

Notes to the Financial Statements

for the year ended 30th June, 2002

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 guard services, hotel operation and information technology development.

2 ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3.

The adoption of these new and revised standards has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

(a) Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively and the effect of this change has been to increase the Group's and the Company's net assets at each of 1st July, 2000 and 30th June, 2001 by HK\$338,079,000. Comparative information has been restated to reflect this change in accounting policy.

(b) Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 30th June, 2001 have been amended so that they are presented on a consistent basis.

(c) Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1st July, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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) Basis of consolidation

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(b) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill arising on acquisitions prior to 1st July, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

(c) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions after 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented as a deduction from intangible assets.

(d) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(e) Interests in associates

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 plus the premium paid/less any discount on acquisition in so far as its has not already been amortised/released to income, less any identified impairment loss.

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 loss.

(f) 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 impairment loss that is other than temporary.

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

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(g) Revenue recognition**

- (i) Income from the 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, if any.
- (ii) The fixed portion of 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) Sale of goods from the 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 service is recognised when services are provided.
- (viii) Toll fee income is recognised on a cash receipt basis.

(h) 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 valuers 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.

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.

(i) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(j) Development properties**

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

(k) 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.

(l) Property, plant and equipment

Property, plant and equipment other than hotel properties are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

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 the costs of the relevant toll highway operation rights and bridges at the expiry of the relevant operating periods.

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.

(m) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that other accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

(n) Inventories

Inventories, which represent retail and catering inventories, are stated at the lower of cost and net realisable value. Costs is calculated on the weighted average cost method.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

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

(p) Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental 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 the 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.

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.

(q) 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.

(r) 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.

(s) 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.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(t) 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.

(u) 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.

4 TURNOVER

	The Group	
	2002 HK\$'000	2001 HK\$'000
Sale of properties	2,967	8,825
Rental income	539,976	447,366
Hotel operation	84,696	97,563
Sale of goods	116,791	87,128
Security guard services	73,373	71,087
Toll fee income	220,992	160,926
Information technology services income	67,437	28,306
Others	82,090	149,550
	<u>1,188,322</u>	<u>1,050,751</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

5 BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

The business upon which the Group reports its primary segment information is as follows:

Property leasing	—	property rental
Hotel operation	—	hotel operations and management
Department store	—	department store operations and management
Infrastructure	—	infrastructure project investment
Others	—	sale of properties, provision of cleaning and security guard services and provision of information technology services

Segment information about these businesses is presented below:

2002

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
INCOME AND RESULTS							
Turnover	539,976	84,696	142,212	220,992	200,446	—	1,188,322
Other operating income	4,199	735	1,661	532	60,743	—	67,870
External income	544,175	85,431	143,873	221,524	261,189	—	1,256,192
Inter-segment income	62,509	1,740	—	—	4,524	(68,773)	—
Total income	606,684	87,171	143,873	221,524	265,713	(68,773)	1,256,192

Inter-segment sales were charged at prices determined by management with reference to market prices.

Segment results	338,897	(10,590)	2,022	145,334	(45,352)	397	430,708
Interest income							24,269
Gain on disposal of investments in securities							2,285
Impairment in value of investments in securities recognised							(11,002)
Unrealised holding loss on investments in securities							(52,504)
Impairment loss on property, plant and equipment recognised							(60,260)
Unallocated corporate expenses							(27,471)
Profit from operations							306,025
Finance costs							(65,559)
Loss on disposal of interests in subsidiaries							(4,417)
Share of results of associates							1,580,147
Gain on disposal of interests in associates							134,455
Impairment in value of associates written back							120,000
Amortisation of goodwill							(38,000)
Profit before taxation							2,032,651
Taxation							(250,132)
Profit before minority interests							1,782,519
Minority interests							(2,361)
Net profit for the year							1,780,158

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments (cont'd)**

2002

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
Assets						
Segment assets	4,235,213	742,656	58,333	1,331,154	506,995	6,874,351
Investments in associates						13,864,189
Amount due from associates						126,560
Unallocated corporate assets						2,176,826
Consolidated total assets						<u>23,041,926</u>
Liabilities						
Segment liabilities	85,600	6,061	112,281	21,971	41,860	267,773
Unallocated corporate liabilities						1,910,010
Consolidated total liabilities						<u>2,177,783</u>
OTHER INFORMATION						
Capital additions	—	227	17,198	5,623	14,341	37,389
Depreciation and amortisation	—	(894)	(11,644)	(36,234)	(34,377)	(83,149)
Amortisation of goodwill	—	—	—	—	—	(38,000)
Impairment loss on property, plant and equipment recognised	—	—	—	—	(60,260)	(60,260)
Impairment in value of investments in securities recognised	—	—	—	—	—	(11,002)
Impairment in value of associates written back	—	—	—	—	—	120,000

