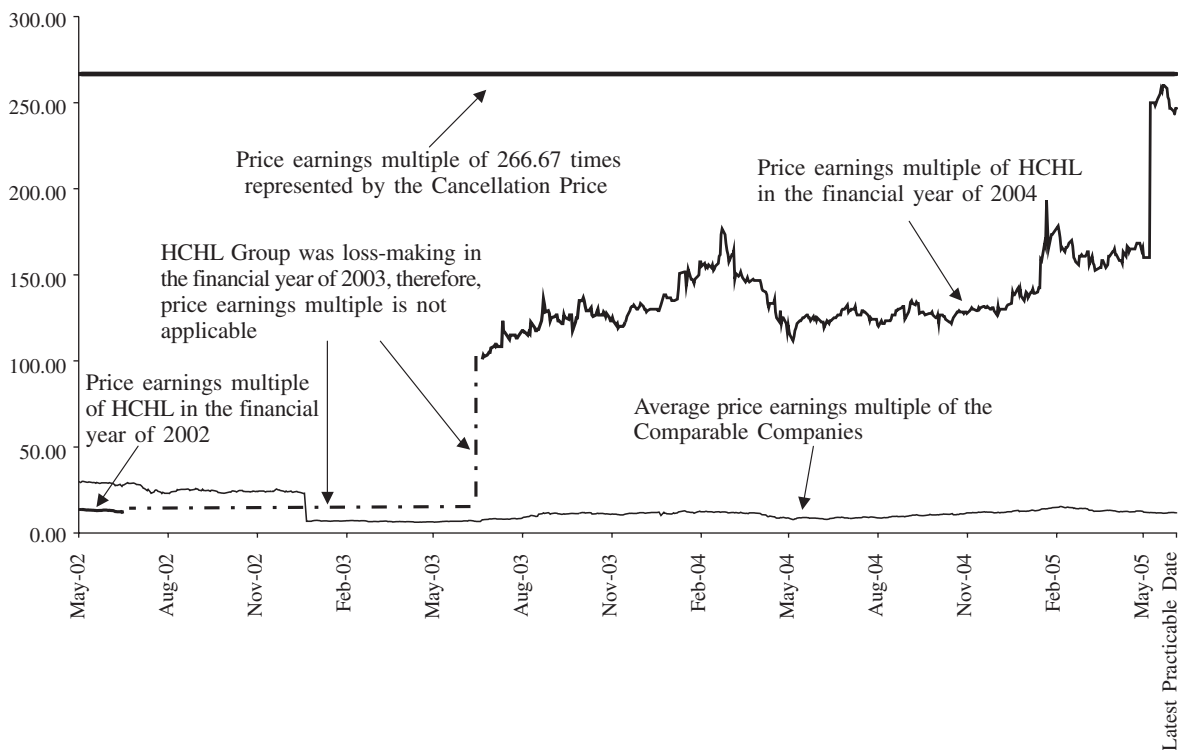
Source: Bloomberg, annual reports and accounts of the Comparable Companies

The average price earnings multiple of the Comparable Companies is approximately 11.77 times. We note that the price earnings multiple of the Shares was significantly higher than the Comparable Companies on the Pre-suspension Day. The Cancellation Price represents an even higher price earnings multiple on the Shares as shown in Table 8 above. In our analysis, we have also reviewed the historical price earnings multiples of the Shares as compared to the Comparable Companies.

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The chart below illustrates the price earnings multiples of the Shares as compared to the average price earnings multiple of the Comparable Companies between the period of 13th May, 2002 and the Latest Practicable Date:

Chart 3: Historical price earnings multiple of the Shares and the Comparable Companies



Note: The absence of the price earnings multiples curve over the period from 1st July, 2002 to 30th June, 2003 was due to HCHL Group being loss-making for the financial year of 2003.

Source: Bloomberg, annual reports and accounts of the Comparable Companies

During the above review period, the daily price earnings multiples of the Shares were within the range of approximately 12.04 and approximately 260.00 times. For this corresponding period, the average price earnings multiple of the Comparable Companies ranged from approximately 6.24 to approximately 30.04 times. Chart 3 also shows that the Shares have exceeded the industry average as represented by the Comparable Companies in terms of price earnings multiple since July, 2003.

The price earnings multiple represented by the Cancellation Price of 266.67 times significantly exceeds the highest value of price earnings multiple of approximately 260.00 times that the Shares have achieved within this review period.

From the Announcement and up to the Latest Practicable Date, daily closing price of the Shares traded significantly higher, reaching as high as HK\$7.80. However, we would like to draw to your attention that there is no assurance that the price of the Shares will remain at such level if the Proposal lapses, and hence the price earnings multiple may return to a lower level.

Based on its historical price earnings, the Scheme provides an opportunity for the Scheme Shareholders to realise their investments in HCHL at an even higher price earnings multiple. In light of this, we are of the view that the Proposal is in the interest of the Independent Shareholders and the Cancellation Price is fair and reasonable.

G. NAV and Adjusted NAV

The NAV per Share and Adjusted NAV per Share are approximately HK\$13.96 and approximately HK\$12.51 respectively, the calculation of the Adjusted NAV per Share is shown in section 7 of Appendix I to the Scheme Document. The Cancellation Price represents a discount to approximately 42.69% and 36.05% to the NAV per Share and the Adjusted NAV per Share respectively.

To help evaluate the fairness and reasonableness of the discount represented by the Cancellation Price to the book value of the underlying assets of HCHL Group, we have made comparisons to the Comparable Companies. The table below illustrates a comparison to the level of premium and discount of the share price to the respective net asset values (the “Nav”) of the Comparable Companies:

Table 9: Premium/Discount to Nav of the share price of the Comparable Companies

	Closing price of the Shares on the Pre-suspension Day	Market capitalisation on the Pre-suspension Day	Latest reported Nav	Latest reported Nav per share	Premium/ (discount) to Nav of the share price per share
	(HK\$)	(HK\$ million)	(HK\$ million)	(HK\$)	(%)
Shanghai Real Estate Limited	0.85	1,215.41	1,272.65	0.94	(9.57)
Beijing North Star Company Limited	1.58	2,949.89	4,864.17	2.61	(39.46)
China Overseas Land & Investment Limited	1.59	10,238.13	10,431.73	1.64	(3.05)
Beijing Capital Land Limited	1.84	3,157.37	2,183.26	1.35	36.30
Tomson Group Limited	1.91	2,162.55	3,553.75	3.19	(40.13)
Shanghai Forte Land Co., Ltd.	1.99	4,683.23	2,993.59	1.36	46.32
New World China Land Limited	2.83	10,623.16	16,459.48	10.98	(74.27)
Hopson Development Holdings Limited	4.28	4,287.83	3,253.77	3.24	32.10
Average					(6.47)
Proposal:					
<i>Compared to the NAV</i>					
HCHL on the Pre-suspension Day	4.80	2,389.33	6,951.03	13.96	(65.62)
HCHL - at the Cancellation Price	8.00	3,982.21¹	6,951.03	13.96	(42.69)
<i>Compared to the Adjusted NAV</i>					
HCHL on the Pre-suspension Day	4.80	2,389.33	6,951.03	12.51	(61.63)
HCHL - at the Cancellation Price	8.00	3,982.21¹	6,951.03	12.51	(36.05)

Note¹: Market capitalisation is calculated based on the Cancellation Price of HK\$8.00

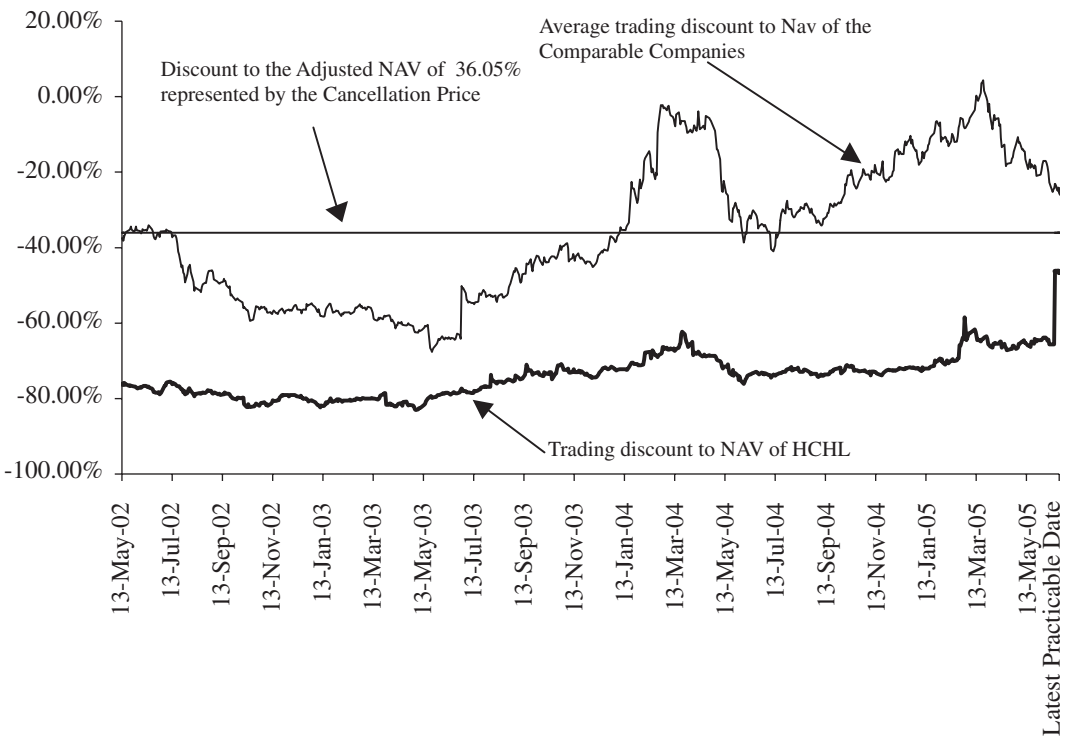
Source: Bloomberg, annual reports and accounts of the Comparable Companies

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As illustrated in Table 9 above, the Comparable Companies traded between the range of a discount to Nav of approximately 74.27% to a premium to Nav of approximately 46.32%. The simple average discount to Nav of the Comparable Companies is approximately 6.47%. HCHL traded at a discount of approximately 65.62% to the NAV per Share and approximately 61.63% to the Adjusted NAV per Share on the Pre-suspension Day. The Cancellation Price represents a discount of approximately 42.69% to the NAV per Share and approximately 36.05% to the Adjusted NAV per Share. Although both the discounts to NAV per Share and the Adjusted NAV per Share represented by the closing price of the Shares on the Pre-suspension Day and the Cancellation Price are above the average trading discount to Nav of the Comparable Companies, however, they nevertheless fall within the trading range of premium/discount to Nav of the Comparables Companies.

Furthermore, we have also assessed the discount to the Adjusted NAV per Share of the closing price of the Shares since 13th May, 2002 to the Latest Practicable Date. This is illustrated in the chart below:

Chart 4: Historical discount to the Adjusted NAV of the Shares



Source: Bloomberg, annual and interim reports and accounts of the Comparable Companies

Based on Chart 4 above, it can be seen that the Shares have traded at a significant discount to the NAV per Share for all of the days during this review period. The deepest trading discount to NAV per Share was approximately 83.05% on 25th April, 2003. Furthermore, the trading discount to NAV per Share was much deeper than both the average trading discount to Nav of the Comparable Companies and also the discount to the Adjusted NAV per Share represented by the Cancellation Price at all times during this review period. In light of this, we are of the view that the discount to the Adjusted NAV per Share as represented by the Cancellation Price is acceptable. Based on the historical trend of the trading discount to NAV per Share, in the absence of the Proposal, it is unlikely that the discount to NAV per Share will attain a discount of only approximately 36.05% as represented by the Cancellation Price. Therefore, we are of the view that the Cancellation Price is fair and reasonable and in the interest of the Independent Shareholders.

H. Overview of the PRC property market

1. PRC market overview

The growth rate of gross domestic product (the “GDP”) and disposable income per capita of urban households in the PRC and in particular Beijing, Shanghai and Guangzhou for 2002 to 2004 are summarised in Table 10 below:

Table 10: Statistics for the PRC, Beijing, Shanghai and Guangzhou

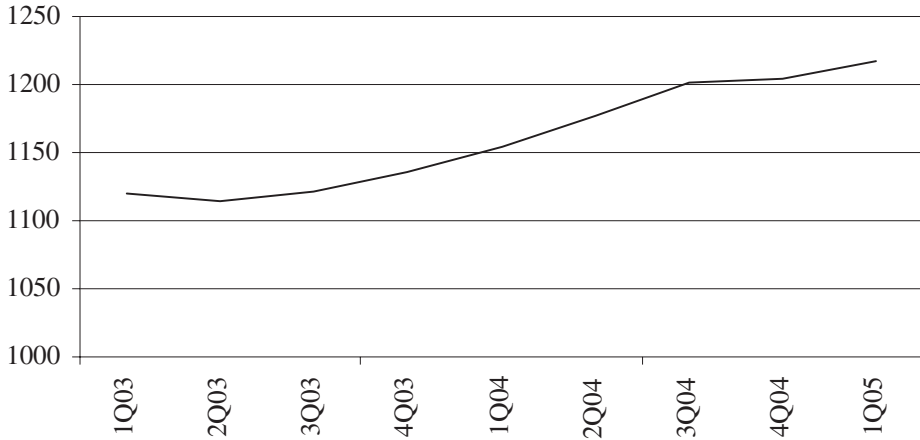
	2002	2003	2004
PRC			
GDP growth rate	8.0%	9.1%	9.5%
Growth rate of disposable income for urban household (per capita)	11.7%	20.3%	8.3%
Beijing			
GDP growth rate	10.2%	10.5%	13.2%
Growth rate of disposable income for urban household (per capita)	15.5%	11.2%	11.5%
Shanghai			
GDP growth rate	10.9%	11.8%	13.6%
Growth rate of disposable income for urban household (per capita)	11.5%	12.2%	12.2%
Guangzhou			
GDP growth rate	13.2%	15.0%	15.0%
Growth rate of disposable income for urban household (per capita)	4.9%	12.1%	12.5%

Source: National Bureau of Statistics of China

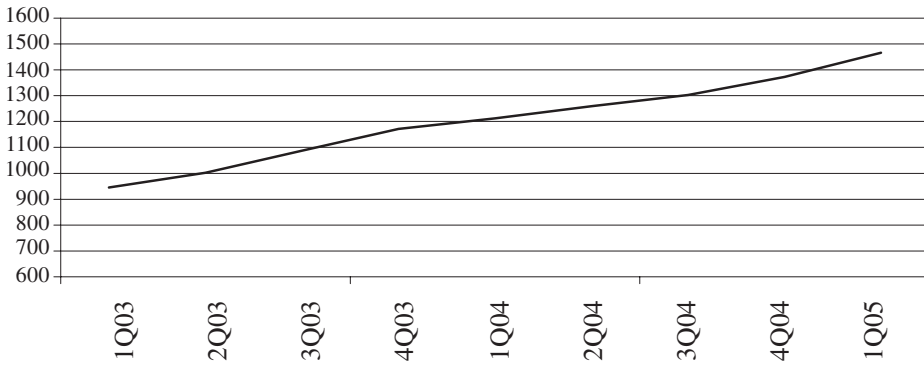
Furthermore, the China Real Estate General Index - for Beijing, Shanghai and Guangzhou are shown in Chart 5 below:

Chart 5: China Real Estate General Indices for Beijing, Shanghai and Guangzhou

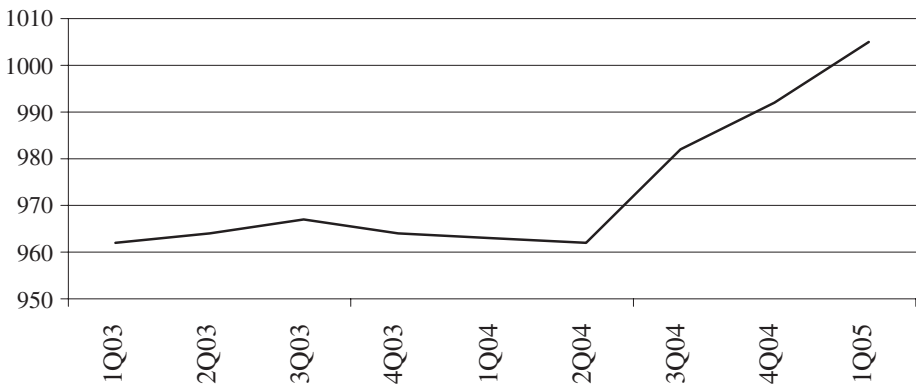
(a) For Beijing



(b) For Shanghai



(c) For Guangzhou



Source: China Real Estate Index System

In light of the above statistics, with respect to the GDP growth rates, growth rates of disposable income per capita and the China Real Estate General Indices, we note that the PRC economy and in particular the PRC property market have been growing in the recent years.

2. *Governmental measures introduced since 2004*

During 2004 and 2005, the PRC government implemented a series of macro regulatory measures in an attempt to cool down the overheated industries, including the property market. Macro economic policies targeting the property market were aimed at two major aspects:

(a) *Property developers in the PRC*

In 2004, the PRC government tightened the credit requirements for property developers thereby prohibiting the cost of land to be financed by bank loans.

In addition, for those property developers which have secured bank loans for property project, the required ratio of capital to be paid for property projects was raised from 30% to 35%. These measures, to a certain extent, have imposed funding pressure on small to medium sized property developers in terms of fund and development risk.

(b) *Property buyers in the PRC*

On 2nd September, 2004, the China Banking Regulatory Commission announced the “Guidelines on Risk Management of Property Lending by Commercial Banks”. It stated that commercial banks should place emphasis on assessing the repayment capability of borrowers by keeping the ratio of monthly repayment to monthly income under 50% for each housing loan and the ratio of monthly debt expenditure to monthly income under 55%. Furthermore, the People’s Bank of China (the “PBOC”) raised both the deposit and lending rates in October, 2004 and the housing mortgage rate also increased accordingly. In March, 2005, the PBOC required commercial banks in specific cities where the property market appeared to be overheated to increase the ratio of mortgage down payment from 20% to 30%.

In addition, the PBOC required the cancellation of the past privileges provided to mortgage loans and the adjustment of overdue interest rates by adding 30% to 50% to the lending rate stated in the loan agreement. Furthermore, starting from March, 2005, the Shanghai Inland Revenue imposed a capital gains tax of 5.5% on the difference between the sales price and original price paid for a property occupied for less than one year before being sold. From April, 2005 onward, the Shanghai Property Resources Bureau also required the seller to repay fully the loan before transferring the property. The measures mentioned above not only increased the capital cost of the mortgagor but also regulated the demand for properties.

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Furthermore, on 11th May, 2005, The Ministry of Land and Resources and six other government authorities announced a series of new measures to stabilize the property market including:

- (i) introduction of a nationwide sales tax of 5% on all residential properties sold within two years of purchase and a capital gains tax of 3% on luxurious properties sold after two years from 1st June, 2005;
- (ii) prohibition of the sale of unfinished flats (pre-sales are allowed but no reselling);
- (iii) charges for leaving land idle for a year after purchase and withdrawal of development rights after two years if the land is left idle;
- (iv) priority for low-cost commodity and economic housing; and
- (v) suspension of land allocation for villas development and better control on land supply for high-end property developments.

These measures to cool the real estate market are taking effect, in Shanghai, as average daily new home sales dropped by approximately 60% since March, 2005 and prices for residential properties dropped by approximately 9% on a month-on-month basis to approximately RMB8,097 per square metre in April, 2005. Prices of properties in suburban areas and second-hand flats also fell by as much as approximately 40% and approximately 20% respectively. According to the Shanghai Statistical Bureau, growth in real estate investment recorded an approximately 16% year-on-year growth in the first four months of 2005 compared to a growth of approximately 30% in the first three months, showing that growth has slowed abruptly in April, 2005.

In light of this, we are of the view that the continued growth of the PRC property market may be uncertain and faces higher volatility as a result of these recent PRC governmental measures on the property market in the PRC. Nevertheless, the underlying growth of the PRC market is still fundamentally strong.

The Proposal can therefore be considered as an opportunity for the Scheme Shareholders to realise their investments in the PRC market in times of market uncertainty which is especially conducive when the Cancellation Price is at a premium over the prevailing market price of the Shares. However, should the Scheme Shareholders continue to prefer investments in the PRC market and wish to follow the management of the HCHL Group, the Proposal nevertheless offers an opportunity to the Scheme Shareholders to realise their investment in HCHL at a premium to its prevailing market price and then can, if they so wish, subsequently acquire shares in HLD, which would, on completion of the Scheme, hold 100% of HCHL.

