

Notes to the Financial Statements

for the year ended 31 December 2002

1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property development and investment and investment holding.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas associates at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash Flow Statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interests received and interests paid, which were previously presented under a separate heading, are classified as investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas associates have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The change in exchange rates used for translation of the cash flows of overseas associates has not had any material effect on the results for the current or prior accounting periods.

Employee Benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1 January 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.

Negative goodwill

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

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

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Property, plant and equipment *continued*

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The gain or loss arising on 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.

Impairment

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

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

Fixed rate notes / floating rate notes issue expenses

Expenses incurred directly in connection with the issue of fixed rate notes / floating rate notes are deferred and amortised on a straight line basis over the terms of the notes.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Recognition of income

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when the services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Financial instruments and derivatives

Interest rate and currency swaps are used to manage the Group's exposure to interest rate and foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of interest rate and currency swaps are recorded off balance sheet. Interest flows arising on the interest rate swaps are accounted for on an accrual basis.

4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Turnover comprises:		
Gross rental income from properties	1,229,599	1,351,892
Income from property sales	1,550	—
Management fee and security service income	2,249	3,558
	1,233,398	1,355,450

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

5. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	111,699	107,645
Retirement benefits scheme contributions (<i>Note 32</i>)	4,821	4,456
Forfeited contributions	(1,189)	(2,742)
	115,331	109,359
Depreciation	4,793	6,029
Auditors' remuneration	1,629	1,636
Rental income arising from operating leases less out-goings	(996,702)	(1,131,580)
Dividends from		
– listed investments	(3,145)	(8,612)
– unlisted investments	(7,367)	(5,796)
Gain on property sales	(1,500)	—
Interest income	(4,842)	(3,749)
Loss on disposal of property, plant and equipment	2	—

6. DIRECTORS' REMUNERATION

	2002 HK\$'000	2001 HK\$'000
Directors' fees	757	792
Other emoluments:		
Basic salaries	7,809	7,776
Housing, other allowances and benefits in kind	2,739	3,556
Bonus paid	1,552	1,625
Retirement benefits scheme contributions	232	210
	13,089	13,959

Notes to the Financial Statements

6. DIRECTORS' REMUNERATION *continued*

The number of Directors whose remuneration / fees within the bands set out below is as follows:

	2002 No. of Directors	2001 No. of Directors
HK\$ 0 – HK\$1,000,000	9	11
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	—	—
HK\$2,000,001 – HK\$2,500,000	—	—
HK\$2,500,001 – HK\$3,000,000	—	—
HK\$3,000,001 – HK\$3,500,000	2	1
HK\$3,500,001 – HK\$4,000,000	—	1
HK\$4,000,001 – HK\$4,500,000	1	—
HK\$4,500,001 – HK\$5,000,000	—	1
	13	15

Directors' fees paid to independent non-executive Directors during the year totalled HK\$255,000 (2001: HK\$249,740). They received no other emoluments from the Company or any of its subsidiaries.

7. EMPLOYEE COSTS

The five highest paid individuals included four (2001: three) Directors, details of whose remuneration are set out in note 6. The remuneration of the one individual (2001: two individuals) is detailed as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,120	3,886
Bonus paid	277	369
Retirement benefits scheme contributions	12	24
	2,409	4,279

	2002 No. of employees	2001 No. of employees
Remuneration within the band:		
HK\$1,000,001 – HK\$1,500,000	—	—
HK\$1,500,001 – HK\$2,000,000	—	1
HK\$2,000,001 – HK\$2,500,000	1	1
	1	2

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on		
– bank loans, overdraft and other loans:		
wholly repayable within five years	78,625	179,209
not repayable within five years	16,292	4,789
– floating rate notes	24,952	117,678
– fixed rate notes	88,149	—
	208,018	301,676
Amortisation of fixed rate and floating rate notes issue expenses	2,401	2,855
Bank charges	9,543	7,930
Net exchange loss	82	—
Medium Term Note Programme expenses	509	1,967
	220,553	314,428

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– for the year	106,703	114,799
– (over) underprovision in prior years	(10,095)	104
	96,608	114,903
Deferred taxation (<i>note 27</i>)	1,295	—
	97,903	114,903

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

Details of the potential deferred tax charge not provided for in the year are set out in note 27.