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments** (cont'd)

2001

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
INCOME AND RESULTS							
Turnover	447,366	97,563	188,252	160,926	156,644	—	1,050,751
Other operating income	439	—	3,981	—	17,784	—	22,204
External income	447,805	97,563	192,233	160,926	174,428	—	1,072,955
Inter-segment income	67,087	1,500	—	—	2,874	(71,461)	—
Total income	514,892	99,063	192,233	160,926	177,302	(71,461)	1,072,955
Inter-segment sales were charged at prices determined by management with reference to market prices.							
Segment results	344,279	(897)	(13,150)	107,730	(116,115)	(6,224)	315,623
Interest income							73,936
Gain on disposal of investments in securities							101,272
Impairment in value of investments in securities recognised							(16,953)
Unrealised holding loss on investments in securities							(31,948)
Unallocated corporate expenses							(75,674)
Profit from operations							366,256
Finance costs							(135,721)
Gain on disposal of interest in subsidiaries							582,181
Share of results of associates							1,480,615
Share of results of a jointly controlled entity							8,259
Impairment in value of associates recognised							(23,122)
Impairment in value of jointly controlled entity recognised							(49,251)
Goodwill written off							(4,408)
Profit before taxation							2,224,809
Taxation							(235,481)
Profit before minority interests							1,989,328
Minority interests							(11,479)
Net profit for the year							1,977,849

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments (cont'd)**

2001

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
Assets						
Segment assets	4,287,320	838,796	55,149	1,364,990	639,577	7,185,832
Investments in associates						13,600,217
Amount due from associates						126,418
Unallocated corporate assets						2,019,789
Consolidated total assets						<u>22,932,256</u>
Liabilities						
Segment liabilities	83,377	8,385	83,458	14,440	87,993	277,653
Unallocated corporate liabilities						2,426,597
Consolidated total liabilities						<u>2,704,250</u>
OTHER INFORMATION						
Capital additions	—	276	21,755	6,187	140,601	168,819
Depreciation and amortisation	—	(998)	(11,982)	(24,010)	(25,799)	(62,789)
Goodwill written off	—	—	—	—	(4,408)	(4,408)
Impairment in value of investments						
in securities recognised	—	—	—	—	—	(16,953)
Impairment in value of associates recognised	—	—	—	—	—	(23,122)
Impairment in value of jointly controlled entity recognised	—	—	—	—	—	(49,251)

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Geographical segments**

The Group's sale of properties, property leasing, hotel operation, department store operation, security guard services and information technology services are carried out in Hong Kong. Infrastructure is carried out in other regions of the People's Republic of China ("PRC").

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

2002

	Hong Kong HK\$'000	PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover	961,110	227,212	—	1,188,322
Other operating income	60,570	7,300	—	67,870
External income	1,021,680	234,512	—	1,256,192
Inter-segment income	68,773	—	(68,773)	—
Total income	1,090,453	234,512	(68,773)	1,256,192
Segment results	299,937	130,374	397	430,708

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Carrying amount of segment assets	21,658,887	1,383,039	—	23,041,926
Additions to property, plant and equipment	31,700	5,689	—	37,389

2001

	Hong Kong HK\$'000	PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover	881,116	169,635	—	1,050,751
Other operating income	20,353	1,851	—	22,204
External income	901,469	171,486	—	1,072,955
Inter-segment income	71,461	—	(71,461)	—
Total income	972,930	171,486	(71,461)	1,072,955
Segment results	223,575	98,272	(6,224)	315,623

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Carrying amount of segment assets	21,509,063	1,423,193	—	22,932,256
Additions to property, plant and equipment	162,529	6,290	—	168,819

Segmental information for the principal associates of the Group are shown on pages 81 to 87.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

6 OTHER OPERATING INCOME

	The Group	
	2002 HK\$'000	2001 HK\$'000
Compensation for early termination of tenancy agreements	187	198
Interest income	24,269	73,936
Dividend income from listed investments	28,048	8,932
Dividend income from unlisted investments	7,083	—
Sponsorship fee	1,584	1,822
Sundry income	30,968	11,252
	<u>92,139</u>	<u>96,140</u>