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I. Precedent Proposals and Property Precedent Proposals

In assessing whether the level of the Cancellation Price is fair and reasonable, we have also reviewed and identified a total of 12 privatisations and general offers (the “Precedent Proposals”) which were: (i) announced from 1st January, 2003 to the Pre-suspension Day for companies listed on the Stock Exchange; and (ii) the intention of which is for an eventual delisting of the company. More specifically, we have also reviewed the Precedent Proposals only applicable to property development and investment companies listed on the Stock Exchange (the “Property Precedent Proposals”). Summarised in the table below are the key statistics of the Precedent Proposals and Property Precedent Proposals:

Table 11: Key statistics of the Precedent Proposals and Property Precedent Proposals

Company	Principal activities	Offer price (HK\$)	Date of announcement of Precedent Proposals	Premium to average closing share price (%)			Adjusted consolidated net tangible asset value per share of Property Precedent Proposals (HK\$)	Premium/ (discount) of offer price to adjusted consolidated net tangible asset value per share (%)
				Presuspension day	30 trading days	90 trading days		
eSun Holdings Limited ¹	Hotel management, media and entertainment	0.28	19th February, 2003	27.27	30.58	5.02	3.26	(91.41)
Kerry Properties Limited ¹	Property investment and development	9.50	23rd April, 2003	58.33	48.67	51.06	15.77	(39.76)
Top Glory International Holdings Limited ¹	Property investment and development	0.74	3rd May, 2003	72.09	74.46	73.66	1.34	(44.78)
Oxford Properties & Finance Limited	Property investment and development	15.00	21st May, 2003	59.57	70.84	90.40	11.49	30.55
SIIC Medical Science and Technology (Group) Limited	Manufacturing, sales and distribution	2.15	21st May, 2003	14.97	24.28	35.22	1.22	76.23
Pacific Concord Holding Limited ¹	Manufacturing, Property investment and development	0.65	26th May, 2003	51.16	60.89	46.40	1.83	(64.48)
iLink Holdings Limited	Operation of data centres	0.035	20th August, 2003	75.00	66.67	52.17	0.038	(7.90)
Chevalier Construction Holdings Limited	Construction services and maintenance	0.25	31st October, 2003	16.28	23.76	58.23	0.32	(21.88)
Alpha General (Holdings) Limited	Provision of electrical appliances	0.70	13th October, 2004	125.81	133.33	125.81	1.32	(46.97)
The Kwong Sang Hong International Limited ¹	Property trading and leasing	1.25	4th November, 2004	5.04	36.17	64.04	1.83	(31.69)
Sinopec Beijing Yanhua Petrochemical Company Limited	Petrochemical business	3.80	29th December, 2004	10.95	23.88	28.98	1.82	108.79

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

Company	Principal activities	Offer price (HK\$)	Date of announcement of Precedent Proposals	Premium to average closing share price (%)			Adjusted consolidated net tangible asset value per share of Property Precedent Proposals (HK\$)	Premium/ (discount) of offer price to adjusted net tangible asset value per share (%)
				Presuspension day	30 trading days	90 trading days		
Hutchison Global Communications Holdings Limited	Telecommunications services	0.65	3rd May, 2005	36.84	43.33	44.55	0.034	1,797.81 ²
Precedent Proposals Average				46.11	53.07	56.30		138.71
Property Precedent Proposals Average				42.78	50.15	48.04		(56.10)
HCHL Proposal		8.00	19th May, 2005	66.67	64.27	68.42	12.51³	(36.05)³

*Note*¹: Property Precedent Proposals

*Note*²: Net asset value is applied as net tangible asset value has not been released for the transaction

*Note*³: Adjusted NAV is applied

Source: Bloomberg, announcements and offer documents of the above Precedent Proposals and Property Precedent Proposals

As illustrated in Table 11 above, the premiums as represented by the average cancellation/offer prices offered by the Precedent Proposals to the average closing prices of the shares: (i) on the Pre-suspension Day; (ii) for the 30 trading days; and (iii) 90 trading days prior to and including the Pre-suspension Day of the Precedent Proposals, were approximately 46.11%, 53.07% and 56.30% respectively. The premiums as represented by the Cancellation Price over the price of the Shares for the corresponding periods of comparison were approximately 66.67%, 64.27% and 68.42% respectively, which are generally higher than the average premiums offered by the Precedent Proposals. Furthermore, these premiums are also all higher than the average premiums offered by the Property Precedent Proposals of approximately 42.78%, 50.15% and 48.04% respectively for the corresponding periods of comparison.

Although as illustrated in Table 11 above, we note that the average cancellation/offer prices offered by the Precedent Proposals represent a premium of approximately 138.71% to the net tangible asset value per share, this might not be an appropriate comparison parameter as the Precedent Proposals include those of companies which are more appropriately valued on an “earnings-based” rather than an “asset-based” approach. Therefore, a more appropriate comparison parameter would be with reference to the Property Precedent Proposals. As illustrated in Table 11 above, the discount of approximately 36.05% to the Adjusted NAV per Share as represented by the Cancellation Price is smaller than the average discount to the net tangible asset value per share as represented by the average cancellation/offer price of the Property Precedent Proposals of approximately 56.10%.

In light of the above, we are of the view that the Cancellation Price as compared to the relevant comparable parameters of the Precedent Proposals and in particular, the Property Precedent Proposals, is fair and reasonable and in the interests of the Independent Shareholders.

J. Expiry of the Non-compete agreement

As stated in the Explanatory Statement, the Non-compete Agreement was entered into at the time of the listing of HCHL on 28th March, 1996, under which the Parent Company and Messrs. Lee have undertaken to HCHL not to directly or indirectly participate in, hold any right or interest in or otherwise be involved in any property project in the PRC (other than through HCHL), save for certain qualifications set out therein. The Non-compete Agreement will cease to have effect on the earliest of the date on which:

- (i) HCHL becomes a wholly-owned subsidiary of HLD;
- (ii) HLD ceases to be the controlling shareholder (as defined from time to time in the Listing Rules) of HCHL;
- (iii) the Parent Company ceases to be the controlling shareholder (as defined from time to time in the Listing Rules) of HLD; or
- (iv) the tenth anniversary of the HCHL listing date.

Independent Shareholders should note that in the event that the Scheme is unsuccessful or the Proposal lapses, prima-facie the Non-compete Agreement will cease to have effect no later than March, 2006 which is the tenth anniversary of HCHL's listing date. In the absence of the Non-compete Agreement, the Parent Company and Messrs. Lee could participate, hold any right or interest in or otherwise be involved in any property project in the PRC. HCHL might then possibly face competition from not only other property developers but also from the Parent Company and Messrs. Lee which might create uncertainties to the business prospects of HCHL.

K. Prospect of an alternative offer

In formulating our recommendation relating to the terms of the Proposal and give our independent financial advice to the Independent Board Committee, we have also considered other alternatives for the proposed privatisation of HCHL, among the others, liquidating HCHL Group by selling its entire assets and returning the proceeds back to the Shareholders. However, based on our discussions with the Board, the Board has considered this alternative but is of the view that this may not be practicable and time efficient, due to, among others, the following reasons: (i) potential difficulties in seeking suitable buyers for each particular asset of HCHL Group; (ii) no assurance that the assets could be sold at a more favourable price, which would result in the proceeds being returned to the Shareholders at a price more favourable than at the Cancellation Price; and (iii) it might take a considerably longer period of time and higher costs to complete the liquidation of the entire portfolio of assets of HCHL Group as compared to the Scheme.

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

According to HCHL Group's unaudited interim report for the six months ended 31st December, 2004, HCHL Group's total assets are comprised of: (i) investment properties; (ii) properties held for development; and (iii) properties under development. Set out in the table below is a breakdown of HCHL Group's total assets as at 31st December, 2004:

Table 12 Breakdown of HCHL Group's total assets

	As at 31st December, 2004	Percentage to HCHL Group's total assets
	(HK\$'000)	(%)
Properties held for development	3,834,546	33.96
Investment properties	3,182,587	28.18
Properties under development	<u>1,318,300</u>	<u>11.67</u>
	8,335,433	73.81
Others	<u>2,957,926</u>	<u>26.19</u>
Total assets	<u><u>11,293,359</u></u>	<u><u>100.00</u></u>

From Table 12 above: (i) investment properties; (ii) properties held for development; and (iii) properties under development contribute a total of 73.81% of the total assets of HCHL Group. Since these properties are located in different locations in the PRC, and also, in different development stages, the protracted timeframe to realize these properties might be considerably long and difficult and the costs may be considerably high. Furthermore, there is no assurance on the market price of these properties.

Moreover, as mentioned in the section headed "Overview of the PRC property market" above, due to the imposition of the recent macroeconomic measures by the PRC government, this has caused uncertainties in the property market in the PRC. Therefore, HCHL Group might face potential difficulties in seeking suitable buyers for all of these properties at favourable prices. Furthermore, there is no assurance as to when the liquidation of the entire portfolio of properties can be completed, if at all and also as to whether the proceeds from the liquidation of this entire portfolio of assets can be at a price which is more favourable to the Shareholders than at the Cancellation Price.

In light of the above, in particular:

- (i) potential difficulties faced in seeking suitable buyers for each particular asset of HCHL Group;
- (ii) the possibility of a considerably longer period of time and higher costs required to complete the liquidation of the entire portfolio of assets of HCHL Group as compared to the Scheme; and
- (iii) no assurance that the assets of HCHL Group could be sold at a more favourable price, which would result in the proceeds being returned to the Shareholders at a price more favourable than at the Cancellation Price,

we concur with the view of the Board that the Proposal is a suitable alternative in returning the value of the assets of HCHL Group to the Scheme Shareholders.

Furthermore, HCHL is approximately 65.32% held by HLD as at the Latest Practicable Date, and as stated in the Explanatory Statement, HLD does not have any intention to dispose of or procure any of the Controlling Parties to dispose of any of their beneficial interests in HCHL. Consequently, the Independent Shareholders should note that, without the support of HLD, it is unlikely that there will be a third party offer or proposal for the Scheme Shares. Therefore, if the Proposal lapses, the price of the Shares may return to its historical trading level and trading volume. Therefore, the Proposal is, in our view, an opportunity for the Scheme Shareholders to realise their investment in the Shares at a premium, regardless of the shareholding size to be realised. The Proposal and its terms are, therefore, in the interest of the Independent Shareholders.

CONCLUSIONS AND RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, have taken into account the following factors in arriving at our opinion:

- (i) the financial performance of the HCHL Group for the preceding three financial years;
- (ii) the decreasing trend of dividend pay-out ratio and dividend yield of HCHL;
- (iii) the low trading volume of the Shares;
- (iv) the Proposal providing a cash exit and an opportunity for all Scheme Shareholders to realise their investments in HCHL at the Cancellation Price which is at a premium over the closing price of the Shares over the five years before the Pre-suspension Day;
- (v) the Cancellation Price represents approximately 266.67 times the price earnings multiple per Share for the financial year 2004 and this being the highest price earnings multiple per Share achieved during the last three years;
- (vi) the Cancellation Price represents a discount of approximately 36.05% to the Adjusted NAV per Share of approximately HK\$12.51 which is smaller than the average discount to the adjusted net tangible asset value per share as represented by the average cancellation price of the Property Precedent Proposals of approximately 56.10%;
- (vii) the recent PRC government measures to cool down the property market may cause uncertainties in the growth of the PRC property market in the future;
- (viii) the potential competition between HCHL and the Parent Company and Messrs. Lee in property business in the PRC upon the Non-compete Agreement ceasing to be effective; and
- (ix) the absence of an alternative offer which is unlikely to be successful without the approval or support of HLD.

LETTER FROM PLATINUM TO THE INDEPENDENT BOARD COMMITTEE

Having considered the above, we consider the terms of the Proposal, in particular the Cancellation Price, is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the respective Court Meeting and Special General Meeting to approve the Proposal and the Scheme.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Liu Chee Ming
Managing Director

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Alvin Lai
Director

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.

SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE CANCELLATION PRICE

INTRODUCTION

It was announced on 19th May, 2005 that HLD had on 17th May, 2005 requested the Board to put forward the Proposal to the Scheme Shareholders for consideration.

It was further announced on 3rd June, 2005 that in order to make the cancellation price more attractive to the Scheme Shareholders, HLD had decided to increase the cancellation price as originally announced on 19th May, 2005 from HK\$7.50 per Scheme Share to HK\$8.00 per Scheme Share, representing an increase of approximately 6.67%. HLD has stated that it would not further increase the Cancellation Price. Following such announcement, HLD will not be allowed to increase the Cancellation Price, save in wholly exceptional circumstances, as a result of the provisions of Rule 18.3 of the Takeovers Code.

The purpose of this Explanatory Statement is to explain the terms and the effects of the Proposal, which is to be implemented by the Scheme, and to give to the Shareholders other relevant information.

A letter from the Board is set out on pages 8 to 17 of this document. A letter from the Independent Board Committee, together with a letter from Platinum to the Independent Board Committee, in connection with the Proposal are set out on pages 18 to 45 of this document. The terms of the Scheme are set out on pages 151 to 156 of this document.

SUMMARY OF THE PROPOSAL

It is proposed that, subject to the Conditions being fulfilled or, if applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the issued share capital of HCHL under Section 46 of the Companies Act. Accordingly, HCHL will become a wholly-owned subsidiary of HLD. The Scheme also provides that, in consideration of the cancellation and extinguishment of the Scheme Shares, all of the Scheme Shareholders whose names appear on the Register at the Record Time will be entitled to receive the Cancellation Price, which is HK\$8.00 for each Scheme Share held.

Payment of the Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous rights to which HLD may otherwise be, or claim to be, entitled against any holder of Scheme Shares.

EXPLANATORY STATEMENT

As at the Latest Practicable Date, there were no outstanding options, derivatives, warrants or convertible securities issued by HCHL. On the bases of the Cancellation Price and of a total of 172,642,228 Scheme Shares and 325,133,977 Shares held by the Controlling Parties outstanding as at the Latest Practicable Date, the entire issued share capital of HCHL is valued at approximately HK\$3,982 million under the Proposal. The amount of cash required for the payment of the Cancellation Price is approximately HK\$1,381 million. HLD has stated that it intended to finance the payment of the Cancellation Price from internal resources and/or bank borrowings. HLD has, among others, two syndicated loan facilities of which an amount of HK\$3,750,000,000 and an amount of HK\$3,700,000,000 are available to HLD for use under the respective credit facilities and their respective facility agents are Standard Chartered Bank (Hong Kong) Limited and BNP Paribas Hong Kong Branch. The payment of interest on, and repayment of or security for, any loan facilities will not depend to any significant extent on the business of HCHL. HLD may consider, in the event of favourable market conditions, to refinance the syndicated loan facility in relation to which BNP Paribas Hong Kong Branch is acting as facility agent prior to its final maturity. In such circumstance, an amount of up to approximately HK\$1,381 million required for the payment of the Cancellation Price will be earmarked by HLD out of the undrawn amount in the syndicated loan facility in relation to which Standard Chartered Bank (Hong Kong) Limited is acting as facility agent for such purpose and such earmarked facility amount shall not be used for any other purpose until the payment in full of the Cancellation Price or until the Proposal lapses.

Morgan Stanley is satisfied that sufficient financial resources are available to HLD for the implementation of the Proposal.

CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on HCHL and all Shareholders subject to the fulfillment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme by a majority in number of the Independent Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme is approved (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting representing not less than three-fourths in value of those Shares that are voted either in person or by proxy by the Independent Shareholders at the Court Meeting; and
 - (ii) the Scheme is not disapproved by the Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Independent Shareholders (by way of poll);
- (b) the passing of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares by way of a reduction of the share capital of HCHL) by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the Special General Meeting;

EXPLANATORY STATEMENT

- (c) the sanction of the Scheme (with or without modifications) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) compliance, to the extent necessary, with the procedural requirements of Section 46(2) of the Companies Act in relation to the reduction of the issued share capital of HCHL;
- (e) all Authorisations (if any) in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations (if any) remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (g) all necessary consents which may be required under any existing contractual obligations of HCHL being obtained; and
- (h) if required, the obtaining by HLD of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations.

In respect of Condition (a) above, according to the ruling granted by the Executive on 27th May, 2005 (and supplemented on 1st June, 2005), any votes actually known to HLD or HCHL attached to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of subsidiaries and fellow subsidiaries of HLD will not be counted for the purpose of Rule 2.10 of the Takeovers Code. Any votes attaching to the Shares held by directors (together with their close relatives, related trusts and companies controlled by any of them) of HLD or HCHL will also not be counted for the purpose of Rule 2.10 of the Takeovers Code.

HLD reserves the right to waive Conditions (e), (f), (g) and (h) either in whole or in part in respect of any particular matter. Condition (a) to (d) cannot be waived in any event. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before 30th November, 2005 (or such later date as HLD and HCHL may agree or, to the extent applicable, as the Supreme Court may direct), failing which the Scheme will lapse.

Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Friday, 12th August, 2005. Further press announcements will be made giving details of the results of the Meetings and, if the resolutions are passed at the Meetings, the result of the hearing of the petition for the sanction of the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

EXPLANATORY STATEMENT

The Scheme will lapse if it does not become effective on or before 30th November, 2005 or such later date as HLD and HCHL may agree or as the Supreme Court may allow and the Scheme Shareholders will be notified accordingly by press announcements.

FINANCIAL EFFECTS OF THE PROPOSAL

Share Price

The Cancellation Price represents:

- (i) a premium of approximately 66.67% over the closing price of HK\$4.80 per Share as quoted on the Stock Exchange on 13th May, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- (ii) a premium of approximately 60.97% over the average closing price of approximately HK\$4.97 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 13th May, 2005;
- (iii) a premium of approximately 64.27% over the average closing price of approximately HK\$4.87 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 13th May, 2005;
- (iv) a premium of approximately 64.61% over the average closing price of approximately HK\$4.86 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 13th May, 2005;
- (v) a premium of approximately 86.05% over the average closing price of approximately HK\$4.30 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 13th May, 2005;
- (vi) a premium of approximately 2.56% over the closing price of HK\$7.80 per Share as quoted on the Stock Exchange on 2nd June, 2005 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Price Increase Announcement); and
- (vii) a premium of approximately 8.11% over the closing price of HK\$7.40 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Historical share price information on the Shares is set out in Section 2 of Appendix III to this document.

EXPLANATORY STATEMENT

Net Assets

The Cancellation Price represents:

- (i) a discount of approximately 42.69% over the NAV per Share of approximately HK\$13.96; and
- (ii) a discount of approximately 36.05% over the Adjusted NAV per Share of HK\$12.51.

Earnings

The unaudited consolidated loss attributable to the Shareholders for the six months ended 31st December, 2004 was approximately HK\$12 million, representing a loss per Share of approximately 2 cents.

The HCHL Group's audited consolidated profit attributable to the Shareholders for the year ended 30th June, 2004 was approximately HK\$16 million, representing earnings per Share of approximately 3 cents. The HCHL Group's audited consolidated loss attributable to the Shareholders in respect of the previous financial year was approximately HK\$399 million which is equivalent to loss per Share of approximately 80 cents.

Based on the earnings per Share for the twelve months ended 31st December, 2004, the Cancellation Price would represent a PER for Shares of approximately 114. This represents a premium of approximately 66.67% over the PER of approximately 69 based on the closing price of HK\$4.80 per Share on 13th May, 2005.

Dividend Yield

Based on the Cancellation Price and the dividends approved and paid during the 12 months ended 31st December, 2004, the dividend yield for the Shares would be approximately 0.8%.

BACKGROUND TO, AND REASONS FOR, THE PROPOSAL

As stated in the Announcement, the trading volume of the Shares has been thin, resulting in the low liquidity of the Shares. The average daily trading volume for the past 6 months preceding the Announcement Date of approximately 429,533 Shares has been less than 0.1% of the number of issued Shares. Since HLD already owns approximately 65.32% of HCHL as at the Announcement Date, the directors of HLD believe that it is unlikely that the Scheme Shareholders will receive any other general offer from a third party to acquire the Scheme Shares, as such offer would not succeed without the approval of HLD.

The principal activities of both HLD and HCHL include property development and investment, finance, project management and property management. The consolidation of such active operations of HLD and HCHL is expected to result in better utilisation of resources for both HLD and HCHL and, therefore, the resultant consolidated business is expected to result in a more efficient operation with a more cost-effective group structure by making HCHL a wholly-owned subsidiary of HLD.

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The directors of HCHL have been informed by the board of directors of HLD that the Cancellation Price was arrived at on an arm's length and commercial basis after taking into account the figures referred to in the sections headed "Financial Effects of the Proposal — Share Price" and "Financial Effects of the Proposal — Net Assets" of this Explanatory Statement and with reference to other privatisation transactions in the past few years.

The Board has decided to put forward the Proposal to the Scheme Shareholders for their consideration. As the Cancellation Price represents a premium of approximately 66.67%, approximately 60.97%, approximately 64.27%, approximately 64.61% and approximately 86.05% over the 1-day, 10-day, 30-day, 60-day and 180-day average closing price per Share respectively up to and including 13th May, 2005, the Board believes that the Proposal will provide an opportunity for all Scheme Shareholders to realise their investments in HCHL at a premium to the prevailing market price of the Shares.

Upon the Scheme becoming effective, HCHL will become a wholly-owned subsidiary of HLD. No discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by HLD and it is the intention of HLD to maintain the existing businesses of the HCHL Group upon the privatisation of HCHL.

INFORMATION RELATING TO THE HCHL GROUP

History

HCHL was incorporated in Bermuda with limited liability, which Shares have been listed on the Main Board of the Stock Exchange since 28th March, 1996. HCHL is an investment holding company. The principal business activities of the HCHL Group are property development and investment, project management, property management, finance and investment holding in the PRC.

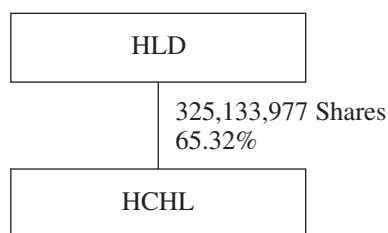
At the time of listing of HCHL on 28th March, 1996, the Non-compete Agreement was entered into under which the Parent Company and Messrs. Lee have undertaken to HCHL not to directly or indirectly participate in, hold any right or interest in or otherwise be involved in any property project in the PRC (other than through HCHL), save for certain qualifications set out therein. The Non-compete Agreement will cease to have effect on the earliest of the date on which: (i) HCHL becomes a wholly-owned subsidiary of HLD; (ii) HLD ceases to be the controlling shareholder (as defined from time to time in the Listing Rules) of HCHL; (iii) the Parent Company ceases to be the controlling shareholder (as defined from time to time in the Listing Rules) of HLD; or (iv) the tenth anniversary of the date of listing of HCHL.

HCHL will become a wholly-owned subsidiary of HLD upon the Scheme becoming effective which will be an event upon which the Non-compete Agreement will cease to have effect. However, the Parent Company and Messrs. Lee have undertaken to HCHL that the Non-compete Agreement will not cease to have effect upon the Scheme becoming effective, and that the Non-compete Agreement will otherwise continue to have full force and effect subject to the terms and conditions therein.

