

Notes on the Accounts (cont'd)
31 CAPITAL RESERVES (cont'd)

The Group:

	Other properties revaluation reserve HK\$'000	Reserve on consolidation HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2000	396,963	1,268,531	20,200	(4,743)	2,366	1,683,317
Deficits on revaluation of other properties	(94,958)	—	—	—	—	(94,958)
Share of revaluation deficits in associates	(39,916)	—	—	—	—	(39,916)
Capital reserve arising on consolidation	—	288,416	—	—	—	288,416
Realised to profit and loss account (Note)	—	(75,789)	—	—	—	(75,789)
Exchange difference arising from investment in a foreign associate	—	—	—	772	—	772
Transfer from profit and loss account	—	—	—	—	29	29
At 30th June, 2001	<u>262,089</u>	<u>1,481,158</u>	<u>20,200</u>	<u>(3,971)</u>	<u>2,395</u>	<u>1,761,871</u>
Dealt with by:						
Company and subsidiaries	250,437	1,481,158	20,200	—	2,395	1,754,190
Associates	11,652	—	—	(3,971)	—	7,681
	<u>262,089</u>	<u>1,481,158</u>	<u>20,200</u>	<u>(3,971)</u>	<u>2,395</u>	<u>1,761,871</u>

Note:

On dilution of interest in a subsidiary, the gain arising therefrom was included in capital reserve and the amount to be released to the profit and loss account in each period is based on the issue of completion certificate of the underlying properties of the subsidiary.

The Company:

	Capital redemption reserve	
	2001 HK\$'000	2000 HK\$'000
At 1st July and 30th June	<u>20,200</u>	<u>20,200</u>

Notes on the Accounts (cont'd)
31 CAPITAL RESERVES (cont'd)

The application of capital redemption reserve is governed by Section 49H of the Hong Kong Companies Ordinance.

The other properties revaluation reserve, reserve on consolidation and exchange reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the valuation of properties, goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities and foreign currency translation (note 1).

Other reserve represents statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, one of the Group's PRC subsidiaries is required to transfer at least 10% of its profit after taxation, as determined under PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the subsidiary's registered capital. The statutory reserve can be used to make good previous years losses, and not distributable to shareholders.

32 INVESTMENT PROPERTY REVALUATION RESERVE

	The Group	
	2001 HK\$'000	2000 HK\$'000
At 1st July	17,621,815	12,548,853
(Deficits)/surplus on revaluation	(4,192,498)	4,886,946
Share of revaluation deficits in associates	(27,245)	(179,926)
Share of revaluation (deficits)/surplus in jointly controlled entities	(187,988)	373,561
Realised upon disposal of properties	(4,886)	(7,619)
At 30th June	<u>13,209,198</u>	<u>17,621,815</u>
Dealt with by:		
Company and subsidiaries	12,136,533	16,333,917
Associates	945,545	972,790
Jointly controlled entities	127,120	315,108
	<u>13,209,198</u>	<u>17,621,815</u>

The investment property revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for investment properties (note 1).

33 RETAINED PROFITS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st July	27,010,385	23,850,409	26,978,862	23,489,696
Retained profit for the year	<u>2,499,627</u>	<u>3,159,976</u>	<u>657,424</u>	<u>3,489,166</u>
At 30th June	<u>29,510,012</u>	<u>27,010,385</u>	<u>27,636,286</u>	<u>26,978,862</u>
Retained by:				
Company and subsidiaries	26,525,813	24,631,533		
Associates	2,866,043	2,154,304		
Jointly controlled entities	118,156	224,548		
	<u>29,510,012</u>	<u>27,010,385</u>		

Notes on the Accounts (cont'd)

34 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2001 amounted to HK\$27,636,286,000 (2000 — HK\$26,978,862,000).

35 COMMITMENTS

At 30th June, 2001, the Group had commitments not provided for in these accounts as follows:—

	The Group 2001 HK\$'000	2000 HK\$'000
(i) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	1,202,569	2,154,122
(ii) Contracted obligations to fund the subsidiaries and associates established outside Hong Kong	2,824,073	3,247,983
(iii) Contracted obligations for funding property development project	5,507,000	6,550,000
(iv) Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	<u>2,709,537</u>	<u>3,419,778</u>
	<u><u>12,243,179</u></u>	<u><u>15,371,883</u></u>

Based on information available at the balance sheet dates, the directors estimate that the Group's commitments disclosed above are payable as follows:—

	The Group 2001 HK\$'000	2000 HK\$'000
Within 1 year	7,893,758	9,137,037
After 1 year but within 2 years	1,488,276	2,026,735
After 2 years	<u>2,861,145</u>	<u>4,208,111</u>
	<u><u>12,243,179</u></u>	<u><u>15,371,883</u></u>

Notes on the Accounts (cont'd)

36 SIGNIFICANT LEASING ARRANGEMENTS

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 as follows:

(a) Lessor

The Group leases out a number of land/buildings facilities under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 11.