7 PROFIT FROM OPERATIONS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Allowances for doubtful debts	178	9,539
Auditors' remuneration	2,969	3,119
Cost of inventories recognised as an expense	128,346	82,305
Cost of properties recognised as an expense	2,145	6,275
Amortisation of held to-maturity-securities	3,847	—
Depreciation and amortisation		
Owned assets	82,450	62,262
Assets held under finance leases	699	527
Development costs	17	1,034
Loss on disposal of property, plant and equipment	7,154	815
Operating lease payments in respect of rented premises		
Minimum leases payments	85,289	75,856
Contingent rent (Note a)	—	277
	<u>85,289</u>	<u>76,133</u>
Operating lease payments in respect of telecommunications network facilities	12,236	—
Staff costs including directors' emoluments	221,313	197,138
and after crediting:		
Rental from investment properties net of outgoings of HK\$111,209,000 (2001: HK\$117,770,000)	230,627	212,672
Other rental income less outgoings (Notes b and c)	60,393	64,080
	<u>291,020</u>	<u>479,872</u>

Notes:

- Contingent rent payments were calculated based on the excess of certain percentages of turnover of the relevant operation that occupied the premise/property over the fixed portion of the monthly rentals.
- Including contingent rents received of HK\$66,777,000 (2001: HK\$16,200,000).
- Including rental income of HK\$1,894,000 (2001: HK\$1,713,000) from jointly controlled assets less expenses of HK\$583,000 (2001: HK\$599,000).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

8 FINANCE COSTS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans and overdrafts and other borrowings wholly repayable within five years	57,006	107,975
Finance leases	226	162
Other borrowings	8,327	27,584
	<u>65,559</u>	<u>135,721</u>

9 IMPAIRMENT IN VALUE OF ASSOCIATES WRITTEN BACK

The amount represents reversal of an impairment loss recognised in respect of an investment in one of the Group's associates in prior years. This follows a review of the carrying amount of the said investment at the balance sheet date.

10 DIRECTORS' EMOLUMENTS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Directors' fees	360	340
Other emoluments	180	—
Total emoluments	<u>540</u>	<u>340</u>

Except for directors' fees of HK\$60,000 (2001: HK\$60,000) and other emoluments of HK\$100,000 (2001: Nil), no emoluments were paid to the independent non-executive directors during the two years ended 30th June, 2002.

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.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

11 EMPLOYEES' EMOLUMENTS

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries, allowances and benefits in kind	5,958	7,861
Contributions to retirement benefit schemes	157	102
Bonus	535	314
	<u>6,650</u>	<u>8,277</u>

Their emoluments are within the following bands:

Bands	Number of employees	
	2002	2001
Nil — HK\$1,000,000	1	—
HK\$1,000,001 — HK\$1,500,000	2	3
HK\$1,500,001 — HK\$2,000,000	2	1
HK\$2,000,001 — HK\$2,500,000	—	1
	<u>5</u>	<u>5</u>

12 TAXATION

	The Group	
	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Profit for the year		
Hong Kong	30,156	38,786
PRC	9,040	9,590
	<u>39,196</u>	<u>48,376</u>
Underprovision in prior years		
Hong Kong	2,893	2,744
	<u>42,089</u>	<u>51,120</u>
Share of tax on results of associates	208,043	182,973
Share of tax on results of jointly controlled entity	—	1,388
	<u>250,132</u>	<u>235,481</u>

Hong Kong Profits Tax is calculated at 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 unprovided deferred tax are set out in note 36.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

13 DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Special dividend	—	507
Interim paid, 11 cents (2001: 11 cents) per share	309,906	309,906
Final proposed, 11 cents (2001: 12 cents) per share	309,906	338,079
	<u>619,812</u>	<u>648,492</u>

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

14 EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$1,780,158,000 (2001: HK\$1,977,849,000) and on 2,817,327,395 (2001: 2,817,327,395) ordinary shares in issue 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, 2002.

15 INVESTMENT PROPERTIES

	The Group HK\$'000
At 1st July, 2001	4,272,688
Revaluation decrease	(56,948)
At 30th June, 2002	<u>4,215,740</u>

Representing:

	2002 HK\$'000	The Group 2001 HK\$'000
Long-term leasehold properties situated in Hong Kong	1,030,325	1,048,023
Medium-term leasehold properties situated in Hong Kong	3,185,415	3,224,665
	<u>4,215,740</u>	<u>4,272,688</u>

Investment properties were revalued on 30th June, 2002 on an open market value basis by Mr. Augustine Wong, MRICS, FHKIS, MCI Arb, RPS (GP), a Chartered Valuation Surveyor of Henderson Valuation and Agency Limited, a fellow subsidiary of the Company. The deficit arising on revaluation of investment properties attributable to the Group has been debited to the investment property revaluation reserve.

