

1. GENERAL

The Company is a public limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Henderson Development Limited, a private limited liability company incorporated in Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are property development and investment, investment holding, infrastructure, department store operation, security services, hotel operation and information technology development.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, Statement of Standard Accounting Practice No. 14 (Revised) — Leases ("SSAP 14 (Revised)") issued by the Hong Kong Society of Accountants.

The adoption of SSAP 14 (Revised) has not resulted in any significant changes to the accounting treatment adopted for leases and accordingly, no prior period adjustment has been required. Disclosure for the Group's leasing arrangements have been modified so as to comply with the new requirements of SSAP 14 (Revised). Comparative amounts have been restated to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

(a) Group reorganisation and basis of consolidation

Pursuant to a group reorganisation (the "Group Reorganisation"), which was completed on 28th June, 2000, to rationalise the Group structure in preparation of the listing of the shares of Henderson Cyber Limited ("Henderson Cyber"), one of the then partly-owned subsidiaries, on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), certain subsidiaries of the Company were disposed of to Henderson Cyber in consideration of and in exchange for the shares of Henderson Cyber. Upon completion of the Group Reorganisation, the effective interest of the Group in Henderson Cyber became 66.67%.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of a subsidiary at the date of acquisition, is written off on acquisition. Negative goodwill, which represents the excess of the Group's share of the fair value ascribed to the separable net assets of a subsidiary at the date of acquisition over the purchase consideration, is credited to reserves.

On the disposal of a subsidiary, the attributable amount of negative goodwill previously credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

(b) Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(c) Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year based on their financial statements made up to 30th June each year or to a date which is not more than six months before the Group's balance sheet date. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment losses.

(d) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

(i) Jointly controlled assets

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of jointly controlled assets, together with its share of joint venture expenses are recognised when it is probable that the economic benefits associated with the transaction will flow to / from the Group.

(ii) Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities, except where the unrealised losses provide evidence of an impairment of the asset transferred.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(e) Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any identified impairment losses. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment losses.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

(f) Revenue recognition

- (i) Income from sale of completed properties is recognised upon the execution of a binding sale agreement. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received.
- (ii) Fixed portion rental income under operating leases is recognised on a straight-line basis over the respective lease term. Contingent rent, which is determined based on a factor other than just the passage of time, is recognised when the Group's entitlement to receive payment has been established in accordance with the terms of the agreements.
- (iii) Sales of goods from retail business are recognised when goods are delivered and title of goods passes to the purchaser.
- (iv) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (v) Investment income and dividend income from investments are recognised when the shareholders' rights to receive payment have been established.
- (vi) Income from hotels and restaurants and management services are recognised when the relevant services are provided.
- (vii) Income from security guard services / consultancy services is recognised when services are provided.
- (viii) Toll fee income is recognised on a cash receipt basis.

(g) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value which is assessed annually by professional valuer of the Group and at least once every three years by independent professional valuers. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve, unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(g) Investment properties (cont'd)**

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

(h) Hotel properties

Hotel properties are stated at their open market value which is assessed annually by qualified valuers of the Group and at least once every three years by independent professional qualified valuers. Any surplus or deficit arising on the revaluation of hotel properties is credited or charged to the other property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the other property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of a hotel property, the balance on the revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on hotel properties held on leases of more than 20 years. Due to the fact that the hotels are maintained in a continuous state of proper repairs and improvements thereto from time to time, the directors consider that given the estimated lives of the hotel properties, any depreciation would be insignificant due to their high residual value.

(i) Development properties

Properties held for or under development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

Construction and other costs, including borrowing costs and any attributable expenses relating to the development of properties incurred prior to completion, are included as cost of properties under development.

(j) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes interest, finance charges, professional fees and other direct costs attributable to such properties until they reach a marketable state. Net realisable value is calculated as the estimated selling price less all costs to completion and costs to be incurred in marketing and selling.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(l) Property, plant and equipment**

Property, plant and equipment other than hotel properties are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment other than toll highway operation rights and bridges and hotel properties over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 50 years
Others	10% to 33%

Amortisation of toll highway operation rights and depreciation of bridges are provided for on the basis of a sinking fund calculation whereby annual amortisation and depreciation amounts compounded at 6% per annum will equal to the costs of the relevant toll highway operation rights and bridges at the expiry of the relevant operating periods.

No residual values are assumed for the assets by the directors when determining the depreciation charges.

(m) Inventories

Inventories, which represent retail and catering stocks, are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase, is calculated on the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(n) Instalments receivable

Instalments receivable represent the principal amounts of proceeds from sale of flats contracted to be received by instalments. The gross amounts repaid by customers include principal and interest calculated at contracted rates on the remaining balance outstanding. The principal amounts receivable within twelve months from the balance sheet date have been included in current assets.

(o) Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased assets at the inception of the leases or, if lower, at the present value of the minimum lease payments. Leased assets are subject to depreciation same as other owned depreciable assets unless there is no reasonable certainty that the Group will obtain ownership by the end of the lease term whereby the assets are then depreciated over the shorter of the lease term or their estimated useful lives.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(o) Leases (cont'd)**

An operating lease is a lease other than a finance lease. Payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term after deducting incentive benefits which are recognised as part of the net consideration agreed for the use of the leased asset, irrespective of their nature or form or the timing of payments.

(p) Development costs

Expenditure on development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that the development costs will be recovered through future commercial activity. Such development costs are then deferred and written off over the life of the project from the date of commencement of commercial operation.