Notes to the Financial Statements

10. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Ordinary shares:		
Interim dividend, paid – HK\$0.10 per share (2001: HK\$0.10)	103,355	102,833
Final dividend, proposed – HK\$0.265 per share (2001: HK\$0.28)	274,174	288,765
	377,529	391,598

The 2002 final dividend of HK\$0.265 (2001: HK\$0.28) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2002 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2001 final and 2002 interim dividends. These alternatives were accepted by the shareholders as follows:

	2002 Interim HK\$'000	2001 Final HK\$'000
Dividends:		
Cash	96,646	268,707
Share alternative	6,709	20,058
	103,355	288,765

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	543,874	600,343
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,032,758	1,030,485
Effect of dilutive potential ordinary shares:		
Share options	—	358
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,032,758	1,030,843

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices are higher than the fair value per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong under long lease HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2002	42,500	39,999	5,280	1,611	89,390
Additions	—	2,441	9,431	—	11,872
Disposals	—	(305)	—	—	(305)
Deficit on revaluation	(1,500)	—	—	—	(1,500)
At 31 December 2002	41,000	42,135	14,711	1,611	99,457
Comprising:					
At cost	—	42,135	14,711	1,611	58,457
At valuation 2002	41,000	—	—	—	41,000
	41,000	42,135	14,711	1,611	99,457
ACCUMULATED DEPRECIATION					
At 1 January 2002	—	34,786	2,835	1,611	39,232
Provided for the year	644	3,165	984	—	4,793
Eliminated on disposals	—	(253)	—	—	(253)
Adjustment on revaluation	(644)	—	—	—	(644)
At 31 December 2002	—	37,698	3,819	1,611	43,128
NET BOOK VALUES					
At 31 December 2002	41,000	4,437	10,892	—	56,329
At 31 December 2001	42,500	5,213	2,445	—	50,158

Notes to the Financial Statements

12. PROPERTY, PLANT AND EQUIPMENT *continued*

	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2002	19,757	5,266	1,611	26,634
Additions	1,126	8,900	—	10,026
At 31 December 2002	20,883	14,166	1,611	36,660
ACCUMULATED DEPRECIATION				
At 1 January 2002	16,457	2,831	1,611	20,899
Provided for the year	2,363	923	—	3,286
At 31 December 2002	18,820	3,754	1,611	24,185
NET BOOK VALUES				
At 31 December 2002	2,063	10,412	—	12,475
At 31 December 2001	3,300	2,435	—	5,735

The leasehold land and buildings of the Group were revalued at 31 December 2002 by Knight Frank (Services) Limited, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$33,560,049 (2001: HK\$34,084,593).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$21,897,838 (2001: HK\$20,512,083) and HK\$1,266,778 (2001: HK\$846,317) respectively and accumulated depreciation of HK\$19,216,069 (2001: HK\$18,692,470) and HK\$841,662 (2001: HK\$804,179) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$776,954 (2001: HK\$944,589) and HK\$37,483 (2001: HK\$21,352) respectively.

13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 January	26,638,500	28,432,700	3,500,000	3,740,000
Additions	362,465	178,098	2,274	1,331
Adjustment resulted from cost variation	(96)	(50)	—	—
Disposals	(1,542)	—	—	—
Deficit on revaluation	(2,158,317)	(1,972,248)	(207,274)	(241,331)
At 31 December	24,841,010	26,638,500	3,295,000	3,500,000

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Land in Hong Kong:				
– Medium term lease	4,000,000	4,300,000	—	—
– Long lease	20,841,010	22,338,500	3,295,000	3,500,000
	24,841,010	26,638,500	3,295,000	3,500,000

The investment properties of the Group and the Company were revalued at 31 December 2002 by Knight Frank (Services) Limited, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for use under operating leases.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	13,394,620	13,312,167
Less: Impairment loss	13,394,625 (404,000)	13,312,172 (404,000)
	12,990,625	12,908,172

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2002 are set out in note 39.

