

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants (the “HKSA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investment in securities as explained in the accounting policies set out below.

### (c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement or investment revaluation reserve as they arise until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (c) Subsidiaries (Continued)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement or investment revaluation reserve as they arise until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

### (d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement or investment revaluation reserve as they arise until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

### (e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(h)) is included in the carrying amount of the interest in associates.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (e) Goodwill (Continued)

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

### (f) Fixed assets

#### (i) Investment properties

Investment properties are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. Surpluses arising on revaluation are credited on a portfolio basis to the consolidated income statement to the extent of any deficit arising on revaluation previously charged to the consolidated income statement and are thereafter taken to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter charged to the consolidated income statement.

No depreciation is provided for investment properties as all investment properties are either freehold or held under leases with unexpired terms of more than 20 years and the valuation takes into account the state of each property at the date of valuation.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (f) Fixed assets (Continued)

#### (ii) Land and buildings

Land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(h)).

No amortisation is provided on freehold land. Leasehold land is amortised by equal instalments over the remaining periods of the relevant leases.

Buildings are depreciated on a straight-line basis over the shorter of 50 years and the unexpired terms of the leases.

#### (iii) Land use rights

Land use rights are included under land and buildings and are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Amortisation is calculated to write off the cost over the period of entitlement.

#### (iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(h)). Depreciation is calculated to write off the cost of other fixed assets on a straight-line basis at the following rates:

Furniture and fixtures	10% – 20% per annum
Computer hardware and software	20% per annum
Motor vehicles	25% per annum

#### (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the consolidated income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

### (g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than investment properties carried at revalued amounts);
- investment in subsidiaries and associates (except those accounted for at fair value under notes 1(c) and (d)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### (ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised, except where the assets are carried at revalued amounts, in which case the reversal of impairment loss is treated as a revaluation movement.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (i) Investment in securities

The Group's policies for investment in securities other than investment in subsidiaries and associates are as follows:

- (i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.
- (ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.
- (iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investment in securities are accounted for in the consolidated income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

### (j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

#### (i) Sale of goods

Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

#### (ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (j) Revenue recognition (Continued)

#### (iii) Dividends

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted investment is recognised in the accounting period in which they are declared or proposed and approved by shareholders of the investee company.

#### (iv) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

#### (v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

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

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

### (n) Operating leases

Rentals payable under operating leases are accounted for in the consolidated income statement on a straight-line basis over the periods of the respective leases. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

### (o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

(iii) Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.



# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 1. Significant accounting policies (Continued)

### (q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

### (s) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operation.

## 2. Turnover and segment reporting

The principal activities of the Group for the year are the operation of department stores and property investment.

Group turnover for the year comprises the invoiced value of goods sold to customers less returns and income from property investment.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 2. Turnover and segment reporting (Continued)

### Business segments

The Group comprises the following main business segments:

Department stores: The operating of department stores to offer a wide range of consumer products.

Property investment: The leasing of office premises to generate rental income and to gain from the appreciation in the properties' values in the long term.

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2002 \$'000 (note (a))	2001 \$'000	2002 \$'000 (note (b))	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>Revenue from external customers</b>	1,445,500	1,551,231	280,809	312,501	-	-	-	-	1,726,309	1,863,732
Inter-segment revenue	3	1	67,302	69,166	(67,305)	(69,167)	-	-	-	-
Other revenue from external customers	-	-	-	-	-	-	3,092	10,832	3,092	10,832
<b>Total</b>	<u>1,445,503</u>	<u>1,551,232</u>	<u>348,111</u>	<u>381,667</u>	<u>(67,305)</u>	<u>(69,167)</u>	<u>3,092</u>	<u>10,832</u>	<u>1,729,401</u>	<u>1,874,564</u>
Segment result	(52,733)	(104,526)	243,105	261,361	-	-	-	-	190,372	156,835
Gain on disposal of investment properties (note (c))	-	-	48,658	-	-	-	-	-	48,658	-
Loss on cessation of department store operation in Tianjin	-	(13,731)	-	(2,000)	-	-	-	-	-	(15,731)
	<u>(52,733)</u>	<u>(118,257)</u>	<u>291,763</u>	<u>259,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,030</u>	<u>141,104</u>
Loss on cessation of mortgage servicing and origination business written back									-	7,789
Interest income									21,825	11,722
Unallocated operating income net of expenses									30,886	(33,574)
<b>Profit from operations</b>									291,741	127,041
Finance cost									(52,840)	(63,584)
									238,901	63,457
Share of profits less losses of associates (note (d))									146,069	109,428
<b>Profit from ordinary activities before taxation</b>									384,970	172,885
Taxation									(141,869)	(83,581)
<b>Profit from ordinary activities after taxation</b>									243,101	89,304
Minority interests									(815)	2,554
<b>Profit attributable to shareholders</b>									<u>242,286</u>	<u>91,858</u>

