

# Notes to the Financial Statements

for the year ended 31st December, 2002

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## 1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong Special Administrative Region (“Hong Kong”).

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2002 are set out in notes 47, 48 and 49 respectively.

## 2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Adoption of these SSAPs has no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

### Statement of changes in equity

In accordance with SSAP 1 (Revised), the requirement for presenting a statement of recognised gains and losses has changed to presenting a statement of changes in equity.

### Foreign currency translation

The principal revision to SSAP 11 (Revised) is that in preparing the consolidated financial statements, the income statements of the Group’s operations outside Hong Kong have to be translated at the average rates for the year rather than at the exchange rates ruling on the balance sheet date. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

### Cash flow statement

Under SSAP 15 (Revised), cash flows are classified by operating, investing and financing activities and cash flows of overseas operations are translated at the rate prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. In addition, the amount presented for cash and cash equivalents has been amended to exclude short-term bank loans that are financing in nature.

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## 2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE (CONT'D)

### **Employee benefits**

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. Adoption of this SSAP has not had any material effect on the results for the current and prior accounting years.

Comparative figures have been reclassified to conform with the revised presentation arising from the adoption of these SSAPs.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. 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 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

### **Goodwill and negative goodwill (capital reserve)**

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

Goodwill and capital reserve arising on acquisitions prior to 1st January, 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. Where it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

for the year ended 31st December, 2002

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Goodwill and negative goodwill (capital reserve) (Cont'd)**

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life of five years. Goodwill arising on acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of a subsidiary is presented separately on the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1st January, 2001 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill will be released to the income statement over a period of five years.

#### **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. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rate for the period. Exchange differences arising, if any, are dealt with in reserves. On disposal of an operation outside Hong Kong, the balance of the translation reserve attributable to that operation is transferred to the income statement as part of the profit or loss on disposal of that operation.

#### **Revenue recognition**

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

for the year ended 31st December, 2002

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Revenue recognition (Cont'd)**

Brokerage income recognised in the accounts represents brokerage income accrued on all broking transactions traded on or before 31st December each year.

Interest income receivable from customers is recognised in the income statement on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are overdue for which no interest is accrued in the income statement.

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

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

Profits and losses on trading in foreign currencies include both realised and unrealised gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.

#### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

#### **Bad and doubtful debts**

Allowances for bad and doubtful debts are made, having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances and accounts receivable. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and accounts receivable and prior loss experience in respect of loans and advances and accounts receivable.

#### **Finance leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **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 impairment losses. 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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a 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 relevant asset is carried at revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

#### **Employee benefits**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under 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.

#### **Fixed assets**

Fixed assets, other than investment properties and hotel properties, are stated at cost less depreciation and impairment loss. Leasehold land and buildings are stated at cost or valuation less depreciation and impairment loss. Expenditure on major inspections and overhauls of fixed assets is capitalised as a separate component of the relevant asset.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Fixed assets (Cont'd)

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, any surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets other than investment properties and hotel properties which are held on leases with an unexpired term of more than 20 years, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Long-term leasehold land	Over the remaining terms of the leases
Medium-term leasehold land	4%
Buildings	2% to 3% or over the remaining terms of the leases, if less than 50 years
Leasehold improvements	20% to 33.3% or the term of the leases, if shorter
Furniture, fixtures and equipment	10% to 50%
Plant and machinery	7.5% to 13%
Motor vehicles and vessels	10% to 25%

The profit or loss arising on the disposal or retirement of an item of fixed assets other than investment properties and hotel properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Investment properties/hotel properties

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

Investment properties and hotel properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on the valuation of investment properties and hotel properties is credited or charged to the property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the 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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Investment properties/hotel properties (Cont'd)**

No depreciation is provided on investment properties and hotel properties which are held on leases with an unexpired term of more than 20 years. It is the Group's practice to maintain the hotel property in a continual state of sound repair so that the property's value is not diminished by the passage of time. Depreciation is, however, provided on hotel furniture and fixtures. The cost of maintenance and repairs is charged to the income statement and the cost of significant improvements is capitalised.

On disposal of an investment property/a hotel property, the balance on the property revaluation reserve attributable to that property is transferred to the income statement as part of the profit or loss on disposal of the property.

#### **Intangible assets**

Expenditure on computer software that is not an integral part of the related hardware is capitalised as an intangible asset and amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down to its recoverable amount.

#### **Properties under development**

Land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes land cost, development cost, borrowing cost and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

#### **Investments in subsidiaries**

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

#### **Interest in associates**

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on the acquisition of associates prior to 1st January, 2001 is included in reserves.

When the Group transacts with an associate, unrealised profits are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated to the extent of the Group's interest in the relevant associate, except where the transaction provides evidence of an impairment of the asset transferred.

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

for the year ended 31st December, 2002

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### **Interest in jointly controlled entities**

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on the acquisition of jointly controlled entities prior to 1st January, 2001 is included in reserves.

When the Group transacts with a jointly controlled entity, unrealised profits are eliminated to the extent of the Group's interest in the relevant jointly controlled entity. Unrealised losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where the transaction provides evidence of an impairment of the asset transferred.

#### **Investments in securities**

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

Securities held for trading, arbitrage and underwriting operations purposes are measured at fair value at subsequent reporting dates. Any unrealised gains and losses are included in net profit or loss for the year.

Non-trading securities are measured at fair value at subsequent reporting dates. Any 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.

#### **Other investments**

Other investments are stated at cost less any identified impairment loss.

#### **Properties under development for sale/properties held for sale**

Properties under development for sale/properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rental and interest income earned, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### **Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being assets which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of proceeds from specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.



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#### 4. TURNOVER

Turnover represents the gross proceeds received and receivable derived from the sale of goods and properties, securities trading, consumer finance, term loans and other financial assets, property rental and property management services, hotel operations, provision of consultancy and other services, brokerage and commission income from securities, service fees from provision of online financial services and online financial information distribution and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

	2002 HK\$'000	2001 HK\$'000
Interest income on loans and advances to consumer finance customers	892,742	1,010,406
Other interest income	302,368	223,087
Property rental and management services	129,647	123,745
Securities broking	122,749	77,635
Sale of properties	112,883	98,760
Income from forex, bullion, commodities and futures	79,145	39,195
Securities trading	67,578	80,230
Income from corporate finance and others	58,496	20,594
Dividend income	24,565	49,412
Hotel operating income	20,753	19,452
Sales of goods	1,351	1,258
	<u>1,812,277</u>	<u>1,743,774</u>

#### 5. SEGMENTAL INFORMATION

The Group has the following main business segments:

- Investment, broking and finance – trading in securities, providing securities broking and related services, providing broking services in forex, bullion and commodities, providing securities margin financing and insurance broking service, providing related financing and advisory product, and providing term loan financing
- Consumer finance – providing consumer loan finance products
- Property development and investment – development and sale of properties, properties rental and property management service, and hotel operations
- Corporate and other operations – including corporate revenue and expenses and results of unallocated operations

