

for the year ended 30th June, 2004

## 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 operations and information technology development.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" issued by the Hong Kong Institute of Certified Public Accountants.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision had to be made for deferred tax using the income statement liability method, i.e. a liability had to be recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Details of this revised accounting policy are set out in note 3.

In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. As a result of this change in policy, the opening balance on retained profits at 1st July, 2002 has been decreased by HK\$319,151,000 representing the cumulative effect of the change in accounting policy on the results for periods prior to 1st July, 2002. The balance on the Group's investment property revaluation reserve at 1st July, 2002 has been decreased by HK\$10,350,000, representing the deferred tax liability recognised in respect of the revaluation surplus on the associates' properties on that day. The change has resulted in a decrease in the net profit and an increase in investment property revaluation reserve of HK\$32,784,000 and HK\$1,247,000 respectively for the year (2003: a decrease in the net profit of HK\$60,480,000 and a decrease in the investment property revaluation reserve of HK\$670,000).

## 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.

### (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 or associate at the date of acquisition.

Goodwill arising on acquisitions on or 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 is included within the carrying amount of the interests in associate. 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 or associate, or at such time as the goodwill is determined to be impaired.

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

for the year ended 30th June, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (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 or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or 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 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented as a deduction from 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 it 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.

#### (G) Jointly controlled assets

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

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

#### (H) 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.

for the year ended 30th June, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (H) Revenue recognition (cont'd)

- (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 Group's 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 and commission income are recognised when services are provided.
- (viii) Toll fee income is recognised on a cash receipt basis.
- (ix) Income from customer use of data centre services is recognised on a straight-line basis over the terms of the respective leases.
- (x) Revenue from the provision of internet and telecommunications services is recognised at the time when the services are rendered.

#### (I) 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.

#### (J) 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 on individual basis. 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.

#### (K) Properties held for development

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.

#### (L) Completed properties for sale

Completed properties 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.

for the year ended 30th June, 2004

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

Property, plant and equipment, other than hotel properties and construction in progress, 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 hotel properties, toll highway operation rights, bridges and construction in progress, 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 50%

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

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

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.

**(N) 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 loss is 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.

**(O) Inventories**

Inventories, which represent retail, catering stocks and trading goods, are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase, is calculated on the weighted average cost method.

**(P) 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.

**(Q) 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.

for the year ended 30th June, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (Q) Leases (cont'd)

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

#### (R) Development costs

Research and development costs, including website/portal development costs, are charged to the income statement as incurred, except insofar as those product development costs that relate to a clearly defined project and the future benefits therefrom are reasonably assured. Such development costs are then deferred and written off over the life of the project from the date of commencement of commercial operation.

#### (S) 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.

#### (T) Retirement benefit costs

Payments to defined contribution retirement schemes and mandatory provident fund scheme are charged as an expense as they fall due.

#### (U) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

#### (V) Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

for the year ended 30th June, 2004

**4. TURNOVER**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Hotel operation	89,906	71,828
Information technology services income	87,317	83,725
Rental income	572,313	562,500
Sale of goods	122,904	117,924
Sale of properties	5,643	643
Security guard services	92,811	72,896
Toll fee income	238,748	215,704
Others	46,131	56,025
	<u>1,255,773</u>	<u>1,181,245</u>

**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

for the year ended 30th June, 2004

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

Segment information about these businesses is presented below:

2004

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>INCOME AND RESULTS</b>							
Turnover	572,313	89,906	122,904	238,748	231,902	—	1,255,773
Other operating income	2,893	730	799	3,363	49,833	—	57,618
External income	575,206	90,636	123,703	242,111	281,735	—	1,313,391
Inter-segment income	51,907	1,704	—	—	4,813	(58,424)	—
Total income	627,113	92,340	123,703	242,111	286,548	(58,424)	1,313,391
Inter-segment sales were charged at prices determined by management with reference to market prices.							
Segment results	336,878	5,088	4,611	171,676	19,689	—	537,942
Interest income							28,947
Gain on disposal of investments in securities	—	—	—	—	61,911	—	61,911
Gain (loss) on disposal of property, plant and equipment	—	—	(21)	104,332	(28,220)	—	76,091
Unrealised holding gain on investments in securities	—	—	—	—	48,901	—	48,901
Impairment loss on property, plant and equipment recognised	—	—	—	(53,178)	(435)	—	(53,613)
Reversal of impairment loss on properties held for development	—	—	—	—	367	—	367
Write back of allowance for completed properties for sale	—	—	—	—	17,254	—	17,254
Unallocated corporate expenses							(21,426)
Profit from operations							696,374
Finance costs							(16,173)
Share of results of associates							1,636,219
Amortisation of goodwill							(59,555)
Negative goodwill released to income							9,000
Profit before taxation							2,265,865
Taxation							(377,753)
Profit before minority interests							1,888,112
Minority interests							(63,439)
Net profit for the year							1,824,673