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HCHL Group Structure

A simplified shareholding structure chart of HLD and HCHL is as follows:



Business

An analysis of the HCHL Group's turnover and operating profit or loss before interest expenses for each of the two years ended 30th June, 2004 and 30th June, 2003 by reference to its activities is set out below:

	Year ended 30th June,			
	2004		2003	
	Turnover	Operating profit/(loss)	Turnover	Operating profit/(loss)
	HK\$'000	HK\$'000	Restated HK\$'000	Restated HK\$'000
Property development	28,532	228,959	91,042	(191,934)
Property investment	43,796	(122,847)	41,291	(124,317)
Finance	6,406	6,258	40,931	37,835
Management and sales commissions	14,595	7,032	15,066	(3,462)
Others	—	(77,820)	—	(8,123)
	93,329	41,582	188,330	(290,001)

Property Market

Continual growth in gross domestic product and increasing inflow of foreign capital were sustained in Mainland China. Household income of residents in the major cities have shown marked improvement in recent years. These have resulted in growth in spending power and stimulated strong urge for property ownership amongst the domestic citizens. The residential property segment showed significant improvement as property sales were kept active. In addition, as demand from foreign enterprises and certain domestic companies for quality office properties also showed a rising trend, property markets in major cities in Mainland China recorded satisfactory performance.

Property Development

During the six months ended 31st December, 2004, the remaining units of the previously completed development projects of the HCHL Group were put up for sale and these mainly included the Heng Bao Garden in Guangzhou, the Everwin Garden in Shanghai as well as HCHL Group's joint venture development project of Lexi New City Phase VIII — Luotao South Zone Villa and Phase IX — Green Island House located in Panyu, Guangdong Province. All of the residential units in Phase IX of the Lexi New City project were sold during the period under review. The residential units in Phase VIII of this project and those of Heng Bao Garden were almost completely sold towards the end of 2004.

During the six months ended 31st December, 2004, the HCHL Group increased its shareholding interests in the project site located at No. 2 Guan Dong Dian, Chao Yang District in Beijing (the old Beijing Lightbulb Factory site) to 100% and the HCHL Group will be in a position to capitalise on the maximum potential of this project. Located at the heart of the commercial district in Beijing city, this site is planned to be developed into a sizeable mixed-use property project that amounts to approximately 2.71 million sq. ft. in gross floor area.

Also, foundation work on the HCHL Group's project site located at 210 Fangcun Avenue, Fangcun District in Guangzhou (the old Guangzhou Preservation Fruit Factory site) is currently in progress. This site will be developed into a project of over 2.6 million sq.ft. in gross floor area. Being primarily residential in nature with ancillary retail shopping premises provided, this project will, upon completion, become a residential estate set in a pleasant surrounding.

The HCHL Group holds plentiful development land bank in major cities in Mainland China and satisfactory progress has been made in respect of those property sites that have been planned for development.

Property Rental

During the six months ended 31st December, 2004, the shopping arcade in the Henderson Centre in Beijing has been undergoing large-scale leasing activities upon completion of renovation. At the same time, leasing of the commercial podium of the Heng Bao Garden located right above Changshou Road Station of the Guangzhou Metro Line also continued. Further, rental of the shopping podium at the Skycity and the Everwin Garden in Shanghai remained stable and the rental performance of both projects continued to be satisfactory.

Construction work being undertaken at the HCHL Group's wholly-owned Office Tower II of The Grand Gateway in Shanghai, which is 42 storeys in total height and amounts to approximately 720,000 sq.ft. in total gross floor area, had made satisfactory progress. This project is expected to be completed in mid-2005 as scheduled. Strong demand for Grade A office building space in Shanghai will be beneficial to leasing of this project which is located along the Shanghai Metro Line station right at the centre of a busy commercial district in Shanghai where the density of population is traditionally high. It is anticipated that this office property will be much sought after by potential tenants and it will, upon completion, contribute significant recurrent rental income to the HCHL Group. Preparation in respect of leasing of this project is presently underway.

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Further, the HCHL Group entered into a cooperative agreement with HOBA Home Furnishings Chains Enterprise Co. Ltd. whereby the “Meten” household brand could be leveraged to attract leasing tenants and this new cooperative partner will also manage the basement portion of the retail shopping arcade at the Henderson Centre in Beijing. It is envisaged that upon its re-opening, this will project a fresh image for the shopping arcade of the Henderson Centre.

Disposal of subsidiaries

Transaction contracted

In April 2005, a conditional agreement was entered into between Gain Year Development Limited (“Gain Year”), a wholly-owned subsidiary of HCHL, and (a) 上海隆宇企業發展有限公司 (Shanghai Long Yu Qi Ye Development Company Limited); (b) 中建八局基礎設施建設有限公司 (Zhong Jian Ba Ju Infrastructure Construction Company Limited); (c) 上海豐金投資有限公司 (Shanghai Fengjin Investment Company Limited); and (d) 中國建築第八工程局 (China Construction Eighth Engineering Division) (collectively the “Purchasers”) pursuant to which Gain Year disposed of the entire shareholding interest (“Sale Interest”) in 裕年發展置業(上海)有限公司 (Gain Year Development Real Estate (Shanghai) Co., Ltd) (“Shanghai Gain Year”) at an aggregate consideration of RMB209,090,090 (approximately HK\$197,254,802) (“146 Disposal”), of which (i) an amount of RMB86,100,000 (approximately HK\$81,226,415) shall be paid by the Purchasers to Gain Year to assist Shanghai Gain Year to fully repay the loans due and owing by Shanghai Gain Year to the HCHL Group and (ii) the amount of RMB122,990,090 (approximately HK\$116,028,387) shall be paid to Gain Year as consideration for the Sale Interest. As at the Latest Practicable Date, the 146 Disposal has not been completed subject to fulfillment of conditions set out therein.

Transactions not yet contracted

HCHL Group is also currently negotiating with independent third party(ies) on the following proposed transactions which, if materialised, may result in HCHL Group’s disposals of interests in the following property holding companies:-

- (i) HCHL Group’s interest in 上海興輝置業有限公司 (Shanghai Henfield Properties Co., Ltd.) (“Shanghai Henfield”), which is currently held by Henfield Properties Limited, a 60% owned subsidiary of HCHL. The principal business of Shanghai Henfield is to hold the land situate at 上海市閘北區恒豐路、天目西路 406-2、406-3 和 406-4 號 (Lot Nos. 406-2, 406-3 & 406-4, Tianmu Road West, Hengfeng Road, Zhabei District, Shanghai) (i.e. property interest no. 11 in the summary of valuations set out in Appendix II to this document);
- (ii) HCHL Group’s 85% interest in 上海恒成置業發展有限公司 (Shanghai Heng Cheng Real Estate Development Co., Ltd.) (“Heng Cheng”). The principal business of Heng Cheng is to hold the piece of land situate at 上海市靜安區南京西路 688號 (Lot No. 688, Nanjing Road West, Jingan District, Shanghai) (i.e. property interest no. 12 in the summary of valuations set out in Appendix II to this document); and

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(iii) HCHL Group's 100% interest in 捷昇發展置業(上海)有限公司 (Perfect Top Development Real Estate (Shanghai) Co., Ltd.) ("Perfect Top"). The principal business of Perfect Top is to hold the piece of land situate at 上海市閘北區恒豐路與裕通路交匯處天目西路 147-2、147-3號 (Lot Nos. 147-2 and 147-3, Tianmu Road West, Junction of Hengfeng Road and Yutong Road, Zhabei District, Shanghai) (i.e. property interest no. 10 in the summary of valuations set out in Appendix II to this document).

The proposed disposals referred to in (i) to (iii) above are collectively referred to as the "Proposed Disposals", and the Proposed Disposals and the 146 Disposal are collectively referred to as the "Disposals". Apart from the 146 Disposal, the terms and conditions (including the precise consideration) in relation to the Proposed Disposals have not yet been finalised and the Proposed Disposals may or may not proceed.

Under Rule 4 of the Takeovers Code, once a bona fide offer has been communicated to the board of an offeree company or the board of an offeree company has reason to believe that a bona fide offer may be imminent, no action which could effectively result in an offer being frustrated, or in the shareholders of the offeree company being denied an opportunity to decide on the merits of an offer, shall be taken by the board of the offeree company in relation to the affairs of the company without the approval of the shareholders of the offeree company in general meeting.

Under Note 1 to Rule 4 of the Takeovers Code, the Executive may grant a waiver from the requirement of a shareholders' meeting if the offeror agrees to the relevant transaction. HCHL has obtained a written consent for the Disposals from HLD and with such consent, HCHL had made an application to the Executive for, and was granted, a waiver from the requirement under Rule 4 of the Takeovers Code to obtain shareholders' approval in general meeting of HCHL in respect of each of the Disposals. Any of the Proposed Disposals may proceed after the date of this document.

Financial Information

A summary of the audited consolidated results of the HCHL Group for each of the two financial years ended 30th June, 2003 and 2004 and the unaudited consolidated results of the HCHL Group for the six months ended 31st December, 2004 is set out below:

	For the six months ended	Year ended 30th June,	
	31st December, 2004	2004	2003
	(unaudited)	(audited)	Restated (audited)
	HK\$'000	HK\$'000	HK\$'000
Turnover	34,667	93,329	188,330
Operating (loss)/profit	(13,335)	41,582	(290,001)
Loss before taxation	(8,129)	(12,477)	(367,300)
Loss after taxation but before minority interests	(19,114)	(16,456)	(405,768)
(Loss)/profit attributable to the Shareholders	(12,087)	15,752	(398,750)
Dividends	14,933	29,866	29,806
(Loss)/earnings per Share	HK\$(0.02)	HK\$0.03	HK\$(0.80)

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Net assets

The NAV of the HCHL Group as at 31st December, 2004 was approximately HK\$6,951 million, equivalent to approximately HK\$13.96 per Share. The Adjusted NAV is approximately HK\$6,228 million, equivalent to approximately HK\$12.51 per Share. Details of the Adjusted NAV are set out in section 7 of Appendix I to this document.

Dividends

A final dividend of HK\$0.03 per Share was declared and paid by HCHL on 8th December, 2004. An interim dividend of HK\$0.03 per Share was declared and paid by HCHL on 21st April, 2005.

Liquidity and financial resources

As at 30th June, 2004, the gearing ratio of the HCHL Group which was calculated on the basis of the total net bank borrowings as a ratio of the HCHL Group's shareholders' funds amounted to 17.9% (2003 restated: 14.2%).

The total net bank borrowings of the HCHL Group, after deducting cash holdings of approximately HK\$340 million, amounted to approximately HK\$1,250 million as at 30th June, 2004. All of the HCHL Group's borrowings were unsecured and were mainly obtained on a committed term basis. The maturity profile of the HCHL Group's bank loans and borrowings outstanding as at the end of the two previous financial years and the six months ended 31st December, 2004 are summarised respectively as follows:

	As at 31st December,	As at 30th June,	
	2004	2004	2003
	HK\$'000	HK\$'000	HK\$'000
Bank loans and borrowings repayable:			
Within 1 year	622	497,008	332,201
After 1 year but within 2 years	1,733,172	900,000	1,350,075
After 2 years but within 5 years	208,705	193,375	71,000
Total bank loans and borrowings	1,942,499	1,590,383	1,753,276
Less: cash at bank and in hand	(211,152)	(340,254)	(760,751)
Total net bank borrowings	1,731,347	1,250,129	992,525

The interest expenses of the HCHL Group was recorded at approximately HK\$41 million (2003: HK\$59 million) for the past financial year and showed a substantial decrease as a result of the low interest rate environment. The majority of the HCHL Group's bank borrowings was denominated in Hong Kong Dollars with the remaining balance being denominated in Renminbi. For bank loans which were obtained by the HCHL Group in Hong Kong currency, loan interests were chargeable mainly

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based on certain agreed interest margins over the Hong Kong Interbank Offer Rate and such banking facilities were therefore of floating rate in nature. As for the bank borrowings which were denominated in Renminbi, these are linked to standard interest rates applicable for commercial loans as announced by The People's Bank of China from time to time.

As of 30th June, 2004, shareholders' funds of the HCHL Group amounted to approximately HK\$6,985 million (2003 restated: HK\$6,992 million). The HCHL Group possesses a large capital base and is in a strong financial position whereas net borrowing position remains low. With adequate cash on hand and committed banking facilities in place, the HCHL Group has sufficient financial resources to meet the funding requirements of its ongoing operations as well as future business development.

FUTURE INTENTIONS

HLD does not intend to dispose of or procure any of the Controlling Parties to dispose of any of their beneficial interests in HCHL, nor does it intend to discontinue any of the HCHL Group's businesses following the implementation of the Proposal. It is the intention of HLD to continue the existing businesses of the HCHL Group upon implementation of the Proposal.

The directors of HCHL have confirmed that, upon the privatisation of HCHL, they do not intend to make any significant changes to the existing businesses in the near future, other than in the ordinary course of business.

Whether or not the Proposal is implemented, the directors of HCHL do not have any intention to make any significant changes to the existing businesses, employment of the staff of the HCHL Group or any significant redeployment of its fixed assets.

The directors of HCHL intend that the listing of the Shares on the Stock Exchange will be withdrawn if the Scheme is implemented and be maintained in the event that the Scheme is not approved or withdrawn or lapses.

INFORMATION RELATING TO THE INTERESTS OF THE CONTROLLING PARTIES, THE EXCLUDED PARTIES AND THE DIRECTORS OF HCHL

As at the date of this document, the Controlling Parties are beneficially interested in an aggregate of 325,133,977 Shares, representing approximately 65.32% of the issued share capital of HCHL. Such Shares, by reason of the fact that the Controlling Parties are all indirect wholly-owned subsidiaries of HLD, will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. Although as stated in the Announcement, Shares held by the Controlling Parties will not be voted at the Special General Meeting, in view of the absence of any prohibition restricting the Controlling Parties from attending and voting at the Special General Meeting, the Controlling Parties now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

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In view of the interests of HLD in the Proposal and the direct or indirect relationships between the Excluded Parties and HLD as explained in the following paragraph, all of the 25,584,095 Shares of the Excluded Parties which represent approximately 5.14% of the issued share capital of HCHL, although forming part of the Scheme Shares, will not be represented or voted at the Court Meeting as the Excluded Parties are presumed to be acting in concert with HLD under the Takeovers Code. Although it was also stated in the Announcement that the Excluded Parties will abstain from voting on the Scheme at the Meetings, in view of the absence of any prohibition restricting the Excluded Parties (other than Mr. Jackson Woo Ka Biu who confirmed that, in seeking ruling from the Executive that Rule 2.4 of the Takeovers Code is not applicable to the Proposal, he will not take part or vote as a Shareholder at any meetings of the Shareholders to approve the Proposal) from attending and voting at the Special General Meeting, the Excluded Parties other than Mr. Jackson Woo Ka Biu now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

As at the Latest Practicable Date, Canon International is beneficially interested in 24,328,000 Shares, Mr. Jackson Woo Ka Biu is beneficially interested in 544,802 Shares and Ms. Carmen Woo Ka Man is beneficially interested in 711,293 Shares, representing approximately 4.89%, approximately 0.11% and approximately 0.14%, respectively of the issued share capital of HCHL. Canon International is a company ultimately controlled by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Shau Kee and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, all of whom are directors of HLD. Mr. Jackson Woo Ka Biu is the son of, and an alternate director of HLD to, Sir Po-shing Woo who is a non-executive director of HLD. Ms. Carmen Woo Ka Man is the daughter of Sir Po-shing Woo and the sister of Mr. Jackson Woo Ka Biu. Canon International, Mr. Jackson Woo Ka Biu and Ms. Carmen Woo Ka Man are presumed to be parties acting in concert with HLD under the Takeovers Code because of their direct or indirect relationship with HLD.

Further information in respect of the interests of the directors of HCHL, whether as such directors, Excluded Parties or Shareholders of HCHL or otherwise, and the effect thereon of the Scheme, in so far as it is different from the effect on the like interests of the other Scheme Shareholders, are set out under Section 3 headed "Disclosure of Interests" in Appendix III to this document.

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all of the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will, accordingly, cease to have effect as documents or evidence of title.

HCHL will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Effective Date, which is expected to take place on Friday, 12th August, 2005. In such an event, the listing of the Shares on the Stock Exchange is expected to be withdrawn on Monday, 15th August, 2005.

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The Scheme Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange become effective by press announcements.

If the Scheme is not approved or withdrawn or lapses, it is intended that the listing of the Shares on the Stock Exchange will be maintained.

REGISTRATION AND PAYMENT

If the Scheme becomes effective, cheques for the Cancellation Price will be sent to the Scheme Shareholders whose names appear on the Register at the Record Time. Such cheques will be posted within ten days after the Effective Date.

It is proposed to close the Register immediately after 4:00 p.m. on Thursday, 11th August, 2005, or such other date as may be notified to the Scheme Shareholders by press announcements, in order to establish entitlements to the Cancellation Price under the Scheme. The Scheme Shareholders or their successors in title should ensure that their Shares are registered or lodged for registration in their names or in the names of their nominees before the Register is closed. HCHL's branch share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong.

Assuming that the Scheme becomes effective on Friday, 12th August, 2005, cheques for the Cancellation Price are expected to be despatched to the Scheme Shareholders or persons nominated by them on or before Monday, 22nd August, 2005. As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, HLD shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in HCHL's name with a licensed bank in Hong Kong selected by HCHL. HCHL shall hold such monies on trust for those entitled under the terms of the Scheme until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon in accordance with Clause 3(e) of the Scheme, to persons who satisfy HCHL that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, HLD shall be released from any further obligation to make any payments under the Scheme and HCHL shall thereafter transfer to HLD the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent to the persons whose names appear on the Register at the Record Time at their respective addresses or, in the case of joint Scheme Shareholders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither HLD nor HCHL will be liable for any loss or delay in transmission.

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OVERSEAS SCHEME SHAREHOLDERS

In so far as those Scheme Shareholders not resident in Hong Kong are concerned, they may be subject to the laws of the jurisdiction in which they reside. Such Scheme Shareholders should inform themselves of and observe any applicable legal or regulatory requirements. It is the responsibility of all overseas Scheme Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any government approval, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions.

MEETINGS

In accordance with the direction of the Supreme Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). In so far as the sanction of the Scheme by the Supreme Court is concerned, such a resolution will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. As explained above, however, such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 147,058,133 Shares held by the Independent Shareholders as at the Latest Practicable Date, 10% of such Shares amounted to 14,705,813 Shares.

Immediately following the Court Meeting, the Special General Meeting has been convened for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy, at the Special General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting.

As at the date of this document, the Controlling Parties are beneficially interested in an aggregate of 325,133,977 Shares, representing approximately 65.32% of the issued share capital of HCHL. Such Shares, by reason of the fact that the Controlling Parties are all indirect wholly-owned subsidiaries of HLD, will not form part of the Scheme Shares and, accordingly, will neither be represented nor voted at the Court Meeting to approve the Scheme. Although as stated in the Announcement, Shares held by the Controlling Parties will not be voted at the Special General Meeting, in view of the absence of any prohibition restricting the Controlling Parties from attending and voting at the Special General

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Meeting, the Controlling Parties now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme. In addition, the Excluded Parties, who as at the date of this document are collectively beneficially interested in 25,584,095 Shares representing approximately 5.14% of the issued share capital of HCHL, and their nominees in whose names some of the Shares beneficially interested by them are registered will not, for the reasons already explained above, attend and vote at the Court Meeting in person or by proxy in their capacity as Scheme Shareholders. Although it was also stated in the Announcement that the Excluded Parties will abstain from voting on the Scheme at the Meetings, in view of the absence of any prohibition restricting the Excluded Parties (other than Mr. Jackson Woo Ka Bui who confirmed, in seeking ruling from the Executive that Rule 2.4 of the Takeovers Code is not applicable to the Proposal, that he will not take part or vote as a Shareholder at any meetings of the Shareholders to approve the Proposal) from attending and voting at the Special General Meeting, the Excluded Parties other than Mr. Jackson Woo Ka Bui now intend to vote at the Special General Meeting and have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

Notices of the Meetings are set out on pages 157 to 160 of this document. The Meetings will be held on Friday, 22nd July, 2005 at the respective times specified in such notices in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road, Central, Hong Kong.

DEMAND FOR POLL AT THE SPECIAL GENERAL MEETING

In accordance with Bye-law 66 of the Bye-laws of HCHL, at any general meeting a resolution put to the vote shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by member.

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ACTION TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Special General Meeting are enclosed with this document.

Whether or not you are able to attend the Meetings in person, the Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Special General Meeting in accordance with the instructions respectively printed thereon and to lodge them with HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, it is requested that this form of proxy be lodged not later than 11:00 a.m. on Wednesday, 20th July, 2005 but if it is not so lodged, it may be handed to the chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the Special General Meeting must be lodged not later than 11:30 a.m. on Wednesday, 20th July, 2005. One self-addressed, pre-paid envelope marked "For Return of Court Meeting Proxy Form and/or Special General Meeting Proxy Form — Henderson China Holdings Limited" is enclosed in order to facilitate the return by the Shareholders by post (from within Hong Kong only) of their completed forms of proxy. The completion and return of a form of proxy for any of the Meetings will not preclude a Shareholder from attending the relevant Meeting and voting in person if he so wishes. In the event that a Shareholder who has lodged a form of proxy attends the Meeting, his form of proxy for that Meeting will be deemed to have been revoked.

For the purpose of determining the entitlements of the Independent Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Special General Meeting, the Register will be closed from Monday, 18th July, 2005 to Friday, 22nd July, 2005 (both dates inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Special General Meeting, all transfers accompanied by the relevant share certificates must be lodged with HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 15th July, 2005.