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

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**5. SEGMENTAL INFORMATION (CONT'D)**

Analysis of the Group's businesses segmental information is as follows:

	<b>2002</b>				<b>Total HK\$'000</b>
	<b>Investment, broking and finance HK\$'000</b>	<b>Consumer finance HK\$'000</b>	<b>Property development and investment HK\$'000</b>	<b>Corporate and other operations HK\$'000</b>	
Turnover	665,405	892,742	268,868	43,284	1,870,299
Less: inter-segment turnover	(10,985)	-	(5,585)	(41,452)	(58,022)
	<u>654,420</u>	<u>892,742</u>	<u>263,283</u>	<u>1,832</u>	<u>1,812,277</u>
Profit (loss) from operations	128,162	189,243	(531,806)	3,624	(210,777)
Other finance costs					(72,183)
Amortisation of goodwill					(7,142)
Release of negative goodwill					149,163
Amortisation of capital reserve					20,412
Share of results of associates					123,467
Share of results of jointly controlled entities	-	-	(15,932)	-	(15,932)
Loss before taxation					(12,992)
Taxation					(71,292)
Loss after taxation					<u>(84,284)</u>
Segment assets	2,196,368	1,926,224	2,872,436	76,132	7,071,160
Interests in associates					2,163,937
Interests in jointly controlled entities	936	-	1,222,724	-	1,223,660
Amounts due from associates					294,787
Amount due from a jointly controlled entity	-	-	1,564	-	1,564
Total assets					<u>10,755,108</u>
Segment liabilities	695,965	154,971	128,297	11,199	990,432
Amounts due to associates					37,544
Amount due to a jointly controlled entity	-	-	178,041	-	178,041
Bank and other borrowings					1,775,873
Taxation					15,412
Deferred taxation					7,686
Total liabilities					<u>3,004,988</u>
Other information					
Depreciation	16,752	13,801	6,926	574	38,053
Amortisation of intangible assets	1,366	-	-	-	1,366
Impairment losses recognised	11,686	-	121,720	-	133,406
Deficits arising on revaluation of investment properties and hotel property	-	-	440,948	-	440,948
Bad and doubtful debts	24,027	467,992	14,632	(536)	506,115
Capital expenditure	18,474	3,961	96,596	376	119,407

## Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2002

**5. SEGMENTAL INFORMATION (CONT'D)**

	2001				Total HK\$'000
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	
Turnover	523,737	1,010,406	242,994	50,547	1,827,684
Less: inter-segment turnover	(39,085)	–	(1,037)	(43,788)	(83,910)
	<u>484,652</u>	<u>1,010,406</u>	<u>241,957</u>	<u>6,759</u>	<u>1,743,774</u>
Profit (loss) from operations	130,859	382,627	(284,045)	18,779	248,220
Other finance costs					(111,391)
Amortisation of goodwill					(4,760)
Release of negative goodwill					68,220
Amortisation of capital reserve					20,417
Share of results of associates					123,505
Share of results of jointly controlled entities	298	–	50,915	–	51,213
Profit before taxation					395,424
Taxation					(95,366)
Profit after taxation					<u>300,058</u>
Segment assets	3,201,439	2,561,078	3,511,693	13,571	9,287,781
Interests in associates					2,137,524
Interests in jointly controlled entities	–	–	1,345,110	–	1,345,110
Amounts due from associates					72,805
Amount due from a jointly controlled entity	–	–	1,763	–	1,763
Tax reserve certificates					3,557
Total assets					<u>12,848,540</u>
Segment liabilities	591,633	726,835	141,468	7,595	1,467,531
Amounts due to associates					31,557
Amount due to a jointly controlled entity	–	–	118,100	–	118,100
Bank and other borrowings					2,477,089
Taxation					19,477
Deferred taxation					13,277
Total liabilities					<u>4,127,031</u>
Other information					
Depreciation	12,901	11,607	5,693	141	30,342
Amortisation of intangible assets	1,108	–	–	–	1,108
Impairment losses recognised	11,482	–	81,500	–	92,982
Deficits arising on revaluation of investment properties and hotel property	–	–	251,036	–	251,036
Bad and doubtful debts	24,528	345,851	2,901	–	373,280
Capital expenditure	37,823	15,444	107,524	70	160,861

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#### 5. SEGMENTAL INFORMATION (CONT'D)

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the year, less than 10% of the operations of the Group in terms of turnover, results of operations and assets were carried on or situated outside Hong Kong. Accordingly, no geographical segmental information is shown.

#### 6. IMPAIRMENT LOSSES AND REVALUATION DEFICITS

	2002 HK\$'000	2001 HK\$'000
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	104,000	500
Properties under development	17,100	–
Non-trading securities	12,306	11,482
Properties under development for sale	–	81,000
	<u>133,406</u>	<u>92,982</u>
Deficits arising on revaluation of investment properties and hotel property	440,948	251,036
	<u>574,354</u>	<u>344,018</u>

#### 7. BAD AND DOUBTFUL DEBTS

	2002 HK\$'000	2001 HK\$'000
Bad debts written off	480,194	335,183
Allowances for doubtful debts	50,157	50,970
Bad debts recovered	(24,236)	(12,873)
	<u>506,115</u>	<u>373,280</u>

## Notes to the Financial Statements (Cont'd)

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**8. (LOSS) PROFIT FROM OPERATIONS**

	2002 HK\$'000	2001 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	5,654	5,000
(Over) under provision in prior years	(483)	164
	<u>5,171</u>	<u>5,164</u>
Amortisation of intangible assets (included in other operating expenses)	1,366	1,108
Depreciation		
Owned assets	37,583	30,342
Assets held under a finance lease	470	–
	<u>38,053</u>	<u>30,342</u>
Loss arising from default of loan agreement with Millennium Touch Limited (note 26)	10,110	–
Loss on disposal of fixed assets	1,378	1,242
Net realised loss on derivatives	–	1,548
Net realised loss on trading securities	5,361	–
Net unrealised loss on trading securities	11,193	–
Retirement benefit scheme contributions, net of forfeited contributions of HK\$1,233,000 (2001: HK\$4,059,000) (note 42)	14,423	8,940
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	270,864	265,153
and after crediting:		
Dividend income from investments in listed securities	7,285	21,012
Dividend income from investments in unlisted securities	17,280	28,400
Net realised profit on derivatives	75	–
Net realised profit on other dealing activities	706	289
Net realised profit on trading securities	–	6,273
Net unrealised profit on trading securities	–	17,664
Net unrealised profit on derivatives	–	1,056
Profit on disposal of non-trading securities	1,123	12,998
Profit on dealing in foreign currencies	9,110	6,117
Profit on disposal of investment properties	–	7,690
Profit on disposal of subsidiaries	2,020	180
Profit on disposal of associates	3,725	477
Rental income from investment properties under operating leases, net of outgoings of HK\$17,290,000 (2001: HK\$15,463,000)	42,412	42,346
	<u>42,412</u>	<u>42,346</u>