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

Investment properties in Hong Kong with a total carrying value of HK\$399,440,000 (2001: HK\$408,888,000) 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, 2002

16 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, 2001	830,000	58,765	789,529	658,262	852	413,859	2,751,267
Additions	—	427	—	168	122	36,672	37,389
Revaluation decrease	(94,000)	—	—	—	—	—	(94,000)
Disposals	—	—	—	—	—	(26,834)	(26,834)
Disposal of subsidiaries	—	(4,384)	—	—	—	(14,420)	(18,804)
Reclassification	—	—	—	(2,813)	—	2,813	—
Price adjustment (Note a)	—	—	—	—	—	(17,647)	(17,647)
	<u>736,000</u>	<u>54,808</u>	<u>789,529</u>	<u>655,617</u>	<u>974</u>	<u>394,443</u>	<u>2,631,371</u>
Comprising:							
At cost	—	54,808	789,529	655,617	974	394,443	1,895,371
At valuation 30th June, 2002	<u>736,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>736,000</u>
	<u>736,000</u>	<u>54,808</u>	<u>789,529</u>	<u>655,617</u>	<u>974</u>	<u>394,443</u>	<u>2,631,371</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st July, 2001	—	7,025	45,986	52,408	—	168,031	273,450
Provided for the year	—	1,262	20,301	13,498	—	48,088	83,149
Eliminated on disposals	—	—	—	—	—	(19,124)	(19,124)
Eliminated on disposal of subsidiaries	—	(570)	—	—	—	(3,398)	(3,968)
Impairment loss (Note b)	—	—	—	—	—	60,260	60,260
Reclassification	—	—	—	(106)	—	106	—
At 30th June, 2002	<u>—</u>	<u>7,717</u>	<u>66,287</u>	<u>65,800</u>	<u>—</u>	<u>253,963</u>	<u>393,767</u>
NET BOOK VALUES							
At 30th June, 2002	<u>736,000</u>	<u>47,091</u>	<u>723,242</u>	<u>589,817</u>	<u>974</u>	<u>140,480</u>	<u>2,237,604</u>
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>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

16 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Hotel properties		Other land and buildings		Toll highway operating rights		Bridges		Construction in progress	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term leasehold properties situated in										
— Hong Kong	216,000	254,000	1	1	—	—	—	—	—	—
— PRC	—	—	959	1,002	—	—	—	—	—	—
Medium-term leasehold properties situated in										
— Hong Kong	520,000	576,000	43,077	44,094	—	—	—	—	—	—
— PRC	—	—	3,054	6,643	723,242	743,543	589,817	605,854	974	852
	<u>736,000</u>	<u>830,000</u>	<u>47,091</u>	<u>51,740</u>	<u>723,242</u>	<u>743,543</u>	<u>589,817</u>	<u>605,854</u>	<u>974</u>	<u>852</u>

Hotel properties were revalued on 30th June, 2002 on an open market value basis by Mr. Augustine Wong, MRICS, FHKIS, MCI Arb, RPS (GP), a Chartered Valuation Surveyor of Henderson Valuation and Agency Limited, a fellow subsidiary of the Company.

The net book value of motor vehicles and equipment includes an amount of HK\$1,087,000 (2001: HK\$2,196,000) in respect of assets held under finance leases.

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

Notes:

- Price adjustment represents the reduction in the original cost of network equipment and facilities acquired in prior years, granted by the manufacturer during the year.
- During the year, the operating scale of the information technology services has been down-sized. Based on the Group's assessment of the recoverable amount of the related assets, the carrying amount of the data centre and network equipment and facilities were written down by HK\$60,260,000.

	Furniture and equipment HK\$'000
THE COMPANY	
COST	
At 1st July, 2001 and 30th June, 2002	21
DEPRECIATION	
At 1st July, 2001 and 30th June, 2002	<u>21</u>
NET BOOK VALUES	
At 30th June, 2002 and 30th June, 2001	<u>—</u>

17 PROPERTIES HELD FOR DEVELOPMENT

THE GROUP

Included in properties held for development is net interest capitalised of HK\$618,000 (2001: HK\$618,000).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	2,263,258	2,266,258

Details of the principal subsidiaries are shown on pages 75 to 79.

