

Notes on the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of 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 ("HKSE"). A summary of the principal 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 and hotel properties and the marking to market of certain investment in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the audited accounts of Henderson Land Development Company Limited and all of 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 profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions are eliminated on consolidation.

Goodwill arising on consolidation represents the excess of the cost of investments in subsidiaries over the fair value of the net tangible assets at the respective dates of acquisition. Goodwill is written off on acquisition. The excess of the fair value of the net tangible assets of subsidiaries over the cost of investments is credited to capital reserve. On disposal of a subsidiary, the attributable amount of capital reserve is included in calculating the profit or loss on disposal.

(d) Interest in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates and jointly controlled entities

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, in its management, including participation in financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

Unless the interest in the associate or the jointly controlled entity is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year. Goodwill arising on the acquisition of an associate or a jointly controlled entity, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is written off on acquisition. The excess of the Group's share of the fair value of the separable net assets acquired over the cost of the investment is credited directly to reserves.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

On disposal of an associate or a jointly controlled entity during the year, the attributable amount of capital reserve is included in the calculation of the profit or loss on disposal.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

The results of the associates and jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate or jointly controlled entity individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Investment in securities

The Group's policies for investment in securities other than investment in subsidiaries, associates and jointly controlled entities are as follows:—

- (i)** Investment 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)** 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.
- (iii)** Provision 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.
- (iv)** Profits or losses on disposal of investment 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) Recognition of revenue

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 the instalment sales of properties are recognised upon the sale of properties or the issue of an occupation permit or a completion certificate by the relevant government authorities, whichever is the later. 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) 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 assets. 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 from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(iv) Income from construction contracts

When the outcome of the construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(v) Toll fee income

Toll fee income is recognised on a cash receipt basis.

(vi) Hotel operation

Income from hotel operation is recognised when services are provided.

(vii) Sale of goods

Sale of goods from department store operation are recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

(h) Valuation of properties

(i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which are assessed annually by qualified valuer of the Group and at least every three years by external qualified valuers. Surpluses arising on revaluations on a portfolio basis are credited to the investment property revaluation reserve; deficits arising on revaluations are firstly set-off against any previous revaluation surpluses and thereafter taken to the profit and loss account.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the profit and loss account for the year.

(ii) Hotel properties are stated at their open market value based on an annual professional valuation.

(iii) Other land and buildings are stated at cost less accumulated depreciation.

(iv) Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(v) Completed properties remaining unsold at the year end are valued at the lower of cost and 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.

(vi) 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, and expenses relating to the marketing and the sale of development properties prior to the issue of an occupation permit in Hong Kong or the issue of a completion certificate in the People's Republic of China ("PRC"), less any provisions considered necessary by the directors.

(vii) Leasehold land acquired by exchange of land exchange entitlements is stated at cost which represents the cost of land exchange entitlements surrendered, and the premium, if any, payable to the Government of the Hong Kong Special Administrative Region less provision, where appropriate.

(viii) Other leasehold land is stated at cost less provision, where appropriate.

(i) 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 which necessarily take a substantial period of time to get ready for their intended use or sale.

(j) Valuation of construction contracts in progress

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Amounts due from customers for contract work" as an asset or the "Amounts due to customers for contract work" as a liability, as applicable.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(k) Amortisation and depreciation of fixed assets****(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) Hotel properties

No depreciation is provided on hotel properties held on lease of more than 20 years. The directors consider that the value of the hotels do not diminish, due to the fact that hotels are maintained in a continuous state of proper repair and improvements thereto from time to time.

(iii) Toll highway operation rights and bridges

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

(iv) Other land and buildings

Leasehold land is amortised, using the straight line method, over the unexpired terms of the leases.

Buildings are depreciated on a straight line basis over the remaining terms of the respective leases or 40 years if shorter.

(v) Properties held for and under development

No depreciation is provided on properties held for and under development.

(vi) Other fixed assets

Other fixed assets are stated at cost, less depreciation. Depreciation is provided on a straight line basis over their estimated useful lives as follows:—

Leasehold improvements, furniture and fixtures	— 20%
Others	— 10% to 33%

(l) Translation of foreign currencies

Foreign currency transactions, inclusive of those entered into by the Company's subsidiaries, associates and jointly controlled entities established outside Hong Kong, the operations and cash flows of which have a direct impact upon those of the Company, 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 market rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The accounts of other subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereon are dealt with as a movement in reserves.

(m) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(n) Retirement costs

Contributions to retirement benefit scheme are charged to the profit and loss account as incurred.

(o) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(p) Leases**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.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(i) Assets acquired under finance leases**

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(k) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

When 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(k) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(g) above.

(iii) Operating lease charges

When 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.

(q) Related parties

For the purpose 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.

2 SEGMENTAL INFORMATION

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, project management, construction, property management, department store operation, hotel operation, finance, investment holding and infrastructure business.

Turnover of the Group represents proceeds from the sale of properties, rental and interest income, income from construction contracts earned from third parties, income of infrastructure business, income from hotel operation, proceeds from department store operation, and others including management and sales commission, dividends from investment in securities and property management and security services income.

The Group's turnover and contribution to profit from operations of the major items are analysed as follows:—

	Turnover		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sale of properties	4,997,855	13,398,008	1,461,933	6,257,135
Rental income	1,959,693	1,537,030	1,303,063	1,019,093
Interest income	686,651	701,582	686,651	701,582
Building construction	367,105	584,075	15,637	30,390
Infrastructure	160,926	—	107,730	—
Hotel operation	136,716	127,987	47,640	31,804
Department store operation	188,252	217,891	71,207	99,392
Others	671,918	438,744	404,211	110,424
	<u>9,169,116</u>	<u>17,005,317</u>	<u>4,098,072</u>	<u>8,249,820</u>
Other Group expenses net of other income			<u>(11,807)</u>	<u>(407,605)</u>
			<u>4,086,265</u>	<u>7,842,215</u>

No geographical analysis of each segment is shown as less than 10% of the Group's turnover and profit from operations are derived from activities outside Hong Kong.