for the year ended 30th June, 2004

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

2004

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>BALANCE SHEET</b>						
<b>Assets</b>						
Segment assets	4,366,814	760,249	48,277	1,326,700	424,523	6,926,563
Interests in associates						13,501,666
Amounts due from associates						127,488
Unallocated corporate assets						<u>1,978,674</u>
Consolidated total assets						<u><u>22,534,391</u></u>
<b>Liabilities</b>						
Segment liabilities	75,139	6,628	88,574	12,575	30,143	213,059
Unallocated corporate liabilities						<u>779,245</u>
Consolidated total liabilities						<u><u>992,304</u></u>
<b>OTHER INFORMATION</b>						
Capital additions	549	1,142	9,818	1,223	6,985	19,717
Depreciation and amortisation	—	981	11,839	33,899	17,286	64,005



for the year ended 30th June, 2004

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

2003

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (restated)
<b>INCOME AND RESULTS</b>							
Turnover	562,500	71,828	117,924	215,704	213,289	—	1,181,245
Other operating income	3,973	750	1,381	440	63,209	—	69,753
External income	566,473	72,578	119,305	216,144	276,498	—	1,250,998
Inter-segment income	53,228	1,800	—	—	5,474	(60,502)	—
Total income	619,701	74,378	119,305	216,144	281,972	(60,502)	1,250,998

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

Segment results	314,230	(8,730)	39	138,738	14,620	(7)	458,890
Interest income							28,701
Gain on disposal of investments in securities	—	—	—	—	12,815	—	12,815
Loss on disposal of property, plant and equipment	—	—	—	—	(1,269)	—	(1,269)
Unrealised holding gain on investments in securities	—	—	—	—	63,104	—	63,104
Impairment loss on property, plant and equipment recognised	—	—	—	—	(14,318)	—	(14,318)
Impairment loss on properties held for development recognised	—	—	—	—	(6,404)	—	(6,404)
Allowance for completed properties for sale	—	—	—	—	(46,302)	—	(46,302)
Unallocated corporate expenses							(28,758)
Profit from operations							466,459
Finance costs							(33,240)
Share of results of associates							1,539,060
Gain on disposal of interests in associates							1,734
Amortisation of goodwill							(59,555)
Negative goodwill released to income							9,000
Profit before taxation							1,923,458
Taxation							(315,160)
Profit before minority interests							1,608,298
Minority interests							(43,020)
Net profit for the year							1,565,278

for the year ended 30th June, 2004

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

2003

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000 (restated)
<b>BALANCE SHEET</b>						
<b>Assets</b>						
Segment assets	4,186,677	740,461	53,310	1,294,424	1,171,775	7,446,647
Interests in associates						12,872,812
Amounts due from associates						126,909
Unallocated corporate assets						<u>944,402</u>
Consolidated total assets						<u><u>21,390,770</u></u>
<b>Liabilities</b>						
Segment liabilities	93,513	4,140	89,901	18,237	46,934	252,725
Unallocated corporate liabilities						<u>1,164,428</u>
Consolidated total liabilities						<u><u>1,417,153</u></u>
<b>OTHER INFORMATION</b>						
Capital additions	—	94	8,981	454	15,550	25,079
Depreciation and amortisation	—	888	12,851	38,194	21,605	73,538

for the year ended 30th June, 2004

**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:

2004

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Turnover	1,015,869	239,904	1,255,773
Other operating income	53,057	4,561	57,618
External income	1,068,926	244,465	1,313,391

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 total assets	21,135,132	1,399,259	22,534,391
Addition to investment properties	549	—	549
Additions to property, plant and equipment	17,945	1,223	19,168

2003

	Hong Kong HK\$'000 (restated)	PRC HK\$'000	Consolidated HK\$'000 (restated)
Turnover	952,352	228,893	1,181,245
Other operating income	67,401	2,352	69,753
External income	1,019,753	231,245	1,250,998

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 total assets	19,946,444	1,444,326	21,390,770
Additions to property, plant and equipment	24,347	732	25,079

Segmental information for the principal associates of the Group are shown on pages 88 to 95.

for the year ended 30th June, 2004

**6. OTHER OPERATING INCOME**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Compensation for early termination of tenancy agreements	184	43
Dividend income from listed investments	11,032	53,840
Dividend income from unlisted investments	8,083	2,966
Interest income (Note)	28,947	28,701
Profit on disposal of option contract	22,072	—
Sponsorship fee	1,357	1,388
Sundry income	14,890	11,516
	<u>86,565</u>	<u>98,454</u>

Note: Included interest income from deferred instalment receivables of HK\$11,467,000 (2003: Nil).

**7. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Gain on disposal of toll bridges	104,332	—
Loss on disposal of other property, plant and equipment	(28,241)	(1,269)
	<u>76,091</u>	<u>(1,269)</u>

On 10th March, 2004, the Group entered into two agreements with 天津市貸款道路建設車輛通行費征收辦公室 ("Tianjin Toll Collection Office"), a department of the Tianjin municipal government, pursuant to which the Group's toll collection right of certain toll bridges were transferred to Tianjin Toll Collection Office with effective from 1st June, 2003 at a total consideration of approximately RMB283,748,000 (equivalent to approximately HK\$264,595,000) (the "Consideration").