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 2. Turnover and segment reporting (Continued)

### Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Depreciation and amortisation for the year	(32,194)	(40,905)	(28,131)	(29,969)	-	-	(980)	(585)	(61,305)	(71,459)
Impairment loss for the year (note 13(g))	-	(8,662)	-	(13,791)	-	-	-	-	-	(22,453)
Significant net non-cash income/(expenses) (other than depreciation and amortisation)	-	(5,069)	-	-	-	-	-	7,789	-	2,720
Segment assets	182,012	246,967	3,994,794	4,447,265	(13,768)	(38,458)	-	-	4,163,038	4,655,774
Interest in associates									525,285	485,858
Unallocated assets									894,365	631,095
Total assets									5,582,688	5,772,727
Segment liabilities	221,860	244,783	31,036	43,722	(13,768)	(38,458)	-	-	239,128	250,047
Unallocated liabilities									936,465	1,035,212
Total liabilities									1,175,593	1,285,259
Capital expenditure incurred during the year	4,785	6,900	9,769	14,517	-	-	343	925	14,897	22,342

#### Notes:

- (a) Operating loss incurred by department stores includes impairment loss amounted to \$Nil (2001: \$8,662,000) in respect of the fixed assets of the department store operation in Tianjin.
- (b) Operating profit contributed by property investment includes:
  - (i) net rental income receivable of \$65,919,000 (2001: \$67,624,000) from the department store operation; and
  - (ii) impairment loss amounted to \$Nil (2001: \$8,100,000) in respect of land use rights in The People's Republic of China ("the PRC").
- (c) Gain on disposal of investment properties amounting to \$48,658,000 (2001: \$Nil) represents the disposal of investment properties in Australia. The amount includes the transfer from investment property revaluation reserve and exchange reserve (note 27(a)). Details of the transaction have been disclosed in the circular to shareholders dated 26th March, 2002 in accordance with the Listing Rules.
- (d) Share of profits less losses of associates includes a profit of \$39,117,000 contributed by an associate in respect of the disposal of investment properties (note 16(c)).

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 2. Turnover and segment reporting (Continued)

### Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong is a major market for the Group's businesses. Australia and United States are the major markets for property investment. In the PRC, the business includes property investment and department stores.

In presenting information on the basis of geographical segments, segments revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Australia		United States		The People's Republic of China		Others		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<b>Revenue from external customers</b>	<u>1,564,140</u>	<u>1,624,435</u>	<u>116,072</u>	<u>132,843</u>	<u>23,423</u>	<u>24,345</u>	<u>19,834</u>	<u>79,885</u>	<u>2,840</u>	<u>2,224</u>	<u>1,726,309</u>	<u>1,863,732</u>
Segment result	72,345	56,328	113,584	125,856	8,666	8,060	(6,543)	(35,009)	2,320	1,600	190,372	156,835
Gain on disposal of investment properties	-	-	48,658	-	-	-	-	-	-	-	48,658	-
Loss on cessation of department store operation in Tianjin	-	-	-	-	-	-	-	(15,731)	-	-	-	(15,731)
	<u>72,345</u>	<u>56,328</u>	<u>162,242</u>	<u>125,856</u>	<u>8,666</u>	<u>8,060</u>	<u>(6,543)</u>	<u>(50,740)</u>	<u>2,320</u>	<u>1,600</u>	<u>239,030</u>	<u>141,104</u>
Loss on cessation of mortgage servicing and origination business written back											-	7,789
Interest income											21,825	11,722
Unallocated operating income net of expenses											30,886	(33,574)
<b>Profit from operations</b>											291,741	127,041
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Minority interests											(815)	2,554
<b>Profit attributable to shareholders</b>											<u>242,286</u>	<u>91,858</u>

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 2. Turnover and segment reporting (Continued)

### Geographical segments (Continued)

	Hong Kong		Australia		United States		The People's Republic of China		Others		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	2,552,209	2,791,467	1,447,740	1,700,427	139,393	145,748	3,045	30,991	34,419	25,599	4,176,806	4,694,232
Inter-segment elimination	(13,768)	(17,586)	-	-	-	-	-	(20,872)	-	-	(13,768)	(38,458)
	<u>2,538,441</u>	<u>2,773,881</u>	<u>1,447,740</u>	<u>1,700,427</u>	<u>139,393</u>	<u>145,748</u>	<u>3,045</u>	<u>10,119</u>	<u>34,419</u>	<u>25,599</u>	<u>4,163,038</u>	<u>4,655,774</u>
Capital expenditure incurred during the year	9,740	15,966	3,059	3,552	2,098	1,371	-	1,453	-	-	14,897	22,342