Notes on the Accounts (cont'd)
3 OTHER NET INCOME

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Profit on disposal of investment in securities	101,272	1,239,351
Others	<u>60,098</u>	<u>56,072</u>
	<u><u>161,370</u></u>	<u><u>1,295,423</u></u>

4 OTHER OPERATING INCOME/(EXPENSES)

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Provision for diminution in value of properties written back	513,622	—
Provision for diminution in value of properties	(132,635)	(891,616)
Deficit on winding up of an associate	—	(87,993)
Others	<u>(177,189)</u>	<u>(339,529)</u>
	<u><u>203,798</u></u>	<u><u>(1,319,138)</u></u>

5 NON-OPERATING INCOME/(EXPENSES)

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Profit on partial disposal of interest in a subsidiary (Note)	582,181	—
(Deficit)/surplus on revaluation of investment in securities	(58,516)	31,968
Impairment in value of investments	(60,713)	(586,720)
Profit realised on dilution of interest in a subsidiary (note 31)	75,789	50,033
Goodwill written off	(4,408)	(13,921)
Others	<u>(959)</u>	<u>(2,086)</u>
	<u><u>533,374</u></u>	<u><u>(520,726)</u></u>

Note: Profit on partial disposal of interest in a subsidiary represented profit arising on the spin-off of Henderson Cyber Limited on the Growth Enterprise Market of HKSE during the year.

Notes on the Accounts (cont'd)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The consolidated profit from ordinary activities before taxation for the year is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
(a) Finance costs		
Bank interest	696,339	710,072
Interest on loans wholly repayable within five years	285,768	405,835
Finance charges on obligations under finance leases	162	—
Other borrowing costs	<u>384,658</u>	<u>449,850</u>
	1,366,927	1,565,757
Less: Amount capitalised*		
— interest	(816,367)	(607,733)
— other borrowing costs	<u>(343,272)</u>	<u>(281,901)</u>
	<u>207,288</u>	<u>676,123</u>
* The borrowing costs have been capitalised at rates ranging from 6.18% to 6.54% (2000 — from 6.31% to 6.69%) per annum.		
(b) Items other than those separately disclosed in notes 3 to 6(a)		
Amortisation and depreciation		
— owned assets	108,133	64,003
— assets held under finance leases	<u>527</u>	<u>—</u>
	108,660	64,003
Less: Amount capitalised	<u>(2,784)</u>	<u>(3,429)</u>
	<u>105,876</u>	<u>60,574</u>
Staff cost - including retirement costs of HK\$25,814,000 (2000 — HK\$22,900,000)**	743,243	648,044
Less: Amount capitalised (including retirement costs of HK\$1,218,000 (2000 — HK\$1,329,000))	<u>(47,702)</u>	<u>(40,775)</u>
	<u>695,541</u>	<u>607,269</u>
Cost of sales		
— completed properties for sale	3,062,078	6,571,196
— inventories	134,388	87,307
Auditors' remuneration	9,570	9,579
Interest income	(686,651)	(701,582)
Rentals receivable from investment properties net of outgoings of HK\$555,466,000 (2000 — HK\$453,920,000)***	(1,161,809)	(948,885)
Other rental income less outgoings	(141,254)	(70,208)
Dividends from investment in securities		
— listed	(8,932)	(3,820)
— unlisted	<u>(13,442)</u>	<u>(7,080)</u>

** Included in the Group's staff cost were HK\$372,952,000 (2000 — HK\$311,793,000) relating to direct costs.

*** Included contingent rental income of HK\$20,743,000 (2000 — HK\$3,668,000).

Note: The consolidated net profit after taxation includes an amount of HK\$2,551,778,000 (2000 — HK\$6,158,483,000) which has been dealt with in the accounts of the Company.

Notes on the Accounts (cont'd)

7 SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of net profits/(losses) before taxation:—		
Listed associates	1,410,717	1,267,489
Unlisted associates	<u>36,801</u>	<u>(22,767)</u>
	1,447,518	1,244,722
Attributable taxation	<u>(191,297)</u>	<u>(171,298)</u>
	<u><u>1,256,221</u></u>	<u><u>1,073,424</u></u>

8 TAXATION

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

	The Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	319,052	1,161,140
Underprovision in respect of prior years	14,316	12,226
Tax refund relating to prior years	<u>(8,222)</u>	<u>(8,643)</u>
	325,146	1,164,723
Provision for taxation outside Hong Kong	<u>7,109</u>	<u>1,126</u>
	<u><u>332,255</u></u>	<u><u>1,165,849</u></u>

Provision for Hong Kong profits tax has been made at 16% 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 jurisdiction during the year.

(b) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

9 DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend of HK\$0.55 per share (2000 — HK\$0.55 per share)	947,177	947,177
Proposed final dividend of HK\$0.55 per share (2000 — HK\$1.00 per share)	<u>947,177</u>	<u>1,722,140</u>
	<u><u>1,894,354</u></u>	<u><u>2,669,317</u></u>

10 EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to shareholders of HK\$4,394,010,000 (2000 — HK\$5,829,344,000) and on 1,722,140,000 ordinary shares (2000 — 1,722,140,000 ordinary shares) in issue during the year. There was no potential dilution of earnings per share during 2000 and 2001.