Assuming that the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Friday, 12th August, 2005. Further press announcements will be made giving details of the results of the Meetings and, if the resolutions are passed at the Meetings, the result of the hearing of the petition for the sanction of the Scheme by the Supreme Court, the last day for dealing in the Shares, the Record Time, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

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FURTHER INFORMATION

A number of directors of HCHL, namely, Lee Ka Kit, Lee Shau Kee, Colin Lam Ko Yin, Lee King Yue, Leung Sing, Lee Ka Shing, Patrick Kwok Ping Ho, Ho Wing Fun, Kan Fook Yee and Gordon Kwong Che Keung are also directors of HLD, and Mr. Philip Yuen Pak Yiu and Mr. Leung Yuk Kwong are also directors of certain subsidiaries of HLD. As such, such directors of HCHL may be regarded as having interests in the Proposal which are different from the interests of the other directors of HCHL.

Further information in relation to the Proposal is set out in the Appendices to this document, all of which form part of this Explanatory Statement.

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the HCHL Group for each of the three financial years ended 30th June, 2002, 2003 and 2004 extracted from the 2002, 2003 and 2004 annual reports of HCHL and unaudited consolidated results of the HCHL Group for the six months ended 31st December, 2004 extracted from the 2004/2005 interim report of HCHL:

	For the			
	six months ended			
	31st December,	Year ended 30th June,		
	2004	2004	2003	2002
	(unaudited)	(audited)	Restated (audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	34,667	93,329	188,330	577,612
(Loss)/profit from operations	(13,335)	41,582	(290,001)	158,650
Shares of profits/(losses) of associates	6,683	(35,042)	(60,662)	(7,454)
(Loss)/profit from ordinary activities before taxation	(8,129)	(12,477)	(367,300)	143,055
Income tax	(10,985)	(3,979)	(38,468)	(6,554)
(Loss)/profit from ordinary activities after taxation	(19,114)	(16,456)	(405,768)	136,501
Minority interests	7,027	32,208	7,018	(3,615)
(Loss)/profit for the period/year attributable to the Shareholders	(12,087)	15,752	(398,750)	132,886
Dividends	14,933	29,866	29,806	59,614
(Loss)/earnings per Share (HK\$)	(0.02)	0.03	(0.80)	0.27
Dividend per Share (HK\$)	0.03	0.06	0.06	0.12

Note: There are no extraordinary or exceptional items for the past three financial years.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE HCHL GROUP FOR THE YEAR ENDED 30TH JUNE, 2004

The following information has been extracted from the audited consolidated financial statements of the HCHL Group for the year ended 30th June, 2004, the page numbers in the statements below refer to the 2004 annual report of HCHL. For the purpose of the extracts set out below, the “Company” means HCHL and the “Group” means “HCHL Group”.

Consolidated Profit and Loss Account

for the year ended 30th June, 2004

	Note	2004 HK\$'000	2003 restated HK\$'000
Turnover	3 & 4	93,329	188,330
Cost of sales/services		<u>(22,997)</u>	<u>(69,968)</u>
		70,332	118,362
Other revenue		14,850	7,207
Other net (loss)/income	5	(1,644)	18,885
Selling expenses		(7,354)	(15,431)
Administrative expenses		(164,113)	(96,555)
Other operating income/(expenses)	6	<u>129,511</u>	<u>(322,469)</u>
Profit/(loss) from operations		41,582	(290,001)
Finance costs	7(a)	<u>(19,017)</u>	<u>(16,637)</u>
	3	22,565	(306,638)
Share of losses less profits of associates		<u>(35,042)</u>	<u>(60,662)</u>
Loss from ordinary activities before taxation	7	(12,477)	(367,300)
Income tax — Company and subsidiaries	8(a)	(34)	(40,428)
— Associates	8(a)	(3,967)	1,435
—Tax indemnity	8(a)&9	<u>22</u>	<u>525</u>
Loss from ordinary activities after taxation		(16,456)	(405,768)
Minority interests		<u>32,208</u>	<u>7,018</u>
Profit/(loss) attributable to shareholders	10&31	<u>15,752</u>	<u>(398,750)</u>
Dividends attributable to the year:	11		
Interim dividend declared during the year		14,933	14,903
Final dividend proposed after the balance sheet date		<u>14,933</u>	<u>14,903</u>
		<u>29,866</u>	<u>29,806</u>
Earnings/(loss) per share	12	<u>\$ 0.03</u>	<u>\$ (0.80)</u>

The notes on pages 47 to 83 form part of these accounts.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

Balance Sheets

at 30th June, 2004

	Note	The Group		The Company	
		2004	2003	2004	2003
		HK\$'000	restated HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	13				
— Investment properties		3,180,911	3,183,600	—	—
— Other fixed assets		19,274	17,761	—	—
		<u>3,200,185</u>	<u>3,201,361</u>	—	—
Interest in subsidiaries	14	—	—	6,044,874	6,033,851
Interest in associates	15	425,680	797,150	88	65
Investments in securities	16	73,775	73,778	—	—
Properties held for development	17	3,804,700	3,425,956	—	—
Instalments receivable	18(a)	30,160	39,617	—	—
Deferred tax assets	26(b)	216,425	195,340	—	—
		<u>7,750,925</u>	<u>7,733,202</u>	<u>6,044,962</u>	<u>6,033,916</u>
Current assets					
Properties under development		1,223,785	1,100,509	—	—
Completed properties for sale		287,023	309,616	—	—
Deposits for acquisition of properties	19	1,177,406	300,251	—	—
Loans receivable	20	78,689	901,459	—	—
Debtors, prepayments and deposits	21	455,295	528,361	83,439	113,046
Instalments receivable	18(b)	31,002	38,986	—	—
Cash and cash equivalents	22	340,254	760,751	14	11
		<u>3,593,454</u>	<u>3,939,933</u>	<u>83,453</u>	<u>113,057</u>
Current liabilities					
Bank loans and overdrafts — unsecured	23	497,008	332,201	—	—
Creditors and accrued expenses	24	541,367	244,718	340	584
Current taxation	26(a)	213,681	250,907	—	—
		<u>1,252,056</u>	<u>827,826</u>	<u>340</u>	<u>584</u>
Net current assets		<u>2,341,398</u>	<u>3,112,107</u>	<u>83,113</u>	<u>112,473</u>
Total assets less current liabilities		<u>10,092,323</u>	<u>10,845,309</u>	<u>6,128,075</u>	<u>6,146,389</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

	Note	The Group		The Company	
		2004	2003	2004	2003
		HK\$'000	restated HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Bank loans — unsecured	23	1,093,375	1,421,075	—	—
Amounts due to fellow subsidiaries	25	890,951	1,128,423	—	—
Deferred tax liabilities	26(b)	465,500	451,100	—	—
		<u>2,449,826</u>	<u>3,000,598</u>	<u>—</u>	<u>—</u>
Minority interests	32	657,708	852,636	—	—
		<u>3,107,534</u>	<u>3,853,234</u>	<u>—</u>	<u>—</u>
Net assets		<u>6,984,789</u>	<u>6,992,075</u>	<u>6,128,075</u>	<u>6,146,389</u>
Capital and reserves					
Share capital	27	497,776	496,776	497,776	496,776
Share premium	28	5,569,402	5,566,402	5,569,402	5,566,402
Capital reserves	29	81,716	75,527	—	—
Investment properties revaluation reserve	30	143,036	144,238	—	—
Retained profits	31	692,859	709,132	60,897	83,211
		<u>6,984,789</u>	<u>6,992,075</u>	<u>6,128,075</u>	<u>6,146,389</u>

The notes on pages 47 to 83 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 30th June, 2004

	Note	2004 HK\$'000	2003 restated HK\$'000
Shareholders' equity at 1st July			
— as previously reported		7,036,460	7,659,762
— prior year adjustment arising from change in accounting policy for deferred tax	2&30&31	<u>(44,385)</u>	<u>(56,285)</u>
— as restated		<u>6,992,075</u>	<u>7,603,477</u>
Deficit on revaluation of investment properties, net of deferred tax			
— as previously reported			(181,472)
— prior year adjustment arising from change in accounting policy for deferred tax	2		<u>15,467</u>
— deficit on revaluation of investment properties, net of deferred tax (2003: as restated)	30	<u>—</u>	<u>(166,005)</u>
Net loss not recognised in the consolidated profit and loss account		<u>—</u>	<u>(166,005)</u>
Net profit/(loss) for the year			
— as previously reported			(395,183)
— prior year adjustment arising from change in accounting policy for deferred tax	2		<u>(3,567)</u>
Net profit/(loss) for the year (2003: as restated)	31	<u>15,752</u>	<u>(398,750)</u>
Transfer of investment properties revaluation reserve surplus to the consolidated profit and loss account on disposal of investment properties	30	<u>(1,202)</u>	<u>(1,937)</u>
Impairment loss on positive goodwill	29	<u>4,000</u>	<u>—</u>
Dividends approved during the year	11	<u>(29,836)</u>	<u>(44,710)</u>
Movement in shareholders' equity arising from capital transactions with shareholders:			
— shares issued under share option scheme	27&28	<u>4,000</u>	<u>—</u>
Shareholders' equity at 30th June		<u>6,984,789</u>	<u>6,992,075</u>

The notes on pages 47 to 83 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 30th June, 2004

	2004	2003
	HK\$'000	restated HK\$'000
Note	-----	-----
Operating activities		
Loss from ordinary activities before taxation	(12,477)	(367,300)
Adjustments for:		
— Interest expense	17,410	15,526
— Interest income	(6,406)	(40,931)
— Depreciation	4,514	2,803
— Dividends from unlisted investment securities	(13,691)	(4,888)
— Bad debts written off/provision	82,161	44,566
— (Write back)/provisions on property projects	(264,107)	262,500
— Share of losses less profits of associates	35,042	60,662
— (Gain)/loss on disposal of fixed assets	(2,035)	596
— Loss/(gain) on disposal of interest in subsidiaries	343	(99,530)
— Loss on disposal of interest in associates	—	78,294
— Impairment loss on positive goodwill	4,000	—
	-----	-----
Operating loss before changes in working capital	(155,246)	(47,702)
Increase in properties held for development	(104,286)	(26,933)
Decrease in instalments receivable	17,441	60,805
Increase in properties under development	(108,820)	(43,711)
Decrease in completed properties for sale	22,593	66,885
Increase in deposits for acquisition of properties	(544,306)	—
Decrease/(increase) in debtors, prepayments and deposits	31,060	(37,651)
Increase/(decrease) in creditors and accrued expenses	51,166	(10,461)
Increase/(decrease) in rental and other deposits	1,307	(1,233)
(Decrease)/increase in amounts due to fellow subsidiaries	(35,966)	164,779
	-----	-----
Cash (used in)/generated from operations	(825,057)	124,778
Income tax		
— Hong Kong Profits Tax paid	(730)	(317)
— Taxation outside Hong Kong refund	—	102
— Taxation outside Hong Kong paid	(43,215)	(12,419)
— Tax indemnity received	29,628	4,231
	-----	-----
Net cash (used in)/from operating activities	(839,374)	116,375
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APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

	2004	2003
	HK\$'000	restated HK\$'000
Note		
Investing activities		
Proceeds from disposal of fixed assets	3,548	1,335
Payment for purchase of fixed assets	(1,315)	(6,421)
Purchase of additional shares in subsidiary	(55,791)	—
Proceeds from disposal of interest in subsidiaries (a)	—	276,373
Repayment from associates	110,917	18,264
Repayment of loans receivable	489,921	—
Proceeds from disposal of investment in securities	3	—
Interest received	8,647	8,502
Dividends received from associates	21,544	70,199
Dividends received from unlisted investment securities	13,691	4,888
Net cash from investing activities	<u>591,165</u>	<u>373,140</u>
Financing activities		
New bank loans	3,760,113	1,995,478
Repayment of bank loans	(3,922,173)	(2,066,863)
Contribution from minority shareholders	34,123	6,860
Interest paid	(37,191)	(43,918)
Dividends paid	(10,327)	(15,443)
Proceeds from shares issued under share option scheme	4,000	—
Net cash used in financing activities	<u>(171,455)</u>	<u>(123,886)</u>
Net (decrease)/increase in cash and cash equivalents	(419,664)	365,629
Cash and cash equivalents at 1st July	<u>759,266</u>	<u>393,637</u>
Cash and cash equivalents at 30th June	22 <u>339,602</u>	<u>759,266</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Disposal of interest in subsidiaries**

	2004	2003
	HK\$'000	HK\$'000
Net assets of subsidiaries disposed of/net cash inflow arising on disposal:		
Properties held for development disposed	—	176,843
Gain on disposal	—	99,530
Total cash consideration from disposal	<u>—</u>	<u>276,373</u>

The notes on pages 47 to 83 form part of these accounts.

Notes to the Accounts

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public 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 as explained in the accounting policies 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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated profit and loss account.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), 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 or Company 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). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

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 associate, 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(j)), 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).

(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 recognised in the profit and loss account (see note 1(j)); 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(j)).

In respect of acquisitions 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(j)) 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 interests 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.

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by a qualified valuer of the Group and at least every three years by external qualified valuers; and
 - land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).
 - other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).

- (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) **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(i) below. Impairment loss are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(r)(ii).

(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. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(i) **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 accumulated depreciation and impairment losses (see note 1(j)). 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

(j) **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 in the profit and loss account whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) 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.

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable 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.

(k) Properties held for and under development

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

(l) 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 and under development. Interest payable on loans relating to properties held for and under development is capitalised up to the date of completion of the properties.

(m) Completed properties for sale

Completed properties for sale remaining unsold at the year end are stated at the lower of cost and the estimated 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.

(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 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 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.

(iv) *Share options*

When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(p) **Income tax**

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) **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.

(r) **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) *Dividends*

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(s) **Translation of foreign currencies**

Foreign currency transactions 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 foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(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 of an asset 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 for the purposes of these accounts.

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 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were 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. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1st July, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) ("Income Taxes") issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax as set out in note 1(p). The effect of adopting of the new accounting policy has been applied retrospectively.

As a result of the adoption of this accounting policy, the shareholders' funds as at 1st July, 2003 and 1st July, 2002 were restated and decreased by HK\$44,385,000, which comprised retained profits of HK\$44,385,000 and investment properties revaluation reserve of HK\$Nil, and HK\$56,285,000, which comprised retained profits of HK\$40,818,000 and investment properties revaluation reserve of HK\$15,467,000, respectively. The effect of change to income tax charged to the consolidated profit and loss account and investment properties revaluation reserve, net of minority interests, for the year ended 30th June, 2004 is an increased credit of HK\$10,085,000 (2003: an increased charge of HK\$3,567,000) and an increased credit of HK\$Nil (2003: HK\$15,467,000) respectively.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

3 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

(a) Revenue and results

	Property development		Property investment		Finance		Management and sales commissions		Unallocated		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	restated		restated		restated		restated		restated		restated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>28,532</u>	<u>91,042</u>	<u>43,796</u>	<u>41,291</u>	<u>6,406</u>	<u>40,931</u>	<u>14,595</u>	<u>15,066</u>	<u>—</u>	<u>—</u>	<u>93,329</u>	<u>188,330</u>
External revenue	<u>28,532</u>	<u>91,042</u>	<u>43,796</u>	<u>41,291</u>	<u>6,406</u>	<u>40,931</u>	<u>14,595</u>	<u>15,066</u>	<u>—</u>	<u>—</u>	<u>93,329</u>	<u>188,330</u>
Segment result	<u>228,959</u>	<u>(191,934)</u>	<u>(122,847)</u>	<u>(124,317)</u>	<u>6,258</u>	<u>37,835</u>	<u>7,032</u>	<u>(3,462)</u>	<u>(77,820)</u>	<u>(8,123)</u>	<u>41,582</u>	<u>(290,001)</u>
Profit/(loss) from operations											41,582	(290,001)
Finance costs											<u>(19,017)</u>	<u>(16,637)</u>
											22,565	(306,638)
Share of losses less profits of associates	(26,734)	(25,388)	(8,105)	(35,503)	—	—	—	—	(203)	229	<u>(35,042)</u>	<u>(60,662)</u>
Loss from ordinary activities before taxation											(12,477)	(367,300)
Income tax											<u>(3,979)</u>	<u>(38,468)</u>
Loss from ordinary activities after taxation											(16,456)	(405,768)
Minority interests											<u>32,208</u>	<u>7,018</u>
Profit/(loss) attributable to shareholders											<u>15,752</u>	<u>(398,750)</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

(b) Assets and liabilities

	Property development		Property investment		Finance		Management and sales commissions		Unallocated		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	restated		restated		restated		restated		restated		restated	
	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	6,723,041	6,190,850	3,250,317	3,264,237	131,225	141,806	51,725	61,275	762,391	1,217,817	10,918,699	10,875,985
Interest in associates	254,268	(25,450)	170,069	(11,267)	—	832,352	—	—	1,343	1,515	425,680	797,150
Total assets											11,344,379	11,673,135
Segment liabilities	(282,306)	(217,895)	(145,263)	(102,289)	(14,814)	(16,486)	(21,264)	(13,712)	(3,238,235)	(3,478,042)	(3,701,882)	(3,828,424)

(c) Other information

	Property development		Property investment		Finance		Management and sales commissions	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	1,212	1,317	3,099	1,230	57	57	142	161
Capital expenditure	836	5,471	6,016	6,588	—	—	13	461
(Write back)/provisions on property projects	(264,107)	262,500	—	—	—	—	—	—
Bad debts written off/provision	—	31	—	37,436	—	2,945	—	—

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").

4 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. The amount of each significant category of revenue included in turnover during the year is as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Sale of properties	28,532	91,042
Rental income	43,796	41,291
Interest income	6,406	40,931
Management and sales commissions	14,595	15,066
	93,329	188,330

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

5 OTHER NET (LOSS)/INCOME

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Gain/(loss) on disposal of fixed assets	2,035	(596)
Exchange loss	(2,565)	(1,729)
Loss on disposal of interest in associates	—	(78,294)
(Loss)/gain on disposal of interest in subsidiaries	(343)	99,530
Others	(771)	(26)
	<u>(1,644)</u>	<u>18,885</u>

6 OTHER OPERATING INCOME/(EXPENSES)

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Write back/(provisions) on property projects	264,107	(262,500)
Bad debts written off/provision	(82,161)	(44,566)
Others	(52,435)	(15,403)
	<u>129,511</u>	<u>(322,469)</u>

7 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) **Finance costs**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Bank interest	36,796	42,428
Interest on loans wholly repayable within five years	3,800	16,828
Other borrowing costs	1,607	1,111
Total borrowing costs	42,203	60,367
Less: amount capitalised*	<u>23,186</u>	<u>43,730</u>
	<u>19,017</u>	<u>16,637</u>

* *Borrowing costs have been capitalised at a rate of 1.68% (2003: 2.50%) per annum.*

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

(b) **Staff costs**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contributions to defined contribution plan	2,119	1,636
Salaries, wages and other benefits	<u>62,051</u>	<u>60,866</u>
	64,170	62,502
Less: amount capitalised (including contributions to defined contribution plan of HK\$776,000 (2003: HK\$850,000))	<u>20,521</u>	<u>18,981</u>
	<u>43,649</u>	<u>43,521</u>

(c) **Other items**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	4,957	2,803
Less: amount capitalised	<u>443</u>	<u>—</u>
	<u>4,514</u>	<u>2,803</u>
Auditors' remuneration — audit services	<u>1,957</u>	<u>1,945</u>
Cost of completed properties for sale	<u>22,593</u>	<u>68,083</u>
Operating lease charges	2,853	2,127
Less: amount capitalised	<u>2,291</u>	<u>1,464</u>
	<u>562</u>	<u>663</u>
Rental receivables net of outgoings HK\$373,000 (2003: HK\$1,575,000)	<u>(43,423)</u>	<u>(39,716)</u>
Dividends from unlisted investment securities	<u>(13,691)</u>	<u>(4,888)</u>

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
	<u>HK\$'000</u>	<u>HK\$'000</u>
Company and subsidiaries		
Current tax — provision for Hong Kong Profits Tax		
Tax for the year	880	394
Under-provision in respect of prior years	<u>214</u>	<u>6</u>
	1,094	400
	-----	-----
Current tax — outside Hong Kong		
Tax for the year	5,684	39,163
Over-provision in respect of prior years	(59)	(5,975)
Tax refund for taxation outside Hong Kong in respect of prior years	<u>—</u>	<u>(102)</u>
	5,625	33,086
	-----	-----
Deferred tax		
Origination and reversal of temporary differences	(6,685)	6,942
	<u>-----</u>	<u>-----</u>
	34	40,428
	-----	-----
Associates		
Tax for the year	3,967	10,917
Tax refund for taxation outside Hong Kong in respect of prior years	<u>—</u>	<u>(12,352)</u>
	3,967	(1,435)
	-----	-----
Tax indemnity (note 9)	(22)	(525)
	<u>-----</u>	<u>-----</u>
	<u>3,979</u>	<u>38,468</u>
	-----	-----

Provision for Hong Kong Profits Tax has been made at 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:—

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Loss from ordinary activities before taxation	(12,477)	(367,300)
Notional tax on loss from ordinary activities before taxation, calculated at the rates applicable to profits in the countries concerned	13,182	(124,560)
Tax effect of non-deductible expenses	29,865	170,620
Tax effect of non-taxable revenue	(129,461)	(55,291)
Tax effect of unused tax losses not recognised	90,286	66,647
Tax effect of tax losses utilised	(26)	—
Tax refund and under/(over)-provision in prior years	155	(18,423)
Tax indemnity	(22)	(525)
Actual tax expense	<u>3,979</u>	<u>38,468</u>

9 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.

10 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a profit of HK\$7,522,000 (2003: HK\$83,387,000) which has been dealt with in the accounts of the Company.

