

for the year ended 30th June, 2005

## 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/POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for:

HKFRS 3 *Business combinations* which is applicable to business combinations, for which the agreement date is on or after 1st January, 2005; and

HK Interpretation 1 ("HK Int 1") *The appropriate accounting policies for infrastructure facilities* which is effective on 1st October, 2004.

The principal effects of the application of HKFRS 3 and HK Int 1 to the Group are summarised as follows:

### HKFRS 3 Business combinations

HKFRS 3 has been adopted by the Group for business combinations for which the agreement date is on or after 1st January, 2005. The transactions to which HKFRS 3 has been applied by the Group are the acquisitions of the remaining interest of Shiu Kien Development Company Limited in January 2005 and the acquisition of additional interests in certain associates during the year. By adoption of HKFRS 3, no amortisation for goodwill arose from the above transactions during the year has been charged to the consolidated income statement.

In accordance with the transitional rules of HKFRS 3, the Group will apply the revised accounting policy of goodwill prospectively from the beginning of its first annual financial period beginning on or after 1st January, 2005, i.e. 1st July, 2005. Therefore, the change has had no significant impact on amounts reported for the current and prior periods.

### HK Int 1 The appropriate accounting policies for infrastructure facilities

In the current year, the Group has adopted HK Int 1 *The appropriate accounting policies for infrastructure facilities* issued by the HKICPA.

The principal effect of the adoption of HK Int 1 is in relation to the amortisation or depreciation methods in respect of infrastructure facilities, in particular toll roads. In previous years, amortisation of toll highway operation rights and depreciation of bridges of the Group are provided for on the basis of a sinking fund method.

By adoption HK Int 1, amortisation of toll highway operation rights and depreciation of bridges of the Group are provided for on the basis which is similar to a straight-line method. In the absence of any specific transitional requirements in HK Int 1, the new accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

In the current year, the Group has early adopted HKAS 40 *Investment property* and HK(SIC) Interpretation 21 *Income taxes – Recovery of revalued non-depreciable assets*.

### HKAS 40 Investment property

In previous years, investment property is stated at its open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment property is credited or charged to the property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged. On disposal of an investment property, the balance on the property revaluation reserve attributable to the property is transferred to the income statement. No depreciation is provided on investment property except where the unexpired term of the relevant lease is 20 years or less.

HKAS 40 introduces both cost model and fair value model for the measurement of investment property. Under the fair value model, HKAS 40 requires fair value changes to be recognised directly in the income statement in the period in which they arise. The Group has elected to use the fair value model to account for its investment properties and apply HKAS 40 retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

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**2. ADOPTION OF/POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS** (cont'd)

**HK(SIC) Interpretation 21 Income taxes – Recovery of revalued non-depreciable assets**

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation.

In the current year, the Group has applied HK(SIC) Interpretation 21 which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

The Group has commenced considering the potential impact of the other new HKFRSs and has so far concluded that the adoption of HKAS 16 *Property, plant and equipment*, HKAS 17 *Leases*, HKAS 28 *Investments in associates* and the related interpretations may have an effect on how the results for the future accounting years are prepared and presented.

*Hotel property*

In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. Hong Kong Interpretation 2 *The appropriate accounting policies for hotel properties requires owner-operated hotel building and integral plant and equipment to be accounted for in accordance with HKAS 16*. The underlying leasehold land on which the hotel is situated will be stated at cost and amortised over the lease term.

*Owner-occupied leasehold interest in land*

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term. Where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continued to be accounted for as property, plant and equipment.

*Investments in associates*

When the financial statements of an associate are prepared as of a different reporting date from that of the Group, the difference between the reporting date of the associate and that of the Group shall be no more than three months. The effects of significant transactions occurring between the two dates must be adjusted for equity accounting purpose in the preparation of the Group's financial statements.

*Investments in securities*

In previous years, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investment" or "held-to-maturity securities" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity securities are carried at amortised cost less impairment losses (if any). From 1st July, 2005 onwards, the Group will classify and measure its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

*Financial assets and financial liabilities other than debt and equity securities*

From 1st July, 2005 onwards, the Group will classify and measure its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

The Group is in the process of making an assessment of the potential impact of the other new HKFRSs but is not yet in a position to determine the impact of these new HKFRSs on the results of operations and financial position of the Group. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

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**3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior period are as follows:

	2005				2004			
	HKAS 40 HK\$'000	HK(SIC) Int 21 HK\$'000	HK Int 1 HK\$'000	Total HK\$'000	HKAS 40 HK\$'000	HK(SIC) Int 21 HK\$'000	HK Int 1 HK\$'000	Total HK\$'000
Increase in depreciation and amortisation	—	—	(19,371)	(19,371)	—	—	(21,289)	(21,289)
Decrease in impairment loss on property, plant and equipment	—	—	—	—	—	—	53,178	53,178
Increase in fair value gain of investment properties	890,345	—	—	890,345	160,933	—	—	160,933
Increase in share of results of associates	635,246	—	—	635,246	195,412	—	—	195,412
Increase in shares of taxation of associates	—	(111,682)	—	(111,682)	—	(33,010)	—	(33,010)
(Increase) decrease in deferred tax	—	(117,713)	2,887	(114,826)	—	(22,706)	3,397	(19,309)
Decrease (increase) in minority interests	—	—	8,604	8,604	—	108	(30,827)	(30,719)
	<u>1,525,591</u>	<u>(229,395)</u>	<u>(7,880)</u>	<u>1,288,316</u>	<u>356,345</u>	<u>(55,608)</u>	<u>4,459</u>	<u>305,196</u>