The Consideration will be received by instalments at RMB28,100,000 (equivalent to HK\$26,203,000) per annum and RMB16,000,000 (equivalent to HK\$14,920,000) per annum for the period from 1st June, 2003 to 27th October, 2010 and from 28th October, 2010 to 20th July, 2015, respectively. Accordingly, the Group calculated the discounted value of the instalment receivables in the future using the prevailing interest rate for a similar financial instrument offered by an issuer in the PRC with a similar credit rating. Total discounted value of the instalment receivables in the future is HK\$175,946,000.

for the year ended 30th June, 2004

**8. PROFIT FROM OPERATIONS**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Allowances for doubtful debts	3,321	4,511
Auditors' remuneration	2,926	3,323
Cost of inventories recognised as an expense	124,259	122,627
Cost of properties recognised as an expense	2,705	46,634
Depreciation and amortisation		
Owned assets	64,005	73,085
Assets held under finance leases	—	453
Development costs	10	41
Minimum leases payments under operating lease in respect of		
Rented premises	86,501	90,095
Telecommunications network facilities	5,237	8,731
Staff costs including directors emoluments	229,778	215,274
and after crediting:		
Rental from investment properties net of outgoings		
of HK\$107,338,000 (2003: HK\$119,898,000) (Note a)	211,965	210,105
Other rental income less outgoings (Notes a and b)	90,739	67,925

*Notes:*

- Including contingent rental income of HK\$94,901,000 (2003: HK\$89,257,000) from investment properties and other properties.
- Including rental income of HK\$1,642,000 (2003: HK\$1,619,000) from jointly controlled assets less expenses of HK\$577,000 (2003: HK\$573,000).

**9. FINANCE COSTS**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	14,400	18,143
Bank loans and overdrafts wholly repayable after five years	—	11,442
Finance leases	4	70
Other borrowings	1,769	3,585
	<u>16,173</u>	<u>33,240</u>

for the year ended 30th June, 2004

**10. DIRECTORS' EMOLUMENTS**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Directors' fees	360	360
Other emoluments	<u>180</u>	<u>180</u>
Total emoluments	<u>540</u>	<u>540</u>

Except for directors' fees of HK\$60,000 (2003: HK\$60,000) and other emoluments of HK\$100,000 (2003: HK\$100,000), no emoluments were paid to the independent non-executive directors during the two years ended 30th June, 2004.

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. There was no contributions to pension schemes for directors 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.

**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	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	5,441	5,593
Contributions to retirement benefit schemes	186	158
Bonus	<u>430</u>	<u>215</u>
	<u>6,057</u>	<u>5,966</u>

Their emoluments are within the following bands:

	Number of employees	
	2004	2003
Bands		
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>1</u>
	<u>5</u>	<u>5</u>

for the year ended 30th June, 2004

**12. TAXATION**

	The Group	
	2004	2003
	HK\$'000	HK\$'000 (restated)
The charge comprises:		
Taxation attributable to the Company and its subsidiaries		
Current tax		
Hong Kong	48,753	34,616
Other regions in the PRC	<u>20,793</u>	<u>12,072</u>
	<u>69,546</u>	<u>46,688</u>
Overprovision in prior year		
Hong Kong	<u>(463)</u>	<u>(52)</u>
Deferred tax (note 31)		
Current year	22,302	2,790
Attributable to a change in tax rate	<u>—</u>	<u>3,045</u>
	<u>22,302</u>	<u>5,835</u>
	<u>91,385</u>	<u>52,471</u>
Share of taxation attributable to associates	<u>286,368</u>	<u>262,689</u>
	<u>377,753</u>	<u>315,160</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

for the year ended 30th June, 2004

**12. TAXATION** (cont'd)

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>2,265,865</u>	<u>1,923,458</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	396,526	336,605
Tax effect of expenses not deductible for tax purpose	32,139	5,846
Tax effect of income not taxable for tax purpose	(34,401)	(23,280)
Overprovision in respect of prior years	(463)	(52)
Tax effect of deferred tax assets not recognised	(3,412)	396
Tax effect of tax losses not recognised	7,092	14,638
Utilisation of tax losses previously not recognised	(6,448)	(7,695)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	—	3,045
Effect of different tax rates of subsidiaries operating in other jurisdictions	(10,308)	(8,008)
Others	<u>(2,972)</u>	<u>(6,335)</u>
Taxation charge for the year	<u>377,753</u>	<u>315,160</u>

**13. DIVIDENDS**

	2004 HK\$'000	2003 HK\$'000
Interim paid, 11 cents (2003: 11 cents) per share	309,906	309,906
Final proposed, 12 cents (2003: 11 cents) per share	<u>338,079</u>	<u>309,906</u>
	<u>647,985</u>	<u>619,812</u>

**14. EARNINGS PER SHARE**

The calculation of earnings per share is based on the net profit for the year of HK\$1,824,673,000 (2003: HK\$1,565,278,000, restated) and on 2,817,327,395 (2003: 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, 2004.