## 3. Other revenue and net gain/(loss)

	2002 \$'000	2001 \$'000
<b>Other revenue</b>		
Dividend and interest income from securities		
– listed	2,795	4,724
– unlisted	1,486	1,698
Hotel revenue	–	4,930
Other interest income	21,825	11,722
Others	3,092	5,902
	<u>29,198</u>	<u>28,976</u>
<b>Other net gain/(loss)</b>		
Net gain on disposal of fixed assets	3	142
Net exchange gain/(loss)	24,968	(8,252)
Net realised gain on trading securities	584	2,118
Net realised gain on disposal of non-trading securities (note)	21,595	–
Net unrealised loss on trading securities	(7,595)	(13,426)
Write back/(net charge) of impairment loss on non-trading securities	5,768	(3,917)
	<u>45,323</u>	<u>(23,335)</u>

Note: Net realised gain on disposal of non-trading securities includes a surplus of \$21,500,000 (2001: \$Nil) (note 27(a)) transferred from investment revaluation reserve previously recognised.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	<u>52,840</u>	<u>63,584</u>
(b) Staff costs:		
Contributions to defined contribution plans	10,274	11,952
Salaries, wages and other benefits	<u>175,399</u>	<u>202,385</u>
	<u>185,673</u>	<u>214,337</u>
(c) Other items:		
Cost of inventories sold	1,021,603	1,098,061
Operating lease charges		
– rentals on land and buildings	113,324	125,797
– contingent rent	837	983
Depreciation and amortisation	61,305	71,459
Amortisation of goodwill	284	284
Recognition of negative goodwill	(350)	(352)
Impairment loss on fixed assets (note 13(g))	–	22,453
Auditors' remuneration		
– current year	2,526	2,455
– previous year	39	(10)
Rentals receivable from investment properties net of direct outgoings of \$62,883,000 (2001: \$64,092,000)	<u>(216,725)</u>	<u>(247,307)</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 5. Taxation

#### (a) Taxation in the consolidated income statement represents:

	Group	
	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	16,168	18,579
Under/(over) provision in respect of prior years	97	(913)
	16,265	17,666
Overseas taxation	8,247	5,536
Deferred taxation (note 25)	45,387	17,988
	69,899	41,190
Share of associates' taxation	71,970	42,391
	141,869	83,581

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

#### (b) Taxation in the balance sheets represents:

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	16,168	18,579	–	43
Provisional Profits Tax paid	(14,051)	(13,862)	–	(43)
	2,117	4,717	–	–
Overseas taxation payable	6,589	268	–	–
	8,706	4,985	–	–
Tax payable	8,706	4,985	–	–

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 6. Discontinuing operation

In January 2002, the Group entered into an agreement with the landlord of the Group's Tianjin department store to cease the department store operation. The results of the Tianjin department store operation had been included in the department store segment and the PRC geographical segment. Adjustments had been made in 2001 to reduce the value of assets to their recoverable amounts and to provide for other expected liabilities and expenses to be incurred by the subsidiaries in connection with the cessation of business. The operation ceased on 1st May, 2002. Assets of the operation have been realised in an orderly manner to pay off liabilities.

The net liabilities of the discontinuing operation as at 31st December, 2002 were as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Non-current assets	1,219	1,248
Current assets	2,286	13,301
Current liabilities	<u>(15,610)</u>	<u>(35,262)</u>
Net liabilities	<u><u>(12,105)</u></u>	<u><u>(20,713)</u></u>

### 7. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of \$131,950,000 (2001: \$128,874,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	(131,950)	(128,874)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	<u>—</u>	<u>17,490</u>
Company's loss for the year (note 27(b))	<u><u>(131,950)</u></u>	<u><u>(111,384)</u></u>



## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 8. Dividends

#### (a) Dividends attributable to the year

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Interim dividend declared and paid of 17 cents (2001: 4 cents) per share	50,205	11,813
Final dividend proposed after the balance sheet date of 26 cents (2001: 12 cents) per share	76,785	35,439
	<u>126,990</u>	<u>47,252</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

#### (b) Dividends attributable to the previous financial year, proposed, approved and paid during the year

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Final dividend in respect of the previous financial year, proposed, approved and paid during the year, of 12 cents (2001: 9 cents) per share	<u>35,439</u>	<u>26,579</u>

### 9. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of \$242,286,000 (2001: \$91,858,000) divided by 295,326,000 shares (2001: 295,326,000 shares) in issue during the year.