The cumulative effects of the application of the new HKFRSs as at 1st July, 2004 and 2003 are summarised below:

	At 1st July, 2004				At 1st July, 2003			
	HKAS 40 HK\$'000	HK(SIC) Int 21 HK\$'000	HK Int 1 HK\$'000	Total HK\$'000	HKAS 40 HK\$'000	HK(SIC) Int 21 HK\$'000	HK Int 1 HK\$'000	Total HK\$'000
Decrease in property, plant and equipment	—	—	(100,846)	(100,846)	—	—	(132,735)	(132,735)
Decrease in interests in associates	—	(362,200)	—	(362,200)	—	(329,190)	—	(329,190)
Decrease in minority interests	—	8,194	38,025	46,219	—	8,086	68,852	76,938
Increase in deferred tax liabilities	—	(399,002)	23,083	(375,919)	—	(376,296)	19,686	(356,610)
	<u>—</u>	<u>(753,008)</u>	<u>(39,738)</u>	<u>(792,746)</u>	<u>—</u>	<u>(697,400)</u>	<u>(44,197)</u>	<u>(741,597)</u>

The financial effects of the application of the new HKFRSs to the Group's equity at 1st July, 2003 are summarised below:

	As originally stated HK\$'000	HKAS 40 HK\$'000	HK(SIC) Int 21 HK\$'000	HK Int 1 HK\$'000	As restated HK\$'000
Property revaluation reserve	1,815,358	(535,371)	—	—	1,279,987
Retained profits	<u>10,389,213</u>	<u>535,371</u>	<u>(697,400)</u>	<u>(44,197)</u>	<u>10,182,987</u>

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#### 4. 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 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.

Goodwill arising on acquisitions on or after 1st July, 2001 with agreement dated before 31st December, 2004 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 associates. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill arising on acquisitions for which the agreement date is on or after 1st January, 2005, represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition, is initially recognised as an asset at cost and is subsequently measured at cost less impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

##### (C) Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

HKFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. HKFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Negative goodwill arising on acquisitions on or after 1st January, 2001 with agreement dated before 31st December, 2004 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 before 31st December, 2004 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.

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

##### (E) Interests in associates (cont'd)

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.
- (iii) Sale of goods from the retail business is 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 telecommunication services are recognised at the time when the services are rendered.

##### (I) Investment properties

Investment properties, which are property held to earn rentals and/or for capital appreciation, is stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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**4. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

**(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 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.

**(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 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 40 years
Toll highway operation rights and bridges	Over the operating periods
Others	10% to 50%

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 other than investment properties 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.

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.

**(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.

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

##### (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.

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.

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**4. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

**(V) Taxation** (cont'd)

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.

**5. TURNOVER**

	2005 HK\$'000	2004 HK\$'000
Hotel operation	99,321	89,906
Information technology services income	83,778	87,317
Rental income	609,748	572,313
Sale of goods	134,348	122,904
Sale of properties	1,646	5,643
Security guard services	98,432	92,811
Toll fee income	235,524	238,748
Others	31,623	46,131
	<u>1,294,420</u>	<u>1,255,773</u>

**6. 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	— investment holding, sale of properties, provision of cleaning and security guard services, retail business and provision of information technology services



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## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

### Business segments (cont'd)

Segment information about these businesses is presented below:

2005

	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	609,748	99,321	134,348	235,524	215,479	—	1,294,420
Other operating income	4,536	117	1,244	1,907	11,109	—	18,913
External income	614,284	99,438	135,592	237,431	226,588	—	1,313,333
Inter-segment income	58,088	—	3	—	3,614	(61,705)	—
Total income	672,372	99,438	135,595	237,431	230,202	(61,705)	1,313,333

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

Segment results	368,116	7,536	7,755	152,056	(2,148)	—	533,315
Interest income	40	—	—	10,742	42,031	—	52,813
(Loss) gain on disposal of property, plant and equipment	21	—	2	(2,039)	(49)	—	(2,065)
Unrealised holding gain on investments in securities	—	—	—	—	25,942	—	25,942
Fair value gain of investment properties	890,345	—	—	—	—	—	890,345
Unallocated corporate expenses							(28,778)
Profit from operations							1,471,572
Finance costs							(13,035)
Share of results of associates							2,870,868
Amortisation of goodwill							(74,104)
Negative goodwill released to income							6,264
Profit before taxation							4,261,565
Taxation							(690,734)
Profit before minority interests							3,570,831
Minority interests							(65,671)
Net profit for the year							3,505,160

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**6. BUSINESS AND GEOGRAPHICAL SEGMENTS** (cont'd)