During the current year, HK\$1,959,693,000 (2000 — HK\$1,537,030,000) are recognised as rental income in the profit and loss account in respect of operating leases.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	1,587,358	1,438,187
After 1 year but within 5 years	1,610,775	2,297,971
After 5 years	<u>73,750</u>	<u>114,303</u>
	<u><u>3,271,883</u></u>	<u><u>3,850,461</u></u>

(b) Lessees

(i) The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of these leases includes contingent rentals.

During the current year, HK\$27,025,000 (2000 — HK\$16,931,000) are recognised as an expense in the profit and loss account in respect of leasing of building facilities.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	14,023	10,568
After 1 year but within 5 years	10,300	13,332
After 5 years	<u>4,360</u>	<u>—</u>
	<u><u>28,683</u></u>	<u><u>23,900</u></u>

(ii) The Group also leases telecommunications network facilities under operating leases. Some of the leases are with no specific terms while the remaining leases typically run for an initial period of three months, six months or one year, with an option to renew the lease upon the expiry of the initial lease term. None of the leases includes contingent rentals.

During the current year, HK\$11,594,000 (2000 — HK\$1,519,000) are recognised as an expense in the profit and loss account in respect of leasing of telecommunications network facilities.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within 1 year	7,512	9,911
After 1 year but within 5 years	<u>98</u>	<u>1,500</u>
	<u><u>7,610</u></u>	<u><u>11,411</u></u>

Notes on the Accounts (cont'd)

37 CONTINGENT LIABILITIES

At 30th June, 2001, contingent liabilities of the Group and of the Company were as follows:—

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions on behalf of purchasers of flats	151,314	161,436	6,176	15,175
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	—	—	9,960,204	11,264,487
(c) Guarantees given by the Company to banks to secure banking facilities of jointly controlled entities	3,380,529	—	3,380,529	—
(d) Guarantees given by the Company to holders of bonds or guaranteed notes issued by certain subsidiaries	—	—	759,000	1,260,310
	<u>3,531,843</u>	<u>161,436</u>	<u>14,105,909</u>	<u>12,539,972</u>

(e) The Company has given guarantees to third parties in respect of contracted commitments of its subsidiaries to provide attributable portion of capital to joint property development project and funding of property development project. At 30th June, 2001, the Company had contingent liabilities of HK\$5,960 million (2000 — HK\$6,844 million) in relation to the said guarantees.

(f) Pursuant to an indemnity deed dated 15th March, 1996 signed between the Company and a subsidiary, the Company, under certain conditions, has undertaken to indemnify the subsidiary in respect of any PRC Income Tax and Land Appreciation Tax ("LAT") payable in consequence of the disposal by the subsidiary of its property interests owned as at 31st December, 1995. As at 30th June, 2001, the Company had contingent PRC Income Tax and LAT liabilities of HK\$16 million (2000 — HK\$28 million) and HK\$21 million (2000 — HK\$37 million) respectively in relation to certain investment properties of the subsidiary upon a revaluation of these properties at 30th June, 2001. However, the directors of the subsidiary have no current intention to dispose of these properties.

(g) Pursuant to the terms of Fixed Telecommunications Network Services licence granted to the Group on 16th February, 2000, there were contingent liabilities in respect of performance bond guaranteed by a bank on behalf of a subsidiary of the Group amounting to HK\$19 million as at 30th June, 2001 (2000 — HK\$40 million).