The adjustment to comparative basic earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic HK cents
Reconciliation of 2003 earnings per share:	
Reported figures before adjustments	58
Adjustment arising from the adoption of SSAP 12 (Revised)	<u>(2)</u>
Restated	<u>56</u>



for the year ended 30th June, 2004

**15. INVESTMENT PROPERTIES**

	The Group HK\$'000	
At 1st July, 2003	3,948,186	
Additions	549	
Surplus on revaluation	161,549	
At 30th June, 2004	<u>4,110,284</u>	
Representing:		
	2004 HK\$'000	2003 HK\$'000
Long-term leasehold properties situated in Hong Kong	<u>1,076,215</u>	967,023
Medium-term leasehold properties situated in Hong Kong	<u>3,034,069</u>	<u>2,981,163</u>
	<u>4,110,284</u>	<u>3,948,186</u>

Investment properties were revalued on 30th June, 2004 on an open market value basis by Mr. Augustine Wong, a Fellow Member of The Hong Kong Institute of Surveyors, a Chartered Valuation Surveyor of Henderson Valuation and Agency Limited, a fellow subsidiary of the Company. The surplus arising on revaluation of investment properties attributable to the Group has been credited 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\$404,584,000 (2003: HK\$356,586,000) 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 Accounts

for the year ended 30th June, 2004

### 16. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000	Other land and buildings HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Construction in progress HK\$'000	Leasehold improvements, equipment, furniture, fixtures and motor vehicles HK\$'000	Total HK\$'000	
<b>THE GROUP</b>								
<b>COST OR VALUATION</b>								
At 1st July, 2003	736,000	54,807	789,529	655,753	12	392,097	2,628,198	
Additions	—	—	—	—	466	18,702	19,168	
Surplus on revaluation	14,000	—	—	—	—	—	14,000	
Disposal of subsidiaries	—	—	—	—	—	(35,994)	(35,994)	
Disposals	—	—	—	(94,824)	(12)	(93,816)	(188,652)	
At 30th June, 2004	<u>750,000</u>	<u>54,807</u>	<u>789,529</u>	<u>560,929</u>	<u>466</u>	<u>280,989</u>	<u>2,436,720</u>	
Comprising:								
At cost	—	54,807	789,529	560,929	466	280,989	1,686,720	
At valuation – 30th June, 2004	<u>750,000</u>	—	—	—	—	—	<u>750,000</u>	
	<u>750,000</u>	<u>54,807</u>	<u>789,529</u>	<u>560,929</u>	<u>466</u>	<u>280,989</u>	<u>2,436,720</u>	
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>								
At 1st July, 2003	—	8,966	87,526	80,050	—	280,745	457,287	
Provided for the year	—	1,248	22,472	9,878	—	30,407	64,005	
Eliminated on disposal of subsidiaries	—	—	—	—	—	(31,290)	(31,290)	
Eliminated on disposals	—	—	—	(27,579)	—	(60,999)	(88,578)	
Impairment loss (Note 4)	—	435	53,178	—	—	—	53,613	
At 30th June, 2004	—	<u>10,649</u>	<u>163,176</u>	<u>62,349</u>	—	<u>218,863</u>	<u>455,037</u>	
<b>NET BOOK VALUES</b>								
At 30th June, 2004	<u>750,000</u>	<u>44,158</u>	<u>626,353</u>	<u>498,580</u>	<u>466</u>	<u>62,126</u>	<u>1,981,683</u>	
At 30th June, 2003	<u>736,000</u>	<u>45,841</u>	<u>702,003</u>	<u>575,703</u>	<u>12</u>	<u>111,352</u>	<u>2,170,911</u>	
	Hotel properties		Other land and buildings		Toll highway operation rights		Bridges	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term leasehold properties situated in								
– Hong Kong	<b>220,000</b>	216,000	<b>5</b>	5	—	—	—	—
– PRC	—	—	<b>436</b>	915	—	—	—	—
Medium-term leasehold properties situated in								
– Hong Kong	<b>530,000</b>	520,000	<b>41,038</b>	42,055	—	—	—	—
– PRC	—	—	<b>2,679</b>	2,866	<b>626,353</b>	<b>702,003</b>	<b>498,580</b>	<b>575,703</b>
	<u><b>750,000</b></u>	<u>736,000</u>	<u><b>44,158</b></u>	<u>45,841</u>	<u><b>626,353</b></u>	<u>702,003</u>	<u><b>498,580</b></u>	<u>575,703</u>

for the year ended 30th June, 2004

**16. PROPERTY, PLANT AND EQUIPMENT** (cont'd)

## Notes:

- (1) Hotel properties were revalued on 30th June, 2004 on an open market value basis by Mr. Augustine Wong, a Fellow Member of The Hong Kong Institute of Surveyors, a Chartered Valuation Surveyor of Henderson Valuation and Agency Limited, a fellow subsidiary of the Company. The surplus arising on revaluation of hotel properties attributable to the Group has been credited to the other property revaluation reserve.
- (2) The net book value of motor vehicles and equipment include an amount of Nil (2003: HK\$634,000) in respect of assets held under finance leases.
- (3) The Group's toll highway operation rights are pledged as securities for certain bank loans.
- (4) During the year, based on the Group's assessment of the recoverable amount for one of the toll roads at Fenghua, Zhejiang Province, the PRC, by considering the decreasing turnover since recent years, impairment loss of HK\$53,178,000 was recognised.