**Business segments** (cont'd)

2005

	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	5,255,033	785,166	52,535	1,253,565	379,143	7,725,442
Interests in associates						14,556,825
Amounts due from associates						42,009
Unallocated corporate assets						3,015,392
Consolidated total assets						25,339,668
<b>Liabilities</b>						
Segment liabilities	79,190	18,614	114,026	20,112	36,310	268,252
Amount due to associates						2,485
Unallocated corporate liabilities						1,471,664
Consolidated total liabilities						1,742,401
<b>OTHER INFORMATION</b>						
Capital additions	53	1,905	12,795	1,635	6,469	22,857
Depreciation and amortisation	—	744	13,687	55,401	15,795	85,627
Allowance for doubtful debts	1,685	(170)	—	—	4,156	5,671

for the year ended 30th June, 2005

**6. 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	Eliminations HK\$'000	Consolidated HK\$'000 (restated)
<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	150,387	19,689	—	516,653
Interest income	41	—	—	12,613	16,293	—	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	—	—	—	—	(435)	—	(435)
Reversal of impairment loss on properties held for development	—	—	—	—	367	—	367
Write back of allowance for completed properties for sale	—	—	—	—	17,254	—	17,254
Fair value gain of investment properties	160,933	—	—	—	—	—	160,933
Unallocated corporate expenses	—	—	—	—	—	—	(21,426)
Profit from operations	—	—	—	—	—	—	889,196
Finance costs	—	—	—	—	—	—	(16,173)
Share of results of associates	—	—	—	—	—	—	1,831,631
Amortisation of goodwill	—	—	—	—	—	—	(59,555)
Negative goodwill released to income	—	—	—	—	—	—	9,000
Profit before taxation	—	—	—	—	—	—	2,654,099
Taxation	—	—	—	—	—	—	(430,072)
Profit before minority interests	—	—	—	—	—	—	2,224,027
Minority interests	—	—	—	—	—	—	(94,158)
Net profit for the year	—	—	—	—	—	—	2,129,869

for the year ended 30th June, 2005

**6. 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 (restated)
<b>BALANCE SHEET</b>						
<b>Assets</b>						
Segment assets	4,366,814	760,249	48,277	1,225,854	424,523	6,825,717
Interests in associates						13,139,466
Amounts due from associates						127,488
Unallocated corporate assets						<u>2,063,193</u>
Consolidated total assets						<u><u>22,155,864</u></u>
<b>Liabilities</b>						
Segment liabilities	75,139	6,628	88,574	12,575	30,143	213,059
Unallocated corporate liabilities						<u>1,155,164</u>
Consolidated total liabilities						<u><u>1,368,223</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	55,188	17,286	85,294
Allowance for doubtful debts	2,139	119	—	—	1,063	3,321

for the year ended 30th June, 2005

## 6. 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 and retail business are 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:

2005	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Turnover	1,058,896	235,524	1,294,420
Other operating income	17,006	1,907	18,913
External income	<u>1,075,902</u>	<u>237,431</u>	<u>1,313,333</u>
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	<u>1,068,926</u>	<u>244,465</u>	<u>1,313,391</u>

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:

2005	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Carrying amount of total assets	23,975,107	1,364,561	25,339,668
Addition to investment properties	53	—	53
Additions to property, plant and equipment	<u>21,169</u>	<u>1,635</u>	<u>22,804</u>
2004	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000 (restated)
Carrying amount of total assets	20,857,451	1,298,413	22,155,864
Addition to investment properties	549	—	549
Additions to property, plant and equipment	<u>17,945</u>	<u>1,223</u>	<u>19,168</u>

Segmental information for the principal associates of the Group are shown on pages 91 to 97.

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**7. OTHER OPERATING INCOME**

	2005 HK\$'000	2004 HK\$'000
Compensation for early termination of tenancy agreements	336	184
Dividend income from listed investments	5,398	11,032
Dividend income from unlisted investments	4,672	8,083
Interest income (note)	52,813	28,947
Profit on disposal of option contract	—	22,072
Sponsorship fee	1,437	1,357
Sundry income	7,070	14,890
	<u>71,726</u>	<u>86,565</u>

Note: Included interest income from deferred instalment receivables of HK\$9,754,000 (2004: HK\$11,467,000).

**8. (LOSS) GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

	2005 HK\$'000	2004 HK\$'000
(Loss) gain on disposal of toll bridges	(1,933)	104,332
Loss on disposal of other property, plant and equipment	(132)	(28,241)
	<u>(2,065)</u>	<u>76,091</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, 2005

**9. PROFIT FROM OPERATIONS**

	2005 HK\$'000	2004 HK\$'000 (restated)
Profit from operations has been arrived at after charging:		
Allowance for doubtful debts	5,671	3,321
Auditors' remuneration	3,279	2,926
Cost of inventories recognised as an expense	125,829	124,259
Cost of properties recognised as an expense	506	2,705
Depreciation and amortisation		
Owned assets	85,550	85,294
Assets held under finance leases	77	—
Development costs	10	10
Minimum leases payments under operating leases in respect of		
Rented premises	90,105	86,501
Telecommunications network facilities	3,763	5,237
Staff costs including directors emoluments	230,022	229,778
and after crediting:		
Rental from investment properties net of outgoings of HK\$104,871,000 (2004: HK\$107,338,000) (note a)	220,480	211,965
Other rental income less outgoings (notes a and b)	<u>106,958</u>	<u>90,739</u>

*Notes:*

- a. Including contingent rental income of HK\$116,721,000 (2004: HK\$94,901,000) from investment properties and other properties.
- b. Including rental income of HK\$1,812,000 (2004: HK\$1,642,000) from jointly controlled assets less expenses of HK\$510,000 (2004: HK\$577,000).