There were no outstanding potential ordinary shares throughout the years presented.

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 10. Emoluments of directors, five highest paid individuals and employees

### (a) Emoluments of directors

(i) The aggregate emoluments of the directors are as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Fees	490	490
Salaries, allowances and benefits in kind	5,209	5,181
Contributions to defined contribution plans	127	127
Discretionary bonuses	106	165
	<u>5,932</u>	<u>5,963</u>

(ii) The emoluments of the directors are within the following bands:

	<b>Number of directors</b>	
	<b>2002</b>	<b>2001</b>
\$		
0 – 500,000	8	7
500,001 – 1,000,000	2	2
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	1	1
	<u>12</u>	<u>11</u>

(iii) Included in the emoluments of directors are emoluments of \$490,000 (2001: \$490,000) received by the independent non-executive directors.

### (b) Emoluments of five highest paid individuals

(i) The five highest paid individuals in the Group include two (2001: two) directors whose emoluments are shown in (a)(i) above. The emoluments of the other three (2001: three) individuals who comprise the five highest paid individuals are:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Salaries, allowances and benefits in kind	5,955	6,064
Contributions to defined contribution plans	348	354
Discretionary bonuses	86	279
	<u>6,389</u>	<u>6,697</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 10. Emoluments of directors, five highest paid individuals and employees (Continued)

#### (b) Emoluments of five highest paid individuals (Continued)

(ii) The above emoluments are analysed as follows:

	Number of individuals	
	2002	2001
\$		
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	1
	<u>3</u>	<u>3</u>

#### (c) Employees' emoluments

The aggregate emoluments of all employees of the Group are as follows:

	2002	2001
	\$'000	\$'000
Salaries, allowances and benefits in kind	175,600	196,507
Contributions to defined contribution plans	10,274	11,952
Severance payments (written back)/made	(901)	5,063
Discretionary bonuses	700	815
	<u>185,673</u>	<u>214,337</u>

### 11. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) and a number of MPF exempted defined contribution schemes (“MPF exempted schemes”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement schemes administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was \$10,401,000 (2001: \$12,079,000).

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 12. Change of accounting policies

#### (a) Translation of financial statements of foreign enterprises

In prior years, the results of foreign enterprise were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st January, 2002, in order to comply with SSAP 11 (revised) "Foreign currency translation" issued by the HKSA, the Group translates the results of foreign enterprises at the average exchange rates for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

#### (b) Employee benefits

With effect from 1st January, 2002, the Group has adopted the new SSAP 34 "Employee benefits" issued by the HKSA. As a result of this new accounting policy, both the Group's profit attributable to the shareholders for the year and the Group's net assets as at 31st December, 2002 have been decreased by \$7,247,000 (2001: \$Nil). It is impractical to quantify the effect of this change in accounting policy in prior years and, therefore, the opening balances have not been restated.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 13. Fixed assets

#### (a) The Group

	Land and buildings \$'000	Other assets \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
<b>Cost or valuation:</b>					
At 1st January, 2002	620,112	544,115	1,164,227	3,815,654	4,979,881
Exchange adjustments	(49)	(41)	(90)	180,269	180,179
Additions	–	9,740	9,740	5,157	14,897
Disposals	–	(61,573)	(61,573)	(378,572)	(440,145)
Deficit on revaluation	–	–	–	(225,801)	(225,801)
	620,063	492,241	1,112,304	3,396,707	4,509,011
	620,063	492,241	1,112,304	3,396,707	4,509,011
<b>Aggregate depreciation, amortisation and impairment:</b>					
At 1st January, 2002	107,272	362,273	469,545	–	469,545
Exchange adjustments	(49)	(61)	(110)	–	(110)
Charge for the year	15,278	46,027	61,305	–	61,305
Written back on disposals	–	(61,275)	(61,275)	–	(61,275)
	122,501	346,964	469,465	–	469,465
	122,501	346,964	469,465	–	469,465
<b>Net book value:</b>					
At 31st December, 2002	497,562	145,277	642,839	3,396,707	4,039,546
At 31st December, 2001	512,840	181,842	694,682	3,815,654	4,510,336

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 13. Fixed assets (Continued)

#### (a) The Group (Continued)

The analysis of cost or valuation of the fixed assets of the Group is as follows:

	At cost, less provision \$'000	At professional valuation in 2002 \$'000	At directors' valuation in 1981 \$'000	Total \$'000
<b>Land and buildings</b>				
Leasehold land and buildings				
– held under long lease in Hong Kong	129	–	150,263	150,392
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	15,333	–	–	15,333
Freehold land and buildings outside Hong Kong	10,938	–	–	10,938
<b>Investment properties</b>				
Long lease				
– in Hong Kong	–	1,518,500	–	1,518,500
– outside Hong Kong	–	87,910	–	87,910
Medium term lease in Hong Kong	–	265,204	–	265,204
Freehold outside Hong Kong	–	1,525,093	–	1,525,093
<b>Other fixed assets</b>	492,241	–	–	492,241
	<u>962,041</u>	<u>3,396,707</u>	<u>150,263</u>	<u>4,509,011</u>

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80 of SSAP 17 “Property, plant and equipment” issued by the HKSA, with the effect that land and buildings have not been revalued to fair value at the balance sheet date.

(c) The carrying amount of land and buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows:

	Group	
	2002 \$'000	2001 \$'000
Cost	554,644	554,693
Accumulated depreciation	(90,461)	(75,452)
Net book value	<u>464,183</u>	<u>479,241</u>

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 13. Fixed assets (Continued)

- (d) Investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis at 31st December, 2002. Investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers, Jones Lang LaSalle Limited, Registered Valuers, CB Richard Ellis (V) Pty Ltd, Certified Practising Valuers, or Bolton & Baer, Licensed Real Estate Appraisers, on an open market value basis at 31st December, 2002. The revaluation deficit after minority interests of \$224,728,000 (2001: \$42,124,000) has been transferred to the investment property revaluation reserve (note 27(a)).
- (e) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to eighteen years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$3,396,707,000 (2001: \$3,815,654,000).

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

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Within one year	188,457	223,304
After 1 year but within 5 years	363,332	502,141
After 5 years	5,045	27,624
	<u>556,834</u>	<u>753,069</u>

- (f) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.
- (g) Impairment loss

The prolonged abandonment of land use rights in the PRC, the land in the USA and the discontinuance of the department store operation in Tianjin have caused the Group to assess the recoverable amount of the land use rights, the land and the assets attributable to the Tianjin department store operation. Based on this assessment, the carrying amount of the assets was written down by \$22,453,000 in 2001, of which \$10,662,000 was attributable to the Tianjin department store operation. The estimates of recoverable amount were based on the assets' value in use. No further impairment loss was made in 2002.

- (h) Certain investment properties located in Australia were disposed of in March and April 2002 and gave rise to a profit before tax of \$48,658,000. Bank loans totalling \$165,880,000 secured by mortgages on those properties were repaid upon their disposal.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 14. Interest in subsidiaries

	Company	
	2002 \$'000	2001 \$'000
Unlisted shares, at cost	2,801,991	2,801,991
Amounts due from subsidiaries	1,505,945	1,592,448
	4,307,936	4,394,439
Amount due to a subsidiary	(1)	(1)
	4,307,935	4,394,438
Impairment loss	(619,521)	(489,373)
	3,688,414	3,905,065

Details of the principal subsidiaries are set out on pages 64 to 68.

### 15. Goodwill

	Positive goodwill \$'000	Negative goodwill \$'000	Total \$'000
<b>Cost:</b>			
At 1st January and at 31st December, 2002	178,553	(2,558)	175,995
<b>Accumulated amortisation:</b>			
At 1st January, 2002	176,621	(2,558)	174,063
Amortisation for the year	284	-	284
	176,905	(2,558)	174,347
At 31st December, 2002	176,905	(2,558)	174,347
<b>Carrying amount:</b>			
At 31st December, 2002	1,648	-	1,648
At 31st December, 2001	1,932	-	1,932

The amortisation of positive goodwill for the year is included in “other operating expenses” in the consolidated income statement.



## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 16. Interest in associates

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Unlisted shares		
Share of net assets other than goodwill	484,870	440,381
Share of unamortised goodwill	42,440	46,776
Negative goodwill on acquisition	(3,164)	(3,514)
Amounts due from associates less provision	1,197	2,215
Amount due to an associate	(58)	–
	525,285	485,858

- (a) Details of the principal associates are set out on page 69.
- (b) Additional information in respect of the Group's material associate, WL Investments Limited, extracted from its audited financial statements, is given as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
<b>Operating results</b>		
Turnover	9,531,981	9,209,791
Profit before taxation	310,892	233,010
Profit after taxation	157,762	142,816
<b>Group's share of profit after taxation attributable to the material associate</b>	74,148	67,123
Non-current assets	1,077,989	1,113,497
Current assets*	1,457,683	1,325,044
Total assets	2,535,672	2,438,541
Current liabilities	746,196	898,300
Non-current liabilities	667,444	503,620
Total liabilities	1,413,640	1,401,920
Net assets	1,122,032	1,036,621
<b>Group's share of net assets attributable to the material associate</b>	527,355	487,212

\* Current assets comprise mainly inventories of motor vehicles.