	Furniture and equipment HK\$'000
THE COMPANY	
COST	
At 1st July, 2003 and 30th June, 2004	21
DEPRECIATION	
At 1st July, 2003 and 30th June, 2004	<u>21</u>
NET BOOK VALUES	
At 30th June, 2004 and 30th June, 2003	<u><u>—</u></u>

**17. PROPERTIES HELD FOR DEVELOPMENT****THE GROUP**

Included in properties held for development is net interest capitalised of HK\$618,000 (2003: HK\$618,000).

**18. INVESTMENTS IN SUBSIDIARIES**

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>2,107,070</u>	<u>2,107,070</u>

Details of the principal subsidiaries are shown on pages 83 to 86.

## Notes to the Accounts

for the year ended 30th June, 2004

### 19. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
<b>Unlisted</b>				
Shares, at cost	—	—	164,226	164,226
Share of net assets	438,795	397,825	—	—
	<u>438,795</u>	<u>397,825</u>	<u>164,226</u>	<u>164,226</u>
<b>Listed in Hong Kong</b>				
Share of net assets	12,158,346	11,519,907	—	—
Goodwill on acquisition of associates	1,216,154	1,216,154	—	—
Amortisation	(164,110)	(104,555)	—	—
	<u>1,052,044</u>	<u>1,111,599</u>	<u>—</u>	<u>—</u>
Negative goodwill on acquisition of associates	(172,519)	(172,519)	—	—
Release to income statement	25,000	16,000	—	—
	<u>(147,519)</u>	<u>(156,519)</u>	<u>—</u>	<u>—</u>
	<u>13,062,871</u>	<u>12,474,987</u>	<u>—</u>	<u>—</u>
	<u>13,501,666</u>	<u>12,872,812</u>	<u>164,226</u>	<u>164,226</u>
Market value of listed investments	<u>29,372,248</u>	<u>22,578,027</u>	<u>—</u>	<u>—</u>

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 87.

for the year ended 30th June, 2004

**20. INVESTMENTS IN SECURITIES**

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>THE GROUP</b>								
Equity securities								
Listed in Hong Kong	—	—	—	—	165,980	640,070	165,980	640,070
Unlisted	—	—	7,558	51,558	30,181	41,218	37,739	92,776
	<u>—</u>	<u>—</u>	<u>7,558</u>	<u>51,558</u>	<u>196,161</u>	<u>681,288</u>	<u>203,719</u>	<u>732,846</u>
Debt securities								
Listed outside Hong Kong	11,699	11,699	—	—	—	—	11,699	11,699
Unlisted	41,096	173,092	—	—	—	—	41,096	173,092
	<u>52,795</u>	<u>184,791</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,795</u>	<u>184,791</u>
Market value of listed securities	<u>11,936</u>	<u>11,443</u>	<u>—</u>	<u>—</u>	<u>165,980</u>	<u>640,070</u>	<u>177,916</u>	<u>651,513</u>
Carrying amount analysed for reporting purposes as:								
Current	41,096	130,389	—	—	—	80,880	41,096	211,269
Non-current	11,699	54,402	7,558	51,558	196,161	600,408	215,418	706,368
	<u>52,795</u>	<u>184,791</u>	<u>7,558</u>	<u>51,558</u>	<u>196,161</u>	<u>681,288</u>	<u>256,514</u>	<u>917,637</u>

	Other investments	
	2004 HK\$'000	2003 HK\$'000
<b>THE COMPANY</b>		
Equity securities		
Unlisted	<u>30</u>	<u>30</u>
Carrying amount analysed for reporting purposes as:		
Non-current	<u>30</u>	<u>30</u>

for the year ended 30th June, 2004

**21. DEBTORS, DEPOSITS AND PREPAYMENTS**

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

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Under 1 month overdue	47,278	57,410
1 to 3 months overdue	19,695	23,983
More than 3 months overdue but less than 6 months overdue	4,267	6,206
Over 6 months overdue	7,167	3,879
	<u>78,407</u>	<u>91,478</u>
Prepayments, deposits and other receivables - current portion	182,437	164,249
	<u>260,844</u>	<u>255,727</u>
Prepayments, deposits and other receivables - non-current portion	131,430	—
	<u>392,274</u>	<u>255,727</u>

At 30th June, 2004, included in debtors, deposits and prepayments, other receivables of HK\$169,540,000 represented the discounted instalment receivables in the future arising from the disposal of toll bridges during the year as further details in note 7, out of which, HK\$38,110,000 was classified as current assets.