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15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net liabilities	(77,171)	(77,164)	—	—
	(77,171)	(77,164)	3	3
Amounts due therefrom	159,850	149,786	—	—
	82,679	72,622	3	3
Less: Impairment loss	(21,362)	(11,298)	—	—
	61,317	61,324	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts of Parallel Asia Engineering Company Limited and Wingrove Investment Pte Limited for the year ended 31 December 2002.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

Details of the Group's associates at 31 December 2002 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Class of share held	Proportion of nominal value of issued share capital held by the Company		Principal activity
				indirectly	directly	
Parallel Asia Engineering Company Limited	Incorporated	Hong Kong	Ordinary	—	25%	Investment holding
Wingrove Investment Pte Limited	Incorporated	Singapore	Ordinary	25%	—	Property development and investment

16. INVESTMENTS IN SECURITIES

THE GROUP

	Other securities	
	2002 HK\$'000	2001 HK\$'000
Equity securities:		
Listed in Hong Kong	772,827	1,057,222
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	—
	2,031	2,831
Unlisted shares	136,856	136,856
Amounts due therefrom	700,440	685,483
	837,296	822,339
Less: Impairment losses	(128,333)	(128,333)
	708,963	694,006
	710,994	696,837
	1,483,821	1,754,059
Market value of securities listed in Hong Kong	772,827	1,057,222
Carrying amount analysed for reporting purposes as:		
Non-current	1,483,821	1,754,059

THE COMPANY

	Other securities	
	2002 HK\$'000	2001 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	—
	2,031	2,831
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,831

Notes to the Financial Statements

17. NEGATIVE GOODWILL

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Carrying amount at 1 January	1,136	—
Negative goodwill arising on acquisition of additional interest in a subsidiary during the year	—	1,196
Released to income during the year	(60)	(60)
Carrying amount at 31 December	1,076	1,136

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of twenty years.

18. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Staff housing loans, secured	18,315	23,700
Less: Amounts due within one year shown under current assets	(1,863)	(2,764)
	16,452	20,936

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% per annum.

19. ACCOUNTS RECEIVABLE

Accounts receivables are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2002 and 2001 were aged less than 90 days.

20. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 31 December 2002 and 2001 were aged less than 90 days.

21. DEFERRED INCOME

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Deferred income	6,227	—
Less: Amount due within one year shown under current liabilities	(686)	—
	5,541	—

In connection with the US\$200 million ten-year inaugural notes, the Group has entered into derivative transactions to lock in the ten-year US Treasury rate so as to manage its interest rate exposures. The gain on the transactions is deferred and recognised on a straight line basis over the term of the ten-year notes, with final maturity in February 2012.

22. ADVANCES FROM INVESTEEES

The advances are unsecured, interest free and are not repayable within one year.

23. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and are not repayable within one year.

Notes to the Financial Statements

24. LONG TERM BANK LOANS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans, unsecured	3,746,861	3,228,471	2,887,761	3,228,471
The bank loans are repayable as follows:				
Within one year	737,638	139,837	687,638	139,837
More than one year, but not exceeding two years	685,600	435,500	685,600	435,500
More than two years, but not exceeding five years	1,617,600	2,172,634	1,200,500	2,172,634
More than five years	706,023	480,500	314,023	480,500
	3,746,861	3,228,471	2,887,761	3,228,471
Less: Amounts due within one year shown under current liabilities	(737,638)	(139,837)	(687,638)	(139,837)
	3,009,223	3,088,634	2,200,123	3,088,634

25. FLOATING RATE NOTES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Floating rate notes	400,000	2,400,000
Less: Unamortised notes issue expenses	(1,910)	(3,406)
	398,090	2,396,594
Less: Amount due within one year shown under current liabilities	—	(1,999,547)
	398,090	397,047

HD Treasury (BVI) Limited and HD Finance (BVI) Limited, wholly-owned subsidiaries of the Company, issued HK\$2,000 million and HK\$400 million five-year floating rate notes on 27 March 1997 and 3 November 1999 respectively. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 0.565% and 1.25% over the 3-month HIBOR and are repayable in full in March 2002 and November 2004 respectively.