11 DIVIDENDS

(a) Dividends attributable to the year

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Interim dividend declared and paid at HK\$0.03 (2003: HK\$0.03) per share	14,933	14,903
Final dividend proposed after balance sheet date at HK\$0.03 (2003: HK\$0.03) per share	14,933	14,903
	<u>29,866</u>	<u>29,806</u>

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

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

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, at HK\$0.03 (2003: HK\$0.06) per share	<u>14,903</u>	<u>29,807</u>

12 EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of HK\$15,752,000 (2003 restated: loss of HK\$398,750,000) and on the weighted average of 497,113,637 ordinary shares (2003: 496,776,205 ordinary shares) in issue during the year. There is no potential dilution of earnings per share during the year and no potential dilution of loss per share for 2003.

13 FIXED ASSETS

The Group

	Land and buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles and yacht	Sub-total	Investment properties	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:—							
At 1st July, 2003	3,312	14,394	33,106	25,643	76,455	3,183,600	3,260,055
Additions	—	5,554	1,006	309	6,869	—	6,869
Disposals	—	—	(501)	(15,220)	(15,721)	(2,689)	(18,410)
At 30th June, 2004	<u>3,312</u>	<u>19,948</u>	<u>33,611</u>	<u>10,732</u>	<u>67,603</u>	<u>3,180,911</u>	<u>3,248,514</u>
Representing:—							
Cost	3,312	19,948	33,611	10,732	67,603	—	67,603
Valuation 2004	—	—	—	—	—	<u>3,180,911</u>	<u>3,180,911</u>
	<u>3,312</u>	<u>19,948</u>	<u>33,611</u>	<u>10,732</u>	<u>67,603</u>	<u>3,180,911</u>	<u>3,248,514</u>
Aggregate depreciation:—							
At 1st July, 2003	760	9,351	24,305	24,278	58,694	—	58,694
Charge for the year	80	1,650	2,861	366	4,957	—	4,957
Written back on disposal	—	—	(134)	(15,188)	(15,322)	—	(15,322)
At 30th June, 2004	<u>840</u>	<u>11,001</u>	<u>27,032</u>	<u>9,456</u>	<u>48,329</u>	<u>—</u>	<u>48,329</u>
Net book value:—							
At 30th June, 2004	<u>2,472</u>	<u>8,947</u>	<u>6,579</u>	<u>1,276</u>	<u>19,274</u>	<u>3,180,911</u>	<u>3,200,185</u>
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>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Outside Hong Kong under medium-term leases	<u>3,183,383</u>	<u>3,186,152</u>

The Group's investment properties were revalued as at 30th June, 2004 by Mr. Augustine Wong, the Group's professional valuer who is a Fellow Member of the Hong Kong Institute of Surveyors, on an open market value basis calculated on total rental income taking into account reversionary income potential.

The Group 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\$3,180,911,000 (2003: HK\$3,183,600,000).

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within 1 year	39,615	42,021
After 1 year but within 5 years	77,258	62,027
After 5 years	<u>77,489</u>	<u>83,630</u>
	<u>194,362</u>	<u>187,678</u>

14 INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted share, at cost	1	1
Amounts due from subsidiaries	6,071,781	6,064,742
Less: impairment loss	<u>(22,978)</u>	<u>(12,648)</u>
	6,048,804	6,052,095
Amounts due to subsidiaries	<u>(3,930)</u>	<u>(18,244)</u>
	<u>6,044,874</u>	<u>6,033,851</u>

Details of principal subsidiaries are shown on pages 78 to 82.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

15 INTEREST IN ASSOCIATES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments				
Share of net liabilities	(375,570)	(315,017)	—	—
Loans to associates	820,355	1,131,272	88	65
Loans from associates	(19,105)	(19,105)	—	—
	<u>425,680</u>	<u>797,150</u>	<u>88</u>	<u>65</u>

Details of principal associates are shown on page 83.

16 INVESTMENTS IN SECURITIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Investment securities — equity securities		
Listed outside Hong Kong	20,314	20,314
Unlisted	<u>53,461</u>	<u>53,464</u>
Total	<u>73,775</u>	<u>73,778</u>
Market value of listed securities	<u>28,966</u>	<u>20,331</u>

17 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Outside Hong Kong in the PRC	<u>3,804,700</u>	<u>3,425,956</u>

Included in the balance at 30th June, 2004 are properties held for development carried at net realisable value of HK\$678,400,000 (2003: HK\$1,276,249,000) as estimated by the directors after taking into account a valuation report prepared by Mr. Augustine Wong dated 20th September, 2004 in respect of certain properties of the Group.

18 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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

(b) The ageing analysis of instalments receivable (net of provision for bad debts) under current assets is as follows:—

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Under 1 month overdue	11,585	19,284
More than 1 month overdue but less than 3 months overdue	669	824
More than 3 months overdue but less than 6 months overdue	979	1,351
More than 6 months overdue	<u>17,769</u>	<u>17,527</u>
	<u>31,002</u>	<u>38,986</u>

19 DEPOSITS FOR ACQUISITION OF PROPERTIES

The deposit for acquisition of properties of HK\$1,177,406,000 (2003: HK\$300,251,000) represented the deposit for the acquisition of a property in the PRC.

In 2002/2003, a master sale and purchase agreement was signed by the Group and a shareholder of a former associate of the Group in connection with the purchase of a property in the PRC at a cash consideration of US\$124,000,000. In accordance with the formal property acquisition agreements and loan assignment agreements signed during the year, part of the loans advanced to the former associate in previous years of HK\$332,849,000 was accounted for as part of the consideration for the acquisition of the property (note 20).

20 LOANS RECEIVABLE

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Amounts due from investee companies	<u>78,689</u>	<u>901,459</u>

Amounts due from investee companies represent:—

- (a) HK\$78,689,000 (2003: 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 was entitled to interest income, management commission and guaranteed return on investment; and
- (b) Included in the previous year's amounts were loans advanced by the Group to an investee company, a former associate of the Group which amounted to HK\$695,849,000. During the year, HK\$363,000,000 was received and the remaining balance was accounted for as part of the consideration for acquisition of properties as set out in note 19.

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.

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The ageing analysis of trade debtors (net of provision for bad debts) is as follows:—

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Under 1 month overdue	28,260	42,645	—	—
More than 1 month overdue but less than 3 months overdue	1,611	1,671	—	—
More than 3 months overdue but less than 6 months overdue	3,930	4,417	—	—
More than 6 months overdue	<u>100,781</u>	<u>173,869</u>	<u>—</u>	<u>—</u>
	134,582	222,602	—	—
Prepayments, deposits and other receivables	<u>320,713</u>	<u>305,759</u>	<u>83,439</u>	<u>113,046</u>
	<u><u>455,295</u></u>	<u><u>528,361</u></u>	<u><u>83,439</u></u>	<u><u>113,046</u></u>

The above balances include HK\$340,372,000 (2003: HK\$378,338,000) which are not expected to be recovered within one year.

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits with banks and other financial institutions	118,928	163,653	—	—
Cash at bank and in hand	<u>221,326</u>	<u>597,098</u>	<u>14</u>	<u>11</u>
Cash and cash equivalents in the balance sheets	340,254	760,751	14	11
Bank overdrafts (<i>note 23</i>)	<u>(652)</u>	<u>(1,485)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents in the consolidated cash flow statement	<u><u>339,602</u></u>	<u><u>759,266</u></u>	<u><u>14</u></u>	<u><u>11</u></u>

23 BANK LOANS AND OVERDRAFTS

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans and overdrafts are repayable as follows:—		
Within 1 year and included in current liabilities	497,008	332,201
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	900,000	1,350,075
After 2 years but within 5 years	<u>193,375</u>	<u>71,000</u>
	<u><u>1,093,375</u></u>	<u><u>1,421,075</u></u>
	<u><u>1,590,383</u></u>	<u><u>1,753,276</u></u>

The Group has unsecured banking facilities, amounting to HK\$7,029,909,000 (2003: HK\$4,976,932,000), of which HK\$1,590,383,000 (2003: HK\$1,753,276,000) were utilised at 30th June, 2004.

24 CREDITORS AND ACCRUED EXPENSES

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

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
	<u> </u>	<u> </u>
Trade creditors:—		
Due within 1 month and on demand	3,477	835
Due after 1 month but within 3 months	2,507	6,295
Due after 3 months but within 6 months	2,433	9,271
Due after 6 months	<u>129,676</u>	<u>145,065</u>
	138,093	161,466
Rental and other deposits	24,540	23,233
Other payables	<u>378,734</u>	<u>60,019</u>
	<u>541,367</u>	<u>244,718</u>

The above balances include HK\$113,688,000 (2003: HK\$112,533,000) which are not expected to be settled within one year.

25 AMOUNTS DUE TO FELLOW SUBSIDIARIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
	<u> </u>	<u> </u>
Amounts due to fellow subsidiaries	<u>890,951</u>	<u>1,128,423</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\$687,249,000 (2003: HK\$915,508,000) which carry interest at the prevailing Hong Kong Inter-bank Offer Rates.

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:—

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Provision for Hong Kong Profits Tax for the year	880	394
Provisional Profits Tax paid	<u>(515)</u>	<u>(311)</u>
	365	83
Balance of Profits Tax provision relating to prior years	7,742	7,660
Overseas tax payable	<u>205,574</u>	<u>243,164</u>
	<u>213,681</u>	<u>250,907</u>

(b) Deferred tax assets and liabilities recognised:—

(i) *The Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Elimination and capitalisation of expenses HK\$'000	Fair value adjustment on business combination HK\$'000	Total HK\$'000
Deferred tax arising from:					
At 1st July, 2002					
— as previously reported	—	—	—	—	—
— prior year adjustment	<u>38,000</u>	<u>38,292</u>	<u>36,018</u>	<u>166,800</u>	<u>279,110</u>
— as restated	38,000	38,292	36,018	166,800	279,110
Charged/(credited) to consolidated profit and loss account	13,500	—	(6,558)	—	6,942
Credited to investment properties revaluation reserve (<i>note 30</i>)	—	<u>(30,292)</u>	—	—	<u>(30,292)</u>
At 30th June, 2003					
(as restated)	<u>51,500</u>	<u>8,000</u>	<u>29,460</u>	<u>166,800</u>	<u>255,760</u>
At 1st July, 2003					
— as previously reported	—	—	—	—	—
— prior year adjustment	<u>51,500</u>	<u>8,000</u>	<u>29,460</u>	<u>166,800</u>	<u>255,760</u>
— as restated	51,500	8,000	29,460	166,800	255,760
Charged/(credited) to consolidated profit and loss account	<u>11,915</u>	—	<u>(18,600)</u>	—	<u>(6,685)</u>
At 30th June, 2004	<u>63,415</u>	<u>8,000</u>	<u>10,860</u>	<u>166,800</u>	<u>249,075</u>

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(ii)

	2004	2003
	HK\$'000	restated HK\$'000
Deferred tax assets	67,585	46,500
Deferred tax recoverable from Henderson Land (<i>note</i>)	148,840	148,840
Net deferred tax assets recognised on the consolidated balance sheet	216,425	195,340
Net deferred tax liabilities recognised on the consolidated balance sheet	<u>(465,500)</u>	<u>(451,100)</u>
	<u>(249,075)</u>	<u>(255,760)</u>

Note: 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\$38,495,000 (2003: HK\$38,495,000) and HK\$110,345,000 (2003: HK\$110,345,000) respectively upon the crystallisation of the corresponding deferred tax liabilities (note 9).

(c) Deferred tax assets have not been recognised in respect of the following items:—

(i) *The Group*

	2004		2003	
	Tax losses	Deferred tax asset not recognised	Tax losses	Deferred tax asset not recognised
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Future benefits of tax losses				
(i) Hong Kong (<i>note a</i>)	16,684	2,920	12,157	2,127
(ii) Outside Hong Kong (<i>note b</i>)	<u>421,284</u>	<u>138,425</u>	<u>200,538</u>	<u>65,756</u>
	<u>437,968</u>	<u>141,345</u>	<u>212,695</u>	<u>67,883</u>

(ii) *The Company*

	2004		2003	
	Tax losses	Deferred tax asset not recognised	Tax losses	Deferred tax asset not recognised
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Future benefits of tax losses				
(i) Hong Kong (<i>note a</i>)	<u>5,906</u>	<u>1,034</u>	<u>4,014</u>	<u>702</u>

The Group has not recognised deferred tax assets in respect of tax losses of certain subsidiaries as it is not probable that sufficient future profits will be available against which the unused tax losses can be utilised.

note:

- The tax losses do not expire under current tax legislation.
- The tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they were incurred.

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27 SHARE CAPITAL

	Number of shares		Nominal value	
	2004	2003	2004	2003
	'000	'000	HK\$'000	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:—				
At 1st July	496,776	496,776	496,776	496,776
Shares issued under share option scheme	<u>1,000</u>	<u>—</u>	<u>1,000</u>	<u>—</u>
At 30th June	<u>497,776</u>	<u>496,776</u>	<u>497,776</u>	<u>496,776</u>

On 20th February, 2004 and 27th February, 2004, options were exercised to subscribe for 1,000,000 ordinary shares in the Company at a consideration of HK\$4,000,000, of which HK\$1,000,000 was credited to share capital and the balance of HK\$3,000,000 (note 28) was credited to the share premium account.

28 SHARE PREMIUM

	2004	2003
	HK\$'000	HK\$'000
Balance at 1st July	5,566,402	5,566,402
Shares issued under share option scheme (note 27)	<u>3,000</u>	<u>—</u>
Balance at 30th June	<u>5,569,402</u>	<u>5,566,402</u>

29 CAPITAL RESERVES

	The Group		
	Reserve on	Other	Total
	consolidation	reserve	
	HK\$'000	(note) HK\$'000	HK\$'000
At 1st July, 2002	71,079	4,424	75,503
Transfer from consolidated profit and loss account (note)	<u>—</u>	<u>24</u>	<u>24</u>
At 30th June, 2003	<u>71,079</u>	<u>4,448</u>	<u>75,527</u>
At 1st July, 2003	71,079	4,448	75,527
Transfer from consolidated profit and loss account (note)	<u>—</u>	<u>2,189</u>	<u>2,189</u>
Impairment loss on positive goodwill	<u>4,000</u>	<u>—</u>	<u>4,000</u>
At 30th June, 2004	<u>75,079</u>	<u>6,637</u>	<u>81,716</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 its registered capital.

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30 INVESTMENT PROPERTIES REVALUATION RESERVE

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Balance at 1st July		
— as previously reported	144,238	327,647
— prior year adjustment in respect of deferred tax (<i>note 2</i>)	—	(15,467)
— as restated	144,238	312,180
Revaluation surplus transferred to the consolidated profit and loss account on disposal of investment properties	(1,202)	(1,937)
Revaluation deficit, net of deferred tax (<i>note 26 (b)(i)</i>)	—	(166,005)
Balance at 30th June	<u>143,036</u>	<u>144,238</u>

31 RETAINED PROFITS

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	restated HK\$'000	HK\$'000	HK\$'000
Balance at 1st July				
— as previously reported	753,517	1,193,434	83,211	44,534
— prior year adjustment in respect of deferred tax (<i>note 2</i>)	(44,385)	(40,818)	—	—
— as restated	709,132	1,152,616	83,211	44,534
Profit/(loss) for the year (2003: as restated) (<i>note 10</i>)	15,752	(398,750)	7,522	83,387
Dividends approved in respect of the previous year (<i>note 11(b)</i>)	(14,903)	(29,807)	(14,903)	(29,807)
Dividends declared in respect of the current year (<i>note 11(a)</i>)	(14,933)	(14,903)	(14,933)	(14,903)
Transfer to capital reserves (<i>note 29</i>)	(2,189)	(24)	—	—
Balance at 30th June (2003: as restated)	<u>692,859</u>	<u>709,132</u>	<u>60,897</u>	<u>83,211</u>
Retained by:—				
Company and subsidiaries	1,161,027	1,136,147		
Associates	(468,168)	(427,015)		
	<u>692,859</u>	<u>709,132</u>		

32 MINORITY INTERESTS

Included in the minority interests are long term loans totalling HK\$525,826,000 (2003: HK\$466,977,000) 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\$1,609,000 (2003: HK\$1,522,000).

33 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2004 amounted to HK\$60,897,000 (2003: HK\$83,211,000).

34 DEFINED CONTRIBUTION RETIREMENT PLAN

- (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.

35 EQUITY COMPENSATION BENEFITS

The Company once adopted a share option scheme on 15th March, 1996 (“Henderson China Share Option Scheme”). The Company by ordinary resolution passed at its special general meeting held on 1st December, 2003 adopted a new share option scheme (the “New Scheme”) and terminated Henderson China Share Option Scheme in order to comply with the new requirements under the revised Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). No further options may be offered under Henderson China Share Option Scheme. However, the outstanding options granted under Henderson China Share Option Scheme shall continue to be subject to the provisions of Henderson China Share Option Scheme and the revised provisions of Chapter 17 of the Listing Rules. No share options have been granted under the New Scheme to any persons since its adoption. A summary of the Henderson China Share Option Scheme and the New Scheme is as below:—

(a) Maximum number of shares available for subscription

The maximum number of shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any options remain outstanding) under the Henderson China Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company from time to time excluding shares issued pursuant to the Henderson China Share Option Scheme.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme unless the Company obtains a fresh approval from its shareholders.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes of the Company (including Henderson China Share Option Scheme) shall not exceed 30% of the total number of shares in issue from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if this will result in the limit being exceeded.

(b) Minimum and maximum periods for the exercise of options

An option may be exercised in accordance with the terms of the Henderson China Share Option Scheme at any time during such period or periods to be notified by the Board of Directors of the Company to each grantee. The option may be exercised on the expiry of 6 months after the date on which the grant of an option is accepted (the “Commencement Date”) and not later than a period of 3 years after the Commencement Date or 14th March, 2006, whichever is the earlier.

In respect of any particular option granted under the New Scheme, the period during which an option may be exercised, and unless the Board of the Directors shall otherwise resolve in relation to any particular option at the time of the grant, is (i) the period commencing after the expiry of 1 year after the date of grant in respect of the first 30% of an option granted at any time to any grantee; and (ii) the period commencing after the expiry of 2 years after the date of grant in respect of a further 30% of such option; and (iii) the period commencing after the expiry of 3 years from the date of grant in respect of the remaining 40% of such option; and in any event each of such period shall expire after 6 years from the date of grant. The Board of the Directors may also provide restrictions on the exercise of such option during the period an option may be exercised.

(c) Payment on acceptance of option

HK\$1.00 is payable to the Company by the grantee on acceptance of an option under the Henderson China Share Option Scheme and the New Scheme within 28 days from the date of offer of the grant of an option (“Offer Date”).

(d) Basis of determining the subscription price

The subscription price per share under the Henderson China Share Option Scheme is determined by the Board of Directors of the Company and shall be the higher of:

- (i) a price being not less than 80% of the average closing price per share as stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited for the 5 business days immediately preceding the Offer Date; and
- (ii) the nominal value per share.

The subscription price for shares in the Company under the New Scheme shall be a price solely determined by the Board of the Directors and shall be at least the higher of:

- (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited’s daily quotations sheet on the Offer Date;
- (ii) a price being the average closing price of the shares as stated in The Stock Exchange of Hong Kong Limited’s daily quotations sheets for the 5 business days immediately preceding the Offer Date; and
- (iii) the nominal value of a share.

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(e) **Remaining life**

The Henderson China Share Option Scheme terminated on 1st December, 2003 and no further options will be offered under the Henderson China Share Option Scheme.

The New Scheme shall remain in force for a period of 10 years commencing on 1st December, 2003, after which period no further options will be issued but in all other respects the provisions of the New Scheme shall remain in full force and effect.

(f) At 30th June, 2004, 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 exercised during the year	Number of share options outstanding at 30th June, 2004
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	1,500,000	—	1,500,000
				<u>4,000,000</u>	<u>1,000,000</u>	<u>3,000,000</u>

(g) Details of share options exercised during the year:—

Exercise date	Exercise price per share HK\$	Closing price per share at exercise date HK\$	Proceeds received HK\$	Number
20th February, 2004	4.00	4.675	3,000,000	750,000
27th February, 2004	4.00	4.650	1,000,000	250,000
			<u>4,000,000</u>	<u>1,000,000</u>

(h) Excepted for the above note 35(g), no share options were granted, exercised, cancelled or lapsed during the year.

36 COMMITMENTS

(a) At 30th June, 2004, the Group had commitments not provided for in these accounts as follows:—

	The Group	
	2004 HK\$'000	2003 HK\$'000
Contracted for	1,749,656	2,312,686
Authorised but not contracted for	2,777,361	1,649,502
	<u>4,527,017</u>	<u>3,962,188</u>

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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	
	2004	2003
	HK\$'000	HK\$'000
Within 1 year	1,243,458	1,114,133
After 1 year but within 2 years	1,120,844	563,840
After 2 years	<u>2,162,715</u>	<u>2,284,215</u>
	<u>4,527,017</u>	<u>3,962,188</u>

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

- (b) At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:—

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within 1 year	886	1,731
After 1 year but within 5 years	<u>72</u>	<u>378</u>
	<u>958</u>	<u>2,109</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.

37 CONTINGENT LIABILITIES

At 30th June, 2004, contingent liabilities of the Group and of the Company were as follows:—

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions in respect of financing provided to purchasers of flats	213,556	229,320	—	—
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	<u>—</u>	<u>—</u>	<u>1,289,731</u>	<u>1,030,791</u>
	<u>213,556</u>	<u>229,320</u>	<u>1,289,731</u>	<u>1,030,791</u>

- (c) The Company has given guarantees to third party in respect of the sale and purchase agreement between its wholly owned subsidiary and the third party in case the subsidiary fails to commit the payment. At 30th June, 2004, the Company had contingent liabilities of US\$21,488,000 (equivalent to HK\$167,603,000) in relation to the said guarantees.

38 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	
	2004	2003
	HK\$'000	HK\$'000
Interest expenses (<i>note (i)</i>)	(3,800)	(16,828)
Accounting fees paid (<i>note (ii)</i>)	(2,000)	(2,000)
Tax indemnity (<i>note (iii)</i>)	<u>22</u>	<u>525</u>

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, 2004 are set out in *note 25*.