(q) Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

(r) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

(s) Retirement benefit scheme/mandatory provident fund scheme cost

The pension costs charged in the income statement represent the contributions paid and payable in respect of the current year to the Group's defined contribution schemes/mandatory provident fund schemes.

(t) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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4. SEGMENTAL INFORMATION

The principal activities of the Group consisted of property development and investment, investment holding, infrastructure, department store operation, security guard services, hotel operation and information technology development.

The Group's turnover and contributions to operating profit analysed by principal activity and geographical market, are as follows:

	Turnover		Operating profit (loss)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Sale of properties	8,825	25,613	2,265	18,039
Rental income	447,366	383,531	276,752	245,213
Hotel operation	97,563	102,156	33,339	23,241
Department store operation	188,252	217,891	7,942	31,671
Security services	71,087	59,883	12,275	12,310
Infrastructure	160,926	—	107,730	—
Information technology services	28,306	—	(131,376)	—
Others	48,426	28,134	(15,508)	13,525
	<u>1,050,751</u>	<u>817,208</u>	<u>293,419</u>	<u>343,999</u>
Other revenue			96,140	10,102
Profit on disposal of investments in securities			101,272	1,239,351
(Deficit) surplus on revaluation of investments in securities			(48,901)	31,968
Impairment in value of leasehold properties			—	(345,214)
Unallocated expenses			(75,674)	(64,731)
			<u>366,256</u>	<u>1,215,475</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

4. SEGMENTAL INFORMATION (cont'd)

	Turnover		Operating profit (loss)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By geographical market:				
Hong Kong	881,116	817,208	196,998	343,999
Other regions in the People's Republic of China ("PRC")	169,635	—	96,421	—
	<u>1,050,751</u>	<u>817,208</u>	<u>293,419</u>	<u>343,999</u>
Other revenue			96,140	10,102
Profit on disposal of investments in securities			101,272	1,239,351
(Deficit) surplus on revaluation of investments in securities			(48,901)	31,968
Impairment in value of leasehold properties			—	(345,214)
Unallocated expenses			(75,674)	(64,731)
			<u>366,256</u>	<u>1,215,475</u>

5. OTHER REVENUE

	The Group	
	2001 HK\$'000	2000 HK\$'000
Interest income	73,936	—
Compensation for early termination of tenancy agreements	198	4,644
Sponsorship fee	1,822	1,121
Sundry income	20,184	4,337
	<u>96,140</u>	<u>10,102</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

6. PROFIT FROM OPERATIONS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	3,119	2,691
Cost of inventories recognised as an expense	82,305	60,466
Cost of properties recognised as an expenses	6,275	6,516
Depreciation and amortisation		
Owned assets	62,262	12,827
Assets held under finance leases	527	—
Loss on disposal of property, plant and equipment	815	290
Operating lease payments in respect of rented premises		
Minimum leases payment	75,856	62,585
Contingent rent (note a)	277	121
	<u>76,133</u>	<u>62,706</u>
Development costs	1,034	344
Provision for doubtful debts	9,539	11,216
Staff costs excluding directors' emoluments	210,922	146,264
and after crediting:		
Rental from investment properties net of outgoings of HK\$117,770,000 (2000: HK\$112,739,000)	212,672	219,076
Other rental income less outgoings (notes b & c)	64,080	26,137
	<u><u>212,672</u></u>	<u><u>219,076</u></u>

Notes:

- (a) Contingent rent payments are calculated based on the excess of a percentage of turnover of the relevant operation that occupied the premises over the fixed portion of the monthly rentals.
- (b) Including contingent rents received of HK\$16,200,000 (2000: NIL).
- (c) Including rental income of HK\$1,713,000 (2000: HK\$1,850,000) from jointly controlled assets less expenses of HK\$599,000 (2000: HK\$699,000).

7. FINANCE COSTS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank loans and overdrafts and other borrowings wholly repayable within five years	107,975	126,382
Finance leases	162	—
Other borrowings	27,584	29,450
Total borrowing costs	<u><u>135,721</u></u>	<u><u>155,832</u></u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

8. DIRECTORS' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' fees	340	360
Other emoluments	—	—
Total emoluments	<u>340</u>	<u>360</u>

Except for directors' fees of HK\$60,000 (2000: HK\$60,000), no emoluments were paid to the independent non-executive directors during the two years ended 30th June, 2001.

The aggregate emoluments of each of the directors during the relevant periods were within the emolument band of Nil to HK\$1,000,000.

There was no arrangement under which a director had waived or agreed to waive any emoluments during the year.

Certain of the directors received remuneration from the Company's intermediate holding company for services provided to the Group headed by the intermediate holding company of which the Company is a member.

No apportionment has been made as the directors are of the opinion that it is impracticable to apportion this amount between their services to the Company's intermediate holding company and each of that Company's subsidiaries.

9. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals, in the Group none of whom is a director, are as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Basic salaries, allowances, benefits in kind and contributions to retirement benefit schemes	7,963	3,521
Bonus	314	350
	<u>8,277</u>	<u>3,871</u>

Their emoluments are within the following bands:

	The Group	
Bands	2001 Number of employees	2000 Number of employees
Nil — HK\$1,000,000	—	4
HK\$1,000,001 — HK\$1,500,000	3	1
HK\$1,500,001 — HK\$2,000,000	1	—
HK\$2,000,001 — HK\$2,500,000	1	—
	<u>5</u>	<u>5</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

10. TAXATION

	The Group	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Profit for the year		
Hong Kong	38,786	74,259
Other regions in the PRC	9,590	—
	<u>48,376</u>	<u>74,259</u>
Under (over) provision in prior years		
Hong Kong	2,744	(26,169)
Other regions in the PRC	—	—
	<u>2,744</u>	<u>(26,169)</u>
	51,120	48,090
Share of tax on results of associates	182,973	166,319
Share of tax on results of jointly controlled entity	1,388	—
	<u>235,481</u>	<u>214,409</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit 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 jurisdiction during the year.