26. FIXED RATE NOTES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Fixed rate notes	1,559,977	—
Less: Unamortised notes issue expenses	(8,974)	—
	1,551,003	—

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million ten-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

27. DEFERRED TAXATION

At the balance sheet date, the deferred taxation provided represents the tax effect of timing differences because of excess of tax allowances over depreciation.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

Deferred taxation has not been provided on the surplus arising on the valuation of investment properties, land and buildings and investments in securities because profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the surplus arising on valuation does not constitute a timing difference for taxation purposes.

28. SHARE CAPITAL

	Number of shares		Share capital	
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
THE COMPANY				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,031,303	1,030,251	5,156,516	5,151,256
Issued in lieu of cash dividend	3,314	8,016	16,568	40,080
Shares repurchased and cancelled	—	(6,964)	—	(34,820)
At 31 December	1,034,617	1,031,303	5,173,084	5,156,516

On 13 June 2002 and 21 October 2002 respectively, the Company issued and allotted a total of 2,248,645 shares and 1,064,905 shares of HK\$5 each in the Company at HK\$8.92 and HK\$6.30 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2001 final and 2002 interim dividends pursuant to the scrip dividend scheme announced by the Company on 14 May 2002 and 18 September 2002. These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Notes to the Financial Statements

29. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1 January	3,580,672	3,436,247	3,957,698	4,077,068
Shares repurchased and cancelled:				
– Nominal value of shares repurchased	—	(34,820)	—	(34,820)
– Premium on shares repurchased	—	(29,500)	—	(29,500)
Net profit for the year	543,874	600,343	161,334	336,548
Profit available for distribution	4,124,546	3,972,270	4,119,032	4,349,296
Dividends	(377,529)	(391,598)	(377,529)	(391,598)
At 31 December	3,747,017	3,580,672	3,741,503	3,957,698

The accumulated profits of the Group include accumulated losses of HK\$87,987,293 (2001: HK\$88,130,335) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2002 amounted to HK\$3,841,503,255 (2001: HK\$4,057,697,703), being its accumulated profits and general reserve at that date.

30. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK'000	General reserve HK'000	Dividend reserve HK'000	Total HK\$'000
THE GROUP										
At 1 January 2001	1,272,538	11,408,707	1,170,205	11,552	501,102	(12,736)	120,175	100,000	319,378	14,890,921
Premium on issue of shares in lieu of cash dividend	30,847	—	—	—	—	—	—	—	—	30,847
Share issue expenses	(31)	—	—	—	—	—	—	—	—	(31)
Shares repurchased and cancelled	—	—	—	—	—	—	34,820	—	—	34,820
Unrealised loss on investments in other securities	—	—	(566,708)	—	—	—	—	—	—	(566,708)
Deficit on revaluation of investment properties	—	(1,972,248)	—	—	—	—	—	—	—	(1,972,248)
Deficit on revaluation of land and buildings	—	—	—	(2,823)	—	—	—	—	—	(2,823)
Deficit on revaluation of investment properties shared by minority shareholders	—	131,703	—	—	—	—	—	—	—	131,703
Reversed on disposal of an associate	—	—	—	—	1,133	12,736	—	—	—	13,869
Final dividend for 2000 paid	—	—	—	—	—	—	—	—	(319,378)	(319,378)
Amount set aside for 2001 dividend	—	—	—	—	—	—	—	—	391,598	391,598
Interim dividend for 2001 paid	—	—	—	—	—	—	—	—	(102,833)	(102,833)
At 31 December 2001	1,303,354	9,568,162	603,497	8,729	502,235	—	154,995	100,000	288,765	12,529,737
Premium on issue of shares in lieu of cash dividend	10,199	—	—	—	—	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	—	—	—	—	(10)
Unrealised loss on investments in other securities	—	—	(284,395)	—	—	—	—	—	—	(284,395)
Deficit on revaluation of investment properties	—	(2,158,317)	—	—	—	—	—	—	—	(2,158,317)
Deficit on revaluation of land and buildings	—	—	—	(856)	—	—	—	—	—	(856)
Deficit on revaluation of investment properties shared by minority shareholders	—	86,600	—	—	—	—	—	—	—	86,600
Realisation on disposal of investment properties	—	(1,492)	—	—	—	—	—	—	—	(1,492)
Final dividend for 2001 paid	—	—	—	—	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	—	—	—	—	(103,355)	(103,355)
At 31 December 2002	1,313,543	7,494,953	319,102	7,873	502,235	—	154,995	100,000	274,174	10,166,875