**10. FINANCE COSTS**

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	11,586	14,400
Finance leases	14	4
Other borrowings	<u>1,435</u>	<u>1,769</u>
	<u>13,035</u>	<u>16,173</u>

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**11. DIRECTORS' EMOLUMENTS**

	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefits schemes HK\$'000	2005 Total emoluments HK\$'000	2004 Total emoluments HK\$'000
Lee Shau Kee	40	—	—	40	40
Lee Ka Kit	40	—	—	40	40
Colin Lam Ko Yin	40	—	—	40	40
Lee Tat Man	20	—	—	20	20
Lee King Yue	20	—	—	20	20
Eddie Lau Yum Chuen	20	—	—	20	20
Li Ning	20	—	—	20	20
Lee Ka Shing	40	—	—	40	40
Patrick Kwok Ping Ho	20	—	—	20	20
Ho Wing Fun	20	—	—	20	20
Lau Chi Keung	20	—	—	20	20
Donald Cheung Ping Keung	20	—	—	20	20
Augustine Wong Ho Ming	20	—	—	20	20
Suen Kwok Lam	20	—	—	20	20
Sit Pak Wing	20	—	—	20	20
Woo Po Shing	20	—	—	20	20
Philip Yuen Pak Yiu	20	50	—	70	70
Leung Hay Man	20	230	—	250	70
Gordon Kwong Che Keung	20	180	—	200	—
Alex Wu Shu Chih	20	90	—	110	—
Ko Ping Keung	40	260	—	300	—
Wu King Cheong	20	90	—	110	—
	<u>540</u>	<u>900</u>	<u>—</u>	<u>1,440</u>	<u>540</u>

Except for directors' fees of HK\$100,000 (2004: HK\$60,000) and other emoluments of HK\$620,000 (2004: HK\$100,000), no emoluments were paid to the independent non-executive directors during the two years ended 30th June, 2005.

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.



for the year ended 30th June, 2005

## 12. EMPLOYEES' EMOLUMENTS

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

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits in kind	5,180	5,441
Contributions to retirement benefit schemes	159	186
Bonus	604	430
	<u>5,943</u>	<u>6,057</u>

Their emoluments are within the following bands:

Bands	Number of employees	
	2005	2004
Nil – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	—	1
HK\$2,000,001 – HK\$2,500,000	1	—
	<u>5</u>	<u>5</u>

## 13. TAXATION

	2005 HK\$'000	2004 HK\$'000 (restated)
The charge comprises:		
Taxation attributable to the Company and its subsidiaries		
Current tax		
Hong Kong	57,232	48,753
Other regions in the PRC	28,019	20,793
	<u>85,251</u>	<u>69,546</u>
(Over)underprovision in prior year		
Hong Kong	(3,467)	(463)
Other regions in the PRC	377	—
	<u>(3,090)</u>	<u>(463)</u>
Deferred tax (note 32)		
Current year	119,768	41,611
	<u>201,929</u>	<u>110,694</u>
Share of taxation attributable to associates	488,805	319,378
	<u>690,734</u>	<u>430,072</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.

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

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

	2005 HK\$'000	2004 HK\$'000 (restated)
Profit before taxation	<u>4,261,565</u>	<u>2,654,099</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	745,774	464,467
Tax effect of share of results of associates	(13,597)	(1,157)
Tax effect of expenses not deductible for tax purpose	41,056	22,730
Tax effect of income not taxable for tax purpose	(28,735)	(9,176)
Overprovision in respect of prior years	(3,090)	(463)
Tax effect of deferred tax assets not recognised	(7,749)	(3,412)
Tax effect of tax losses not recognised	8,049	7,092
Utilisation of tax losses previously not recognised	(36,568)	(6,448)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,496)	(9,979)
Tax relief	(7,036)	(30,579)
Others	<u>126</u>	<u>(3,003)</u>
Taxation charge for the year	<u>690,734</u>	<u>430,072</u>

**14. DIVIDENDS**

	2005 HK\$'000	2004 HK\$'000
Interim paid, 13 cents (2004: 11 cents) per share	<u>366,253</u>	309,906
Final proposed, 15 cents (2004: 12 cents) per share	<u>422,599</u>	<u>338,079</u>
	<u>788,852</u>	<u>647,985</u>

**15. EARNINGS PER SHARE**

The calculation of earnings per share is based on the net profit for the year of HK\$3,505,160,000 (2004: HK\$2,129,869,000, restated) and on 2,817,327,395 (2004: 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, 2005.