Details of the potential deferred tax not provided for are set out in note 33.

11. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$1,977,849,000 (2000: HK\$1,607,663,000), a profit of HK\$663,188,000 (2000: HK\$549,533,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Special dividend	507	—
Interim paid, 11cents (2000: 11 cents) per share	309,906	309,906
Final proposed, 12 cents (2000: 12 cents) per share	338,079	338,079
	<u>648,492</u>	<u>647,985</u>

The Company distributed 14,086,384 shares in Henderson Cyber as special dividend by way of distribution in specie to its shareholders on the basis of 1 share in Henderson Cyber for every 200 shares in the Company held as at 11th July, 2000.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$1,977,849,000 (2000: HK\$1,607,663,000) and on 2,817,327,395 (2000: 2,817,327,395) ordinary shares in issued during the year. Diluted earnings per share is not shown as there were no dilutive potential shares in existence during the two years ended 30th June, 2001.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

14. INVESTMENT PROPERTIES

	The Group HK\$'000	
At 1st July, 2000	4,676,007	
Revaluation decrease	(403,319)	
At 30th June, 2001	<u>4,272,688</u>	
Representing:		
	The Group	
	2001 HK\$'000	2000 HK\$'000
Long-term leasehold properties situated in Hong Kong	<u>1,048,023</u>	1,276,211
Medium-term leasehold properties situated in Hong Kong	<u>3,224,665</u>	3,399,796
	<u>4,272,688</u>	<u>4,676,007</u>

Investment properties were revalued on 30th June, 2001 on an open market value basis by Messrs. DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers. The deficit arising on revaluation of investment properties attributable to the Group has been debited to the investment property revaluation reserve.

All of the investment properties of the Group are rented out under operating leases.

Investment properties in Hong Kong with a total carrying value of HK\$408,888,000 (2000: HK\$487,207,000) were co-owned with certain fellow subsidiaries as tenants in common. The carrying values represent the Group's proportionate share in the valuation of the relevant properties.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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15. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000	Other land and buildings HK\$'000	Toll highway operating rights HK\$'000	Bridges HK\$'000	Construction in progress HK\$'000	Leasehold improvements, equipment, furniture, fixtures and motor vehicles HK\$'000	Total HK\$'000	
The Group:								
COST OR VALUATION								
At 1st July, 2000	980,000	50,856	—	—	—	119,093	1,149,949	
Acquisition of subsidiaries	—	7,714	786,891	653,692	3,341	140,830	1,592,468	
Additions	—	195	2,638	1,757	324	163,905	168,819	
Revaluation decrease	(150,000)	—	—	—	—	—	(150,000)	
Disposals	—	—	—	—	—	(9,969)	(9,969)	
Transfer	—	—	—	2,813	(2,813)	—	—	
	<u>830,000</u>	<u>58,765</u>	<u>789,529</u>	<u>658,262</u>	<u>852</u>	<u>413,859</u>	<u>2,751,267</u>	
Comprising:								
At cost	—	58,765	789,529	658,262	852	413,859	1,921,267	
At valuation 30th June, 2001	<u>830,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>830,000</u>	
	<u>830,000</u>	<u>58,765</u>	<u>789,529</u>	<u>658,262</u>	<u>852</u>	<u>413,859</u>	<u>2,751,267</u>	
Depreciation and amortisation								
At 1st July, 2000	—	4,894	—	—	—	83,072	87,966	
Acquisition of subsidiaries	—	873	32,388	43,159	—	49,502	125,922	
Provided for the year	—	1,258	13,598	9,249	—	38,684	62,789	
Eliminated on disposals	—	—	—	—	—	(3,227)	(3,227)	
At 30th June, 2001	<u>—</u>	<u>7,025</u>	<u>45,986</u>	<u>52,408</u>	<u>—</u>	<u>168,031</u>	<u>273,450</u>	
Net book values								
At 30th June, 2001	<u>830,000</u>	<u>51,740</u>	<u>743,543</u>	<u>605,854</u>	<u>852</u>	<u>245,828</u>	<u>2,477,817</u>	
At 30th June, 2000	<u>980,000</u>	<u>45,962</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,021</u>	<u>1,061,983</u>	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term leasehold properties situated in								
— Hong Kong	254,000	980,000	1	1	—	—	—	—
— Other regions of the PRC	—	—	1,002	1,046	—	—	—	—
Medium-term leasehold properties situated in								
— Hong Kong	576,000	—	44,094	44,915	—	—	—	—
— Other region of the PRC	—	—	6,643	—	743,543	—	605,854	852
	<u>830,000</u>	<u>980,000</u>	<u>51,740</u>	<u>45,962</u>	<u>743,543</u>	<u>—</u>	<u>605,854</u>	<u>852</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

15. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Hotel properties were revalued on 30th June, 2001 on an open market value basis by Messrs. DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers.

The net book value of assets includes an amount of HK\$2,196,000 (2000: Nil) in respect of assets held under finance leases.