Notes to the Financial Statements

30. OTHER RESERVES *continued*

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2001	1,272,538	2,440,236	120,175	100,000	319,378	4,252,327
Premium on issue of shares in lieu of cash dividend	30,847	—	—	—	—	30,847
Share issue expenses	(31)	—	—	—	—	(31)
Deficit on revaluation of investment properties	—	(241,331)	—	—	—	(241,331)
Shares repurchased and cancelled	—	—	34,820	—	—	34,820
Final dividend for 2000 paid	—	—	—	—	(319,378)	(319,378)
Amount set aside for 2001 dividend	—	—	—	—	391,598	391,598
Interim dividend for 2001 paid	—	—	—	—	(102,833)	(102,833)
At 31 December 2001	1,303,354	2,198,905	154,995	100,000	288,765	4,046,019
Premium on issue of shares in lieu of cash dividend	10,199	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	(10)
Deficit on revaluation of investment properties	—	(207,274)	—	—	—	(207,274)
Final dividend for 2001 paid	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	(103,355)	(103,355)
At 31 December 2002	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343

(a) General reserve

General reserve was set up from the transfer of accumulated profits.

(b) Capital reserve

Capital reserve comprises negative goodwill of HK\$516,142,884 (2001: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

31. EXECUTIVE SHARE OPTION SCHEME

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of ten years. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on the Hong Kong Stock Exchange for the twenty trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2002, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% (2001: 0.4%) of the then issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Balance as at 1.1.2001 and 1.1.2002	Date of grant	Changes During The Year			Balance as at 31.12.2001 and 31.12.2002	Exercise price (HK\$)	Exercisable period
			Cancelled/ Lapsed	Granted	Exercised			
Peter Ting Chang Lee	1,350,000	7.1.99	NIL	NIL	NIL	1,350,000	9.22	7.1.01-6.1.09
Pauline Wah Ling Yu Wong	900,000	3.5.95	NIL	NIL	NIL	900,000	13.46	3.5.97-2.5.05
Michael Chi Kung Moy	1,200,000	23.12.99	NIL	NIL	NIL	1,200,000	7.54	23.12.01-22.12.09

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

No options have been granted since the coming into force of certain new Listing Rules requirements. Future grants will only be made under the existing Scheme where new Listing Rules requirements are complied with.

The Chairman and Managing Director has been delegated by the Board the authority to make grants to other management staff, with the view to further strengthening the links between staff and shareholder objectives and to balance the interests of shareholders generally. The exercise price will be set at at least the higher of (i) the closing price of the Company's ordinary shares on the date of grant; and (ii) the average closing price of such shares for the five days immediately before the grant. Interests of shareholders will be balanced by having appropriate aggregate and individual grant limits, also being in line with new Listing Rules requirements. A clear performance criterion will be the main driver.

32. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$4,820,554 (2001: HK\$4,456,482). Forfeited contributions for the year of HK\$1,189,078 (2001: HK\$2,741,993) were fully utilised to fund the Group's contributions.