19 INTERESTS IN ASSOCIATES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted				
Shares, at cost	—	—	167,183	394,180
Share of net assets	466,329	971,827	—	—
	466,329	971,827	167,183	394,180
Listed in Hong Kong				
Share of net assets net of provision	12,537,618	12,628,390	—	—
Goodwill on acquisition of associates	1,073,167	—	—	—
Amortisation	(45,000)	—	—	—
	1,028,167	—	—	—
Negative goodwill on acquisition of associates	(174,925)	—	—	—
Release to income statement	7,000	—	—	—
	(167,925)	—	—	—
	13,397,860	12,628,390	—	—
	13,864,189	13,600,217	167,183	394,180
Market value of listed investments	23,688,952	20,498,643	—	—

The goodwill (negative goodwill) is amortised (released) to the consolidated income statement on a straight-line basis over 20 years.

Details of the principal associates are shown on page 80.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

20 INVESTMENTS IN SECURITIES

	Held to maturity securities		Investment securities		Other investments		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP								
Equity securities								
Listed in Hong Kong	—	—	545,674	528,941	121,314	214,979	666,988	743,920
Unlisted	—	—	50,058	61,060	40,563	16,056	90,621	77,116
	—	—	595,732	590,001	161,877	231,035	757,609	821,036
Debt securities								
Listed outside Hong Kong	83,123	—	—	—	—	—	83,123	—
Unlisted	280,908	—	—	—	—	—	280,908	—
	364,031	—	—	—	—	—	364,031	—
Market value of listed securities	84,267	—	486,140	528,941	121,314	214,979	691,721	743,920
Carrying amount analysed for reporting purposes as:								
Current	216,700	—	—	—	—	—	216,700	—
Non-current	147,331	—	595,732	590,001	161,877	231,035	904,940	821,036
	364,031	—	595,732	590,001	161,877	231,035	1,121,640	821,036

	Other investments	
	2002 HK\$'000	2001 HK\$'000
THE COMPANY		
Equity securities		
Unlisted	30	30
Carrying amount analysed for reporting purposes as:		
Non-current	30	30

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

21 AMOUNT DUE FROM AN INVESTEE COMPANY

	The Group	
	2002 HK\$'000	2001 HK\$'000
The amount is repayable as follows:		
Within one year	630	—
After one year	5,670	—
	<u>6,300</u>	<u>—</u>
Less: Amount due within one year shown under current assets	(630)	—
	<u>5,670</u>	<u>—</u>

The amount is unsecured, bears interest at 10% (2001: Nil) per annum and is repayable by instalments. The last instalment is repayable in October 2006.

22 INVENTORIES

THE GROUP

Inventories of HK\$1,131,000 (2001: HK\$12,153,000) are carried at net realisable value.

23 COMPLETED PROPERTIES FOR SALE

THE GROUP

Completed properties for sale with a total carrying value of HK\$30,686,000 (2001: HK\$30,812,000) 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.

Completed properties for sale of HK\$86,501,000 (2001: HK\$86,501,000) are carried at net realisable value.

24 DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties are payable in advance by the tenants. In respect of retailing, most of transaction are being on cash basis. Other trade debtors settle their accounts according to the payment terms as stated in contracts. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

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

	The Group	
	2002 HK\$'000	2001 \$'000
Under 1 month overdue	29,284	32,646
1 to 3 months overdue	31,868	23,536
More than 3 months overdue but less than 6 months overdue	5,110	6,876
Over 6 months overdue	7,451	3,628
	<u>73,713</u>	<u>66,686</u>
Prepayments, deposits and other receivable	393,880	136,135
	<u>467,593</u>	<u>202,821</u>

Included in deposits is an amount of HK\$2,834,000 (2001: HK\$2,834,000) 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, 2002

25 CREDITORS AND ACCRUED EXPENSES

The ageing analysis of trade payables of the Group included in creditors and accrued expenses by due date is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Due within 1 month or on demand	140,526	118,395
Due after 1 month but within 3 months	44,240	35,036
Due after 3 months but within 6 months	4,053	5,322
Due after 6 months	4,186	26,499
	<u>193,005</u>	<u>185,252</u>
Rental deposits and other payable	95,402	103,131
Total creditors and accrued expenses	<u>288,407</u>	<u>288,383</u>

26 BORROWINGS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans	1,494,524	1,911,403
Other loans	26,320	26,320
Bank overdrafts	42,330	41,528
	<u>1,563,174</u>	<u>1,979,251</u>
Secured	294,614	411,403
Unsecured	1,268,560	1,567,848
	<u>1,563,174</u>	<u>1,979,251</u>

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

	2002 HK\$'000	2001 HK\$'000
Within one year	430,772	273,150
Between one to two years	996,257	750,951
Between two to five years	70,870	858,170
After five years	65,275	96,980
	<u>1,563,174</u>	<u>1,979,251</u>
Less: Amounts due within one year and included in current liabilities	(430,772)	(273,150)
Amounts due after one year	<u>1,132,402</u>	<u>1,706,101</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