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**9. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

**(a) Directors' emoluments**

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Independent Non-Executive Directors	27	19
Other Directors	5	–
	<u>32</u>	<u>19</u>
Other emoluments:		
Independent Non-Executive Directors:		
Consultancy fees, salaries, housing and other benefits	3,475	4,345
Retirement benefit scheme contributions	53	68
	<u>3,528</u>	<u>4,413</u>
Other Directors:		
Salaries, housing and other benefits	7,264	5,915
Retirement benefit scheme contributions	149	108
	<u>7,413</u>	<u>6,023</u>
	<u>10,973</u>	<u>10,455</u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2002	2001
HK\$ Nil – HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$4,500,001 – HK\$5,000,000	1	1

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**9. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)**

**(b) Employees' emoluments**

The five highest paid individuals included two (2001: one) of the Directors, details of whose emoluments are set out in 9(a) above. The emoluments of the remaining three (2001: four) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	10,247	12,083
(Overprovided) performance related incentive payments	(882)	4,215
Retirement benefit scheme contributions	363	531
	<u>9,728</u>	<u>16,829</u>

The emoluments of the above employees were within the following bands:

	Number of employees	
	2002	2001
HK\$2,000,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	2
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$6,500,001 – HK\$7,000,000	–	1
	<u>–</u>	<u>1</u>

for the year ended 31st December, 2002

**10. FINANCE COSTS**

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	72,015	128,748
Other borrowings wholly repayable within five years	4,990	16,509
Bank borrowings not wholly repayable within five years	21,578	49,781
Obligations under a finance lease	93	-
	<u>98,676</u>	<u>195,038</u>
Less: Amount capitalised in respect of properties under development and properties under development for sale	<u>(5,367)</u>	<u>(28,182)</u>
	<u>93,309</u>	<u>166,856</u>
Total finance costs included in:		
Cost of sales	21,126	55,465
Other finance costs	72,183	111,391
	<u>93,309</u>	<u>166,856</u>

**11. TAXATION**

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	44,651	74,311
Overprovision in prior years	(3,524)	(2,534)
	<u>41,127</u>	<u>71,777</u>
Taxation outside Hong Kong	219	295
Deferred taxation (note 32)	(1,437)	1,275
Share of taxation attributable to associates	22,658	17,669
Share of deferred taxation attributable to associates	4,548	226
Share of taxation attributable to jointly controlled entities	4,177	4,124
	<u>71,292</u>	<u>95,366</u>



for the year ended 31st December, 2002

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**11. TAXATION (CONT'D)**

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 32.

**12. DIVIDEND**

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2002 (2001: Nil).

**13. (LOSS) EARNINGS PER SHARE**

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders of HK\$144,648,000 (2001: profit of HK\$103,437,000) and on the weighted average number of 3,409,866,308 (2001: 3,421,373,908) shares in issue during the year.

Diluted (loss) earnings per share is not presented as the Company has no dilutive potential ordinary shares during both years.

for the year ended 31st December, 2002

**14. FIXED ASSETS**

	Investment properties HK\$'000	Hotel property HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
<b>The Group</b>								
<b>Cost or valuation</b>								
At 1st January, 2002	1,872,800	410,603	126,079	85,681	122,426	401	26,434	2,644,424
Exchange adjustments	-	-	-	(3)	(10)	-	2	(11)
Reclassification	20,809	-	(21,000)	-	-	-	-	(191)
Transfer from properties held for sale	50,130	-	-	-	-	-	-	50,130
Transfer to intangible assets	-	-	-	-	(155)	-	-	(155)
Additions	2,239	-	-	6,937	15,284	-	275	24,735
Disposal of subsidiaries	-	-	(805)	-	(78)	-	(243)	(1,126)
Other disposals	-	-	-	(5,972)	(5,757)	(401)	(963)	(13,093)
Underprovision of construction cost	-	8,752	-	-	-	-	-	8,752
Deficit arising on revaluation	(300,441)	(142,776)	-	-	-	-	-	(443,217)
At 31st December, 2002	1,645,537	276,579	104,274	86,643	131,710	-	25,505	2,270,248
Comprising:								
At cost	-	-	88,274	86,643	131,710	-	25,505	332,132
At valuation in 1985	-	-	16,000	-	-	-	-	16,000
At valuation in 2002	1,645,537	276,579	-	-	-	-	-	1,922,116
	1,645,537	276,579	104,274	86,643	131,710	-	25,505	2,270,248
<b>Depreciation</b>								
At 1st January, 2002	-	-	15,666	53,686	77,786	178	23,522	170,838
Exchange adjustments	-	-	-	(1)	(10)	-	2	(9)
Reclassification	-	-	(191)	-	-	-	-	(191)
Transfer to intangible assets	-	-	-	-	(25)	-	-	(25)
Provided for the year	-	-	2,664	16,093	18,062	30	1,204	38,053
Eliminated on disposal of subsidiaries	-	-	(187)	-	(77)	-	(168)	(432)
Eliminated on other disposals	-	-	-	(5,224)	(5,342)	(208)	(908)	(11,682)
At 31st December, 2002	-	-	17,952	64,554	90,394	-	23,652	196,552
<b>Net book values</b>								
At 31st December, 2002	1,645,537	276,579	86,322	22,089	41,316	-	1,853	2,073,696
At 31st December, 2001	1,872,800	410,603	110,413	31,995	44,640	223	2,912	2,473,586

for the year ended 31st December, 2002

#### 14. FIXED ASSETS (CONT'D)

The net book value of properties held by the Group at 31st December, 2002 and 2001 comprised:

	2002			2001		
	Investment properties HK\$'000	Hotel Property HK\$'000	Land and buildings HK\$'000	Investment properties HK\$'000	Hotel Property HK\$'000	Land and buildings HK\$'000
Properties in						
Hong Kong:						
Long-term	1,346,837	276,579	84,863	1,564,000	410,603	109,789
Medium-term	298,700	–	–	308,800	–	–
Properties outside						
Hong Kong:						
Medium-term	–	–	1,459	–	–	624
	<b>1,645,537</b>	<b>276,579</b>	<b>86,322</b>	<b>1,872,800</b>	<b>410,603</b>	<b>110,413</b>

The Group's investment properties are held for rental purposes under operating leases and the hotel property is held for hotel operations. The Group's investment properties and hotel property in Hong Kong were revalued on 31st December, 2002 by FPD Savills (Hong Kong) Limited, Chartered Surveyors, on an open market value basis, at HK\$1,922,116,000 (2001: HK\$2,283,403,000).

In preparing these accounts, the Group has placed reliance on paragraph 80 of the SSAP 17, which provides exemption from the need to make regular revaluations for "Land and buildings" carried at a revalued amount prior to 30th September, 1995. Included in "Land and buildings" is a property carried at HK\$16,000,000 which was revalued in 1985 by Jones Lang Wootton, independent professional valuer, on an open market value basis. The carrying amount of the "Land and buildings", including the revalued property, would have been HK\$88,035,000 (2001: HK\$112,156,000), had the property been carried at cost less depreciation.