At the balance sheet date, the Group has an equity interest of 50% in WL Investments Limited ("WL"). Due to the existence of a phantom stock plan for the benefit of WL's key employees, the Group's effective share of the results and net assets of WL is 47%.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 16. Interest in associates (Continued)

- (c) WL disposed of certain investment properties in the USA for a cash consideration of US\$51,500,000, resulting in a profit before taxation of US\$10,688,000. The transaction contributed a profit before taxation of \$39,117,000 to the Group in the year. The amount includes the transfer from investment property revaluation reserve (note 27(a)).

### 17. Non-trading securities

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
<b>Equity securities</b>		
– Listed outside Hong Kong, at market value	20,062	14,294
– Unlisted	54,950	118,237
	75,012	132,531

### 18. Trading securities

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
<b>Debt securities</b>		
– Listed outside Hong Kong, at market value	9,179	55,029
<b>Equity securities</b>		
Listed:		
– in Hong Kong, at market value	33,449	42,362
– outside Hong Kong, at market value	18,986	18,907
	52,435	61,269
	61,614	116,298

### 19. Inventories

Of the total inventories of \$63,777,000 (2001: \$76,533,000), the amount of inventories carried at net realisable value is \$36,932,000 (2001: \$46,155,000). A general provision of \$1,997,000 (2001: \$1,695,000) has also been made against the inventories at the balance sheet date.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 20. Debtors, deposits and prepayments

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Trade and other debtors, net of provision for doubtful debts	17,755	23,501	–	–
Deposits and prepayments	50,885	56,827	203	203
	<u>68,640</u>	<u>80,328</u>	<u>203</u>	<u>203</u>

- (a) The ageing analysis of trade and other debtors, net of provision for doubtful debts, is as follows:

	Group	
	2002 \$'000	2001 \$'000
Current	15,772	20,722
1 to 3 months overdue	573	1,526
More than 3 months overdue	1,410	1,253
	<u>17,755</u>	<u>23,501</u>

Debts are normally due within 30 days from the date of billing.

- (b) All deposits and prepayments, apart from certain rental deposits of \$24,134,000 (2001: \$26,490,000), are expected to be recovered within one year.

### 21. Cash and cash equivalents

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Cash at bank and in hand	50,835	64,719	1,026	423
Bank deposits	693,752	302,506	–	–
Cash and cash equivalents in the consolidated balance sheet	744,587	367,225	1,026	423
Bank deposits pledged	(29,908)	(23,685)	–	–
Cash and cash equivalents in the consolidated cash flow statement	<u>714,679</u>	<u>343,540</u>	<u>1,026</u>	<u>423</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 22. Creditors and accrued charges

	Group		Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Trade and other creditors	207,637	204,140	–	–
Accrued charges	44,873	60,309	8,557	7,011
	<u>252,510</u>	<u>264,449</u>	<u>8,557</u>	<u>7,011</u>

The ageing analysis of trade and other creditors is as follows:

	Group	
	2002 \$'000	2001 \$'000
Amounts not yet due	167,194	177,907
On demand or overdue for less than 1 month	32,971	15,438
1 to 3 months overdue	1,474	1,548
3 to 12 months overdue	5,998	9,247
	<u>207,637</u>	<u>204,140</u>

### 23. Non-current interest-bearing bank loans

	Group	
	2002 \$'000	2001 \$'000
Bank loans (note 24)		
– secured	806,357	926,373
Amounts due within 1 year included under current liabilities	(71,256)	(72,431)
	<u>735,101</u>	<u>853,942</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 24. Bank loans

At 31st December, 2002, the bank loans of the Group were repayable as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Within 1 year or on demand	71,256	72,431
After 1 year but within 2 years	39,616	48,235
After 2 years but within 5 years	695,485	805,707
	<u>735,101</u>	<u>853,942</u>
	<u>806,357</u>	<u>926,373</u>

A bank loan of \$29,908,000 repayable on 31st March, 2003, included under current liabilities, is subject to annual review under a lending facility guaranteed by the Group.