27 OBLIGATIONS UNDER FINANCE LEASES

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

	The Group			
	Total outstanding minimum lease payments		Present value	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Not later than 1 year	487	1,221	417	1,004
Later than 1 year and not later than 5 years	51	563	47	470
	538	1,784	464	1,474
Less: Future finance charges	(74)	(310)	—	—
Present value of lease obligations	464	1,474	464	1,474
Amount due within one year shown under current liabilities			(417)	(1,004)
Amount shown under non-current liabilities			47	470

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

The Group enters into finance leasing arrangements for certain of its motor vehicles and equipment. The average term of finance leases entered into is two years.

28 SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.2 each	600,000	600,000
Issued and fully paid:		
2,817,327,395 (2001: 2,817,327,395) ordinary shares of HK\$0.2 each	563,466	563,466

There was no movement in the share capital of the Company for the two years ended 30th June, 2002.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

29 RESERVES

	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital reserve HK\$'000	Share premium account HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1st July, 2000							
As previously reported	3,405,705	793,860	12,909	6,158,568	—	7,350,182	17,721,224
Prior period adjustment (Note a)	—	—	—	—	338,079	—	338,079
As restated	3,405,705	793,860	12,909	6,158,568	338,079	7,350,182	18,059,303
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Deficit on revaluation							
Company and subsidiaries	(398,895)	(150,000)	—	—	—	—	(548,895)
Associates	(37,149)	—	—	—	—	—	(37,149)
Net profit for the year	—	—	—	—	—	1,977,849	1,977,849
Realisation of revaluation reserve	—	(116,428)	—	—	—	—	(116,428)
Special dividend paid	—	—	—	—	—	(507)	(507)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	338,079	(338,079)	—
At 1st July, 2001	2,969,661	527,432	12,909	6,158,568	338,079	8,679,539	18,686,188
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Surplus (deficit) on revaluation							
Company and subsidiaries	(56,948)	(94,000)	—	—	—	—	(150,948)
Associates	34,327	—	—	—	—	—	34,327
Net profit for the year	—	—	—	—	—	1,780,158	1,780,158
Realisation of revaluation reserve	(443)	(23,436)	—	—	—	—	(23,879)
Realisation on disposal of associates	(282,290)	—	—	—	—	—	(282,290)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 30th June, 2002	2,664,307	409,996	12,909	6,158,568	309,906	9,839,885	19,395,571
THE COMPANY							
At 1st July, 2000							
As previously reported	—	—	3,461	6,158,568	—	4,533,059	10,695,088
Prior period adjustment (Note a)	—	—	—	—	338,079	—	338,079
As restated	—	—	3,461	6,158,568	338,079	4,533,059	11,033,167
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Net profit for the year	—	—	—	—	—	663,188	663,188
Special dividend paid	—	—	—	—	—	(507)	(507)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	338,079	(338,079)	—
At 1st July, 2001	—	—	3,461	6,158,568	338,079	4,547,755	11,047,863
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Net profit for the year	—	—	—	—	—	785,570	785,570
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 30th June, 2002	—	—	3,461	6,158,568	309,906	4,713,513	11,185,448

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

29 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	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
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)
Net profit for the year	—	—	—	—	—	572,850	572,850
Reclassification (Note c)	—	—	—	—	—	(20,833)	(20,833)
At 1st July, 2001	1,248,937	62,908	—	—	—	3,529,628	4,841,473
Surplus on revaluation	34,327	—	—	—	—	—	34,327
Realisation of revaluation reserve	(443)	(23,436)	—	—	—	—	(23,879)
Realisation on disposal of associates	(282,290)	—	—	—	—	28,177	(254,113)
Net profit for the year	—	—	—	—	—	490,867	490,867
At 30th June, 2002	1,000,531	39,472	—	—	—	4,048,672	5,088,675

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

At 1st July, 2000	—	—	—	—	—	70,902	70,902
Net profit for the year	—	—	—	—	—	6,871	6,871
Reclassification (Note c)	—	—	—	—	—	(77,773)	(77,773)
At 1st July, 2001	—	—	—	—	—	—	—

Notes:

- Proposed dividends have been restated to the dividend reserve as a result of a change in accounting policy. Details of the Company's new accounting policy adopted are set out in Note 2.
- The Company's reserves available for distribution to shareholders as at the balance sheet date are represented by its dividend reserve and retained profits amounting to HK\$309,906,000 and HK\$4,713,513,000 (2001: HK\$338,079,000 and HK\$4,547,755,000) respectively.
- Amounts represented post-acquisition profits of certain associates and a jointly controlled entity transferred to the Group which became subsidiaries of the Company on 1st November, 2000.