Of the deficit of HK\$443,217,000 (2001: HK\$251,036,000) arising on revaluation during the year, HK\$440,948,000 (2001: HK\$251,036,000) has been charged to the income statement. HK\$1,667,000 (2001: Nil), after adjusting for an amount attributable to minority interests of HK\$602,000 (2001: Nil), has been charged against the property revaluation reserve.

The net book value of furniture, fixtures and equipment of HK\$41,316,000 includes an amount of HK\$2,093,000 (2001: Nil) in respect of assets held under a finance lease.

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**14. FIXED ASSETS (CONT'D)**

<b>The Company</b>	<b>Leasehold improvements HK\$'000</b>	<b>Furniture, fixtures and equipment HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
<b>Cost</b>				
At 1st January, 2002	6,217	6,005	1,282	13,504
Additions	14	353	–	367
Disposals	–	(449)	(498)	(947)
At 31st December, 2002	<u>6,231</u>	<u>5,909</u>	<u>784</u>	<u>12,924</u>
<b>Depreciation</b>				
At 1st January, 2002	5,405	5,444	1,092	11,941
Provided for the year	169	247	57	473
Eliminated on disposals	–	(446)	(498)	(944)
At 31st December, 2002	<u>5,574</u>	<u>5,245</u>	<u>651</u>	<u>11,470</u>
<b>Net book values</b>				
At 31st December, 2002	<u>657</u>	<u>664</u>	<u>133</u>	<u>1,454</u>
At 31st December, 2001	<u>812</u>	<u>561</u>	<u>190</u>	<u>1,563</u>

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**15. INTANGIBLE ASSETS**

	<b>The Group</b> HK\$'000
<b>Computer software</b>	
<b>Cost</b>	
At 1st January, 2002	7,148
Transfer from fixed assets	155
Additions	4,528
Written off	(6,240)
At 31st December, 2002	5,591
<b>Amortisation</b>	
At 1st January, 2002	1,108
Transfer from fixed assets	25
Provided for the year	1,366
Eliminated on write off	(1,768)
At 31st December, 2002	731
<b>Net book values</b>	
At 31st December, 2002	4,860
At 31st December, 2001	6,040

**16. GOODWILL**

	<b>The Group</b>	
	2002	2001
	HK\$'000	HK\$'000
<b>Cost</b>		
At 1st January	34,820	–
Acquisition of a subsidiary	–	12,663
Increase in interest in a subsidiary	–	22,157
At 31st December	34,820	34,820
<b>Amortisation</b>		
At 1st January	4,760	–
Provided for the year	7,142	4,760
At 31st December	11,902	4,760
<b>Net book values</b>		
At 31st December	22,918	30,060

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**17. NEGATIVE GOODWILL**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Gross amount</b>		
At 1st January	506,293	–
Acquisition of additional interest in subsidiaries	473,385	257,168
Acquisition of subsidiaries	–	249,125
At 31st December	<u>979,678</u>	<u>506,293</u>
<b>Released to income statement</b>		
At 1st January	68,220	–
Released during the year	149,163	68,220
At 31st December	<u>217,383</u>	<u>68,220</u>
<b>Net book values</b>		
At 31st December	<u>762,295</u>	<u>438,073</u>

**18. PROPERTIES UNDER DEVELOPMENT**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At cost, less impairment loss recognised:		
At 1st January	124,172	121,675
Exchange adjustments	–	(11)
Additions, including interest of HK\$190,000 (2001: HK\$329,000) capitalised	21,730	2,508
Impairment loss recognised	(17,100)	–
At 31st December	<u>128,802</u>	<u>124,172</u>

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#### 18. PROPERTIES UNDER DEVELOPMENT (CONT'D)

The carrying value of properties under development held by the Group at 31st December, 2002 and 2001 comprised:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Freehold properties outside Hong Kong	93,558	93,506
Long-term properties in Hong Kong	35,244	30,666
	<u>128,802</u>	<u>124,172</u>

At 31st December, 2002, the Group had interest capitalised of HK\$1,325,000 (2001: HK\$1,135,000) in respect of properties under development.

As a result of a decline in market values of properties in Hong Kong in particular, there was an impairment loss recognised in the income statement. The impairment loss recognised was determined with reference to the open market values based on independent professional valuations at 31st December, 2002.

#### 19. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Listed securities in Hong Kong, at cost	692,516	653,102
Unlisted shares at cost, less impairment loss recognised	–	840
Amounts due from subsidiaries, less allowances	1,901,844	1,850,473
	<u>2,594,360</u>	<u>2,504,415</u>
Market value of listed securities in Hong Kong	<u>211,068</u>	<u>170,051</u>

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2002 are set out in note 47.

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**20. INTEREST IN ASSOCIATES**

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed securities in Hong Kong (note 20(i))	1,958,365	1,927,924	–	–
Unlisted shares (note 20(ii))	205,572	209,600	–	–
Unlisted shares in Hong Kong, at cost	–	–	–	3,000
	<b>2,163,937</b>	<b>2,137,524</b>	<b>–</b>	<b>3,000</b>

Notes:

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Listed securities in Hong Kong				
Share of net assets other than goodwill	1,953,081	1,870,741	–	–
Unamortised goodwill on acquisition of associates	142,843	35,237	–	–
Unamortised negative goodwill on acquisition of associates	(137,559)	(180,355)	–	–
	<b>1,958,365</b>	<b>1,725,623</b>	<b>–</b>	<b>–</b>
Amounts due from associates, less allowances	–	202,301	–	–
	<b>1,958,365</b>	<b>1,927,924</b>	<b>–</b>	<b>–</b>
Market value of listed securities	<b>585,287</b>	<b>731,197</b>	<b>–</b>	<b>–</b>
(ii) Unlisted shares				
Share of net assets other than goodwill	148,127	143,122	–	–
Unamortised negative goodwill on acquisition of associates	(1,963)	(8,713)	–	–
	<b>146,164</b>	<b>134,409</b>	<b>–</b>	<b>–</b>
Amounts due from associates	<b>59,408</b>	<b>75,191</b>	<b>–</b>	<b>–</b>
	<b>205,572</b>	<b>209,600</b>	<b>–</b>	<b>–</b>

The amounts due from associates are not repayable within twelve months.

Particulars of the Company's principal associates at 31st December, 2002 are set out in note 48.