38 MATERIAL RELATED PARTY TRANSACTIONS**(a) Transactions with fellow subsidiaries**

Details of material related party transactions between the Group and Henderson Development Limited and its subsidiaries are as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Loan arrangement fee (note i)	343,272	382,691
Building construction income (note ii)	32,006	45,013
Building management service income (note ii)	38,598	37,332
Rental commission income (note iii)	7,982	7,678
Other interest expense (note iv)	157,541	91,890
Payment for purchase of other investments (note v)	<u>12,400</u>	<u>—</u>

Notes on the Accounts (cont'd)

38 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(a) Transactions with fellow subsidiaries (cont'd)

Notes:

- (i) Loan arrangement fee is calculated on the balances outstanding from time to time by reference to Hong Kong Inter-Bank Offer Rate ("HIBOR").
- (ii) Building construction income represents cost reimbursements plus certain percentage thereon as service fees and building management service income is calculated on a cost reimbursement basis plus certain percentage of profit mark-up.
- (iii) Rental commission income is calculated based on rental income earned for respective properties.
- (iv) Other interest expense is calculated on the balances outstanding by reference to HIBOR.
- (v) Payment for purchase of other investments is charged at the fair value of investments at the date of acquisition.
- (vi) The amounts due to fellow subsidiaries at 30th June, 2001 are shown in the balance sheet.

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions between the Group and its associates and jointly controlled entities are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Other interest income (note i)	65,696	102,702
Building construction income (note ii)	—	14,768
Rental commission income (note iii)	2,205	2,185
Management fee income (note iv)	42,767	14,988
Professional fee income (note ii)	26,125	—
Other interest expense (note i)	—	434
Payment for acquisitions of property development rights (note v)	<u>900,000</u>	<u>600,000</u>

Notes:

- (i) Other interest income and expense are calculated on the balances outstanding by reference to HIBOR or Hong Kong prime rates.
- (ii) Building construction income represents cost reimbursements plus certain percentage thereon as service fees and professional fee income is calculated on a cost reimbursement basis plus certain percentage of profit mark-up.
- (iii) Rental commission income is calculated based on rental income earned for respective properties.
- (iv) Management fee income is charged pursuant to the terms of agreement signed between the Group and the associates and jointly controlled entities.
- (v) Payment for acquisition of property development rights is charged pursuant to the terms of agreement signed between the Group and the associate.
- (vi) The amounts due to/from associates and jointly controlled entities at 30th June, 2001 are set out in note 13 and 14 respectively.

(c) Transactions with related companies

Details of material related party transactions between the Group and its related companies which represented a trust fund managed by the directors of the Group are as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Building construction income (note i)	120,540	157,800
Rental commission income (note ii)	1,591	2,974
Sales commission income (note ii)	<u>3,830</u>	<u>8,878</u>

Notes:

- (i) Building construction income represents cost reimbursements plus certain percentage thereon as service fees.
- (ii) Rental commission income and sales commission income is calculated based on rental income earned for and proceeds from the sale of respective properties.

Notes on the Accounts (cont'd)

39 DIRECTORS' REMUNERATION

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

	The Group	
	2001 HK\$'000	2000 HK\$'000
Executive directors		
Fees	940	940
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	35,546	34,827
Pension scheme contributions	1,297	1,175
Discretionary bonuses	23,968	24,799
	<u>61,751</u>	<u>61,741</u>
Non-executive directors		
Fees	140	140
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	3,000	3,000
	<u>3,140</u>	<u>3,140</u>
Independent non-executive directors		
Fees	240	240
Others	250	—
	<u>490</u>	<u>240</u>

(b) The number of directors whose remuneration fell within designated bands are as follows:—

Remuneration bands:		The Group	
HK\$		2001 Number of Directors	2000 Number of Directors
Nil	— 1,000,000	5	6
	2,500,001 — 3,000,000	1	1
	3,000,001 — 3,500,000	4	3
	3,500,001 — 4,000,000	2	1
	4,000,001 — 4,500,000	1	1
	4,500,001 — 5,000,000	—	1
	5,000,001 — 5,500,000	1	1
	5,500,001 — 6,000,000	—	1
	6,000,001 — 6,500,000	1	—
	7,000,001 — 7,500,000	—	1
	8,000,001 — 8,500,000	2	1
	11,500,001 — 12,000,000	1	—
	13,500,001 — 14,000,000	—	1

Notes on the Accounts (cont'd)

40 SENIOR MANAGEMENT REMUNERATION

Of the five individuals with the highest emoluments, four (2000 — four) of them are directors whose emoluments are disclosed in note 39. The aggregate of the emoluments in respect of the other one (2000 — one) individual are as follows:—

	The Group	
	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	4,240	2,109
Discretionary bonuses	1,500	5,128
Retirement scheme contributions	157	80
	<u>5,897</u>	<u>7,317</u>

41 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2001 to be Henderson Development Limited, incorporated in Hong Kong.

42 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.