The Group's toll highway operation rights are pledged as securities for certain bank loans.

	Furniture and equipment HK\$'000
	<u> </u>
The Company:	
Cost	
At 1st July, 2000 and 30th June, 2001	<u>21</u>
Depreciation	
At 1st July, 2000	17
Provided for the year	<u>4</u>
At 30th June, 2001	<u>21</u>
Net book values	
At 30th June, 2001	<u>—</u>
At 30th June, 2000	<u>4</u>

16. PROPERTIES HELD FOR DEVELOPMENT

The Group

Included in properties held for development is net interest capitalised of HK\$618,000 (2000: HK\$618,000).

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	HK\$'000	HK\$'000
	<u> </u>	<u> </u>
Unlisted shares, at cost	<u>2,266,258</u>	<u>2,266,258</u>

Details of the principal subsidiaries are shown on pages 68 to 72.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

18. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted				
Shares, at cost	—	—	394,180	394,180
Share of net assets	971,827	1,145,468	—	—
Listed in Hong Kong				
Share of net assets	12,628,390	12,032,889	—	—
	<u>13,600,217</u>	<u>13,178,357</u>	<u>394,180</u>	<u>394,180</u>
Market value of listed investments	<u>20,498,643</u>	<u>16,460,741</u>	<u>—</u>	<u>—</u>

Details of the principal associates are shown on page 73.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2001 HK\$'000	2000 HK\$'000
Jointly controlled entity		
Share of net assets	—	242,373

Interest in a jointly controlled entity represents share of net assets of the Group's equity interest in Hang Zhou Henderson Qianjiang Third Bridge Company, Limited which became a subsidiary of the Company on 1st November, 2000.

20. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The Group						
Equity securities						
Listed	528,941	8,944	214,979	678,345	743,920	687,289
Unlisted	61,060	55,002	16,056	58,918	77,116	113,920
	<u>590,001</u>	<u>63,946</u>	<u>231,035</u>	<u>737,263</u>	<u>821,036</u>	<u>801,209</u>
Market value of listed securities	<u>528,941</u>	<u>52,113</u>	<u>214,979</u>	<u>678,345</u>	<u>743,920</u>	<u>730,458</u>
Carrying amount analysed for reporting purposes as:						
Non-current	<u>590,001</u>	<u>63,946</u>	<u>231,035</u>	<u>737,263</u>	<u>821,036</u>	<u>801,209</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

20. INVESTMENTS IN SECURITIES (cont'd)

	2001 HK\$'000	Other investments 2000 HK\$'000
The Company		
Equity securities		
Unlisted	30	30
Carrying amount analysed for reporting purposes as:		
Non-current	30	30

21. INVENTORIES

THE GROUP

Goods of HK\$12,153,000 (2000: HK\$423,000) are carried at net realisable value.

22. PROPERTIES FOR SALE

THE GROUP

Properties for sale with a total carrying value of HK\$30,812,000 (2000: HK\$30,996,000) were co-owned with certain fellow subsidiaries as tenants in common and the carrying value represents the Group's proportionate share in the total cost of the relevant properties.

Included in properties for sale under development is net interest capitalised of Nil (2000: Nil)

23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains a defined credit policy. The ageing analysis of trade debtors (net of provision for bad debts) of the Group are as follows:

	2001 HK\$'000	The Group 2000 HK\$'000
Under 1 month overdue	32,646	245,415
1 to 3 months overdue	23,536	20,694
More than 3 months overdue but less than 6 months overdue	6,876	2,203
Over 6 months overdue	3,628	3,305
	66,686	271,617
Prepayments, deposits and other receivable	136,135	130,663
	202,821	402,280

Included in the debtors, deposits and prepayments is an amount of HK\$2,834,000 (2000: HK\$2,515,000) in respect of a rental deposit which is expected to be repaid after twelve months.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

24. CREDITORS AND ACCRUED EXPENSES

The analysis of trade payable of the Group included in creditors and accrued expenses by due date are as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Due within 1 month or on demand	118,395	100,042
Due after 1 month but within 3 months	35,036	4,510
Due after 3 months but within 6 months	5,322	3,618
Due after 6 months	26,499	5,081
	<u>185,252</u>	<u>113,251</u>
Rental deposits and other payable	103,131	91,448
Total creditors and accrued expenses	<u>288,383</u>	<u>204,699</u>

25. BORROWINGS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Bank loans	1,911,403	1,750,000
Other loans	26,320	26,320
Bank overdrafts	41,528	40,800
	<u>1,979,251</u>	<u>1,817,120</u>
Secured	411,403	—
Unsecured	1,567,848	1,817,120
	<u>1,979,251</u>	<u>1,817,120</u>

The borrowings bear interest at prevailing market rates and are repayable as follows:

	2001 HK\$'000	2000 HK\$'000
Within one year	273,150	40,800
Between one to two years	750,951	1,276,320
Between two to five years	858,170	500,000
Over five years	96,980	—
	<u>1,979,251</u>	<u>1,817,120</u>
Less: Amounts due within one year and included in current liabilities	(273,150)	(40,800)
Amounts due after one year	<u>1,706,101</u>	<u>1,776,320</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

26. OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the totals of minimum lease payments and the present value of the obligations under finance leases for each of the following periods are:

	THE GROUP			
	Total outstanding minimum lease payments		Present value	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Not later than 1 year	1,221	—	1,004	—
Later than 1 year and not later than 5 years	563	—	470	—
	<u>1,784</u>	<u>—</u>	<u>1,474</u>	<u>—</u>
Less: Future finance charges	(310)	—	—	—
Present value of lease obligations	<u>1,474</u>	<u>—</u>	<u>1,474</u>	<u>—</u>
Amount due within one year shown under current liabilities			<u>(1,004)</u>	<u>—</u>
Amount shown under non-current liabilities			<u>470</u>	<u>—</u>

The difference between the total outstanding minimum leases payment and the present value represents the discount implicit in the leases.

27. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.2 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
2,817,327,395 (2000: 2,817,327,395) ordinary shares of HK\$0.2 each	<u>563,466</u>	<u>563,466</u>

There was no movement in the share capital of the Company for the two years ended 30th June, 2001.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

28. RESERVES

	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital reserve HK\$'000	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Group						
At 1st July, 1999						
As previously reported	3,638,994	637,090	12,909	6,158,568	6,657,394	17,104,955
Prior period adjustments (note 1)	—	(22,566)	—	—	(266,890)	(289,456)
As restated	3,638,994	614,524	12,909	6,158,568	6,390,504	16,815,499
Reclassification	(196,581)	196,581	—	—	—	—
Surplus (deficit) on revaluation						
Company and subsidiaries	42,541	—	—	—	—	42,541
Associates	(79,249)	—	—	—	—	(79,249)
Profit for the year	—	—	—	—	1,607,663	1,607,663
Realisation of revaluation reserve	—	(17,245)	—	—	—	(17,245)
Dividends	—	—	—	—	(647,985)	(647,985)
At 1st July, 2000	3,405,705	793,860	12,909	6,158,568	7,350,182	17,721,224
Deficit on revaluation						
Company and subsidiaries	(398,895)	(150,000)	—	—	—	(548,895)
Associates	(37,149)	—	—	—	—	(37,149)
Profit for the year	—	—	—	—	1,977,849	1,977,849
Realisation of revaluation reserve	—	(116,428)	—	—	—	(116,428)
Dividends	—	—	—	—	(648,492)	(648,492)
At 30th June, 2001	2,969,661	527,432	12,909	6,158,568	8,679,539	18,348,109
The Company						
At 1st July, 1999	—	—	3,461	6,158,568	4,631,511	10,793,540
Profit for the year	—	—	—	—	549,533	549,533
Dividends	—	—	—	—	(647,985)	(647,985)
At 1st July, 2000	—	—	3,461	6,158,568	4,533,059	10,695,088
Profit for the year	—	—	—	—	663,188	663,188
Dividends	—	—	—	—	(648,492)	(648,492)
At 30th June, 2001	—	—	3,461	6,158,568	4,547,755	10,709,784

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

28. RESERVES (cont'd)

Included in the above is the Group's share of post-acquisition reserves of its associates, as follows:

	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital reserve HK\$'000	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st July, 1999						
As previously reported	1,561,916	22,566	—	—	3,024,847	4,609,329
Prior period adjustment (note 1)	—	(22,566)	—	—	(266,890)	(289,456)
As restated	1,561,916	—	—	—	2,757,957	4,319,873
Reclassification	(196,581)	196,581	—	—	—	—
Deficit on revaluation	(79,249)	—	—	—	—	(79,249)
Realisation of revaluation reserve	—	(17,245)	—	—	—	(17,245)
Profit for the year	—	—	—	—	219,654	219,654
At 1st July, 2000	1,286,086	179,336	—	—	2,977,611	4,443,033
Deficit on revaluation	(37,149)	—	—	—	—	(37,149)
Realisation of revaluation reserve	—	(116,428)	—	—	—	(116,428)
Reclassification	—	—	—	—	(20,833)	(20,833)
Profit for the year	—	—	—	—	572,850	572,850
At 30th June, 2001	1,248,937	62,908	—	—	3,529,628	4,841,473

Included in the above is the Group's share of post-acquisition profits of its jointly controlled entity, as follows:

At 1st July, 1999	—	—	—	—	45,581	45,581
Profit for the year	—	—	—	—	25,321	25,321
At 1st July, 2000	—	—	—	—	70,902	70,902
Profit for the year	—	—	—	—	6,871	6,871
Reclassification	—	—	—	—	(77,773)	(77,773)
At 30th June, 2001	—	—	—	—	—	—

Notes:

- (a) In prior years, an associate of the Group carried its properties held for development at valuation which is inconsistent with the Group policy for like properties, and the Group had accounted for its share of the associate's revaluation surplus and utilised the surplus to offset the other properties revaluation deficit of other associates. Prior period adjustments are made in the current year reducing the interests in associates at 30th June, 2000 by HK\$174,435,000, other property revaluation reserves at 1st July, 1999 by HK\$22,566,000 and retained profits brought forward at 1st July, 1999 by HK\$266,890,000. There is no material effect on the consolidated income statement for the two years ended 30th June, 2001.
- (b) The Company's reserves available for distribution to shareholders as at the balance sheet date are represented by its retained profits amounting to HK\$4,547,755,000 (2000: HK\$4,533,059,000).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

29. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	2,224,809	1,822,991
Share of results of associates	(1,480,615)	(1,336,988)
Share of results of a jointly controlled entity	(8,259)	(25,321)
Interest incomes	(73,936)	(21,107)
Interest expenses	135,721	155,832
Depreciation and amortisation	62,789	12,827
Gain on disposal of interests in subsidiaries	(582,181)	—
Goodwill written off	4,408	12,241
Exchange losses	1,706	—
Impairment in value of leasehold properties	—	345,214
Impairment in value of completed properties for sale	14,397	—
Impairment in value of properties held for development	336	—
Impairment in value of associates and jointly controlled entity	72,373	586,720
Loss on disposal of property, plant and equipment	815	290
Profit on disposal of investments in securities	(101,272)	(1,239,351)
Dividends from investments in securities	(8,932)	(8,560)
Provision for doubtful debts on instalments receivable	9,539	11,216
Provision for obsolete inventories	101	—
Deficit (surplus) on revaluation of investments in securities	48,901	(31,968)
Increase in properties held for development	—	(3,294)
Decrease in instalments receivable	4,726	1,873
Decrease in completed properties for sale	6,275	5,429
(Increase) decrease in inventories	(19,943)	5,929
Decrease in cash held by stakeholders on properties pre-sold	—	1
Decrease in debtors, deposits and prepayments	240,676	130,671
Increase in properties under development	(871)	(486)
Increase (decrease) in creditors and accrued expenses	45,289	(13,535)
(Decrease) increase in forward sales deposits	(1,390)	866
Net cash inflow from operating activities	<u>595,462</u>	<u>411,490</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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30. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets (liabilities) acquired		
Property, plant and equipment	1,466,546	158
Interests in associates	16,749	—
Investment in securities	150	—
Inventories	4,982	—
Debtors, deposits and prepayments	50,440	—
Pledged bank deposits	24,070	—
Bank balances and cash	65,224	5
Creditors and accrued expenses	(43,147)	(470)
Obligations under finance leases	(1,410)	—
Taxation	(3,569)	—
Borrowings	(454,596)	—
Loan from a fellow subsidiary	—	(37)
Loan from a shareholder	(161,533)	—
Carrying value of associates and jointly controlled entity prior to becoming subsidiaries on acquisition	(344,882)	—
Minority interests	(559,259)	—
Net assets (liabilities)	59,765	(344)
Goodwill	5,061	344
	<u>64,826</u>	<u>—</u>
Satisfied by		
Cash consideration paid	<u>64,826</u>	<u>—</u>
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries		
Cash consideration paid	(64,826)	—
Bank balances and cash acquired	65,224	5
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries	<u>398</u>	<u>5</u>

The subsidiaries acquired during the year contributed HK\$149,243,000 to the Group's net operating cash flow, paid HK\$45,414,000 in respect of the net returns on investments and servicing of finance, paid HK\$10,301,000 in respect of taxation, received HK\$155,000 for investing activities and paid HK\$123,169,000 in respect of financing activities.

The subsidiaries acquired during the year contributed HK\$160,926,000 to the Group's turnover and HK\$53,196,000 to the Group's profit from operations.

The subsidiaries acquired last year did not have any significant impact on the Group's cash flows or operating results for that year.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Obligations under finance leases HK\$'000	Loan from a fellow subsidiary HK\$'000	Borrowings HK\$'000	Minority interests HK\$'000
At 1st July, 1999	—	49,209	3,260,875	111,446
New bank and other loans raised	—	—	1,550,000	—
Repayment of bank and other loans	—	—	(3,034,555)	—
Attributable profits less dividends paid	—	—	—	(3,001)
Acquisition of subsidiaries	—	37	—	29,486
Sale of subsidiaries	—	—	—	1,683
Net cash inflow from financing	—	236,069	—	1,663
At 1st July, 2000	—	285,315	1,776,320	141,277
New bank and other loans raised	—	—	1,000,000	—
Repayment of bank and other loans	—	—	(1,293,193)	—
Attributable profits less dividends paid	—	—	—	(29,360)
Acquisition of subsidiaries	1,410	—	454,596	559,259
Inception of finance lease contracts	198	—	—	—
Share of investment property revaluation reserve	—	—	—	(4,424)
Issue of shares to minority shareholders of subsidiaries	—	—	—	897,546
Loss on deemed disposal of subsidiaries	—	—	—	(582,181)
Net cash (outflow) inflow from financing	(134)	(64,282)	—	(3,765)
At 30th June, 2001	1,474	221,033	1,937,723	978,352

32. MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$198,000 (2000: Nil).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

33. DEFERRED TAXATION

At the balance sheet date, the major components of the net unrecognised potential deferred tax assets are as follows:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(28,037)	(9,925)	—	(1)
Unutilised tax losses	190,809	166,800	3,390	2,261
Other timing differences	(16)	2,087	—	—
Net unrecognised potential deferred tax assets	<u>162,756</u>	<u>158,962</u>	<u>3,390</u>	<u>2,260</u>

The amount of the net unprovided potential deferred tax charge (credit) for the year is analysed as follows:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:				
Excess (shortfall) of tax allowances over depreciation	18,112	(6,965)	(1)	1
Tax losses (arising) utilised	(24,009)	47,426	(1,129)	(1,883)
Other timing differences	2,103	(560)	—	—
Net unprovided potential deferred tax (credit) charge	<u>(3,794)</u>	<u>39,901</u>	<u>(1,130)</u>	<u>(1,882)</u>

The deferred tax asset has not been recognised in the financial statements as it is uncertain that the potential deferred tax asset will crystallise in the foreseeable future.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of investment properties and hotel properties as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purpose.

34. JOINTLY CONTROLLED ASSETS

Completed properties for sale included the Group's share of interest in jointly controlled assets with an aggregate book value of HK\$35,493,000 (2000: HK\$35,493,000). The Group's share of liabilities incurred in relation to the jointly controlled assets included in creditors and accrued expenses amounted to HK\$434,000 (2000: HK\$441,000).

35. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Of the pledged bank deposits and bank balances and cash items, a total sum being the equivalent of HK\$113,411,000 (2000: Nil) was kept in Mainland China and is subject to exchange control regulations.

Bank balance and cash include pre-sale proceeds held by stakeholders of Nil (2000: HK\$190,000).

36. EMPLOYEES RETIREMENT SCHEMES

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employee's basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers.

No employees of the Group were eligible to join the Fund or the Scheme on or after 1st December, 2000.

Employees of the Group who are not members of the Fund and the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes.

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the income statement for the year ended 30th June, 2001 were HK\$5,404,000 (2000: HK\$4,765,000).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

37. COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had commitments and contingent liabilities not provided for in these financial statements as follows:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Contracted commitments for acquisition of property, plant and equipment, property development and renovation expenditure	<u>23,808</u>	<u>82,676</u>	<u>—</u>	<u>—</u>
Property development and renovation expenditure approved by the directors but not yet contracted for	<u>—</u>	<u>31</u>	<u>—</u>	<u>—</u>
Guarantees given by the Company to banks to secure banking facilities utilised by subsidiaries	<u>—</u>	<u>—</u>	<u>1,543,517</u>	<u>1,790,137</u>
Total future minimum lease payments under non-cancellable operating leases in respect of telecommunication network facilities for each of the following periods				
– not later than 1 year	7,512	9,911	—	—
– later than one year and not later than five years	<u>98</u>	<u>1,500</u>	<u>—</u>	<u>—</u>
	<u>7,610</u>	<u>11,411</u>	<u>—</u>	<u>—</u>
Total future minimum lease payments under non-cancellable operating leases in respect of rented premises for each of the following periods				
– not later than 1 year	32,612	48,949	—	—
– later than the 1 year and not later than five years	30,590	51,015	—	—
– later than five years	<u>4,361</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>67,563</u>	<u>99,964</u>	<u>—</u>	<u>—</u>

Notes:

- (i) The leases are negotiated for terms of three to twenty years.
- (ii) In addition, there were contingent liabilities in respect of a performance bond guaranteed by a bank on behalf of a subsidiary of the Company amounting to HK\$19,000,000 (2000: HK\$40,000,000). The performance bond was provided in accordance with the terms of the fixed telecommunication network services licence granted to the Group on 16th February, 2000.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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FINANCIAL STATEMENTS

38. LEASE ARRANGEMENT

The Group is both a lessee and a lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out in note 37.

Lessor

As at the balance sheet date, the following assets were rented out under operating leases:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Investment properties	4,272,688	4,676,007
Properties for sale-completed	216,154	216,231

These assets were leased out for periods of one to three years without renewal options given to the leasees.

As at the balance sheet date, the future minimum lease payments under non-cancellable operating leases for each of the following period is:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Not later than 1 year	311,416	90,739
Later than 1 year end not later than 5 years	184,315	50,440
Total	495,731	141,179

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

39. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

	Fellow subsidiaries		Associates		Jointly controlled entities	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Agency commission paid	18,523	18,338	—	—	—	—
Building management fee paid	55,636	53,185	—	—	—	—
Consultancy service income	5,390	23	536	—	—	—
Cleaning services income	8,061	1,229	—	—	—	—
Accountancy fee paid	5,921	5,918	—	—	—	—
Rental income	5,843	6,086	—	—	—	—
Rental expenses	57,311	50,053	4,004	5,341	—	—
Hotel management fee paid	—	—	3,467	3,916	—	—
Security guard service income	62,458	53,855	—	—	—	—
Interest expenses	16,283	18,154	—	—	—	—
Interest income	—	—	3,155	2,774	—	—
Maintenance fee	1,902	5,305	—	—	—	—
Professional fee	2,270	—	280	1,260	—	—
Staff secondment fee	—	—	—	4,342	—	—
Amounts due to						
— Interest-free	—	—	80,501	51,548	—	—
— Interest bearing	221,033	285,315	—	—	—	—
Amounts due from						
— Interest-free	—	—	66,418	67,650	—	162,592
— Interest bearing	—	—	60,000	60,000	—	—
Rental deposit paid	2,834	2,515	—	—	—	—
Income from provision of data centre services	—	—	—	—	—	—
Management fee income	2,474	18	—	—	—	—
Staff cost reimbursement	738	—	2,700	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Apart from the above interest-bearing advances with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-Bank Offer Rate or with interest at market rates, the other transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.

In addition to the above transactions, the Group also entered into the following significant transactions with related parties:

- On 12th June, 2000, Henderson Cyber entered into a licence agreement with the Hong Kong and China Gas Company Limited ("Towngas"), an associate of the Company, relating to the use of certain trade marks at a consideration of HK\$1. An indirect wholly-owned subsidiary of Towngas and a subsidiary of the Company also entered into a licence agreement relating to the use of a domain name at a consideration of HK\$1. Both licence agreements have no fixed term and may be terminated by one party if the other is in default.
- On 23rd June, 2000, Henderson Cyber entered into an agreement with Towngas to provide to the Group with certain supporting services including billing and collection of monthly Public Non-Exclusive Telecommunications Service ("PNETS") charges and set-top boxes rental charges, installation of set-top boxes, call centres, information technology support, warehousing, supplies and warehouse management, marketing and sales and backup delivery services, at reimbursement costs, for a term of three years from the date of the agreement, with the option for the Company to terminate at any time prior to the said three-year period with three months' notice in writing.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2001