**22. AMOUNTS DUE FROM INVESTEE COMPANIES**

	The Group	
	2004 HK\$'000	2003 HK\$'000
The amounts are repayable as follows:		
Within one year	6,376	1,613
After one year	—	4,725
	<u>6,376</u>	<u>6,338</u>
Less: Amounts due within one year shown under current assets	(6,376)	(1,613)
	<u>—</u>	<u>4,725</u>

The amounts are unsecured. Included above is an amount of HK\$6,300,000 (2003: HK\$6,300,000), which bears interest at 5% (2003: 10%) per annum, repayable by instalments and the last instalment is repayable in March 2005. The remaining balances are interest-free and with no fixed repayment terms.

**23. INVENTORIES****THE GROUP**

Inventories of HK\$976,000 (2003: HK\$1,323,000) are carried at net realisable value.

for the year ended 30th June, 2004

**24. COMPLETED PROPERTIES FOR SALE****THE GROUP**

Completed properties for sale with a total carrying value of HK\$28,734,000 (2003: HK\$29,536,000) 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\$199,527,000 (2003: HK\$187,154,000) are carried at net realisable value.

**25. CREDITORS AND ACCRUED EXPENSES**

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Due within 1 month or on demand	96,788	110,620
Due after 1 month but within 3 months	30,998	42,139
Due after 3 months but within 6 months	844	4,155
Due after 6 months	6,256	5,757
	<u>134,886</u>	<u>162,671</u>
Rental deposits and other payable	89,141	97,946
Total creditors and accrued expenses	<u>224,027</u>	<u>260,617</u>

**26. BORROWINGS**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans	255,664	536,985
Other loans	26,320	26,320
Bank overdrafts	29,170	36,987
	<u>311,154</u>	<u>600,292</u>
Secured	237,664	259,485
Unsecured	73,490	340,807
	<u>311,154</u>	<u>600,292</u>

## Notes to the Accounts

for the year ended 30th June, 2004

### 26. BORROWINGS (cont'd)

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

	2004 HK\$'000	2003 HK\$'000
Within one year	127,731	360,243
Between one to two years	47,744	65,485
Between two to five years	135,679	109,289
After five years	—	65,275
	<u>311,154</u>	<u>600,292</u>
Less: Amounts due within one year and included in current liabilities	<u>(127,731)</u>	<u>(360,243)</u>
Amounts due after one year	<u>183,423</u>	<u>240,049</u>

### 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:

	THE GROUP			
	Total outstanding minimum lease payments		Present value	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount due within one year	—	51	—	47
Less: Future finance charges	—	(4)	—	—
Present value of lease obligations	<u>—</u>	<u>47</u>	<u>—</u>	<u>47</u>

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

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

### 28. SHARE CAPITAL

	2004 & 2003 HK\$'000
Authorised:	
3,000,000,000 ordinary shares of HK\$0.2 each	<u>600,000</u>
Issued and fully paid:	
2,817,327,395 ordinary shares of HK\$0.2 each	<u>563,466</u>

There was no movement in the share capital of the Company for the two years ended 30th June, 2004.



for the year ended 30th June, 2004

**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 (restated)	Total HK\$'000 (restated)
<b>THE GROUP</b>							
As 1st July, 2002							
– as previously reported	2,664,307	409,996	12,909	6,158,568	309,906	9,762,898	19,318,584
– prior period adjustment (Note a)	(10,350)	—	—	—	—	(319,151)	(329,501)
– as restated	2,653,957	409,996	12,909	6,158,568	309,906	9,443,747	18,989,083
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Deficit on revaluation net of deferred tax							
Company and subsidiaries	(264,585)	—	—	—	—	—	(264,585)
Associates	(941,223)	—	—	—	—	—	(941,223)
Net profit for the year	—	—	—	—	—	1,565,278	1,565,278
Realisation of revaluation reserve	(3,315)	(39,472)	—	—	—	—	(42,787)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 1st July, 2003	1,444,834	370,524	12,909	6,158,568	309,906	10,389,213	18,685,954
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Surplus on revaluation net of deferred tax							
Company and subsidiaries	160,933	14,000	—	—	—	—	174,933
Associates	197,358	—	—	—	—	—	197,358
Net profit for the year	—	—	—	—	—	1,824,673	1,824,673
Realisation of revaluation reserve	(1,946)	—	—	—	—	—	(1,946)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	338,079	(338,079)	—
At 30th June, 2004	1,801,179	384,524	12,909	6,158,568	338,079	11,565,901	20,261,160
<b>THE COMPANY</b>							
At 1st July, 2002	—	—	3,461	6,158,568	309,906	4,713,513	11,185,448
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Net profit for the year	—	—	—	—	—	598,730	598,730
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 1st July, 2003	—	—	3,461	6,158,568	309,906	4,692,431	11,164,366
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Net profit for the year	—	—	—	—	—	851,468	851,468
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	338,079	(338,079)	—
At 30th June, 2004	—	—	3,461	6,158,568	338,079	4,895,914	11,396,022