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## 20. INTEREST IN ASSOCIATES (CONT'D)

Extracts from the consolidated operating results, financial position and contingent liabilities of the Group's significant associate, Tian An China Investments Company Limited ("Tian An"), which are based on its audited consolidated financial statements, are as follows:

Operating results of Tian An for the year ended 31st December, 2002 and 2001:

	2002 HK\$'000	2001 HK\$'000
Turnover	1,080,332	299,273
Depreciation, amortisation and impairment	16,854	10,785
Profit before taxation	199,740	119,711
Profit attributable to shareholders of Tian An	<u>97,198</u>	<u>102,782</u>

Financial position of Tian An at 31st December, 2002 and 2001:

	2002 HK\$'000	2001 HK\$'000
Non-current assets	4,334,894	4,079,825
Current assets	<u>3,671,335</u>	<u>2,782,163</u>
Total assets	<u>8,006,229</u>	<u>6,861,988</u>
Non-current liabilities	772,991	837,474
Current liabilities	<u>2,690,446</u>	<u>1,751,093</u>
Total liabilities	<u>3,463,437</u>	<u>2,588,567</u>
Minority interests	<u>323,694</u>	<u>197,199</u>
	<u>4,219,098</u>	<u>4,076,222</u>
Contingent liabilities	<u>603,205</u>	<u>535,630</u>

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**21. INTEREST IN JOINTLY CONTROLLED ENTITIES**

	<b>The Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted shares		
Share of net assets	<b>1,241,282</b>	1,362,732
Elimination of unrealised profit	<b>(17,622)</b>	(17,622)
	<b><u>1,223,660</u></b>	<u>1,345,110</u>

Particulars of the Group's principal jointly controlled entities at 31st December, 2002 are set out in note 49.

Extracts from the consolidated operating results, financial position and contingent liabilities of the Group's significant jointly controlled entity, Allied Kajima Limited ("Allied Kajima"), which are based on its audited consolidated financial statements, are as follows:

Operating results of Allied Kajima for the years ended 31st December, 2002 and 2001:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>292,348</b>	324,057
Depreciation	<b>9,365</b>	12,972
Profit before taxation	<b>69,394</b>	137,075
Profit attributable to shareholders of Allied Kajima	<b><u>61,039</u></b>	<u>128,824</u>

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## 21. INTEREST IN JOINTLY CONTROLLED ENTITIES (CONT'D)

Financial position of Allied Kajima at 31st December, 2002 and 2001:

	2002 HK\$'000	2001 HK\$'000
Non-current assets	2,599,629	2,748,129
Current assets	467,842	589,305
Total assets	<u>3,067,471</u>	<u>3,337,434</u>
Non-current liabilities	482,887	95,903
Current liabilities	103,891	516,068
Total liabilities	<u>586,778</u>	<u>611,971</u>
	<u>2,480,693</u>	<u>2,725,463</u>
Contingent liabilities:		
Guarantees given by Allied Kajima to banks in respect of bank guarantees issued to the Inland Revenue Department in connection with tax disputes related to certain subsidiaries of Allied Kajima	<u>–</u>	<u>260,030</u>

Note:

The tax dispute brought forward from 2001 between subsidiaries of Allied Kajima and the Commissioner of Inland Revenue in respect of assessments of profits raised by the Commissioner relating to the disposal of certain investment properties held by the subsidiaries in prior years was settled by the Board of Review during the year. Accordingly, the subsidiaries of Allied Kajima were not liable to any tax on the dispute.

Included in the share of results of jointly controlled entities in the consolidated income statement of a loss of HK\$15,932,000 (2001: profits of HK\$51,213,000) is an amount of HK\$50,629,000 (2001: nil) representing the revaluation deficit attributable to a jointly controlled entity.

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**22. INVESTMENTS**

	Investments in securities						Total	
	Non-trading securities		Trading securities		Other investments		2002	2001
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>								
Listed equity securities, at market values, issued by corporate entities								
Hong Kong	204,041	260,455	19,874	36,947	-	-	223,915	297,402
Outside Hong Kong	1,461	1,383	1,799	6,010	-	-	3,260	7,393
issued by banks								
Hong Kong	-	-	1,390	-	-	-	1,390	-
issued by public utility entities								
Hong Kong	-	-	23	-	-	-	23	-
	<b>205,502</b>	<b>261,838</b>	<b>23,086</b>	<b>42,957</b>	<b>-</b>	<b>-</b>	<b>228,588</b>	<b>304,795</b>
Unlisted equity securities issued by corporate entities								
Hong Kong	75,262	59,431	335	509	-	-	75,597	59,940
Outside Hong Kong	69,257	70,473	-	-	-	-	69,257	70,473
	<b>144,519</b>	<b>129,904</b>	<b>335</b>	<b>509</b>	<b>-</b>	<b>-</b>	<b>144,854</b>	<b>130,413</b>
Unlisted marketable debt securities issued by overseas government	-	-	7,772	7,772	-	-	7,772	7,772
issued by bank	-	-	5,424	5,056	-	-	5,424	5,056
	<b>-</b>	<b>-</b>	<b>13,196</b>	<b>12,828</b>	<b>-</b>	<b>-</b>	<b>13,196</b>	<b>12,828</b>
Unlisted financial derivative issued by banks	-	946	-	-	-	-	-	946
Exchange seats, statutory deposits and other deposits with Exchange and Clearing Companies	-	-	-	-	16,636	17,223	16,636	17,223
Amounts due from investee companies, less impairment loss recognised	-	-	-	-	102,926	103,113	102,926	103,113
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119,562</b>	<b>120,336</b>	<b>119,562</b>	<b>120,336</b>
	<b>350,021</b>	<b>392,688</b>	<b>36,617</b>	<b>56,294</b>	<b>119,562</b>	<b>120,336</b>	<b>506,200</b>	<b>569,318</b>
Carrying amount analysed for reporting purposes as:								
Non-current	350,021	392,688	-	-	119,562	120,336	469,583	513,024
Current	-	-	36,617	56,294	-	-	36,617	56,294
	<b>350,021</b>	<b>392,688</b>	<b>36,617</b>	<b>56,294</b>	<b>119,562</b>	<b>120,336</b>	<b>506,200</b>	<b>569,318</b>

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### 23. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Loans and advances to consumer finance customers	1,839,969	2,293,107
Allowance for doubtful debts	(146,018)	(136,325)
	<u>1,693,951</u>	<u>2,156,782</u>
Less: Amount due within one year and shown under current assets	<u>(1,372,264)</u>	<u>(1,776,014)</u>
Amount due after one year	<u>321,687</u>	<u>380,768</u>

### 24. PROPERTIES UNDER DEVELOPMENT FOR SALE

The Group's properties under development for sale, which were held under long-term leases and situated in Hong Kong, were transferred to properties held for sale upon completion during the year.

The properties under development for sale at 31st December, 2001 had interest capitalised of HK\$145,147,000.

There was no cost of properties under development for sale recognised as an expense during the year (2001: Nil).

### 25. PROPERTIES HELD FOR SALE

	The Group	
	2002	2001
	HK\$'000	HK\$'000
At net realisable value:		
Medium-term properties in Hong Kong	31,816	36,599
Long-term properties in Hong Kong	<u>709,825</u>	<u>–</u>
	<u>741,641</u>	<u>36,599</u>

Certain of the Group's properties held for sale of HK\$50,130,000 (2000: Nil), which were held for rental purposes under operating leases, were transferred to investment properties during the year.