The adjustment to comparative basic earnings per share, arising from the changes in accounting policies shown in notes 2 and 3 above, is as follows:

	Basic HK\$
Reconciliation of 2004 earnings per share:	
Reported figure before adjustment	0.65
Adjustment arising from change of accounting policies	<u>0.11</u>
Restated	<u>0.76</u>

for the year ended 30th June, 2005

**16. INVESTMENT PROPERTIES**

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
At beginning of the year	4,110,284	3,948,186
Additions	53	549
Increase in fair value during the year	890,345	161,549
At end of the year	<u>5,000,682</u>	<u>4,110,284</u>
Representing:		
	2005 HK\$'000	2004 HK\$'000
Long-term leasehold properties situated in Hong Kong	1,369,359	1,076,215
Medium-term leasehold properties situated in Hong Kong	3,631,323	3,034,069
	<u>5,000,682</u>	<u>4,110,284</u>

The Group's investment properties were fair-valued on 30th June, 2005 by an independent firm of professional surveyors, Messrs. DTZ Debenham Tie Leung Limited, on an open market value basis. The resulting increase in fair value of investment properties of HK\$890,345,000 (2004: HK\$160,933,000) has been recognised directly in the consolidated income statement.

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\$455,882,000 (2004: HK\$404,584,000) 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.



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**17. 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, 2004	750,000	54,807	789,529	560,929	466	280,989	2,436,720
Additions	—	—	—	48	—	22,756	22,804
Surplus on revaluation	19,800	—	—	—	—	—	19,800
Disposals	—	—	—	(11,665)	—	(18,303)	(29,968)
Reclassification	—	—	—	—	(466)	466	—
At 30th June, 2005	<u>769,800</u>	<u>54,807</u>	<u>789,529</u>	<u>549,312</u>	<u>—</u>	<u>285,908</u>	<u>2,449,356</u>
Comprising:							
At cost	—	54,807	789,529	549,312	—	285,908	1,679,556
At valuation – 30th June, 2005	<u>769,800</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>769,800</u>
	<u>769,800</u>	<u>54,807</u>	<u>789,529</u>	<u>549,312</u>	<u>—</u>	<u>285,908</u>	<u>2,449,356</u>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>							
At 1st July, 2004							
As previously reported	—	10,649	163,176	62,349	—	218,863	455,037
Prior period adjustment (note 3)	—	—	30,067	70,779	—	—	100,846
As restated	—	10,649	193,243	133,128	—	218,863	555,883
Provided for the year	—	1,248	34,691	19,097	—	30,591	85,627
Eliminated on disposals	—	—	—	(9,690)	—	(17,994)	(27,684)
At 30th June, 2005	<u>—</u>	<u>11,897</u>	<u>227,934</u>	<u>142,535</u>	<u>—</u>	<u>231,460</u>	<u>613,826</u>
<b>NET BOOK VALUES</b>							
At 30th June, 2005	<u>769,800</u>	<u>42,910</u>	<u>561,595</u>	<u>406,777</u>	<u>—</u>	<u>54,448</u>	<u>1,835,530</u>
At 30th June, 2004 (restated)	<u>750,000</u>	<u>44,158</u>	<u>596,286</u>	<u>427,801</u>	<u>466</u>	<u>62,126</u>	<u>1,880,837</u>

	Hotel properties		Other land and buildings		Toll highway operation rights		Bridges	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Long-term leasehold properties situated in								
– Hong Kong	226,800	220,000	5	5	—	—	—	—
– PRC	—	—	393	436	—	—	—	—
Medium-term leasehold properties situated in								
– Hong Kong	543,000	530,000	40,021	41,038	—	—	—	—
– PRC	—	—	2,491	2,679	561,595	596,286	406,777	427,801
	<u>769,800</u>	<u>750,000</u>	<u>42,910</u>	<u>44,158</u>	<u>561,595</u>	<u>596,286</u>	<u>406,777</u>	<u>427,801</u>

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

Notes:

- (1) Hotel properties were revalued on 30th June, 2005 by an independent firm of professional surveyors, Messrs. DTZ Debenham Tie Leung Limited on an open market value basis. The surplus arising on revaluation of hotel properties attributable to the Group amounted to HK\$19,800,000 (2004: HK\$14,000,000) has been credited to the property revaluation reserve.
- (2) The net book value of equipment include an amount of HK\$524,000 (2004: nil) in respect of assets held under finance leases.
- (3) The Group's toll highway operation rights are pledged as securities for certain bank loans.

	Furniture and equipment HK\$'000
<b>THE COMPANY</b>	
<b>COST</b>	
At 1st July, 2004 and 30th June, 2005	21
<b>DEPRECIATION</b>	
At 1st July, 2004 and 30th June, 2005	21
<b>NET BOOK VALUES</b>	
At 30th June, 2005 and 30th June, 2004	—

**18. PROPERTIES HELD FOR DEVELOPMENT**

**THE GROUP**

Included in properties held for development is net interest capitalised of HK\$618,000 (2004: HK\$618,000).

**19. INVESTMENTS IN SUBSIDIARIES**

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	<u>2,157,974</u>	<u>2,107,070</u>

Details of the principal subsidiaries are shown on pages 84 to 89.

