

Report of the Directors (cont'd)

- (ii) In relation to the spin-off of the Group's property development and property investment businesses in the PRC and the transfer of the Group's direct or indirect interests in certain PRC properties to Henderson China, the Group agreed to indemnify Henderson China in respect of any diminution in the value of Henderson China arising from, inter alia, PRC income tax and Land Appreciation Tax in accordance with an indemnity deed dated 15th March, 1996 between the Group and Henderson China. The maximum value of the tax indemnities in respect of PRC income tax and Land Appreciation Tax had been estimated to be approximately HK\$2,583 million and HK\$1,921 million respectively. As at 30th June, 2001, approximately HK\$280.2 million and HK\$0.1 million in respect of the indemnities on income tax and Land Appreciation Tax respectively were accrued.
- (iii) Henderson Real Estate Agency Limited, a wholly-owned subsidiary of the Company made advances from time to time to Henderson Investment Finance Limited, a wholly-owned subsidiary of Henderson Investment Limited, with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-bank Offer Rate ("HIBOR") quoted by banks. As at 30th June, 2001, an amount of approximately HK\$221 million was due by Henderson Investment Finance Limited to Henderson Real Estate Agency Limited.
- (iv) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited made advances from time to time to Henderson Investment Finance Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, there was no outstanding balance due by Henderson Investment Finance Limited to Henderson Finance Company Limited.
- (v) Henderson Finance Company Limited made advances from time to time to Henderson Real Estate Agency Limited, Choiform Limited, Jetkey Development Limited and Perfect Grand Development Limited, subsidiaries of the Company, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, the amounts of approximately HK\$3,909.1 million, HK\$45.3 million, HK\$26.1 million and HK\$125.3 million were due by Henderson Real Estate Agency Limited, Choiform Limited, Jetkey Development Limited and Perfect Grand Development Limited respectively to Henderson Finance Company Limited, which have been included in the accounts under "Amounts due to fellow subsidiaries".
- (vi) Glorious Asia S.A., a wholly-owned subsidiary of Henderson Development Limited made advances from time to time to West Chelsea Holdings Co. Limited, a wholly-owned subsidiary of the Company, with interest chargeable

Tseung Kwan O
Town Lot No.57



This 24.59%-owned site of the Group is to be developed into 10 residential tower blocks totalling G.F.A. of approx. 2,658,000 sq.ft.. Superstructure construction work is in progress and the development is expected to be completed before 2004.

Report of the Directors (cont'd)

Tuen Mun Town Lot No.374



25% owned by the Group, this project is planned to develop into 7 residential towers and a 2-storey commercial complex consisting of shops and kindergarten over 2-storey basement carparks, with a total G.F.A. of approx. 1,250,000 sq.ft. and 1,038 carparking spaces. Superstructure construction work is in progress and the development is expected to be completed in early 2003.

on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately of HK\$147.5 million was due by West Chelsea Holdings Co. Limited to Glorious Asia S.A., which has been included in the accounts under "Amounts due to fellow subsidiaries".

(vii) Henderson Real Estate Agency Limited made advances from time to time to Henderson (China) Finance Limited, a wholly-owned subsidiary of Henderson China, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately HK\$58.9 million was due by Henderson (China) Finance Limited to Henderson Real Estate Agency Limited.

(viii) West Chelsea Holdings Co. Limited made advances from time to time to Hiram Assets Limited, a wholly-owned subsidiary of Henderson China with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately of HK\$8.4 million was due by Hiram Assets Limited to West Chelsea Holdings Co. Limited.

(ix) Henderson Finance Company Limited made advances from time to time to Henderson (China) Finance Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of

approximately HK\$25.8 million was due by Henderson (China) Finance Limited to Henderson Finance Company Limited, which has been included in the accounts under "Amounts due to fellow subsidiaries".

(x) Glorious Asia S.A., made advances from time to time to Hiram Assets Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately of HK\$5.7 million was due by Hiram Assets Limited to Glorious Asia S.A., which has been included in the accounts under "Amounts due to fellow subsidiaries."

(xi) Henderson Real Estate Agency Limited made advances from time to time to Shellson International Limited, a subsidiary of Henderson China, with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately HK\$181.4 million was due by Shellson International Limited to Henderson Real Estate Agency Limited.

(xii) Henderson Finance Company Limited made advances from time to time to Shellson International Limited with interest chargeable on the balances outstanding from time to time based on HIBOR quoted by banks. As at 30th June, 2001, an amount of approximately HK\$222.6 million was due by Shellson International Limited to Henderson Finance Company

Report of the Directors (cont'd)

Limited, which has been included in the accounts under "Amounts due to fellow subsidiaries".

(xiii) The management agreements and the construction agreements for the management and development of the properties of the Henderson Development Limited Group and the Henderson Investment Limited Group entered into by both Henderson Development Limited and Henderson Investment Limited with each of Henderson Real Estate Agency Limited and E Man Construction Company Limited, two wholly-owned subsidiaries of the Company, still subsisted at the financial year end.

(2) At the extraordinary general meeting of the Company held on 22nd June, 1998, an ordinary resolution was passed by the independent shareholders of the Company to approve, inter alia, the provision of leasing agency and property management services by the Group (the "Continuing Connected Transactions") in respect of the commercial development and car parks of Metro City Plaza and Sheung Shui Centre, the property interests of which are represented by shares held by Champion York Limited, a wholly-owned subsidiary of Henderson Development Limited. The aggregate amount of the Continuing Connected Transactions as approved by the independent shareholders shall not exceed HK\$45 million per annum. For the year ended 30th June, 2001, the aggregate amount received by the Group in respect of the Continuing Connected Transactions which were based on normal commercial terms was approximately HK\$37 million.