The cost of properties held for sale recognised as an expense during the year was HK\$118,386,000 (2001: HK\$14,362,000).

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## 26. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The average credit terms of other trade receivables range from 30 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$1,957,260,000 (2001: HK\$2,461,870,000), the aged analysis of which is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
0 to 30 days	1,748,929	1,581,574
31 to 180 days	11,335	256,133
181 to 365 days	43,893	457,290
over 365 days	551,850	578,806
	<b>2,356,007</b>	2,873,803
Allowance for doubtful debts	<b>(398,747)</b>	(411,933)
	<b>1,957,260</b>	2,461,870

The above balance of HK\$2,356,007,000 (2001: HK\$2,873,803,000) includes term loans totalling HK\$761,167,000 (2001: HK\$1,310,576,000), the maturity profile of which is shown in note 46.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 31st December, 2002 was HK\$3,693,446,000 (2001: HK\$7,752,136,000).

On 24th November, 1999, Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770,000,000 shares in Tian An to Millennium Touch Limited ("MT"). These 770,000,000 Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31st December, 2002 and 2001 respectively. MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770,000,000 Tian An shares to discharge the indebtedness owed by MT to Sun Hung Kai group or foreclosing on the shares. However, Sun Hung Kai has not exercised, and has forgone any entitlement to exercise, any voting rights on these 770,000,000 Tian An shares.

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## 26. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

MT has been in default under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group up to 31st December, 2000 by marking to market those 770,000,000 Tian An shares at the closing market price of HK\$0.134 at 31st December, 2000. The closing market price of Tian An shares at 31st December, 2002 fell below HK\$0.134 and an unrealised loss of HK\$10,110,000 (2001: Nil) was accounted for in the current year income statement. The amount due from MT after providing for the unrealised loss of HK\$144,234,000 (2001: HK\$134,124,000) at 31st December, 2002 was HK\$93,070,000, (2001: HK\$103,180,000) and has been included as a term loan under the Group's balance of accounts receivable, deposits and prepayments.

The credit of trade receivables in respect of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

## 27. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$580,214,000 (2001: HK\$421,225,000), the aged analysis of which is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 to 30 days	480,174	323,453
31 to 180 days	11,917	44,309
181 to 365 days	47,464	5,187
over 365 days	40,659	48,276
	580,214	421,225

## 28. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 2001, 31st December, 2001 and 31st December, 2002	6,500,000,000	1,300,000
Issued and fully paid:		
At 1st January, 2001	3,453,664,308	690,733
Share repurchased and cancelled	(43,798,000)	(8,760)
At 31st December, 2001 and 31st December, 2002	3,409,866,308	681,973

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## 29. SHARE OPTION SCHEMES

At the annual general meeting of the Company held on 3rd June, 2002, the shareholders of the Company approved: (i) the termination of the share option scheme of the Company as adopted pursuant to a resolution passed by the Company's shareholders on 29th June, 1992 ("1992 AGL Scheme"); and (ii) the adoption of a new share option scheme ("2002 AGL Scheme").

A summary of each of the 1992 AGL Scheme, the 2002 AGL Scheme and the share option scheme of the Company's subsidiary, Allied Properties (H.K.) Limited ("Allied Properties") is as follows:

- (a) The 1992 AGL Scheme was adopted for the primary purpose of providing incentives to any directors or full time employees of the Company or any of its subsidiaries ("Eligible Employees") and was terminated on 3rd June, 2002. Under the 1992 AGL Scheme, the Board of Directors of the Company was authorised to grant options at a consideration of HK\$1.00 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the 1992 AGL Scheme could not exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the 1992 AGL Scheme from time to time. The number of shares in respect of which options granted or may be granted to any Eligible Employee was not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1992 AGL Scheme.

An option may be exercised at any time during a period not exceeding five years commencing one month after the date the option is accepted and expiring on the last day of such period or ten years from 29th June, 1992, whichever was the earlier. The exercise price is determined by the Directors of the Company, and could not be less than the higher of: (i) 80% of the average closing prices of the Company's shares on the five trading days immediately preceding the offer of the options; and (ii) the nominal value per share of the Company.

No option was granted under the 1992 AGL Scheme during the year, nor was there any option outstanding at 31st December, 2001 and 31st December 2002.

- (b) The 2002 AGL Scheme was adopted pursuant to a resolution passed by the Company's shareholders on 3rd June, 2002 ("Adoption Date") for the primary purpose of providing the eligible participants an opportunity to have a personal stake in the Company and to help motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the 2002 AGL Scheme include any employees, directors of the Company, its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), supplier of goods or services to the Group or any Invested Entity, customer of the Group or any Invested Equity, any minority shareholders of the Group or Invested Entity and any other person or entity who in the opinion of the Directors have contributed or may contribute to the development and growth of the Group. The 2002 AGL Scheme will expire on 2nd June, 2012.



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## 29. SHARE OPTION SCHEMES (CONT'D)

The maximum number of shares which may be issuable under the 2002 AGL Scheme and any other schemes of the Company (excluding options lapsed pursuant to the 2002 AGL Scheme and any other schemes of the Company) must not exceed 10% of the issued shares of the Company at the Adoption Date, being 340,986,630 shares of the Company. At 31st December, 2002, the maximum number of shares issuable under the 2002 AGL Scheme was 340,986,630, which represented 10% of the Company's shares in issue as at that date.

The total number of shares issued and to be issued to each eligible participant under the 2002 AGL Scheme in any 12-month period must not exceed 1% of the issued shares of the Company unless approved in advance by the shareholders of the Company in general meeting.

Any option to be granted under the 2002 AGL Scheme to a director, chief executive or substantial shareholder of the Company or to any of their respective associates must be approved by Independent Non-Executive Directors of the Company. In addition, any option to be granted to a substantial shareholder or an Independent Non-Executive Director of the Company or to any of their respective associates which will result in the shares issued and to be issued under the 2002 AGL Scheme in excess of 0.1% of the issued shares or with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million within any 12-month period is subject to approval by the shareholders of the Company in general meeting.

The offer of a grant of options under the 2002 AGL Scheme may be accepted within 28 business days from the date of the offer and by payment of HK\$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the 2002 AGL Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the Adoption Date.

The exercise price is determined by the Directors and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of the offer of grant of an option, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant of an option; and (iii) the nominal value of the Company's shares.

No option was granted under the 2002 AGL Scheme during the year, nor was there any option outstanding at 31st December, 2002.

- (c) Allied Properties' share option scheme ("APL Scheme") was adopted pursuant to a resolution passed by Allied Properties' shareholders on 30th June, 1993 for the primary purpose of providing incentives to any directors or full time employees of Allied Properties or any of its subsidiaries ("APL Eligible Employees") and will expire on 29th June, 2003. Under the APL Scheme, the board of directors of Allied Properties is authorised to grant options at a consideration of HK\$1.00 per option to the APL Eligible Employees to subscribe for shares in Allied Properties.