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**20. INTERESTS IN ASSOCIATES**

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000
<b>Unlisted</b>				
Shares, at cost	—	—	<b>164,226</b>	164,226
Share of net assets	<b>482,801</b>	380,719	—	—
	<u>482,801</u>	<u>380,719</u>	<u>164,226</u>	<u>164,226</u>
<b>Listed in Hong Kong</b>				
Share of net assets	<b>12,920,814</b>	11,822,170	—	—
Goodwill on acquisition of associates	<b>1,502,793</b>	1,216,796	—	—
Amortisation	<b>(230,635)</b>	(164,110)	—	—
	<u>1,272,158</u>	<u>1,052,686</u>	—	—
Negative goodwill on acquisition of associates	<b>(150,212)</b>	(141,109)	—	—
Release to income statement	<b>31,264</b>	25,000	—	—
	<u>(118,948)</u>	<u>(116,109)</u>	—	—
	<u>14,074,024</u>	<u>12,758,747</u>	—	—
	<u>14,556,825</u>	<u>13,139,466</u>	<u>164,226</u>	<u>164,226</u>
Market value of listed investments	<b>36,845,509</b>	29,372,248	—	—

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 90.

for the year ended 30th June, 2005

**21. INVESTMENTS IN SECURITIES**

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>THE GROUP</b>								
Equity securities								
Listed in Hong Kong	—	—	—	—	200,735	165,980	200,735	165,980
Unlisted	—	—	7,558	7,558	21,882	30,181	29,440	37,739
	<u>—</u>	<u>—</u>	<u>7,558</u>	<u>7,558</u>	<u>222,617</u>	<u>196,161</u>	<u>230,175</u>	<u>203,719</u>
Debt securities								
Listed outside Hong Kong	11,465	11,699	—	—	—	—	11,465	11,699
Unlisted	—	41,096	—	—	—	—	—	41,096
	<u>11,465</u>	<u>52,795</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,465</u>	<u>52,795</u>
Market value of listed securities	<u>11,088</u>	<u>11,936</u>	<u>—</u>	<u>—</u>	<u>200,735</u>	<u>165,980</u>	<u>211,823</u>	<u>177,916</u>
Carrying amount analysed for reporting purposes as:								
Current	—	41,096	—	—	—	—	—	41,096
Non-current	11,465	11,699	7,558	7,558	222,617	196,161	241,640	215,418
	<u>11,465</u>	<u>52,795</u>	<u>7,558</u>	<u>7,558</u>	<u>222,617</u>	<u>196,161</u>	<u>241,640</u>	<u>256,514</u>

	Other investments	
	2005 HK\$'000	2004 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>

**22. AMOUNTS DUE FROM MINORITY SHAREHOLDERS**

The amounts are unsecured and interest-free. The directors have agreed that no repayment will be demanded within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

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**23. 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 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	
	2005 HK\$'000	2004 HK\$'000
Under 1 month overdue	<b>114,938</b>	47,278
1 to 3 months overdue	<b>16,419</b>	19,695
More than 3 months overdue but less than 6 months overdue	<b>4,413</b>	4,267
Over 6 months overdue	<b>32,391</b>	7,167
	<b>168,161</b>	78,407
Prepayments, deposits and other receivables – current portion	<b>180,627</b>	182,437
	<b>348,788</b>	260,844
Prepayments, deposits and other receivables – non-current portion	<b>132,863</b>	131,430
	<b>481,651</b>	392,274

At 30th June, 2005, included in debtors, deposits and prepayments, other receivables of HK\$155,393,000 (2004: HK\$169,540,000) represented the discounted instalment receivables in future arising from the disposal of toll bridges in 2004 as further detailed in note 8, out of which, HK\$22,530,000 (2004: HK\$38,110,000) was classified as current assets.

**24. INVENTORIES**

**THE GROUP**

Inventories of HK\$790,000 (2004: HK\$976,000) are carried at net realisable value.

**25. COMPLETED PROPERTIES FOR SALE**

**THE GROUP**

Completed properties for sale with a total carrying value of HK\$28,446,000 (2004: HK\$28,734,000) 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 (2004: HK\$199,527,000) are carried at net realisable value.

**26. AMOUNTS DUE FROM INVESTEE COMPANIES**

The amounts are unsecured and with no fixed repayment terms. Included in the balances is an amount of HK\$6,300,000 (2004: HK\$6,300,000) which bore interest at 5% (2004: 5%) per annum from July 2004 to March 2005. The remaining balances are interest-free.



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**27. 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	
	2005 HK\$'000	2004 HK\$'000
Due within 1 month or on demand	123,507	96,788
Due after 1 month but within 3 months	42,982	30,998
Due after 3 months but within 6 months	3,318	844
Due after 6 months	7,930	6,256
	<u>177,737</u>	<u>134,886</u>
Rental deposits and other payables	103,080	89,141
Total creditors and accrued expenses	<u>280,817</u>	<u>224,027</u>

**28. BORROWINGS**

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Bank loans	228,806	255,664
Other loans	—	26,320
Bank overdrafts	33,783	29,170
	<u>262,589</u>	<u>311,154</u>
Secured	228,806	237,664
Unsecured	33,783	73,490
	<u>262,589</u>	<u>311,154</u>

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

	2005 HK\$'000	2004 HK\$'000
Within one year	126,910	127,731
Between one to two years	49,889	47,744
Between two to five years	85,790	135,679
	<u>262,589</u>	<u>311,154</u>
Less: Amounts due within one year and included in current liabilities	(126,910)	(127,731)
Amounts due after one year	<u>135,679</u>	<u>183,423</u>

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**29. 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Not later than one year	132	—	114	—
Later than one year and not later than five years	443	—	416	—
	575	—	530	—
Less: Future finance charges	(45)	—	—	—
Present value of lease obligations	530	—	530	—
Amount due within one year shown under current liabilities			(114)	—
Amount shown under non-current liabilities			416	—

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

The Group entered into finance leasing arrangements for certain of its equipment. The average term of finance leases entered into is five years.