(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, 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 (2003: HK\$414,438,000) and HK\$586,821,000 (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 year ended 30th June, 2004 are HK\$Nil (2003: HK\$Nil) and HK\$Nil (2003: HK\$17,943,000) respectively.

(c) Transactions with associates

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Interest income recognised	—	29,208
Management fee recognised	<u>10,872</u>	<u>8,515</u>

The amounts due to and due from the associates at the year end are set out in *note 15*.

(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 year is HK\$3,000,000. The rental deposit received and rental receivables are HK\$500,000 and HK\$3,250,000 respectively as at 30th June, 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 and accordingly no rental income was derived from the related company for the year ended 30th June, 2004.

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.

39 DIRECTORS' REMUNERATION

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Executives directors		
Fees	200	200
Salaries and other emoluments	2,965	3,032
Retirement scheme contributions	193	251
	<u>3,358</u>	<u>3,483</u>
Independent non-executive directors		
Fees	40	40
Other emoluments	100	100
	<u>140</u>	<u>140</u>
Non-executive directors		
Fees	40	40
Salary and other emolument	—	—
Discretionary bonus	—	—
Retirement scheme contributions	—	—
	<u>40</u>	<u>40</u>

There was no arrangement under which a director had waived or agreed to waive any emoluments during the current and prior years.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

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

HK\$	The Group	
	2004	2003
	Number of Directors	Number of Directors
Nil — 1,000,000	12	12
1,000,001 — 1,500,000	1	1
1,500,001 — 2,000,000	1	1
2,000,001 — 2,500,000	—	—
2,500,001 — 3,000,000	—	—

40 SENIOR MANAGEMENT REMUNERATION

(a) Of the five individuals with the highest emoluments, two (2003: one) of them are directors whose emoluments are disclosed in note 39. The aggregate of the emoluments in respect of the other three (2003: four) individuals are as follows:—

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries and other emoluments	5,630	6,304
Retirement scheme contributions	102	244
	5,732	6,548

(b) The remuneration of three (2003: four) 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	
	2004	2003
	Number of Employees	Number of Employees
1,500,001 — 2,000,000	2	4
2,000,001 — 2,500,000	—	—
2,500,001 — 3,000,000	1	—
3,000,001 — 3,500,000	—	—

41 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 2.

42 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2004 to be Henderson Development Limited, which is incorporated in Hong Kong.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

Principal Subsidiaries at 30th June, 2004

Details of the principal subsidiaries are as follows:—

Name of company	Place of incorporation/ establishment and operation	Attributable percentage of equity interest held by		Issued/contributed registered capital (HK\$ unless otherwise stated)	Principal activities
		The Company	Subsidiaries		
Andcoe Limited	British Virgin Islands	100	—	US\$1	Investment holding
Asia Winner Development Limited	Hong Kong	—	100	2	Investment holding
* † Beijing Gaoyi Property Development Co., Ltd.	PRC	—	100#	US\$12,000,000	Property development
† Beijing Henderson Properties Co., Ltd.	PRC	—	75#	RMB655,000,000	Property development
• Beijing Henghua Property Management Co., Ltd.	PRC	—	75	US\$700,000	Property management
Bestime Development Limited	Hong Kong	—	100	2	Investment holding
Billiton International Limited	Hong Kong	—	100	2	Investment holding
Champion Hall International Limited	Hong Kong	—	100	2	Investment holding
Champion King International Limited	Hong Kong	—	100	2	Investment holding
China Property Finance Limited	Hong Kong	—	100	2	Finance
Citimax Investment Limited	British Virgin Islands	100	—	US\$1	Investment holding
* City Sharp Development Limited	Hong Kong	—	100	2	Investment holding
City Sparkle Limited	Hong Kong	—	100	2	Investment holding
† Dongguan Heng Jun Plaza Development Ltd.	PRC	—	70#	15,429,190	Property development
Fame China Limited	Hong Kong	—	100	2	Investment holding

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

	Name of company	Place of incorporation/ establishment and operation	Attributable percentage of equity interest held by		Issued/contributed registered capital (HK\$ unless otherwise stated)	Principal activities
			The Company	Subsidiaries		
†@	Fangcun Henderson Property Development Ltd.	PRC	—	100#	RMB211,650,140	Property development
	Fineway Development Limited	Hong Kong	—	100	2	Property investment
	Fordking Development Limited	Hong Kong	—	100	2	Investment holding
	Fortic Limited	Hong Kong	—	100	2	Property investment
	Gain Year Development Limited	Hong Kong	—	100	2 2**	Investment holding
~	Gain Year Development Real Estate (Shanghai) Co., Ltd	PRC	—	100	US\$12,000,000	Property development
	Glena (Hong Kong) Limited	Hong Kong	—	100	10,000	Investment holding
~@	Guangdong Hengbao Property Management Co., Ltd.	PRC	—	100	RMB1,000,000	Property management
†@*	Guangdong Jiaxing Real Estate Co., Ltd.	PRC	—	100#	148,845,677	Property development
†@	Guangzhou Guang An Property Development Ltd.	PRC	—	62#	US\$17,947,550	Property development
†	Guangzhou Guang Hung Property Development Ltd.	PRC	—	72#	US\$17,000,000	Property development
†	Guangzhou Guang Nam Property Development Limited	PRC	—	68.4#	RMB125,969,120	Property development
•*	Guangzhou Henderson Premier Real Estate Agent Co., Ltd.	PRC	—	60	RMB4,000,000	Management and agency services
†	Guangzhou Hengguo Real Estate Development Co., Ltd.	PRC	—	80	212,670,000	Property development

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

	Name of company	Place of incorporation/ establishment and operation	Attributable percentage of equity interest held by		Issued/contributed registered capital (HK\$ unless otherwise stated)	Principal activities
			The Company	Subsidiaries		
†@	Guangzhou Jian Heng Property Development Ltd.	PRC	—	100#	US\$17,000,000	Property development
†	Guangzhou Jiejun Real Estate Development Co., Ltd.	PRC	—	100#	310,000,000	Property development
†	Guangzhou Jietong Real Estate Development Co., Ltd.	PRC	—	95#	184,000,000	Property development
	Hansen (China) Property Management Company Limited	Hong Kong	—	100	2	Property management
	Henderson (China) Finance Limited	Hong Kong	—	100	10,000	Finance
	Henderson (China) Investment Company Limited	Hong Kong	—	100	2 2**	Investment holding and management services
	Henderson (China) Real Estate Agency Limited	Hong Kong	—	100	2	Management and agency services
	Henderson Sun Investment Company Limited	Hong Kong	—	70	10,000,000	Investment holding
	Hendison (China) Investment Company Limited	Hong Kong	—	100	2 2**	Investment holding
	Henfield Properties Limited	Hong Kong	—	60	10,000	Investment holding
	Hennon International Limited	Hong Kong	—	100	10	Investment holding
	Henston (BVI) Investment Limited	British Virgin Islands	—	100	US\$10,000	Investment holding
	Henston (China) Investment Company Limited	Hong Kong	—	100	2 2**	Investment holding

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

Name of company	Place of incorporation/ establishment and operation	Attributable percentage of equity interest held by		Issued/contributed registered capital (HK\$ unless otherwise stated)	Principal activities
		The Company	Subsidiaries		
Hentra International Limited	Hong Kong	—	100	2	Investment holding
Hiram Assets Limited	British Virgin Islands	—	100	US\$1	Finance
Jet Charter Development Limited	Hong Kong	—	100	2	Investment holding
Jetgood Development Limited	Hong Kong	—	100	2 2**	Investment holding
~ Jetgood Development Real Estate (Shanghai) Co., Ltd.	PRC	—	100	US\$12,000,000	Property development
Jetmax Development Limited	Hong Kong	—	100	2	Investment holding
~ Jonescorp Estate (Shenzhen) Ltd.	PRC	—	100	US\$4,360,000	Property development
Jonescorp Investment Limited	Hong Kong	—	100	2 2**	Investment holding
Keengold Development Limited	Hong Kong	—	100	2	Investment holding
Main Eagle Limited	Hong Kong	—	100	2	Investment holding
Maxton Venture Limited	British Virgin Islands	100	—	US\$1	Investment holding
Million Globe Limited	Hong Kong	—	100	2	Property investment
Perfect Top Development Limited	Hong Kong	—	100	2 2**	Investment holding
~ Perfect Top Development Real Estate (Shanghai) Co., Ltd.	PRC	—	100	US\$12,000,000	Property development
Profit Field Development Limited	Hong Kong	—	100	2	Investment holding
Ranki Development Limited	Hong Kong	—	100	2	Investment holding

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

Name of company	Place of incorporation/ establishment and operation	Attributable percentage of equity interest held by		Issued/contributed registered capital (HK\$ unless otherwise stated)	Principal activities
		The Company	Subsidiaries		
Senko Investment Limited	British Virgin Islands	—	100	US\$1	Investment holding
• Shanghai Henfield Properties Co., Ltd.	PRC	—	59.4	US\$26,843,216	Property development
• Shanghai Heng Cheng Real Estate Development Co., Ltd.	PRC	—	85	US\$33,340,000	Property development
Shellson International Limited	Hong Kong	—	75	100	Investment holding
•* Shenzhen Shunchang Decorate Engineering Co., Ltd.	PRC	—	75	RMB13,000,000	Decoration
Spaceworld Limited	British Virgin Islands	—	100	US\$2	Investment holding
Star Yield Development Limited	Hong Kong	—	100	2	Investment holding
Starmac Development Limited	Hong Kong	—	100	2	Investment holding
Sunmark Limited	Hong Kong	—	100	2	Property investment
Waker International Limited	Hong Kong	—	100	20	Investment holding

* Subsidiaries not audited by KPMG

** Non-voting deferred shares

These interests represent the Company's profit sharing percentage in the respective subsidiaries

@ The company name in English is a direct translation of its registered name in Chinese

• Sino-Foreign Equity Joint Venture Enterprise

† Sino-Foreign Cooperative Joint Venture Enterprise

~ Wholly Foreign-Owned Enterprise

The above are the principal subsidiaries of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

Principal Associates at 30th June, 2004

Details of the principal associates are as follows:

Name of company	Place of incorporation/ establishment	Percentage of equity interest held	Issued/ contributed registered capital (HK\$ unless otherwise stated)	Principal activities
Feswin Investment Limited	Hong Kong	50	10,000	Investment holding
* Maxfine Development Limited	Hong Kong	16.67	9,150	Investment holding
* Panyu Lexi New City Land Company Limited	PRC	25	56,000,000	Property development
Perlin Development Limited	Hong Kong	50	10	Investment holding
Quickcentre Properties Limited	British Virgin Islands	50	US\$2	Investment holding
Shanghai Hengan Real Estate Development Co., Ltd.	PRC	35	US\$3,200,000	Property development
* Shanghai Heng Chang Real Estate Development Co., Ltd.	PRC	49	US\$10,000,000	Property development
Shanghai Hengyi Real Estate Development Co., Ltd.	PRC	37.5	US\$23,500,000	Property development
Shanghai Jianmei Property Development Co., Ltd.	PRC	15	US\$10,000,000	Property development
* Triple Wide Company Limited	Hong Kong	33.33	30,000 30,000**	Investment holding

* Associates not audited by KPMG

** Non-voting deferred shares

The above are the principal associates of the Group which, in the opinion of the directors, materially affect the profit or assets of the Group.

3. UNAUDITED INTERIM RESULTS OF THE HCHL GROUP FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2004

The following information has been extracted from the unaudited condensed interim consolidated financial statements of the HCHL Group for the six months ended 31st December, 2004, the page numbers in the statements below refer to the 2004/2005 interim report of HCHL. For the purpose of the extracts set out below, the “Company” means HCHL and the “Group” means “HCHL Group”.

Consolidated Profit and Loss Account — unaudited

	Note	For the six months ended 31st December,	
		2004 HK\$'000	2003 HK\$'000
Turnover	3	34,667	52,320
Cost of sales/services		<u>(5,490)</u>	<u>(17,650)</u>
		29,177	34,670
Other revenue		6,746	13,986
Other net income		1,070	1,386
Selling expenses		(2,099)	(12,140)
Administrative and other operating expenses		<u>(48,229)</u>	<u>(56,175)</u>
Loss from operations	3	(13,335)	(18,273)
Finance costs	4(a)	<u>(1,477)</u>	<u>(6,705)</u>
		(14,812)	(24,978)
Share of profits less losses of associates		<u>6,683</u>	<u>(6,932)</u>
Loss from ordinary activities before taxation	4	(8,129)	(31,910)
Income tax	5	<u>(10,985)</u>	<u>(6,599)</u>
Loss from ordinary activities after taxation		(19,114)	(38,509)
Minority interests		<u>7,027</u>	<u>6,785</u>
Loss attributable to shareholders		<u>(12,087)</u>	<u>(31,724)</u>
Interim dividend declared after the interim period end	7(a)	<u>14,933</u>	<u>14,903</u>
Loss per share	8	<u>HK\$0.02</u>	<u>HK\$0.06</u>

The notes on pages 8 to 19 form part of the condensed interim financial statements.

Consolidated Balance Sheet

		At 31st December, 2004 unaudited HK\$'000	At 30th June, 2004 audited HK\$'000
	Note	<u>HK\$'000</u>	<u>HK\$'000</u>
Non-current assets			
Fixed assets			
— Investment properties		3,182,587	3,180,911
— Other fixed assets		<u>17,453</u>	<u>19,274</u>
		3,200,040	3,200,185
Interest in associates		404,620	425,680
Investments in securities		74,665	73,775
Properties held for development	16	3,834,546	3,804,700
Instalments receivable	9(a)	23,687	30,160
Deferred tax assets		<u>218,127</u>	<u>216,425</u>
		<u>7,755,685</u>	<u>7,750,925</u>
Current assets			
Properties under development		1,318,300	1,223,785
Completed properties for sale		283,044	287,023
Deposits for acquisition of properties		1,177,406	1,177,406
Loans receivable		50,488	78,689
Debtors, prepayments and deposits	10	465,298	455,295
Instalments receivable	9(b)	31,986	31,002
Cash and cash equivalents		<u>211,152</u>	<u>340,254</u>
		<u>3,537,674</u>	<u>3,593,454</u>
Current liabilities			
Bank loans and overdrafts — unsecured		622	497,008
Creditors and accrued expenses	11	542,710	541,367
Current taxation		<u>214,176</u>	<u>213,681</u>
		<u>757,508</u>	<u>1,252,056</u>
Net current assets		<u>2,780,166</u>	<u>2,341,398</u>
Total assets less current liabilities		<u>10,535,851</u>	<u>10,092,323</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

		At 31st December, 2004 unaudited HK\$'000	At 30th June, 2004 audited HK\$'000
	Note	<u>HK\$'000</u>	<u>HK\$'000</u>
Non-current liabilities			
Bank loans — unsecured		1,941,877	1,093,375
Amounts due to fellow subsidiaries		515,521	890,951
Deferred tax liabilities		474,890	465,500
		<u>2,932,288</u>	<u>2,449,826</u>
Minority interests			
		<u>652,532</u>	<u>657,708</u>
		<u>3,584,820</u>	<u>3,107,534</u>
Net assets			
		<u>6,951,031</u>	<u>6,984,789</u>
Capital and reserves			
Share capital	12	497,776	497,776
Share premium	13	5,569,402	5,569,402
Capital reserves	13	82,796	81,716
Investment properties revaluation reserve	13	136,298	143,036
Retained profits	13	664,759	692,859
		<u>6,951,031</u>	<u>6,984,789</u>

The notes on pages 8 to 19 form part of the condensed interim financial statements.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

Consolidated Statement of Changes in Equity — unaudited

	Note	For the six months ended	
		31st December,	
		2004	2003
		HK\$'000	HK\$'000
Shareholders' equity at 1st July		6,984,789	6,843,235
Deficit on revaluation of investment properties, net of deferred tax	13	(4,821)	—
Net loss not recognised in the consolidated profit and loss account		(4,821)	—
Net loss for the period		(12,087)	(31,724)
Transfer of investment properties revaluation reserve surplus to the consolidated profit and loss account on disposal of investment properties	13	(1,917)	(1,693)
Dividend approved and paid during the period	7(b)	(14,933)	(14,903)
		(28,937)	(48,320)
Shareholders' equity at 31st December		6,951,031	6,794,915

The notes on pages 8 to 19 form part of the condensed interim financial statements.

Condensed Consolidated Cash Flow Statement — unaudited

	For the six months ended	
	31st December,	
	2004	2003
	<u>HK\$'000</u>	<u>HK\$'000</u>
Net cash used in operating activities	(519,628)	(627,954)
Net cash from investing activities	55,712	107,276
Net cash from financing activities	<u>334,844</u>	<u>168,834</u>
Net decrease in cash and cash equivalents	(129,072)	(351,844)
Cash and cash equivalents at 1st July	<u>339,602</u>	<u>759,266</u>
Cash and cash equivalents at 31st December	<u>210,530</u>	<u>407,422</u>
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents in the balance sheet	211,152	407,422
Bank overdrafts	<u>(622)</u>	<u>—</u>
	<u>210,530</u>	<u>407,422</u>

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP
For the six months ended 31st December, 2004

	Property development	Property investment	Finance	Management and sales commissions	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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>

For the six months ended 31st December, 2003

	Property development	Property investment	Finance	Management and sales commissions	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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						(6,705)
						(24,978)
Share of losses less profits of associates	(7,556)	629	—	—	(5)	(6,932)
Loss from ordinary activities before taxation						(31,910)
Income tax						(6,599)
Loss from ordinary activities after taxation						(38,509)
Minority interests						6,785
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").

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	2003
	HK\$'000	HK\$'000
Bank interest	13,197	13,470
Interest on loans wholly repayable within five years	1,246	3,331
Other borrowing costs	<u>498</u>	<u>363</u>
Total borrowing costs	14,941	17,164
Less: amount capitalised*	<u>(13,464)</u>	<u>(10,459)</u>
	<u><u>1,477</u></u>	<u><u>6,705</u></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	2003
	HK\$'000	HK\$'000
Staff costs	27,956	32,332
Less: amount capitalised	<u>(16,164)</u>	<u>(10,036)</u>
	<u><u>11,792</u></u>	<u><u>22,296</u></u>
Depreciation	2,350	1,826
Less: amount capitalised	<u>(13)</u>	<u>(12)</u>
	<u><u>2,337</u></u>	<u><u>1,814</u></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><u>(5,857)</u></u>	<u><u>(13,691)</u></u>

5 INCOME TAX

Income tax in the consolidated profit and loss account represents:

	For the six months ended 31st December,	
	2004	2003
	HK\$'000	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 (<i>note 6 and 17(a)</i>)	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.

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.

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,	At 30th June,
	2004	2004
	HK\$'000	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	<u>19,954</u>	<u>17,769</u>
	<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.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

The ageing analysis of trade debtors (net of provision for bad debts) is as follows:

	At 31st December, 2004	At 30th June, 2004
	HK\$'000	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	<u>105,919</u>	<u>100,781</u>
	140,182	134,582
Prepayments, deposits and other receivables	<u>325,116</u>	<u>320,713</u>
	<u>465,298</u>	<u>455,295</u>

11 CREDITORS AND ACCRUED EXPENSES

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

	At 31st December, 2004	At 30th June, 2004
	HK\$'000	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	At 30th June, 2004	At 31st December, 2004	At 30th June, 2004
	'000	'000	HK\$'000	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>

13 RESERVES

	Share premium	Capital reserves	Investment properties revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	At 30th June, 2004
	HK\$'000	HK\$'000
Contracted for	1,769,228	1,749,656
Authorised but not contracted for	<u>2,446,834</u>	<u>2,777,361</u>
	<u>4,216,062</u>	<u>4,527,017</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, 2004	At 30th June, 2004
	HK\$'000	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>4,216,062</u>	<u>4,527,017</u>

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

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HCHL GROUP

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

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

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 (<i>note (i)</i>)	(1,246)	(3,331)
Accounting fees paid (<i>note (ii)</i>)	(1,000)	(1,000)
Tax indemnity (<i>note (iii)</i>) (<i>Note 6</i>)	<u>4</u>	<u>—</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) 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).

(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.

4. SHARE CAPITAL

The authorised and issued share capital of HCHL as at the Latest Practicable Date are as follows:

	Number of Shares	Nominal value
		HK\$
Authorised	1,000,000,000	1,000,000,000
Issued and fully paid	497,776,205	497,776,205

There was no movement in the share capital of HCHL for the period since 30th June, 2004 up to the Latest Practicable Date.

Each of the Shares ranks *pari passu* in all respects, including dividends, voting and capital.

Apart from the Shares, HCHL does not have any warrants, options, derivatives, convertible securities or other securities in issue. None of the unissued share or loan capital of HCHL is subject to any warrants, options, derivatives or conversion rights and it has not been agreed, conditionally or unconditionally, to put any of the unissued share or loan capital of HCHL under any warrants, options, derivatives or conversion rights.

5. INDEBTEDNESS

At the close of business on 30th April, 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the HCHL Group had outstanding borrowings of approximately HK\$2,637 million, comprising bank borrowings of approximately HK\$1,970 million and other borrowings due to fellow subsidiaries of approximately HK\$667 million. The HCHL Group's bank borrowings and other borrowings were unsecured.

Contingent liabilities of the HCHL Group as at 30th April, 2005 amounted to approximately HK\$171 million. These were mainly related to guarantees given by the HCHL Group to financial institutions in respect of mortgage financing provided to purchasers of property units developed by the HCHL Group, and a large portion of these guarantees are short term in nature which will be gradually relinquished upon the issuance of title deeds of the relevant property units.

Save as disclosed in this section headed under "Indebtedness" and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the HCHL Group, the HCHL Group did not have any outstanding mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30th April, 2005.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th April, 2005. The directors of HCHL have confirmed that there has been no material changes in HCHL's indebtedness and contingent liability positions since 30th April, 2005.