for the year ended 30th June, 2004

**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 (restated)	Total HK\$'000 (restated)
As 1st July, 2002							
– as previously reported	1,000,531	39,472	—	—	—	3,971,685	5,011,688
– prior period adjustment (Note a)	(10,350)	—	—	—	—	(282,432)	(292,782)
– as restated	990,181	39,472	—	—	—	3,689,253	4,718,906
Deficit on revaluation net of deferred tax	(941,223)	—	—	—	—	—	(941,223)
Realisation of revaluation reserve	(3,315)	(39,472)	—	—	—	—	(42,787)
Net profit for the year, retained	—	—	—	—	—	408,775	408,775
At 1st July, 2003	45,643	—	—	—	—	4,098,028	4,143,671
Surplus on revaluation net of deferred tax	197,358	—	—	—	—	—	197,358
Realisation of revaluation reserve	(1,946)	—	—	—	—	—	(1,946)
Net profit for the year, retained	—	—	—	—	—	483,997	483,997
At 30th June, 2004	241,055	—	—	—	—	4,582,025	4,823,080

*Notes:*

- (a) Retained profits and the Group's share of post-acquisition reserves of its associates have been restated as a result of adoption of SSAP 12 (Revised) as mentioned in note 2.
- (b) The Company's reserves available for distribution to shareholders at the balance sheet date are represented by its dividend reserve and retained profits amounting to HK\$338,079,000 and HK\$4,895,914,000 (2003: HK\$309,906,000 and HK\$4,692,431,000) respectively.

**30. AMOUNTS DUE TO MINORITY SHAREHOLDERS****THE GROUP**

The amounts are unsecured and interest-free. The minority shareholders have agreed that no repayment will be demanded within the next twelve months from the balance sheet date.

for the year ended 30th June, 2004

**31. DEFERRED TAX LIABILITIES**

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Gain on disposal of property, plant and equipment HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st July, 2002					
– as previously reported	—	—	—	—	—
– adjustment on adoption of SSAP 12 (Revised)	48,568	—	(12,069)	5,505	42,004
– as restated	48,568	—	(12,069)	5,505	42,004
Charge (credit) to income for the year	4,937	—	2,810	(4,957)	2,790
Effect of change in tax rate					
– charge (credit) to the income statement	3,661	—	(1,132)	516	3,045
At 1st July, 2003	57,166	—	(10,391)	1,064	47,839
Charge to income for the year	2,418	15,212	3,771	901	22,302
At 30th June, 2004	59,584	15,212	(6,620)	1,965	70,141

At the balance sheet date, the Group has unused tax losses of approximately HK\$1,433,576,000 (2003: HK\$1,576,313,000) available for offset against future profits. Included in unused tax losses are losses of HK\$1,024,397,000 (2003: HK\$1,123,440,000) that had not been agreed with the relevant tax authorities. Subject to the agreement of the relevant tax authorities, the tax losses was available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$37,830,000 (2003: HK\$59,379,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,395,746,000 (2003: HK\$1,516,934,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$22,166,000 (2003: HK\$11,813,000) that can be carried forward to offset against the taxable profit of subsequent year for up to five years from the year in which they were incurred or there is no restriction on their expiry, depending on the tax jurisdiction concerned. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$96,703,000 (2003: HK\$116,200,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

for the year ended 30th June, 2004

**32. DISPOSAL OF SUBSIDIARIES**

	The Group	
	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	4,704	—
Debtors, deposits and prepayments	2,232	—
Bank balances and cash	58	—
Creditors and accrued expenses	(6,974)	—
Minority interests	(1)	—
Total consideration	<u>19</u>	<u>—</u>
Satisfied by:		
Consideration receivable	<u>19</u>	<u>—</u>
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u>(58)</u>	<u>—</u>

The subsidiaries disposed of during the year has insignificant contribution to the Group's turnover and profits from operations.

**33. MAJOR NON-CASH TRANSACTION**

During the year, the Group has disposed of certain of its property, plant and equipment with consideration to be received by instalment payments.

**34. 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\$21,267,000 (2003: HK\$17,998,000). The Group's share of liabilities incurred in relation to the jointly controlled assets included in creditors and accrued expenses amounted to HK\$414,000 (2003: HK\$411,000).

**35. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**

Of the pledged bank deposits and bank balances and cash items, a total sum being the equivalent of HK\$71,182,000 (2003: HK\$118,519,000) was kept in other regions of the PRC and is subject to exchange control regulations.

for the year ended 30th June, 2004

**36. SHARE OPTION SCHEMES**

Under the Pre-IPO Share Option Plan ("Option Plan") of Henderson Cyber Limited ("Henderson Cyber") a subsidiary of the Company, options to subscribe for an aggregate of 32,000,000 shares of Henderson Cyber were granted to certain directors and employees of Henderson Cyber, its holding companies, subsidiaries, fellow subsidiaries and affiliated company on 28th June, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Option Plan, each of the grantees will be entitled to exercise at the price of HK\$1.25 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 14th July, 2000, (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 14th July, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 14th July, 2000 and, in each case, not later than four years from 14th July, 2000.

Share Options granted under the Option Plan lapsed on 14th July, 2004.