**30. SHARE CAPITAL**

	2005 HK\$'000	2004 HK\$'000
Authorised:		
3,600,000,000 (2004: 3,000,000,000) ordinary shares of HK\$0.2 each	720,000	600,000
Issued and fully paid:		
2,817,327,395 (2004: 2,817,327,395) ordinary shares of HK\$0.2 each	563,466	563,466

Pursuant to an ordinary resolution passed at the annual general meeting held on 6th December, 2004, the authorised share capital of the Company was increased from HK\$600,000,000 to HK\$720,000,000 by the creation of 600,000,000 additional new ordinary shares of HK\$0.2 each.

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**31. RESERVES**

	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
<b>THE GROUP</b>						
As 1st July, 2003						
As previously reported	1,815,358	12,909	6,158,568	309,906	10,389,213	18,685,954
Prior period adjustments (note a)	(535,371)	—	—	—	(206,226)	(741,597)
As restated	1,279,987	12,909	6,158,568	309,906	10,182,987	17,944,357
Final dividend paid	—	—	—	(309,906)	—	(309,906)
Surplus on revaluation net of deferred tax						
– Company and subsidiaries	14,000	—	—	—	—	14,000
Net profit for the year	—	—	—	—	2,129,869	2,129,869
Interim dividend paid	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	338,079	(338,079)	—
At 1st July, 2004	1,293,987	12,909	6,158,568	338,079	11,664,871	19,468,414
Final dividend paid	—	—	—	(338,079)	—	(338,079)
Surplus on revaluation net of deferred tax						
– Company and subsidiaries	19,800	—	—	—	—	19,800
Net profit for the year	—	—	—	—	3,505,160	3,505,160
Interim dividend paid	—	—	—	—	(366,253)	(366,253)
Final dividend proposed	—	—	—	422,599	(422,599)	—
At 30th June, 2005	1,313,787	12,909	6,158,568	422,599	14,381,179	22,289,042
<b>THE COMPANY</b>						
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 1st July, 2004	—	3,461	6,158,568	338,079	4,895,914	11,396,022
Final dividend paid	—	—	—	(338,079)	—	(338,079)
Net profit for the year	—	—	—	—	1,293,535	1,293,535
Interim dividend paid	—	—	—	—	(366,253)	(366,253)
Final dividend proposed	—	—	—	422,599	(422,599)	—
At 30th June, 2005	—	3,461	6,158,568	422,599	5,400,597	11,985,225
Included in the above is the Group's share of post-acquisition reserves of its associates as follows:						
At 30th June, 2005	909,463	—	—	—	5,269,692	6,179,155
At 30th June, 2004 (restated)	909,463	—	—	—	3,815,739	4,725,202

for the year ended 30th June, 2005

**31. RESERVES** (cont'd)

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 HKAS 40 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\$422,599,000 and HK\$5,400,597,000 (2004: HK\$338,079,000 and HK\$4,895,914,000) respectively.
- (c) Including in the adjusted property revaluation reserve as at 1st July, 2003 is an amount of HK\$909,463,000 attributable to an associate's revaluation surplus of its leasehold land, which previously grouped under investment property revaluation reserve. As a result of adoption of HKAS40, the revaluation reserve of the Group's investment properties and its share of such reserve of associates are adjusted to retained earnings. The reserve in relation to the leasehold land of the associate is reclassified to property revaluation reserve.

**32. DEFERRED TAX LIABILITIES**

The followings are the major deferred tax liabilities and assets of the Group 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	Gain on change in fair value on investment properties HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st July, 2003						
As previously reported	57,166	—	—	(10,391)	1,064	47,839
Prior period adjustments	(19,686)	—	376,296	—	—	356,610
As restated	37,480	—	376,296	(10,391)	1,064	404,449
Charge (credit) to income for the year (restated)	(979)	15,212	22,706	3,771	901	41,611
At 1st July, 2004						
As previously reported	36,501	15,212	399,002	(6,620)	1,965	446,060
Charge (credit) to income for the year	(125)	(624)	126,631	(6,116)	2	119,768
At 30th June, 2005						
	36,376	14,588	525,633	(12,736)	1,967	565,828

At the balance sheet date, the Group has unused tax losses of approximately HK\$1,309,216,000 (2004: HK\$1,433,576,000). Included in unused tax losses are losses of HK\$917,804,000 (2004: HK\$1,024,397,000) that had not been agreed with relevant tax authorities. Subject to the agreement of the relevant tax authorities, the tax losses were available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$72,776,000 (2004: HK\$37,830,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,236,440,000 (2004: HK\$1,395,746,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$47,768,000 (2004: HK\$22,166,000) 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. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$52,425,000 (2004: HK\$96,703,000). 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.