At 31st December, 2002, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of \$1,018,815,000 (2001: \$1,131,471,000) granted to the Group:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Land and buildings	111,549	113,382
Investment properties	2,899,480	3,269,225
Trading securities	5,925	7,317
Bank deposits	29,908	23,685
	<u>3,046,862</u>	<u>3,413,609</u>

# NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

## 25. Deferred taxation

Movements in deferred taxation comprise:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
At 1st January	80,945	34,905
Exchange adjustments	9,524	(3,019)
Amount charged to consolidated income statement (note 5(a))	45,387	17,988
Amount transferred (from)/to investment property revaluation reserve (note 27(a))	(34,252)	31,071
	<u>101,604</u>	<u>80,945</u>
At 31st December	<u>101,604</u>	<u>80,945</u>

The provision for deferred tax charged to consolidated income statement is made in respect of timing differences on fixed assets to the extent that a liability is anticipated. The surplus arising on revaluation of investment properties situated in Hong Kong does not constitute a timing difference for tax purposes. Deferred taxation has been provided on the revaluation surplus of investment properties situated overseas to the extent that a liability is anticipated.

## 26. Share capital

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
<b>Authorised:</b>		
400,000,000 shares of \$0.1 each	<u>40,000</u>	<u>40,000</u>
<b>Issued and fully paid:</b>		
295,326,000 shares of \$0.1 each	<u>29,533</u>	<u>29,533</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 27. Reserves

#### (a) Group

	Investment property revaluation reserve \$'000	Land and building revaluation reserve \$'000	Investment revaluation reserve \$'000	Exchange reserve \$'000	Other capital reserves \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000
At 1st January, 2002	1,366,017	204,249	93,880	(236,737)	294,937	754,347	1,965,339	4,442,032
Dividends approved in respect of previous year (note 8(b))	-	-	-	-	-	-	(35,439)	(35,439)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties (note 2(c))	(59,622)	-	-	2,358	-	-	-	(57,264)
Exchange loss transferred to the consolidated income statement on disposal of investment properties (note 2(c))	-	-	-	11,751	-	-	-	11,751
	(59,622)	-	-	14,109	-	-	-	(45,513)
Deferred tax (note 25)	31,071	-	-	3,181	-	-	-	34,252
Deficit on revaluation after minority interests (note 13(d))	(224,728)	-	-	-	-	-	-	(224,728)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties of an associate (note 16(c))	(45,820)	-	-	(469)	-	-	-	(46,289)
Deficit on revaluation of non-trading securities	-	-	(29,158)	-	-	-	-	(29,158)
Revaluation surplus transferred to the consolidated income statement on disposal of non-trading securities (note 3)	-	-	(21,500)	(148)	-	-	-	(21,648)
Share of increase in capital reserves of associates	-	-	-	-	12,195	-	-	12,195
Exchange differences arising on consolidation	-	-	-	84,132	-	-	-	84,132
Profit for the year	-	-	-	-	-	-	242,286	242,286
Dividends declared and paid in respect of the current year (note 8(a))	-	-	-	-	-	-	(50,205)	(50,205)
At 31st December, 2002	<u>1,066,918</u>	<u>204,249</u>	<u>43,222</u>	<u>(135,932)</u>	<u>307,132</u>	<u>754,347</u>	<u>2,121,981</u>	<u>4,361,917</u>

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 27. Reserves (Continued)

#### (a) Group (Continued)

	Investment property revaluation reserve \$'000	Land and building revaluation reserve \$'000	Investment revaluation reserve \$'000	Exchange reserve \$'000	Other capital reserves \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000
At 1st January, 2001	1,441,511	204,249	82,773	(167,889)	288,918	754,347	1,911,873	4,515,782
Dividends approved in respect of previous year (note 8(b))	-	-	-	-	-	-	(26,579)	(26,579)
Revaluation deficit transferred to the consolidated income statement on disposal of investment property	3,119	-	-	(405)	-	-	-	2,714
Deficit on revaluation after minority interests (note 13(d))	(42,124)	-	-	-	-	-	-	(42,124)
Share of revaluation deficit of associates	(5,418)	-	-	-	-	-	-	(5,418)
Deferred tax (note 25)	(31,071)	-	-	-	-	-	-	(31,071)
Surplus on revaluation of non-trading securities	-	-	11,107	-	-	-	-	11,107
Share of increase in capital reserves of associates	-	-	-	-	6,019	-	-	6,019
Exchange differences arising on consolidation	-	-	-	(68,443)	-	-	-	(68,443)
Profit for the year	-	-	-	-	-	-	91,858	91,858
Dividends declared and paid in respect of the current year (note 8(a))	-	-	-	-	-	-	(11,813)	(11,813)
At 31st December, 2001	<u>1,366,017</u>	<u>204,249</u>	<u>93,880</u>	<u>(236,737)</u>	<u>294,937</u>	<u>754,347</u>	<u>1,965,339</u>	<u>4,442,032</u>



## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 27. Reserves (Continued)

#### (b) Company

	<b>Contributed surplus</b>	<b>Retained profits</b>	<b>Total</b>
	\$'000	\$'000	\$'000
At 1st January, 2002	2,997,350	871,797	3,869,147
Dividends approved in respect of previous year (note 8(b))	–	(35,439)	(35,439)
Loss for the year	–	(131,950)	(131,950)
Dividends declared and paid in respect of the current year (note 8(a))	–	(50,205)	(50,205)
	<u>2,997,350</u>	<u>654,203</u>	<u>3,651,553</u>
At 31st December, 2002	<u>2,997,350</u>	<u>654,203</u>	<u>3,651,553</u>
	<b>Contributed surplus</b>	<b>Retained profits</b>	<b>Total</b>
	\$'000	\$'000	\$'000
At 1st January, 2001	2,997,350	1,021,573	4,018,923
Dividends approved in respect of previous year (note 8(b))	–	(26,579)	(26,579)
Loss for the year	–	(111,384)	(111,384)
Dividends declared and paid in respect of the current year (note 8(a))	–	(11,813)	(11,813)
	<u>2,997,350</u>	<u>871,797</u>	<u>3,869,147</u>
At 31st December, 2001	<u>2,997,350</u>	<u>871,797</u>	<u>3,869,147</u>

(c) The capital reserves, exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties and investment in securities (note 1).

(d) Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained profits, under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 27. Reserves (Continued)

- (e) The Group's share of the post-acquisition accumulated reserves of associates is as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	restated \$'000
Investment property revaluation reserve	–	45,820
Other capital reserves	48,428	36,233
Retained profits	306,607	232,508
	<u>355,035</u>	<u>314,561</u>

### 28. Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of \$819,175,000 (2001: \$933,563,000), of which \$774,717,000 (2001: \$898,744,000) were utilised at 31st December, 2002.

### 29. Commitments

#### (a) Capital commitments

Group capital commitments at 31st December, 2002 not provided for in the financial statements were as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Authorised and contracted for	293	357
Authorised but not contracted for	7,626	–
	<u>7,919</u>	<u>357</u>

#### (b) Commitments under operating leases

At 31st December, 2002, the total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	<b>2002</b>	<b>2001</b>
	\$'000	\$'000
Within 1 year	97,577	113,262
After 1 year but within 5 years	40,612	138,053
After 5 years	–	–
	<u>138,189</u>	<u>251,315</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to eight years, with an option to renew the lease when all terms are renegotiated. The amount of contingent rent incurred in 2002 is stated in note 4(c).

## NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

### 30. Related party transactions

Material related party transactions are as follows:

- (a) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to \$14,409,000 (2001: \$14,380,000) during the year. The net amount due to the fellow subsidiary at 31st December, 2002 amounted to \$4,872,000 (2001: \$6,953,000).
- (b) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to \$2,445,000 (2001: \$2,367,000) during the year. The net amount due from the fellow subsidiary at 31st December, 2002 amounted to \$279,000 and amount due to the fellow subsidiary at 31st December, 2001 amounted to \$182,000.
- (c) The Company reimbursed a fellow subsidiary for the sharing of office space and facilities. Reimbursement payable to this fellow subsidiary amounted to \$144,000 (2001: \$144,000) during the year. The amount had been fully settled by the balance sheet date.
- (d) A fellow subsidiary, engaging in securities practice, deals in securities for certain subsidiaries of the Group. Commission of \$20,000 (2001: \$22,000) was payable to the fellow subsidiary during the year. The amounts due from the fellow subsidiary at 31st December, 2002 amounted to \$127,000 (2001: \$56,000).

### 31. Comparative figures

- (a) The presentation of items in the financial statements has been changed due to the discontinuance of the department store operation in the PRC by the Group during the year as described in note 6. As a result, the consolidated income statement for the current and previous years have been segregated into continuing operations and discontinuing operation.
- (b) The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised) "Cash flow statements" issued by the HKSA. As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

### 32. Ultimate holding company

The directors consider the ultimate holding company at 31st December, 2002 to be Kee Wai Investment Company (BVI) Limited, which is incorporated in the British Virgin Islands.