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## 29. SHARE OPTION SCHEMES (CONT'D)

The maximum number of shares issued or which may be issuable under the APL Scheme cannot exceed 10% of the issued share capital of Allied Properties excluding any shares issued pursuant to the APL Scheme from time to time. The number of shares in respect of which options granted or may be granted to any APL Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the APL Scheme.

An option may be exercised at any time during a period not exceeding five years commencing one month after the date the option is accepted and expiring on the last day of such period or ten years from 30th June, 1993, whichever is the earlier. The exercise price is determined by the directors of Allied Properties, and will not be less than the higher of: (i) 80% of the average closing prices of the Allied Properties' shares on the five trading days immediately preceding the offer of the options; and (ii) the nominal value per share of Allied Properties.

No option was granted under the APL Scheme during the year, nor was there any option outstanding at 31st December, 2001 and 31st December, 2002.

## 30. RESERVES

	The Group	
	2002 HK\$'000	2001 HK\$'000
Share premium	1,894,481	1,894,481
Property revaluation reserve	12,919	15,784
Investment revaluation reserve	(1,938)	11,937
Capital redemption reserve	20,175	20,175
Translation reserve	(118,347)	(110,422)
Non distributable reserve (note 30 (a))	55,226	55,226
Capital (goodwill) reserve (note 30 (b))	342,088	371,367
Accumulated profits (note 30 (c))	1,189,707	1,333,506
	<u>3,394,311</u>	<u>3,592,054</u>

Notes:

- (a) Non distributable reserve represents the share of a subsidiary's capital redemption reserve.

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### 30. RESERVES (CONT'D)

(b)	Goodwill HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Total HK\$'000
At 1st January, 2001	(61,929)	462,947	432	401,450
Share of reserve movements of associates	–	–	22	22
Released on reclassification of an associate to a subsidiary	–	–	(111)	(111)
Released on disposal of non-trading securities	4,385	–	–	4,385
Released on disposal of subsidiaries	418	–	–	418
Amortisation of capital reserve	–	(35,909)	–	(35,909)
Transfer by an associate	–	–	1,112	1,112
At 31st December, 2001	(57,126)	427,038	1,455	371,367
Released on disposal of associates	13,709	–	–	13,709
Amortisation of capital reserve	–	(42,139)	–	(42,139)
Transfer by an associate	–	–	(849)	(849)
At 31st December, 2002	(43,417)	384,899	606	342,088

Statutory reserves represent reserves required under relevant rules and regulations of Mainland China.

- (c) The accumulated profits of the Group include HK\$92,247,000 (2001: HK\$91,108,000) retained by associates of the Group and HK\$439,438,000 (2001: HK\$525,355,000) retained by its jointly controlled entities.

The Company	Share premium HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2001	1,894,481	11,415	39,140	1,945,036
Premium on share repurchase	–	–	(12,260)	(12,260)
Transfer on share repurchase	–	8,760	(8,760)	–
Profit attributable to shareholders	–	–	18,268	18,268
At 31st December, 2001	1,894,481	20,175	36,388	1,951,044
Profit attributable to shareholders	–	–	85,456	85,456
At 31st December, 2002	1,894,481	20,175	121,844	2,036,500

The Company's reserves available for distribution to shareholders at 31st December, 2002 are represented by accumulated profits of HK\$121,844,000 (2001: HK\$36,388,000).

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**31. BANK AND OTHER BORROWINGS**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank and other borrowings comprise :		
Bank loans	1,886,202	2,953,141
Overdrafts	2,855	102,347
Other borrowings	30,000	160,980
	<b>1,919,057</b>	<b>3,216,468</b>
Analysed as :		
Secured	1,774,034	2,962,427
Unsecured	145,023	254,041
	<b>1,919,057</b>	<b>3,216,468</b>
Bank loans and overdrafts are repayable as follows :		
Within one year or on demand	927,018	2,177,409
More than one year but not exceeding two years	259,669	157,615
More than two years but not exceeding five years	555,060	226,086
More than five years	147,310	494,378
	<b>1,889,057</b>	<b>3,055,488</b>
Other borrowings repayable within one year or on demand	30,000	160,980
	<b>1,919,057</b>	<b>3,216,468</b>
Less: Amount repayable within one year and shown under current liabilities	<b>(957,018)</b>	<b>(2,338,389)</b>
Amount due after one year	<b>962,039</b>	<b>878,079</b>

Details of the assets of the Group and the Company pledged to secure bank and other borrowings are set out in note 43.

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### 32. DEFERRED TAXATION

	The Group	
	2002 HK\$'000	2001 HK\$'000
Balance at 1st January	13,277	9,789
Exchange adjustments	(2)	1
Payments made during the year	(1,883)	–
Transfer to property revaluation reserve	(1,667)	–
Transfer to minority interests	(602)	–
Acquisition of subsidiaries	–	2,212
(Credit) charge for the year (note 11)	(1,437)	1,275
Balance at 31st December	<u>7,686</u>	<u>13,277</u>

Deferred taxation mainly represents the taxation effect of the surplus arising on revaluation of certain investment properties at the date of transfer from properties held for sale.

Deferred taxation has not been provided on the other valuation surpluses or deficits arising on the valuation of investment properties and hotel property as profits or losses arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The net potential deferred tax (credit) charge arising in the year, which has not been recognised in the income statement, is as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences in relation to:				
Shortfall of tax allowances				
over depreciation	(348)	(304)	(29)	(9)
Tax losses (arising) utilised	(322,914)	1,799	(1,045)	4,753
General allowance for bad and doubtful debts	(1,672)	(5,634)	–	–
Other timing differences	(2,795)	(686)	–	–
	<u>(327,729)</u>	<u>(4,825)</u>	<u>(1,074)</u>	<u>4,744</u>

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### 32. DEFERRED TAXATION (CONT'D)

At the balance sheet date, the net potential deferred tax asset in respect of timing differences which have not been recognised in the balance sheet, is analysed as follows:

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences in relation to:				
(Shortfall) excess of tax allowances over depreciation	(949)	(601)	66	37
Tax losses carried forward	(360,379)	(37,465)	(6,199)	(7,244)
General allowance for bad and doubtful debts	(23,484)	(21,812)	-	-
Other timing differences	(738)	2,057	-	-
	<u>(385,550)</u>	<u>(57,821)</u>	<u>(6,133)</u>	<u>(7,207)</u>

### 33. OTHER LIABILITIES

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under a finance lease (note)	1,816	-	-	-
Other employee benefits	6,682	-	329	-
	8,498	-	329	-
Less: Amount due within one year and shown under current liabilities	(1,399)	-	(329)	-
Amount due after one year	<u>7,099</u>	<u>-</u>	<u>-</u>	<u>-</u>

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### 33. OTHER LIABILITIES (CONT'D)

Note:

At 31st December, 2002, the obligations under a finance lease were repayable as follows :

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>The Group</b>				
Within one year	915	–	850	–
More than one year but not exceeding two years	916	–	890	–
More than two years but not exceeding five years	76	–	76	–
	<u>1,907</u>	<u>–</u>	<u>1,816</u>	<u>–</u>
Less: Future finance charges	<u>(91)</u>	<u>–</u>		
Present value of the lease obligations	<u>1,816</u>	<u>–</u>		
Less: Amount repayable within one year and shown under current liabilities			<u>(850)</u>	<u>–</u>
Amount due after one year			<u>966</u>	<u>–</u>

### 34. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment. The subsidiaries will not demand repayment in the next twelve months and the amounts are therefore shown as non-current liabilities.