**33. 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 and accordingly, the amounts are shown as non-current.

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**34. DISPOSAL OF SUBSIDIARIES**

	2005 HK\$'000	2004 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>—</u>	<u>19</u>
Satisfied by:		
Consideration receivable	<u>—</u>	<u>19</u>
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	<u>—</u>	<u>(58)</u>

The subsidiaries disposed of during last year had no significant contribution to the Group's turnover and profit from operations for that year.

**35. MAJOR NON-CASH TRANSACTIONS**

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$601,000 (2004: nil).

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

**36. 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 (2004: HK\$21,267,000). The Group's share of liabilities incurred in relation to the jointly controlled assets included in creditors and accrued expenses amounted to HK\$440,000 (2004: HK\$414,000).

**37. 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\$110,788,000 (2004: HK\$71,182,000) was kept in other regions of the PRC and is subject to exchange control regulations.

**38. 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.

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**38. SHARE OPTION SCHEMES** (cont'd)

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.

Share options granted under the Share Option Scheme lapsed on 30th September, 2004.

	Number of share option				At 30th June, 2005
	At 1st July, 2003	Lapsed during the year	At 30th June, 2004	Lapsed during the year	
<b>Option Plan</b>					
Directors	9,200,000	—	9,200,000	(9,200,000)	—
Employees	1,850,000	—	1,850,000	(1,850,000)	—
Other participants	16,600,000	(150,000)	16,450,000	(16,450,000)	—
	<u>27,650,000</u>	<u>(150,000)</u>	<u>27,500,000</u>	<u>(27,500,000)</u>	<u>—</u>
<b>Share Option Scheme</b>					
Employees	<u>100,000</u>	<u>—</u>	<u>100,000</u>	<u>(100,000)</u>	<u>—</u>

**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\$248,000 (2004: HK\$154,000). There was no such balance at 30th June, 2005 (2004: HK\$25,000).

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 forfeited contributions were utilised during the year (2004: HK\$76,000).

The Group's retirement costs charged to the income statement for the year ended 30th June, 2005 were HK\$9,272,000 (2004: HK\$9,062,000).

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**40. CAPITAL COMMITMENTS**

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Contracted commitments for acquisition of property, plant and equipment and for property development and renovation expenditure	21,070	14,579
Contracted commitments for system development costs	269	850

At the balance sheet date, the Company had no capital commitment.

**41. CONTINGENT LIABILITIES**

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Guarantees given to banks to secure banking facilities utilised by subsidiaries	33,580	46,561

**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	
	2005 HK\$'000	2004 HK\$'000
Not later than one year	22,273	56,466
Later than one year and not later than five years	15,281	33,367
	37,554	89,833

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	
	2005 HK\$'000	2004 HK\$'000
Investment properties	5,000,682	4,110,284
Other land and buildings	24,624	25,249
Completed properties for sale	206,830	207,257
Properties held for development	6,616	6,889

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**42. OPERATING LEASE COMMITMENTS** (cont'd)

**The Group as lessor** (cont'd)

These assets were leased out for periods of one to six years with an option to renew the lease and terms are subject to re-negotiation 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 are:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Not later than one year	<b>313,457</b>	331,859
Later than one year and not later than five years	<b>117,871</b>	140,465
Later than five years	—	1,634
	<b><u>431,328</u></b>	<u>473,958</u>

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



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**43. RELATED PARTY TRANSACTIONS**

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

	Fellow subsidiaries		Associates		Investee companies	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Accountancy fee paid	2,880	5,875	—	—	—	—
Agency commission paid	10,534	19,722	—	—	—	—
Building management fee paid	34,191	53,361	—	—	—	—
Cleaning services income	6,997	10,148	—	—	—	—
Consultancy service income	664	3,552	723	1,736	—	—
Hotel management fee income	715	730	—	—	—	—
Hotel management fee paid	—	—	—	2,521	—	—
Interest expenses	504	150	—	—	—	—
Interest income	—	—	2,810	2,580	—	—
Licence fee	—	275	—	—	—	—
Management fee income	600	1,000	—	—	—	—
Professional fee paid	—	2,556	364	491	—	—
Rental expenses	85,106	79,727	2,247	2,658	—	—
Rental income	11,283	9,384	—	—	—	—
Security guard service income	29,945	45,103	—	—	—	—
Staff cost reimbursement	—	—	1,226	1,130	—	—
<b>At the balance sheet date</b>						
Amounts due from						
– Interest-free	—	—	42,009	67,488	202	76
– Interest bearing	—	—	—	60,000	6,300	6,300
	—	—	42,009	127,488	6,502	6,376
Rental deposit paid	2,515	2,515	—	—	—	—
Amounts due to						
– Interest-free	—	—	2,485	—	—	—
– Interest bearing	301,234	72,165	—	—	—	—
	301,234	72,165	2,485	—	—	—

**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 and building management fee which represents cost reimbursements plus certain percentage thereon as service fees, the other transactions represent cost reimbursements.
- (2) 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.