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39. RELATED PARTY TRANSACTIONS (cont'd)

- (c) Pursuant to an option agreement dated 23rd June, 2000 entered into by Henderson Cyber and Towngas, Towngas has granted an option to Henderson Cyber at a consideration of HK\$10 to purchase all the interests of Towngas in iBrandDirect.com Limited ("iBrandDirect") if the shares of iBrandDirect or its holding company or a company which holds substantially all the assets, liabilities and businesses of iBrandDirect shall be listed on the Stock Exchange of Hong Kong Limited or such other stock exchange of similar international standing as may be decided by the Company.
- (d) As part of the Group Reorganisation, the Group sold to Henderson Cyber the entire issued share capital of certain companies of the Group in consideration of Henderson Cyber allotting and issuing 71,900,000 shares to a wholly-owned subsidiary of the Company credited as fully paid.
- (e) On 28th June, 2000, a subsidiary of the Company entered into an agreement for leasing of office premises from a subsidiary of Henderson Land Development Company Limited ("HL"), an intermediate holding company. Pursuant to the lease agreement, the subsidiary of HL will lease the entire building to be built for a term of five years with two renewal options for a term of five years each at a monthly rental (exclusive of rates, management fees and other outgoings) of HK\$11 per square foot for the initial five-year period and to be adjusted to account for inflation/deflation by reference to the Consumer Price Index published by the Special Administrative Region of the Hong Kong Government at the expiration of the initial five year period and at the then prevailing market rent for the third five-year period. At June 2001, the construction of the premises has not yet been completed.
- (f) On 28th June, 2000, Henderson Cyber entered into agreements with HL pursuant to which:
- (i) HL will procure their respective relevant members to grant licences/tenancies to the relevant members of the Group the rights to install such equipment relating to the provision of local wireless fixed telecommunications network services ("FTNS") in buildings developed, owned and/or managed by HL and its subsidiaries excluding the Group (collectively "Henderson Group") for a period of five years from the date of the agreement at a fee calculated by reference to fees charged by the relevant members of the Henderson Group to other unrelated customers or, if there is no such references available, at fees no less favourable than fees at which the Group may obtain from other unrelated parties. During the year, licence fees payable to fellow subsidiaries in respect of the FTNS amounted to HK\$675,000 (2000: Nil);
 - (ii) Henderson Cyber will procure the relevant members of the Group to provide members of the Henderson Group the services available at the data centres of the Group, upon request, for a period of two years from the date of opening of the relevant data centres at a fee calculated by reference to fees charged by the relevant members of the Group to other unrelated customers; and
 - (iii) Henderson Cyber will procure the relevant members of the Group to provide services to members of the Henderson Group with respect to the high technology infrastructure design, consultancy services and local wireless FTNS in connection with properties developed, owned and/or managed by the Henderson Group for a period of three years from the date of the agreement at a fee calculated by reference to fees charged by the relevant members of the Group to other unrelated customers of the Group. During the year, income from provision of abovementioned services amounted to HK\$2,929,000 (2000: HK\$23,000).
- (g) On 28th June, 2000, Henderson Cyber entered into agreements with HL pursuant to which:
- (i) HL will procure the relevant members of the Henderson Group to provide marketing support to the Group in connection with the Group's local wireless FTNS operations and the leasing of the racks in, and marketing of the services offered at, the Group's data centres for a term of three years from the date of agreement at a commission at the same level as offered by the Group to other unrelated service providers;
 - (ii) Henderson Cyber will procure the relevant members of the Group to provide software system support to the Henderson Group for its properties managed by it for a period of three years from the date of agreement at a fee calculated by reference to fees at which the relevant members of the Group offer such services to other unrelated customers. Services fees received during the year amounted to HK\$2,461,000 (2000: Nil); and
 - (iii) HL will provide, inter alia, legal, secretarial, accounting, computer and other related services and the use of office equipment to Henderson Cyber and its immediate subsidiaries at reimbursement costs for a period of three years commencing from the date of the agreement. Services fees received during the year amounted to HK\$2,318,000 (2000: HK\$18,000).

39. RELATED PARTY TRANSACTIONS (cont'd)

- (h) Two of the Group's properties are managed by subsidiaries of HL. Upon completion of the construction of the property as mentioned in note 39(e) above (the "Property"), it will also be managed by a subsidiary of HL. It is intended that such subsidiaries of HL will continue to, or will, provide such property management services to the Group.

Pursuant to a letter dated 28th June, 2000, a subsidiary of the Company will appoint a subsidiary of HL as the building manager for the Property for a term of three years from the commencement date of the lease. The fee is to be determined by reference to the level of management fees charged by unrelated providers of property management services in respect of properties of similar standard.

Services fees paid to subsidiaries of HL for management of the completed properties first-mentioned amounted to HK\$71,000 (2000: Nil).

- (i) During the year, a subsidiary of the Company, Henderson Group and Towngas and its subsidiaries ("Towngas Group") have entered into an arrangement whereby members of Henderson Group and Towngas Group will provide content to the subsidiary's portal relating to information and insurance package. Such arrangements will be conducted on terms no less favourable than terms granted to unrelated customers.

In addition to the above, the Company's holding company performed administrative services comprising company secretarial, accounting and personnel to certain group companies at no charge as the directors consider that the costs involved were not significant.