Notes to the Financial Statements

33. CONTINGENT LIABILITIES

As at 31 December 2002, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2002 Million	2001 Million	2002 Million	2001 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	HK\$3.6	HK\$3.6	HK\$3.6	HK\$3.6
Corporate guarantee to subsidiaries – for issue of floating rate notes – for issue of fixed rate notes	— —	— —	HK\$400.0 US\$200.0	HK\$2,400.0 —
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project	S\$18.6	S\$18.6	—	—
Guarantees to banks to provide finance to – An associate – A property development project – Subsidiaries	S\$12.0 S\$22.0 —	S\$12.0 S\$22.0 —	S\$12.0 S\$22.0 HK\$2,840.0	S\$12.0 S\$22.0 —

34. CAPITAL COMMITMENTS

As at 31 December 2002, the Group had capital commitments in respect of the following:

	2002 Million	2001 Million
(a) Investment properties: Contracted but not provided for	HK\$171.4	HK\$70.9
(b) Share of capital commitments for joint ventures: Contracted but not provided for	HK\$7.7	HK\$20.2

35. LEASE COMMITMENTS

The Group and the Company as lessee

As at 31 December 2002, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	—	—	5,884	11,916
In the second to fifth year inclusive	—	—	138	5,608
	—	—	6,022	17,524

Operating lease payments represent rental payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for an average of two years and three years respectively.

The Group and the Company as lessor

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	829,154	894,372	126,789	131,887
In the second to fifth year inclusive	1,139,991	1,240,792	148,671	105,997
After five years	253,768	313,466	15,525	16,509
	2,222,913	2,448,630	290,985	254,393

36. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Details of the Group's outstanding derivative instruments at balance sheet date are as follows:

	Notional Principal Amount	
	2002 HK\$'000	2001 HK\$'000
Forward rate agreement – less than one year	400,000	—
Interest rate swaps – one to five years	428,983	650,000
Currency swaps – after five years	1,559,977	—
	2,388,960	650,000

The Group has used off balance sheet derivative instruments to manage the interest rate and foreign exchange exposures. These instruments, such as interest rate swaps and currency swaps, are employed solely for hedging purpose and no speculative positions have been taken. The Group has also followed the established policy on monitoring and managing the counter-party risk by restricting the derivative transactions to financial institutions with strong investment-grade ratings and limiting the exposures to each counter-party at prudent levels.

Notes to the Financial Statements

37. RELATED PARTY AND CONNECTED TRANSACTIONS**A. Related party transactions**

During the year, the Group has the following transactions with related parties:

	Notes	Substantial shareholder		Directors	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repairs and maintenance expenses paid to	(a)	—	—	20,823	21,070
Gross rental income from	(b)	6,147	6,167	36,567	46,054
Construction cost paid during the year for investment properties completed in previous years	(c)	—	—	—	179

As at 31 December 2002, the Group has the following balances with related parties:

	Notes	Substantial shareholder		Directors	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Included in creditors and accruals were repairs and maintenance expenses payable to	(a)	—	—	1,737	1,671
Amount due to a minority shareholder	(d)	—	—	84,486	84,486

37. RELATED PARTY AND CONNECTED TRANSACTIONS *continued*

A. Related party transactions *continued*

Notes:

- (a) Such expenses were incurred in connection with the repair and maintenance charges for lift, electrical installation and gondola services.
- (i) In relation to the lift and electrical installation and maintenance services, F. K. Hu (and his alternate, Raymond L. M. Hu) are directors of Ryoden Lift Services Limited ("RLS") and Ryoden Engineering Contracting Company Limited ("REC") and have indirect equity interests in RLS and REC. RLS and REC entered into a number of lift maintenance contracts and electrical installation maintenance and repair contracts respectively with a subsidiary of the Company.
- (ii) In relation to the gondola maintenance services, Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited which entered into a number of gondola maintenance contracts with a subsidiary of the Company.

These transactions were carried out in the normal course of business and the fees were determined with reference to market rates.

- (b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (c) During the year ended 31 December 2001, Geoffrey M. T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and directors of Hsin Chong Construction Group Limited whose associate entered into a MVAC/BAS contract with a subsidiary of the Company relating to the construction of The Lee Gardens. The contract had been completed, with the relevant sum being the amount fully paid under the contract last year. Such transaction was entered into on normal commercial terms and on arm's length basis.
- (d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non-wholly owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. Details of the terms are set out in note 23.