30 MINORITY INTERESTS**THE GROUP**

Including amounts due to minority shareholders of HK\$186,782,000 (2001: HK\$200,208,000).

The minority shareholders have agreed that no repayment will be demanded within the next twelve months from the balance sheet date and are therefore classified as non-current liabilities.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

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

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	2,032,651	2,224,809
Share of results of associates	(1,580,147)	(1,480,615)
Share of results of a jointly controlled entity	—	(8,259)
Interest income	(24,269)	(73,936)
Interest expenses	65,559	135,721
Dividends from investments in securities	(35,131)	(8,932)
Depreciation and amortisation	83,149	62,789
Gain on disposal of investments in securities	(2,285)	(101,272)
Impairment in value of investments in securities recognised	11,002	16,953
Unrealised holding loss on investments in securities	52,504	31,948
Impairment loss on property, plant and equipment recognised	60,260	—
Loss (gain) on disposal of interests in subsidiaries	4,417	(582,181)
Gain on disposal of interests in associates	(134,455)	—
Impairment in value of associates (written back) recognised	(120,000)	23,122
Impairment in value of a jointly controlled entity recognised	—	49,251
Amortisation of goodwill	38,000	—
Goodwill written off	—	4,408
Impairment in value of completed properties for sale recognised	—	14,397
Impairment in value of properties held for development recognised	—	336
Allowance for doubtful debts on instalments receivable	—	9,539
Allowance for doubtful debts	178	—
Allowance for obsolete inventories	—	101
Loss on disposal of property, plant and equipment	7,154	815
Exchange losses	—	1,706
Decrease in instalments receivable	3,353	4,726
Decrease (increase) in inventories	8,621	(19,943)
Decrease in completed properties for sale	901	6,275
Increase in properties under development	—	(871)
Decrease in debtors, deposits and prepayments	841	240,676
Increase in creditors and accrued expenses	6,347	45,289
Decrease in forward sales deposits	—	(1,390)
Net cash inflow from operating activities	<u>478,650</u>	<u>595,462</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

32 ACQUISITION OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	1,466,546
Interests in associates	—	16,749
Investments in securities	—	150
Inventories	—	4,982
Debtors, deposits and prepayments	—	50,440
Pledged bank deposits	—	24,070
Bank balances and cash	—	65,224
Creditors and accrued expenses	—	(43,147)
Obligations under finance leases	—	(1,410)
Taxation	—	(3,569)
Borrowings	—	(454,596)
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	—	59,765
Goodwill	—	5,061
	—	64,826
Satisfied by:		
Cash consideration paid	—	64,826
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
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries	—	398

The subsidiaries acquired last 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 last year.

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

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

33 DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	14,836	—
Property held for development	2,922	—
Inventories	216	—
Debtors, deposits and prepayments	444	—
Amount due from immediate holding company	151	—
Bank balances and cash	245	—
Creditors and accrued expenses	(814)	—
Taxation	(45)	—
	<hr/>	<hr/>
Net assets	17,955	—
Loss on disposal	(4,417)	—
	<hr/>	<hr/>
Total consideration	13,538	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash consideration	13,538	—
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow arising on disposal:		
Cash consideration	13,538	—
Bank balances and cash disposed of	(245)	—
	<hr/>	<hr/>
	13,293	—
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary disposed of during the year did not have any significant contribution to the Group's cash flows or operating results for the year.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

34 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Obligations under finance leases HK\$'000	Amounts due to fellow subsidiaries HK\$'000	Borrowings HK\$'000	Minority interests HK\$'000
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 from financing	(134)	(64,282)	—	(3,765)
At 1st July, 2001	1,474	221,033	1,937,723	978,352
New bank and other loans raised	—	—	600,000	—
Repayment of bank and other loans	—	—	(1,016,879)	—
Attributable profits less dividends paid	—	—	—	(26,518)
Net cash outflow from financing	(1,010)	(61,564)	—	(46,728)
At 30th June, 2002	464	159,469	1,520,844	905,106

35 MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June, 2001, 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.