Under the Share Option Scheme ("Share Option Scheme") of Henderson Cyber, options to subscribe for an aggregate of 150,000 shares of Henderson Cyber were granted to certain employees of the Group on 4th October, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Share Option Scheme, each of the grantees will be entitled to exercise at the price of HK\$0.89 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 16th October, 2000 (the date of acceptance of the share options), (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 16th October, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 16th October, 2000 and, in each case, not later than four years from 16th October, 2000.

**2004**

	Number of share option at 1st July, 2003	Number of share option lapsed during the year	Reclassification	Number of share option at 30th June, 2004
<b>Option Plan</b>				
Directors	9,200,000	—	—	9,200,000
Employees	1,850,000	—	—	1,850,000
Other participants	16,600,000	(150,000)	—	16,450,000
	<u>27,650,000</u>	<u>(150,000)</u>	<u>—</u>	<u>27,500,000</u>
<b>Share Option Scheme</b>				
Employees	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>

**2003**

	Number of share option at 1st July, 2002	Number of share option lapsed during the year	Reclassification	Number of share option at 30th June, 2003
<b>Option Plan</b>				
Directors	9,200,000	—	—	9,200,000
Employees	1,250,000	—	600,000	1,850,000
Other participants	17,300,000	(100,000)	(600,000)	16,600,000
	<u>27,750,000</u>	<u>(100,000)</u>	<u>—</u>	<u>27,650,000</u>
<b>Share Option Scheme</b>				
Employees	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>

for the year ended 30th June, 2004

**37. 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\$154,000 (2003: HK\$192,000). At 30th June, 2004, there was a remaining balance of HK\$25,000 available to be utilised (2003: Nil).

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. The amount of forfeited contributions utilised during the year was HK\$76,000 (2003: HK\$312,000) and there was no remaining balance available to be utilised at 30th June, 2004 (2003: Nil).

The Group's retirement costs charged to the income statement for the year ended 30th June, 2004 were HK\$9,062,000 (2003: HK\$7,968,000).

**38. CAPITAL COMMITMENTS**

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted commitments for the acquisition of property, plant and equipment and for property development and renovation expenditure	14,579	14,579
Contracted commitments for system development costs	850	907

**39. CONTINGENT LIABILITIES**

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees given to banks to secure banking facilities utilised by subsidiaries	46,561	313,789

for the year ended 30th June, 2004

**40. 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	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	56,466	85,292
Later than one year and not later than five years	33,367	111,865
Later than five years	—	152,082
	<u>89,833</u>	<u>349,239</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 for retail shopping centre and office premises are negotiated for terms of six months to ten years at fixed rental. Some of leases for telecommunications network facilities are with no specific terms while the remaining leases typically run for an initial period of three months to four years, with an option to renew the lease upon the expiry of the initial lease term. None of the leases for telecommunication network facilities includes contingent rentals.

**The Group as lessor**

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Investment properties	4,110,284	3,948,186
Other land and buildings	25,249	25,875
Completed properties for sale	207,257	176,340
Properties held for development	6,889	7,222

These assets were leased out for periods of one to six years with an option to renew the lease and terms are subject to renegotiation upon expiry.

Contingent rental 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.

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	331,859	319,506
Later than one year and not later than five years	140,465	170,359
Later than five years	1,634	—
	<u>473,958</u>	<u>489,865</u>

At the balance sheet date, the Company had no commitment under operating lease.

for the year ended 30th June, 2004

**41. RELATED PARTY TRANSACTIONS**

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

	Fellow subsidiaries		Associates		Investee companies	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accountancy fee paid	5,875	5,859	—	—	—	—
Agency commission paid	19,722	17,754	—	—	—	—
Building management fee paid	53,361	54,065	—	—	—	—
Cleaning services income	10,148	10,059	—	—	—	—
Consultancy service income	3,552	11,014	1,736	2,070	—	—
Hotel management fee income	730	750	—	—	—	—
Hotel management fee paid	—	—	2,521	2,418	—	—
Interest expenses	150	1,992	—	—	—	—
Interest income	—	—	2,580	2,417	—	—
Licence fee	275	837	—	—	—	—
Management fee income	1,000	1,008	—	—	—	—
Professional fee paid	2,556	2,470	491	1,007	—	—
Rental expenses	79,727	75,787	2,658	4,802	—	—
Rental income	9,384	10,513	—	—	—	—
Security guard service income	45,103	47,631	—	—	—	—
Staff cost reimbursement	—	—	1,130	557	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At the balance sheet date</b>						
Amounts due to						
– Interest-free	—	—	—	234	—	4,143
– Interest bearing	72,165	199,414	—	—	—	—
	<u>72,165</u>	<u>199,414</u>	<u>—</u>	<u>234</u>	<u>—</u>	<u>4,143</u>
Amounts due from						
– Interest-free	—	—	67,488	66,909	76	38
– Interest bearing	—	—	60,000	60,000	6,300	6,300
	<u>—</u>	<u>—</u>	<u>127,488</u>	<u>126,909</u>	<u>6,376</u>	<u>6,338</u>
Rental deposit paid	2,515	2,727	—	—	—	—

*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 ended 30th June, 2003 interests in certain associates were transferred to the ultimate holding company at loss of HK\$3,000.
- (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.