B. Connected transaction

Loans totalling HK\$552,096,609 were advanced by the Group to Barrowgate Limited (The Group: 65.36%; Hang Seng Bank: 24.64%; Jebsen and Company Limited: 10%) for general funding purpose which sum has been included in the disclosure in note 14. Loans totalling HK\$292,764,698 advanced by the other shareholders in proportion to their respective shareholdings are disclosed in note 23. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under Rule 14.25(2) of the Listing Rules.

38. POST BALANCE SHEET EVENT

On 15 January 2003, a subsidiary of the Company acquired additional 1,313,158 ordinary shares of HK\$1 each of Country Link Enterprises Limited, grouped under investments in securities, for an aggregate consideration of HK\$1,313,158 which is satisfied by setting off the amounts due therefrom. As a result, the Group increases its shareholding from 18.75% to 26.3%.

Notes to the Financial Statements

39. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER 2002

Name of subsidiary	Place of incorporation	Place of operation
Admore Investments Limited	Hong Kong	Hong Kong
Golden Capital Investment Limited	Hong Kong	Hong Kong
HD Finance (BVI) Limited	British Virgin Islands	British Virgin Islands
HD Treasury Limited	Hong Kong	Hong Kong
HD Treasury Management Limited	Hong Kong	Hong Kong
Hysan China Holdings Limited	British Virgin Islands	British Virgin Islands
Hysan Treasury Limited	Hong Kong	Hong Kong
Hysan (MTN) Limited	British Virgin Islands	Hong Kong
Hysan Property Management Limited	Hong Kong	Hong Kong
Kwong Hup Holding Limited	British Virgin Islands	British Virgin Islands
Kwong Wan Realty Limited	Hong Kong	Hong Kong
Minsal Limited	Hong Kong	Hong Kong
Mondsee Limited	Hong Kong	Hong Kong
Stangard Limited	Hong Kong	Hong Kong
Teamfine Enterprises Limited	Hong Kong	Hong Kong
Tohon Development Limited	Hong Kong	Hong Kong
Bamboo Grove Recreational Services Limited	Hong Kong	Hong Kong
HD Investment Limited	British Virgin Islands	British Virgin Islands
Jarrow Properties Limited	British Virgin Islands	British Virgin Islands
Kochi Investments Limited	British Virgin Islands	British Virgin Islands
Lee Theatre Realty Limited	Hong Kong	Hong Kong
Leighton Property Company Limited	Hong Kong	Hong Kong
Main Rise Development Limited	Hong Kong	Hong Kong
OHA Property Company Limited	Hong Kong	Hong Kong
Perfect Win Properties Limited	Hong Kong	Hong Kong
Silver Nicety Company Limited	Hong Kong	Hong Kong
South Eagle Investments Limited	British Virgin Islands	Hong Kong
Barrowgate Limited	Hong Kong	Hong Kong

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than the fixed rate notes issued by Hysan (MTN) Limited as disclosed in note 26, none of the subsidiaries had issued any debt securities at the year-end.

Class of share held	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
		indirectly	directly	
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$1	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	HK\$1	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Treasury operation
Ordinary	US\$1	—	100%	Treasury operation
Ordinary	HK\$2	—	100%	Property management
Ordinary	HK\$1	—	100%	Investment holding
Ordinary	HK\$1,000	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$300,000	—	100%	Provision of security services
Ordinary	HK\$2	—	100%	Investment holding
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$2	100%	—	Resident club management
Ordinary	HK\$1	100%	—	Investment holding
Ordinary	HK\$1	100%	—	Investment holding
Ordinary	HK\$1	100%	—	Capital market investment
Ordinary	HK\$10	100%	—	Property investment
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$2	100%	—	Investment holding
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$2	100%	—	Property investment
Ordinary	HK\$20	100%	—	Property investment
Ordinary	US\$1	100%	—	Property investment
Ordinary	HK\$10,000	65.36%	—	Property investment