Part of the consideration from the disposal of associates of HK\$257,903,000 during the year remained unsettled at the balance sheet date.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

36 UNPROVIDED DEFERRED TAX

At the balance sheet date, the major components of the unprovided deferred tax assets (liabilities) are as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(24,326)	(28,037)	—	—
Unutilised tax losses	197,684	190,809	378	3,390
Other timing differences	62	(16)	—	—
	<u>173,420</u>	<u>162,756</u>	<u>378</u>	<u>3,390</u>

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:				
(Shortfall) excess of tax allowances over depreciation	(3,711)	18,112	—	(1)
Tax losses (arising) utilised	(6,875)	(24,009)	3,012	(1,129)
Other timing differences	(78)	2,103	—	—
	<u>(10,664)</u>	<u>(3,794)</u>	<u>3,012</u>	<u>(1,130)</u>

The deferred tax assets primarily relating to taxation losses has not been recognised in the financial statements as it is uncertain that the resulting deferred tax assets 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.

37 JOINTLY CONTROLLED ASSETS

Completed properties for sale include the Group's share of interest in jointly controlled assets with an aggregate book value of HK\$35,493,000 (2001: 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\$451,000 (2001: HK\$434,000).

38 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\$76,593,000 (2001: HK\$113,411,000) was kept in other regions of the PRC and is subject to exchange control regulations.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

39 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 employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. The amount of forfeited contributions utilised during the year was HK\$155,000 (2001: HK\$274,000). As at 30th June, 2002, there was no remaining balance available to be utilised (2001: HK\$15,000).

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 portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. No amounts were utilised in the year ended 30th June, 2002 (2001: Nil) and the balance available to be utilised as at 30th June 2002 was HK\$278,000 (2001: HK\$34,000).

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, 2002 were HK\$8,606,000 (2001: HK\$5,404,000).

40 CAPITAL COMMITMENTS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted commitments for the acquisition of property, plant and equipment and for property development and renovation expenditure	<u>14,579</u>	<u>23,808</u>
System development costs approved by the directors but not yet contracted for	<u>1,447</u>	<u>—</u>

41 CONTINGENT LIABILITIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Guarantees given to banks to secure banking facilities utilised by subsidiaries	<u>1,242,240</u>	<u>1,543,517</u>

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\$12,000,000 (2001: HK\$19,000,000). 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 and amended on 30th May, 2002.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

42 OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Not later than one year	55,154	32,612
Later than one year and not later than five years	154,300	30,590
Later than five years	256,374	4,361
	<u>465,828</u>	<u>67,563</u>

Operating lease commitments represent rentals payable by the Group for retail shopping centre, telecommunication network facilities and certain of its office premises. The leases are negotiated for terms of three to twenty years at fixed rental.

The Group as lessor

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Investment properties	4,215,740	4,272,688
Completed properties held for sale	230,024	216,154
Properties held for development	12,541	12,541

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

Contingent rent income were calculated based on the excess of certain percentages of turnover of the relevant operation that occupied the premise/property over the fixed portion of the monthly rentals.

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

	The Group	
	2002 HK\$'000	2001 HK\$'000
Not later than 1 year	333,278	311,416
Later than 1 year and not later than 5 years	194,379	184,315
	<u>527,657</u>	<u>495,731</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2002

43 RELATED PARTY TRANSACTIONS

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

	Fellow subsidiaries		Associates		Investee companies	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Consultancy service income	2,584	5,390	118	536	—	—
Cleaning services income	8,153	8,061	—	—	—	—
Hotel management fee income	735	661	—	—	—	—
Interest income	—	—	2,436	3,155	—	—
Management fee income	1,131	2,474	—	—	—	—
Rental income	5,596	5,843	—	—	—	—
Security guard service income	53,194	62,458	—	—	—	—
Accountancy fee paid	5,859	5,921	—	—	—	—
Agency commission paid	18,407	18,523	—	—	—	—
Building management fee paid	57,530	55,636	—	—	—	—
Hotel management fee paid	—	—	2,927	3,467	—	—
Interest expenses	5,610	16,283	—	—	—	—
Licence fee	952	675	—	—	—	—
Maintenance fee	—	1,902	—	—	—	—
Professional fee paid	2,538	2,270	756	280	—	—
Rental expenses	70,804	57,311	4,718	4,004	—	—
Rental deposit paid	2,701	2,834	—	—	—	—
Staff cost reimbursement	211	738	2,460	2,700	—	—
At the Balance sheet date						
Amounts due to						
— Interest-free	—	—	26,097	80,501	360	—
— Interest bearing	159,469	221,033	—	—	—	—
Amounts due from						
— Interest-free	—	—	66,560	66,418	—	—
— Interest bearing	—	—	60,000	60,000	6,300	—

Notes:

- (1) 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.
- (2) During the year, interests in certain associates were transferred to the ultimate holding company at profit of HK\$1,877,000.
- (3) 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.