The Hong Kong Stock Exchange has granted a waiver to the Company from strict compliance with the connected transaction requirements under the Listing Rules applicable to the Continuing Connected Transactions on the basis that:

- (i) (a) the Continuing Connected Transactions are entered into by the Group in the ordinary and usual course of its business and the aggregate amount received per annum by the Group thereunder will not exceed HK\$45 million;
 - (b) the Continuing Connected Transactions are entered into on normal commercial terms that are fair and reasonable so far as the Independent Shareholders are concerned; and
 - (c) details of the Continuing Connected Transactions are to be disclosed in the Company's next and subsequent published annual report in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules;
- (ii) a Committee of the Independent Non-executive Directors of the Company shall review annually the Continuing Connected Transactions and confirm in the Company's annual report whether the Continuing Connected Transactions are conducted in the manner as stated in paragraph (i) above; and
 - (iii) the Auditors of the Company shall review annually the Continuing Connected Transactions and provide the Directors with a letter, with a copy

Tung Chung Station Development - Package One Tung Chung Town Lot No.3



This 20%-owned project of the Group is undergoing the development of 4 residential towers and associated facilities totalling approx. 1,196,000 sq. ft. in G.F.A. It is scheduled for completion in early 2002.

Report of the Directors (cont'd)

Property Management



The Group's two in-house property management subsidiaries namely, Hang Yick Properties Management Limited and Well Born Real Estate Management Limited, currently manage over 200 properties and estates in Hong Kong and provide quality services to its customers. Both of these companies have received numerous top performance awards for providing high quality property management services.

to the Hong Kong Stock Exchange, confirming that the Continuing Connected Transactions (a) have received approval from the Board; (b) have been transacted in accordance with the pricing policies as stated in the Company's annual report for the period; and (c) have been entered into in accordance with the terms of the agreement(s) governing the Continuing Connected Transactions or, where there is no agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties.

A Committee of Independent Non-executive Directors of the Company has reviewed and confirmed that the Continuing Connected Transactions have been entered into by the Group in accordance with the waiver conditions granted by the Hong Kong Stock Exchange as stated in paragraph (i) above.

The Auditors of the Company have also confirmed that the Continuing Connected Transactions have been conducted in the manner as stated in paragraph (iii) above.

Dr. Lee Shau Kee was taken to be interested in the transactions and contracts referred to in (1) and (2) above as a director (and as more particularly described in the section "Disclosure of Interests" above) of the Company's subsidiaries, Henderson Investment Limited and Henderson China and the Company's ultimate holding company, Henderson Development Limited.

Mr. Lee Ka Kit was interested in the transactions referred to in (1)(xi) and (xii) above as a director and indirect shareholder of

Shellson International Limited and a director of Henderson Development Limited and Henderson China.

(3) During the year, a subsidiary of Henderson Investment Limited made advances to Lucky Country Development Limited in which Mr. William Cheng Kai Man has a 50% interest. The remaining 50% interest is held by a subsidiary of Henderson Investment Limited. Dr. Lee Shau Kee, the Chairman of the Company, is the father-in-law of Mr. William Cheng Kai Man. Both the said subsidiary of Henderson Investment Limited and Mr. William Cheng Kai Man made advances in proportion to their equity interests in the company. All advances to the company are unsecured, repayable on demand and with interest on normal commercial terms.

(4) During the year, the Group made advances to the following non wholly-owned subsidiaries and associates as unsecured working capital repayable on demand:

- Best Homes Limited
- Crown Truth Limited
- Feswin Investment Limited
- Gain Base Development Limited
- Hang Seng Quarry Company Limited
- Harvest Development Limited
- Heyield Estate Limited
- Henfield Properties Limited
- Land Fortune Development Limited
- Lane Success Development Limited
- Perlin Development Limited
- Quickcentre Properties Limited
- Riunite Enterprises Inc.
- Shellson International Limited

Report of the Directors (cont'd)

Certain Directors of the Company or its subsidiaries have interests in the above companies. Both the Group and such Directors' associates made advances in proportion to their equity interests in the companies. The advances by the Group and the Directors' associates to the individual companies listed above were either both interest-bearing on identical normal commercial terms or both without interest.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the year end or at any time during the year.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Arrangements to Purchase Shares or Debentures

Other than the Directors' rights to acquire shares in Henderson China Holdings Limited and Henderson Cyber Limited as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Major Customers and Suppliers

For the financial year ended 30th June, 2001:

- (a) the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30 per cent. of the Group's total purchases.
- (b) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 per cent. of the Group's total turnover.

Commentary on Annual Results

A commentary on the annual results is shown on pages 34 to 36.

Retirement Benefits Scheme

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").

Report of the Directors (cont'd)

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 employees' 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 profit and loss account for the year ended 30th June, 2001 were HK\$24,596,000 (2000 – HK\$21,571,000).

Employees

As at 30th June, 2001, the number of employees of the Group was about 6,600. The remuneration packages to employees were commensurate to the market trend and level of pay in the industry.

Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Audit Committee

The Audit Committee was established in December 1998. The members of the Audit Committee are Mr. Leung Hay Man (Chairman) and Mrs. Angelina Lee Pui Ling, both of whom are Independent Non-executive Directors. The Audit Committee Members have reviewed the interim and annual reports of the Group for the financial year under review and Audit Committee meetings were held twice during the financial year.

Auditors

A resolution for the re-appointment of KPMG as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules on the Hong Kong Stock Exchange throughout the financial year ended 30th June, 2001 except that Non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Article 116 of the Company's Articles of Association.

On behalf of the Board

Lee Shau Kee
Chairman

Hong Kong, 4th October, 2001