6. MATERIAL CHANGES

There has been no material changes in the financial or trading position or prospects of the HCHL Group since 30th June, 2004, the date to which the latest published audited consolidated financial statements of the HCHL Group were made up.

7. STATEMENT OF ADJUSTED NAV

Set out below is a statement of the Adjusted NAV of the HCHL Group which has been prepared based on the unaudited consolidated net assets of the HCHL Group as at 31st December, 2004 after taking into account the effect of net surplus arising from the valuation of all the property interests (as per the requirement of Rule 11.1(f) of the Takeovers Code) held by the HCHL Group as at 30th April, 2005 net of potential tax liabilities attributable to the HCHL Group and interim dividend paid on 21st April, 2005 and the purpose of which is for reference only.

	HK\$'000
NAV of the HCHL Group as at 31st December, 2004 (<i>Note 1</i>)	6,951,031
Adjustments: Net surplus arising from the valuation of property interests attributable to the HCHL Group as at 30th April, 2005 (<i>Note 2</i>), net of potential tax liabilities of HK\$800,624,000 (<i>Note 3</i>)	(707,762)
Interim dividend of HK\$0.03 per Share approved and paid (<i>Note 1</i>)	<u>(14,933)</u>
Adjusted NAV	<u><u>6,228,336</u></u>
HK\$	
Adjusted NAV per Share (based on 497,776,205 Shares in issue as at the Latest Practicable Date)	<u><u>12.51</u></u>

Notes:

1. These amounts are extracted from the section headed "Unaudited interim results of the HCHL Group for the six months ended 31st December, 2004" in this appendix, which contains the text of the published interim report of HCHL for the six months ended 31st December, 2004.
2. DTZ, an independent property valuer, has performed valuations of all the property interests (as per the requirement of Rule 11.1 (f) of the Takeovers Code) held by the HCHL Group as at 30th April, 2005. The net surplus in the amount of approximately HK\$92,862,000 is arrived at after deducting (i) the carrying amount of investment properties as recorded in the books of the HCHL Group as at 31st December, 2004; and (ii) the carrying amount of properties held for development, properties under development and completed properties for sale as recorded in the books of the HCHL Group as at 30th April, 2005.

According to DTZ's property valuation report set out in Appendix II to this document, certain HCHL Group's property interests (i.e. property interests nos. 8, 13, 14, 15, 19, 25 and 29) in such property valuation report have no commercial value as the respective Certificates for the Use of State-owned Land have not been obtained up to 30th April, 2005. DTZ has performed valuations for such properties on the assumption that the Certificates for the Use of State-owned Land have been obtained. A net surplus of approximately HK\$21,343,000, which has been taken into account in the above statement, is arrived at after deducting the carrying amounts of such properties as recorded in the books of HCHL Group as at 30th April, 2005.

Your attention is drawn to the property valuation report of DTZ which is set out in Appendix II to this document.

3. This represents additional provision for deferred tax liabilities attributable to the HCHL Group as at 30th April, 2005 in accordance with SSAP12 and contingent tax liabilities that will arise if the property interests of HCHL Group were to be sold at the revalued amount.



10th Floor,
Jardine House,
1 Connaught Place,
Central,
Hong Kong

20th June, 2005

The Directors
Henderson China Holdings Limited
72-76/F
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Sirs,

INSTRUCTIONS, PURPOSE & DATE OF VALUATION

In accordance with the instruction of Henderson China Holdings Limited (“the Company”) for us to value all the property interests (as per the requirement of Rule 11.1(f) of the Takeovers Code) held by the Company, its subsidiaries and associated companies (within the meaning of the Takeovers Code) over which the Company exercises a significant degree of control (means direct or indirect interest of 30% or more of the voting rights of a company) (together referred to as “the Group”) in the People’s Republic of China (“the PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 30th April, 2005 (“the date of valuation”).

BASIS OF VALUATION

Our valuation of each of the property interests is our opinion of the market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

VALUATION ASSUMPTION

Our valuation of each property interest excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the property interests which are situated in the PRC, we have valued on the basis, unless otherwise stated, that transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and all necessary premiums payable have already been fully paid; the grantees or the users of the properties have free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired terms as granted. We have relied on the advice given by the Group and its legal adviser on PRC Law, Commerce & Finance Law Offices, regarding the title to the property interests.

The tax liability for disposal of PRC properties comprises sale tax, stamp duty, land appreciation tax and enterprise profit tax (if any). The Group advises that (i) in the case of property interests in Group I and property nos. 9, 10, 11, 12 in Group III, a potential tax liability attributable to the Group estimated to be approximately HK\$156,736,000 would arise if such properties were to be sold at the amount of the valuations; (ii) for other property interests in the property valuation, a potential tax liability attributable to the Group estimated to be approximately HK\$986,899,000 would arise if such properties were to be sold at the amount of the valuations. Depending on the then sale status, there is likelihood of such liability referred to in (i) above being crystallised, since property interests in Group I are held for sale; property interest no. 9 in Group III is contracted to be sold and property nos. 10, 11 and 12 in Group III are subject to sale negotiation in progress with independent third parties, and HK\$15,895,000 out of such liability will be indemnified by Henderson Land Development Company Limited (“HLD”) pursuant to an indemnity deed dated 15th March, 1996 executed in favour of HCHL at the time of listing of HCHL in respect of certain tax payable by the Group in consequence of the disposal by the Group of any property interests owned by the Group as at 31st December, 1995 (“Indemnity”) and HK\$3,253,000 out of such liability will be set off by the tax losses of certain subsidiaries of the Group brought forward from prior periods. For property interests referred to in (ii) above, there is less likelihood of such liability referred to in (ii) above crystallising as the Group has no plan yet as to the disposal of such property interests and HK\$113,083,000 out of such liability will be indemnified by HLD pursuant to the Indemnity. The above amounts are for indicative purposes and are calculated based on prevailing rules and information available as at the Latest Practicable Date.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

METHOD OF VALUATION

In forming our opinion of values of the property interests in Group I which are held for sale by the Group in the PRC, we have valued them on an open market basis by Direct Comparison Approach assuming sale of the property interests in existing state on a strata-titled basis with the benefit of vacant possession and by making reference to comparable sales evidence and where appropriate, by Investment Approach by capitalising rental income from the property interests with due provision for any reversionary income potential.

In valuing the property interests in Group II which are held under development by the Group in the PRC, we have valued each of these property interests on the basis that these property interests will be developed and completed in accordance with the Group's latest development proposals provided to us. In arriving at our opinion of value, we have valued them by the Direct Comparison Approach by making reference to comparable transactions in the locality with due allowance for all outstanding development costs.

In valuing the property interests (except no. 9) in Group III which are held for future development by the Group in the PRC, we have also valued each of these property interests by Direct Comparison Approach assuming sale of each of these property interests in existing state with the benefit of vacant possession and by making reference to comparable site transactions. In valuing the property interest no. 9 in Group III, we have valued the property interest taking into account the contracted sale price.

In valuing the property interests (except no. 25) in Group IV which are held for investment by the Group in the PRC, we have valued the property interests by Investment Approach by capitalising rental income from the property interests with due provision for any reversionary income potential. In valuing the property interest no. 25 in Group IV, we have valued the property interest by Direct Comparison Approach and by making reference to comparable transactions.

In valuing the property interests in Group V which are held and occupied by the Group in the PRC, we have valued each of these property interests by Direct Comparison Approach assuming sale of each of these property interests in existing state with the benefit of vacant possession and by making reference to comparable transactions.

The property interests in Groups VI and VII which are leased by the Group in the PRC and Hong Kong respectively have no commercial value due to prohibition against subletting or assignment or lack of substantial profit rent.

The property valuation complies with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Group and related parties and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, site and floor areas, particulars of occupancy and all other relevant matters. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information supplied.

Dimension, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. No on-site measurement has been taken.

TITLE INVESTIGATION

We have been provided by the Group with copies of documents in relation to the title to the property interests. However, we have not been able to search the original documents to verify the ownership of the property interests and to ascertain any amendments which may not appear on the copies handed to us.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, or any other structural defects. Regarding the properties under or held for future development, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future developments. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out detailed on-site measurement to verify the site and floor areas of the property and we have assumed that the areas shown on the copies of the documents handed to us are correct.

CURRENCY & EXCHANGE RATES

Unless otherwise stated, all money amounts stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuation is HK\$1 = RMB1.06 which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Chiu Kam Kuen
China Real Estate Appraiser
F.R.I.C.S., F.H.K.I.S., F.H.K.F.A., R.P.S. (GP)
Executive Director

Note: Mr. Chiu Kam Kuen is a registered professional surveyor with about 20 years' experience of property valuation in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>	<u>Interest attributable to the Group</u>	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u>
	HK\$	%	HK\$
Group I - Property interests held for sale by the Group in the PRC			
1. Remaining portions of State Apartments & Office Towers, Beijing Henderson Centre, No. 18 Jianguomennei Avenue, Dongcheng District, Beijing	307,200,000	75	230,400,000
2. Remaining portions of Mega Tower, Shanghai Skycity, Lot No. 547 Tianmu Road West, Zhabei District, Shanghai	150,500,000	37.5	56,437,500
3. Remaining portions of Residential Tower and Office/Residential Tower Everwin Garden, Lot No. 521 Wanping Road South, Xuhui District, Shanghai	9,480,000	49	4,645,200
4. Remaining portions of Residential Tower of Fortune Park, Lot Nos. B118-6 and B118-7, Caitian Road, Futian District, Shenzhen, Guangdong Province	1,015,000	100	1,015,000

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u> HK\$	<u>Interest attributable to the Group</u> %	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u> HK\$
5. Remaining portions of Residential Towers, Hengbao Garden, Nos. 133-147 Baohua Road, Baoyuan Road and Duobao Road, Liwan District, Guangzhou, Guangdong Province	14,620,000	100	14,620,000
Sub-total of 1-5 :	<u>482,815,000</u>		<u>307,117,700</u>
Group II — Property interests held under development by the Group in the PRC			
6. The proposed Jingao Centre, No. 2 Guandongdian Street South, South of Chaoyang Road, Chaoyang District, Beijing	1,150,000,000	100	1,150,000,000
7. Lot No. 130-2 Tianmu Road West, Junction of Tianmu Road West and Hengfeng Road, Zhabei District, Shanghai	250,000,000	100	250,000,000
8. No. 210 Fangcun Avenue, Fangcun District, Guangzhou, Guangdong Province	No commercial value (Note)	80	No commercial value (Note)
Sub-total of 6-8 :	<u>1,400,000,000</u>		<u>1,400,000,000</u>

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>	<u>Interest attributable to the Group</u>	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u>
	HK\$	%	HK\$
Group III — Property interests held for future development by the Group in the PRC			
9. Lot No. 146(A)-3 Tianmu Road West, Junction of Hengfeng Road and Puji Road, Zhabei District, Shanghai	208,200,000	100	208,200,000
10. Lot Nos. 147-2 and 147-3 Tianmu Road West, Junction of Hengfeng Road and Yutong Road, Zhabei District, Shanghai	194,300,000	100	194,300,000
11. Lot Nos. 406-2, 406-3 and 406-4 Tianmu Road West, Hengfeng Road, Zhabei District, Shanghai	492,500,000	60	295,500,000
12. Lot No. 688 Nanjing Road West, Jingan District, Shanghai	810,400,000	85	688,840,000
13. Lot Nos. RJ-6 and RJ-7, bounded by Zhongshan 6th Road, Ruinan Road, Liurong Road and Jiangjun Road East, Yuexiu District, Guangzhou, Guangdong Province	No commercial value (Note)	95	No commercial value (Note)

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>	<u>Interest attributable to the Group</u>	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u>
	HK\$	%	HK\$
14. Fortune Garden, Junction of Tongfu Road and Tongqing Road, Haizhu District, Guangzhou, Guangdong Province	No commercial value (Note)	100	No commercial value (Note)
15. River Pearl Plaza Block A, Yanjiang Road West, Yuexiu District, Guangzhou, Guangdong Province	No commercial value (Note)	68.4	No commercial value (Note)
16. River Pearl Plaza Block B, Yanjiang Road West, Yuexiu District, Guangzhou, Guangdong Province	276,000,000	62	171,120,000
17. River Pearl Plaza Block C, Yanjiang Road West, Yuexiu District, Guangzhou, Guangdong Province	220,000,000	72	158,400,000
18. Site on the Huadi Section, Fangcun Avenue (formerly known as Fangcun Gongye Avenue), Fangcun District, Guangzhou, Guangdong Province	787,000,000	100	787,000,000

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>	<u>Interest attributable to the Group</u>	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u>
	HK\$	%	HK\$
19. Site on the east side of Nos. 286-318 Beijing Road, West side of Fuxue Road West, Yuexiu District, Guangzhou, Guangdong Province	No commercial value (Note)	100	No commercial value (Note)
20. Dongguan Hengjun Plaza, East of Guantai Road, Dongguan, Guangdong Province	49,700,000	70	34,790,000
Sub-total of 9 - 20 :	<u>3,038,100,000</u>		<u>2,538,150,000</u>
Group IV — Property interests held for investment by the Group in the PRC			
21. Commercial Podium and Car Parks, Beijing Henderson Centre, No. 18 Jianguomennei Avenue, Dongcheng District, Beijing	1,965,000,000	75	1,473,750,000
22. Units 518 and 519, Office Tower 3, Beijing Henderson Centre, No. 18 Jianguomennei Avenue, Dongcheng District, Beijing	4,550,000	100	4,550,000
23. Commercial Podium and Car Parks, Shanghai Skycity, Lot No. 547 Tianmu Road West, Zhabei District, Shanghai	525,700,000	37.5	197,137,500

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u> HK\$	<u>Interest attributable to the Group</u> %	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u> HK\$
24. Commercial Podium and Car Parks, Everwin Garden, Lot No. 521, Wanping Road South, Xuhui District, Shanghai	81,000,000	49	39,690,000
25. Office Tower II, The Grand Gateway, No.3 Hongqiao Road, Xuhui District, Shanghai	No commercial value (Note)	100	No commercial value (Note)
26. Remaining portions of Commercial Podium of Fortune Park, Lot Nos. B118-6 & B118-7, Caitian Road, Futian District, Shenzhen, Guangdong Province	24,300,000	100	24,300,000
27. Commercial Podium and Car Parks, Hengbao Garden, Nos. 133-147 Baohua Road, Baoyuan Road and Duobao Road, Liwan District, Guangzhou, Guangdong Province	938,000,000	100	938,000,000
Sub-total of 21 - 27:	<u>3,538,550,000</u>		<u>2,677,427,500</u>

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u> HK\$	<u>Interest attributable to the Group</u> %	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u> HK\$
Group V — Property interests held and occupied by the Group in the PRC			
28. Apartment No. 7-6-7 on Level 2, Block 6-31, District 7 (Lilac Garden), Legend Garden Villas, 89 Capital Airport Road, Chaoyang District, Beijing	1,700,000	75	1,275,000
29. Units 407, 507 and 607, Block 40, Buxin Garden, Buxin Road, Luohu District, Shenzhen, Guangdong Province	No commercial value (Note)	100	No commercial value (Note)
Sub-total of 28 - 29:	<u>1,700,000</u>		<u>1,275,000</u>
Grand Total of 1 - 29:	<u><u>8,461,165,000</u></u>		<u><u>6,923,970,200</u></u>

Property	Capital value in existing state as at 30th April, 2005 HK\$
Group VI — Property interests leased by the Group in the PRC	
30. Unit 1901, Embassy House, No. 18 Dongzhimenwai Xiaojie, Dongcheng District, Beijing	No commercial value
31. Unit 1906, Embassy House, No. 18 Dongzhimenwai Xiaojie, Dongcheng District, Beijing	No commercial value
32. Unit 2204, Suntop Mansion, Shanghai Skycity, Lot No. 547 Tianmu Road West, Zhabei District, Shanghai	No commercial value
33. Unit 2208, Suntop Mansion, Shanghai Skycity, Lot No. 547 Tianmu Road West, Zhabei District, Shanghai	No commercial value
34. Unit 2901, Suntop Mansion, Shanghai Skycity, Lot No. 547 Tianmu Road West, Zhabei District, Shanghai	No commercial value
35. Villa B-1, Hongqiao State Guest Hotel, No. 1591 Hongqiao Road, Changning District, Shanghai	No commercial value
36. Unit 808, Block B, Nos. 27-53 Baohua Avenue, Baohua Road, Liwan District, Guangzhou	No commercial value

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>
	HK\$
Group VII — Property interests leased by the Group in Hong Kong	
37. Units 2601-3 on the 26/F of AIA Tower, No. 183 Electric Road, Hong Kong	No commercial value
38. Flat D, 13/F, Kam Sing Mansion (T52), Sing Fai Terrace, Taikooshing, Quarry Bay, Hong Kong	No commercial value

Note:

No capital value has been included in the Summary of Valuations or the Valuation Certificate for the following properties because the respective Certificates for the Use of State-owned Land had yet been obtained. However, in the Valuation Certificate we have stated in the notes to each of such properties that on the assumption that the respective Certificates for the Use of State-owned Land for such properties had been obtained, the capital value as at 30th April, 2005 for such properties are:-

<u>Property</u>	<u>Capital value in existing state as at 30th April, 2005</u>	<u>Interest attributable to the Group</u>	<u>Capital value in existing state attributable to the Group as at 30th April, 2005</u>
	HK\$	%	HK\$
8. No. 210 Fangcun Avenue, Fangcun District, Guangzhou, Guangdong Province	307,000,000	80	245,600,000
13. Lot Nos. RJ-6 and RJ-7, bounded by Zhongshan 6th Road, Ruinan Road, Liurong Road and Jiangjun Road East, Yuexiu District, Guangzhou, Guangdong Province	310,000,000	95	294,500,000
14. Fortune Garden, Junction of Tongfu Road and Tongqing Road, Haizhu District, Guangzhou, Guangdong Province	196,000,000	100	196,000,000

Property	Capital value in existing state as at 30th April, 2005	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30th April, 2005
	HK\$	%	HK\$
15. River Pearl Plaza Block A, Yanjiang Road West, Yuexiu District, Guangzhou, Guangdong Province	300,000,000	68.4	205,200,000
19. Site on the east side of Nos. 286-318 Beijing Road, West side of Fuxue Road West, Yuexiu District, Guangzhou, Guangdong Province	310,000,000	100	310,000,000
25. Office Tower II, The Grand Gateway, No. 3 Hongqiao Road, Xuhui District, Shanghai	1,540,000,000	100	1,540,000,000
29. Units 407, 507 and 607, Block 40, Buxin Garden, Buxin Road, Luohu District, Shenzhen, Guangdong Province	750,000	100	750,000
Total	<u>2,963,750,000</u>		<u>2,792,050,000</u>

1. RESPONSIBILITY STATEMENT

The information in this document relating to the HCHL Group has been supplied by the directors of HCHL. The issue of this document has been approved by the directors of HCHL, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the HLD Group apart from the HCHL Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the HLD Group apart from the HCHL Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document (other than that relating to the HLD Group apart from the HCHL Group) misleading.

The information in this document relating to the HLD Group has been supplied by the directors of HLD. The issue of this document has been approved by the directors of HLD, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the HCHL Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the HCHL Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document (other than that relating to the HCHL Group) misleading.

2. MARKET PRICES

The Shares are traded on the Main Board of the Stock Exchange.

The table below shows the respective closing prices of the Shares on the Main Board of the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the Announcement Date, (ii) on 13th May, 2005, being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement, and (iii) on the Latest Practicable Date.

<u>Date</u>	<u>Price per Share</u>
	HK\$
30th November, 2004	3.95
31st December, 2004	4.15
31st January, 2005	5.05
28th February, 2005	5.10
31st March, 2005	4.75
29th April, 2005	4.95
13th May, 2005	4.80
Latest Practicable Date	7.40

The lowest and highest closing prices per Share recorded on the Stock Exchange during the period from 19th November, 2004, being the date six months prior to the Announcement Date, to the Latest Practicable Date were respectively HK\$3.80 on 13th December, 2004 and HK\$7.80 on 2nd and 3rd June, 2005.

3. DISCLOSURE OF INTERESTS

For the purpose of this Section, the “Offer Period” means the period from 19th May, 2005 to the Latest Practicable Date, both dates inclusive, the “Disclosure Period” means the period beginning from the six months prior to the commencement of the Offer Period and ending with the Latest Practicable Date, both dates inclusive, and “interested” and “interests” have the meanings respectively ascribed thereto in Part XV of the SFO. “HLD Shareholdings” means the HLD Shares and any other equity share capital of HLD, securities of HLD which carry substantially the same rights as the HLD Shares, and convertible securities, warrants, options and derivatives in respect of any of them, and “HCHL Shareholdings” means the Shares and any other securities of HCHL which carry voting rights, and convertible securities, warrants, options and derivatives in respect of any of them.

(a) Interests and dealings in Shares

- (i) As at the Latest Practicable Date, HLD, through the Controlling Parties, was interested in 325,133,977 Shares, representing approximately 65.32% of the issued share capital of HCHL.

Save as disclosed above, HLD and the Controlling Parties do not have any HCHL Shareholdings and did not deal for value in any HCHL Shareholdings during the Disclosure Period.

- (ii) As at the Latest Practicable Date, the following directors of HLD had the following interests in the Shares:

Director of HLD	Note	Number of Shares held and nature of interest				Total number and percentage of issued share capital of HCHL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Chau Kee	1	—	—	325,133,977	—	325,133,977	65.32
Lee Ka Kit	1	—	—	—	325,133,977	325,133,977	65.32
Lee Ka Shing	1	—	—	—	325,133,977	325,133,977	65.32
Li Ning	1	—	325,133,977	—	—	325,133,977	65.32
Jackson Woo Ka Biu	2	544,802	—	—	—	544,802	0.11

Notes:

1. Of these Shares, 175,000,000 Shares, 75,233,977 Shares and 74,900,000 Shares were respectively owned by Primeford, Timsland and Quantum, all of which were wholly-owned subsidiaries of Brightland Enterprises Limited which was 100% held by HLD which in turn was 61.87% held by the Parent Company. Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owned all the issued ordinary shares of the Parent Company and Fu Sang Company Limited (“Fu

Sang”). Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was taken to be interested in these Shares by virtue of the SFO. As directors of HLD and HCHL and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these Shares by virtue of the SFO. As director of HLD and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these Shares by virtue of the SFO.

Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing are also directors of HCHL.

Save as disclosed above, none of the directors of HLD nor the directors of HCHL had any interest in the HCHL Shareholdings as at the Latest Practicable Date and none of the directors of HLD nor the directors of HCHL dealt for value in any HCHL Shareholdings during the Disclosure Period.

- (iii) As at the Latest Practicable Date, the Excluded Parties had the following interests in the Shares:

Excluded Parties	Note	Number of Shares held and nature of interest				Total number and percentage of issued share capital of HCHL held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Canon							
International	3	—	—	24,328,000	—	24,328,000	4.89
Jackson Woo							
Ka Biu	2	544,802	—	—	—	544,802	0.11
Carmen Woo							
Ka Man	4	711,293	—	—	—	711,293	0.14

Notes:-

- Mr. Jackson Woo Ka Biu is the son of, and an alternate director of HLD to, Sir Po-shing Woo who is a non-executive director of HLD and therefore is presumed to be a party acting in concert with HLD under the Takeovers Code.
- Canon International is a company ultimately controlled by Ms. Liza Lee Pui Ling who is the daughter of Dr. Lee Shau Kee and the sister of Mr. Lee Ka Kit and Mr. Lee Ka Shing, all of whom are directors of HLD. Canon International is presumed to be a party acting in concert with HLD under the Takeovers Code.
- Ms. Carmen Woo Ka Man is the daughter of Sir Po-shing Woo and the sister of Mr. Jackson Woo Ka Biu and therefore is presumed to be a party acting in concert with HLD under the Takeovers Code.

Save as disclosed above, none of the Excluded Parties had any interest in the HCHL Shareholdings as at the Latest Practicable Date. None of the Excluded Parties dealt for value in any HCHL Shareholdings during the Disclosure Period.

Save as disclosed above, none of the parties acting in concert with HLD owned or controlled any HCHL Shareholdings as at the Latest Practicable Date or dealt for value in the HCHL Shareholdings during the Disclosure Period.

- (iv) As at the Latest Practicable Date, no subsidiary of HCHL, pension fund of HCHL or of any subsidiary of HCHL or any advisers to HCHL as specified in class (2) of the definition of “associate” in the Takeovers Code, but excluding exempt principal traders, owned or controlled any HCHL Shareholdings or had dealt for value in any HCHL Shareholdings during the Disclosure Period.
- (v) No person had irrevocably committed to accept or reject the Scheme.
- (vi) As at the Latest Practicable Date, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between HLD or any person acting in concert with HLD, and any other person.
- (vii) As at the Latest Practicable Date, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between HCHL or any person who is an associate of HCHL by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person.

(b) **Interests and dealings in HLD Shares**

- (i) As at the Latest Practicable Date, the following directors of HCHL had the following interests in HLD Shares:

Director of HCHL	Note	Number of HLD Shares held and nature of interest				Total number and percentage of issued share capital of HLD held	
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	%
Lee Chau Kee	5	—	—	1,122,938,300	—	1,122,938,300	61.88
Lee Ka Kit	5	—	—	—	1,122,938,300	1,122,938,300	61.88
Lee Ka Shing	5	—	—	—	1,122,938,300	1,122,938,300	61.88
Kan Fook Yee	6	—	24,000	—	—	24,000	0.00
Lee King Yue	7	26,400	16,500	19,800	—	62,700	0.00
Leung Sing	8	85,600	—	—	—	85,600	0.00
Ho Wing Fun	9	100	—	—	—	100	0.00

Notes:

5. Of these HLD Shares, (i) 570,743,800 HLD Shares were owned by the Parent Company; (ii) 7,962,100 HLD Shares were owned by Sandra Investment Limited which was a wholly-owned subsidiary of the Parent Company; (iii) 145,090,000 HLD Shares were owned by Cameron Enterprise Inc.; 222,045,300 HLD Shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 61,302,000 HLD Shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 55,000,000 HLD Shares were owned by Fancy

Eye Limited which was wholly-owned by Mei Yu Ltd.; 55,000,000 HLD Shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by the Parent Company; (iv) 5,602,600 HLD Shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“China Gas”) which was 37.05% held by Henderson Investment Limited (“HI”). HI was 73.48% held by HLD which in turn was 61.87% held by the Parent Company; and (v) 192,500 HLD Shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in the Parent Company and Fu Sang as set out in Note 1, China Gas and HLD by virtue of the SFO. As directors of HCHL and HLD and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these HLD Shares by virtue of the SFO.

6. These HLD Shares were owned by the wife of Mr. Kan Fook Yee.
 7. Of these HLD Shares, Mr. Lee King Yue was the beneficial owner of 26,400 HLD Shares, and for the remaining 36,300 HLD Shares, (i) 16,500 HLD Shares were owned by his wife; and (ii) 19,800 HLD Shares were held by Ngan Hei Development Company Limited which was 50% each owned by Mr. Lee King Yue and his wife.
 8. Mr. Leung Sing was the beneficial owner of these HLD Shares.
 9. Mr. Ho Wing Fun was the beneficial owner of these HLD Shares.
- (ii) Save as disclosed above, none of the directors of HCHL nor HCHL had any interest in any HLD Shareholdings as at the Latest Practicable Date and none of the directors of HCHL nor HCHL dealt for value in any HLD Shareholdings during the Disclosure Period.

(c) **Other interests**

- (i) No benefit is or will be paid to any director of HCHL as compensation for loss of office or otherwise in connection with the Scheme.
- (ii) No agreement, arrangement or understanding (including any compensation arrangement) exists between HLD or any person acting in concert with HLD and any of the directors or recent directors of HCHL, Shareholders or recent Shareholders having any connection with or dependence upon the Scheme.
- (iii) No agreement or arrangement exists between any director of HCHL and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (iv) No material contract has been entered into by HLD in which any director of HCHL has a material personal interest.

- (v) As at the Latest Practicable Date, none of the directors of HCHL has a service contract in force with any member of the HCHL Group which has more than twelve months to run or which was entered into or amended within six months before the Announcement Date.

4. MATERIAL CONTRACTS

Neither HCHL nor any of its subsidiaries has entered into any material contracts, which are or may be material other than in the ordinary course of business carried on or intended to be carried on by the HCHL Group, after the date two years preceding the Announcement Date.

5. MATERIAL LITIGATION

On 21st December, 2004, Guangdong Jiaxing Real Estate Co., Ltd. (“Jiaxing Real Estate”), a wholly-owned subsidiary of HCHL, filed litigation against a PRC joint venture partner (the “JV Partner”) regarding the failure of the JV Partner to assist in the completion of certain land use right procedures in relation to a project co-developed by Jiaxing Real Estate and the JV Partner. Having consulted the HCHL Group’s PRC legal adviser handling this litigation, it is considered that Jiaxing Real Estate had a favourable position in the litigation. As at the Latest Practicable Date, HCHL was of the opinion that such litigation would have no material impact on the operations of the HCHL Group.

As at the Latest Practicable Date and save as disclosed above, there were no material litigations or claims of material importance pending or threatened against any member of the HCHL Group.

6. MISCELLANEOUS

- (a) The beneficial interests in the Shares of the parties presumed to be acting in concert with the offeror, HLD, are set out in the section headed “Shareholding Structure” on page 11 of this document. Those parties which are companies are Primeford, Timsland and Quantum (all of which are wholly-owned subsidiaries of HLD) and Canon International. Their addresses and the names of their directors are as follows:-

Name	Address	Directors
HLD	72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong	Lee Shau Kee, Lee Ka Kit, Colin Lam Ko Yin, Lee Ka Shing, Lee King Yue, Fung Lee Woon King, Leung Sing, Eddie Lau Yum Chuen, Li Ning, Patrick Kwok Ping Ho, Ho Wing Fun, John Yip Ying Chee, Suen Kwok Lam, Lo Tak Shing, Woo Po Shing, Leung Hay Man, Angelina Lee Pui Ling, Lee Tat Man, Kan Fook Yee, Vincent Liang (as alternate to Lo Tak Shing), Jackson Woo Ka Biu (as alternate to Woo Po Shing), Gordon Kwong Che Keung, Ko Ping Keung and Wu King Cheong
Primeford	as above	Lee Shau Kee, Fung Lee Woon King, Lee King Yue and Colin Lam Ko Yin
Timsland	as above	Lee Shau Kee, Fung Lee Woon King, Lee King Yue, Colin Lam Ko Yin and Lee Ka Shing
Quantum	as above	Lee Shau Kee, Fung Lee Woon King, Lee King Yue and Colin Lam Ko Yin
Canon International	26/F., Jardine House, 1 Connaught Place, Central, Hong Kong.	Liza Lee Pui Ling

The ultimate controlling shareholder of HLD, Primeford, Timsland and Quantum is Hopkins, the trustee of the unit trust as described in Note 1 to paragraph (a) (ii) in Section 3 of this Appendix III. The ultimate parent company of HLD, Primeford, Timsland and Quantum is the Parent Company. The directors of the Parent Company are Lee Shau Kee, Lee Ka Kit, Lee Ka Shing, Lee Tat Man, Fung Lee Woon King, Colin Lam Ko Yin (also alternate to Lee Tat Man) and Woo Po Shing.

The ultimate controlling shareholder of Canon International is Liza Lee Pui Ling and the ultimate parent company of Canon International is Potential Enterprises Limited, the sole director of which is Liza Lee Pui Ling.

The individuals presumed to be parties acting in concert with HLD are Mr. Jackson Woo Ka Biu and Ms. Carmen Woo Ka Man, whose address is 2/F., Kailey Tower, 16 Stanley Street, Central, Hong Kong.

- (b) The registered office of HCHL is situated at Clarendon House, Church Street, Hamilton HM 11, Bermuda. The Hong Kong head office and principal place of business of HCHL is situated at 72-76/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (c) The principal place of business of Morgan Stanley is 30th Floor, Three Exchange Square, Central, Hong Kong.
- (d) All costs, charges and expenses of and incidental to the Scheme and the costs of carrying the Scheme into effect will be borne by HLD.
- (e) The English text of this document and the forms of proxy shall prevail over the Chinese text. However, English names of the PRC established companies / entities in this document are only translations of their official Chinese names. In case of inconsistency, the Chinese names shall prevail.
- (f) All announcements in relation to the Proposal will be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

7. EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualifications
Morgan Stanley	A company incorporated in Hong Kong, which is licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the SFO
Platinum	Platinum Securities Company Limited, licensed to carry out Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance) under the SFO
DTZ	Property valuer
KPMG	Certified Public Accountants

8. CONSENTS

Morgan Stanley, Platinum, DTZ and KPMG have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of their opinions, letters or valuation reports, as the case may be, and the references to their names, opinions, letters or valuation reports in the form and context in which they respectively appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of the solicitors for HCHL, Woo, Kwan, Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum of association and bye-laws of HCHL;
- (b) the memorandum of association and articles of association of HLD;
- (c) the audited consolidated financial statements of the HCHL Group for each of the two financial years ended 30th June, 2003 and 2004 and the unaudited consolidated financial statements of the HCHL Group for the six months ended 31st December, 2004;
- (d) the audited consolidated financial statements of the HLD Group for each of the two financial years ended 30th June, 2003 and 2004 and the unaudited consolidated financial statements of the HLD Group for the six months ended 31st December, 2004;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 18 of this document;
- (f) the letter from Platinum to the Independent Board Committee, the text of which is set out on pages 19 to 45 of this document;
- (g) the letter and summary of valuations from DTZ, the text of which are set out in Appendix II to this document, and the valuation certificates from DTZ; and
- (h) the letters of consent referred to in Section 8 of this Appendix.

SCHEME OF ARRANGEMENT

**IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
2005:NO.191**

**IN THE MATTER OF
HENDERSON CHINA HOLDINGS LIMITED
and
IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981**

**SCHEME OF ARRANGEMENT
between
HENDERSON CHINA HOLDINGS LIMITED
and
THE HOLDERS OF THE SCHEME SHARES
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“Canon International”	Canon International Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of Potential Enterprises Limited which is wholly-owned by Ms. Liza Lee Pui Ling
“Companies Act”	the Companies Act 1981 of Bermuda
“Controlling Parties”	Primeford, Timsland and Quantum, all indirect wholly-owned subsidiaries of HLD and are beneficially interested in an aggregate of approximately 65.32% of the issued share capital of HCHL as at the Latest Practicable Date
“Court”	the Supreme Court of Bermuda
“Effective Date”	the date on which this Scheme becomes effective in accordance with clause 6 of this Scheme

SCHEME OF ARRANGEMENT

“Excluded Parties”	Canon International, Mr. Jackson Woo Ka Biu and Ms. Carmen Woo Ka Man, all beneficially interested in an aggregate of approximately 5.14% of the issued share capital of HCHL as at the Latest Practicable Date
“holder(s)”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HCHL”	Henderson China Holdings Limited, a company incorporated in Bermuda with limited liability
“HCHL Group”	HCHL and its subsidiaries
“HLD”	Henderson Land Development Company Limited, a company incorporated in Hong Kong with limited liability
“Latest Practicable Date”	16th June, 2005 being the latest practicable date prior to printing of the document sent to, inter alia, holders of Shares dated 20th June, 2005 in which this Scheme is contained
“Primeford”	Primeford Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“Proposal”	the proposal for the privatisation of HCHL by HLD by way of the Scheme
“Quantum”	Quantum Overseas Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“Record Time”	5:00 p.m. Hong Kong time on Friday, 12th August, 2005 for determining entitlements under the Scheme
“Register”	the register of members of HCHL
“Scheme”	this scheme of arrangement under Section 99 of the Companies Act in its present form or with or subject to any modification thereof or addition thereto or condition(s) which the Court may approve or impose
“Scheme Shareholder(s)”	Shareholders other than the Controlling Parties

SCHEME OF ARRANGEMENT

“Scheme Share(s)”	the Shares held by the Scheme Shareholders as at the Record Time
“Shareholder”	a registered holder of Shares
”Share(s)”	share(s) of HK\$1.00 each in the share capital of HCHL
“Timsland”	Timsland Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Brightland Enterprises Limited which is wholly-owned by HLD
“Takeovers Code”	the Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars

(B) HCHL was incorporated on 18th May, 1993 in Bermuda under the Companies Act and as at the Latest Practicable Date had an authorised share capital of HK\$1,000,000,000 divided into 1,000,000,000 Shares of which 497,776,205 Shares have been issued and are fully paid or credited as fully paid.

(C) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished and that HCHL should become a wholly-owned subsidiary of HLD.

(D) On the Latest Practicable Date, an aggregate of 325,133,977 Shares were beneficially owned by the Controlling Parties and registered as follows:

<u>Name of Controlling Parties</u>	<u>Name of Registered Holders</u>	<u>Number of Shares</u>
Primeford	Primeford	175,000,000
Timsland	Timsland	19,717,977
	Arsenton Nominees Limited	55,516,000
Quantum	Quantum	74,900,000

(E) On the Latest Practicable Date, an aggregate of 25,584,095 Shares were beneficially owned by the Excluded Parties and registered as follows:

<u>Name of Excluded Parties</u>	<u>Name of Registered Holders</u>	<u>Number of Shares</u>
Canon International	Canon International	24,328,000
Jackson Woo Ka Biu	Jackson Woo Ka Biu	160,000
	Goldman, Sachs & Co.	384,802
Carmen Woo Ka Man	Carmen Woo Ka Man	361,392
	Goldman, Sachs & Co.	192,401
	Challenge Capital Management Ltd.	157,500

SCHEME OF ARRANGEMENT

- (F) Each of the Excluded Parties, being presumed to be acting in concert with HLD under the Takeovers Code, has undertaken that in relation to such Shares in which each of them is beneficially interested, each of such Shares will remain so registered and beneficially interested until the date on which the Scheme becomes effective, is withdrawn or lapses and will procure that such Shares will not be represented or voted at the meeting convened by direction of the Court for the purpose of approving this Scheme.
- (G) HLD and each of the Controlling Parties and Excluded Parties have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation and extinguishment of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of HCHL shall be reduced by cancelling and extinguishing the Scheme Shares; and
 - (b) HCHL shall apply the credit arising in its books of account as a result of the reduction of its share capital referred to in sub-paragraph (a) of this Clause 1 to the contributed surplus account of HCHL.

PART II

Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, HLD shall pay or cause to be paid to each holder of Scheme Shares (as appearing in the Register at the Record Time) HK\$8.00 for each Scheme Share held.

PART III

General

3. (a) Not later than ten days after the Effective Date, HLD shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at the Record Time), cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.

SCHEME OF ARRANGEMENT

- (b) Unless indicated otherwise in writing to HCHL's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint Scheme Shareholders, at the address as appearing on the Register at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.

- (c) Cheques shall be posted at the risk of the addressees and neither HCHL nor HLD shall be responsible for any loss or delay in transmission.

- (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to HLD for the monies represented thereby.

- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, HLD shall have the right to cancel or countermand payment of any such cheque which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in HCHL's name with a licensed bank in Hong Kong selected by HCHL. HCHL shall hold such monies on trust for those entitled under the terms of the Scheme until the expiration of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy HCHL that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. Any payments made by HCHL hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of any interest or withholding tax or any other deductions required by law. HCHL shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of HCHL to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiration of six years from the Effective Date, HLD shall be released from any further obligation to make any payments under this Scheme and HCHL shall transfer to HLD the balance, if any, of the sums standing to the credit of the deposit account referred to in paragraph (e) of this Clause 3 including accrued interest subject, if applicable, to the deduction of interest tax or any withholding tax or any other deductions required by law.

- (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.

SCHEME OF ARRANGEMENT

4. Each certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as a certificate for such Scheme Shares and every Scheme Shareholder of such certificate shall be bound at the request of HCHL to deliver up the same to HCHL for the cancellation thereof.
5. All mandates or relevant instructions in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
6. This Scheme shall become effective as soon as an office copy of the Order of the Court sanctioning this Scheme under section 99 of the Companies Act shall have been delivered to the Registrar of Companies in Bermuda for registration.
7. Unless this Scheme shall have become effective on or before 30th November, 2005 or such later date, if any, as HLD and HCHL may agree or as the Court on the application of HLD or HCHL may allow, this Scheme shall lapse.
8. HCHL and HLD may jointly consent for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.
9. All costs, charges and expenses of and incidental to the Scheme and the costs of carrying this Scheme into effect will be borne by HLD.

Dated 20th June, 2005

NOTICE OF COURT MEETING

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
2005: NO. 191

IN THE MATTER OF
HENDERSON CHINA HOLDINGS LIMITED
and
IN THE MATTER OF
SECTION 99 OF THE COMPANIES ACT 1981

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 16th June, 2005 made in the above matters, the Court has directed Henderson China Holdings Limited (the “Company”) to convene a meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) (the “Meeting”), for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (“Scheme of Arrangement”) proposed to be made between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) and that the Meeting will be held in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road Central, Hong Kong, on Friday, 22nd July, 2005 at 11:00 a.m. (Hong Kong time) at which place and time all the Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 100 of the above mentioned Act are incorporated in the composite document of which this Notice forms part. A copy of the said composite document can also be obtained by the Scheme Shareholders from the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The Scheme Shareholders may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxies to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

It is requested that forms appointing proxies be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the Chairman of the Meeting at the Meeting.

NOTICE OF COURT MEETING

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

By the same Order, the Court has appointed Liang Shangli, a director of the Company, or failing him, Leung Yuk Kwong, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as Chairman of the Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated 20th June, 2005.

CONYERS DILL & PEARMAN

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Attorneys for the Company

NOTICE OF SPECIAL GENERAL MEETING



恒基中國集團有限公司* HENDERSON CHINA HOLDINGS LIMITED

Incorporated in Bermuda with limited liability

(Stock Code: 0246)

NOTICE IS HEREBY GIVEN that a Special General Meeting of Henderson China Holdings Limited (the “Company”) will be held in the Stork and Bamboo Rooms, Mandarin Oriental, 5 Connaught Road Central, Hong Kong on Friday, 22nd July, 2005 at 11:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme as hereinafter mentioned) convened by direction of the Supreme Court of Bermuda for the same place and day shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:-

SPECIAL RESOLUTION

“**THAT:-**

- (A) the Scheme of Arrangement dated 20th June, 2005 (the “Scheme”) between the Company and the Scheme Shareholders (as defined in the Scheme) in the form of the print which has been produced to this Meeting and for the purpose of identification signed by the Chairman of this Meeting, with any modification thereof or addition thereto or condition approved or imposed by the Supreme Court of Bermuda, be and the same is hereby approved; and
- (B) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares; and
 - (ii) the Company shall apply the credit arising in its books of account as a result of such reduction of capital to the contributed surplus account of the Company; and
- (C) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modification of, or addition to, the Scheme, which the Supreme Court of Bermuda may see fit to impose.”

By Order of the Board
Richard LAW Cho Wa
Company Secretary

Dated 20th June, 2005

NOTICE OF SPECIAL GENERAL MEETING

Registered office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong

72-76/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the Meeting in person to represent him.
2. A white form of proxy for use at the Meeting is enclosed herewith.
3. In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person if he so wishes. In the event that a member attends the Meeting after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.
4. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
5. At the Meeting, the chairman of the Meeting will exercise his power under Bye-law 66 of the Bye-laws of the Company to put the above resolution to vote by way of a poll.
6. The register of members of the Company will be closed from Monday, 18th July, 2005 to Friday, 22nd July, 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 15th July, 2005.

** For identification purposes only*