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**35. RECONCILIATION OF (LOSS) PROFIT FROM OPERATIONS TO CASH GENERATED BY OPERATIONS**

	2002 HK\$'000	2001 HK\$'000
<b>(Loss) profit from operations</b>	<b>(210,777)</b>	248,220
Bad and doubtful debts	506,115	373,280
Deficit arising on revaluation of investment properties and hotel property	440,948	251,036
Impairment loss recognised in respect of properties held for sale	104,000	500
Depreciation	38,053	30,342
Impairment loss recognised in respect of properties under development	17,100	–
Impairment loss recognised in respect of non-trading securities	12,306	11,482
Net unrealised loss (profit) on trading securities	11,193	(17,664)
Loss arising from default of loan agreement with Millennium Touch Limited (note 26)	10,110	–
Intangible assets written off	4,472	–
Loss on disposal of fixed assets	1,378	1,242
Amortisation of intangible assets	1,366	1,108
Amortisation of capital reserve	(25,832)	(22,591)
Profit on disposal of associates	(3,725)	(477)
Profit on disposal of subsidiaries	(2,020)	(180)
Profit on disposal of non-trading securities	(1,123)	(12,998)
Impairment loss recognised in respect of properties under development for sale	–	81,000
Profit on deemed acquisition of a subsidiary	–	(1,180)
Net unrealised profit on derivatives	–	(1,056)
<b>Operating cash flow before movements in working capital</b>	<b>903,564</b>	942,064
Increase in properties under development for sale	(51,185)	(83,241)
Decrease in properties held for sale	118,386	9,871
Decrease (increase) in inventories	636	(169)
Decrease in trading securities	8,316	36,657
Increase in loans and advances to consumer finance customers	(5,161)	(283,521)
Decrease in accounts receivable, deposit and prepayments	632,416	293,040
Decrease in amounts due from associates	–	46,109
Increase (decrease) in accounts payable and accrued charges	107,600	(241,714)
<b>Cash generated by operations</b>	<b>1,714,572</b>	719,096



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**36. DISPOSAL OF SUBSIDIARIES**

	2002 HK\$'000	2001 HK\$'000
<b>Net assets (liabilities) disposed of:</b>		
Fixed assets	694	–
Accounts receivable, deposits and prepayments	12	–
Bank balances	579	22
Accounts payable and accrued charges	(447)	(653)
Taxation	(3)	–
	<u>835</u>	<u>(631)</u>
Translation reserve released upon disposal	(1,148)	(22)
Goodwill reserve released upon disposal	–	418
Minority interests released upon disposal	(1,204)	205
Profit on disposal of subsidiaries	<u>2,020</u>	<u>180</u>
Proceeds on disposal	<u>503</u>	<u>150</u>
<b>Satisfied by:</b>		
Accounts receivable due after one year	25	–
Other receivables	478	150
	<u>503</u>	<u>150</u>
Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	25	–
Bank balances disposed of	(579)	(22)
	<u>(554)</u>	<u>(22)</u>

The subsidiaries disposed of during both 2002 and 2001 did not have any significant impact to the Group's turnover and (loss) profit from operations.

for the year ended 31st December, 2002

**37. ACQUISITION OF SUBSIDIARIES**

	2002 HK\$'000	2001 HK\$'000
<b>Net assets acquired:</b>		
Fixed assets	–	203,760
Interest in associates	–	1,699,481
Interest in jointly controlled entities	–	25,859
Investments	–	966,139
Properties held for sale	–	6,375
Loans and advances to consumer finance customers	–	240,420
Accounts receivable, deposits and prepayments	–	2,759,509
Short-term bank deposits	–	58,643
Bank balances and cash	–	285,635
Accounts payable and accrued charges	–	(761,834)
Taxation	–	(25,890)
Bank loans and overdrafts	–	(151,172)
Amounts due to associates	–	(18,258)
Deferred taxation	–	(2,212)
Minority interests	–	(2,047,859)
	–	3,238,596
Goodwill on acquisition	–	12,663
Negative goodwill on acquisition	–	(249,125)
	–	3,002,134
<b>Satisfied by:</b>		
Cash	–	227,985
Reclassification of interest in associates	–	1,977,020
Reclassification of interest in jointly controlled entities	–	26,591
	–	2,231,596
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash consideration paid	–	(227,985)
Bank overdrafts acquired	–	(459)
Bank deposits, bank balances and cash acquired	–	344,278
	–	115,834

The subsidiaries acquired in 2001 contributed HK\$499,711,000 of the Group's turnover and HK\$144,009,000 to the Group's profit from operations.

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### 38. MAJOR NON-CASH TRANSACTIONS

There were no material non-cash transactions during the year. In 2001, the material non-cash transactions were:

- (i) At 30th June, 2001, a 8.83% interest in a listed associate held by the Group as trading securities with a carrying value of HK\$142,480,000 was reclassified as interest in associate. A negative goodwill of HK\$192,152,000 has arisen as a result of the reclassification.
- (ii) In December, 2001, Sun Hung Kai acquired a 1.54% interest in Yu Ming Investments Limited ("Yu Ming") at a consideration of HK\$7,824,000 from a client. The consideration was set off against HK\$7,824,000 due from the client. As a result of this acquisition, Sun Hung Kai's holding in Yu Ming increased from 19.82% to 21.36% and Yu Ming was reclassified from investments in securities to interest in associates on 28th December, 2001.

### 39. CONTINGENT LIABILITIES

At 31st December, 2002, the Group had contingent liabilities as follows:

- (a) The Group had guarantees of HK\$7,020,000 (2001: HK\$222,000,000) in respect of banking and loan facilities utilised by an investee company (2001: subsidiary of a jointly controlled entity and an investee company).
- (b) Guarantees of the Group in respect of indemnities on banking guarantees made available to a clearing house and regulatory body and others were HK\$6,274,000 (2001: HK\$5,255,000).
- (c) Sun Hung Kai Securities Limited ("SHKSL"), a wholly-owned subsidiary of Sun Hung Kai, issued proceedings against New World Development Company Limited ("NWD") on 22nd December, 1998, claiming, inter alia, the repayment of HK\$35,319,000 paid by SHKSL to NWD as restitution of monies received by NWD in relation to a hotel project in Kuala Lumpur, Malaysia.

NWD and its wholly-owned subsidiary, namely, Stapleton Developments Limited, subsequently issued proceedings against SHKSL, claiming, inter alia, the specific performance of SHKSL's alleged commitment with them in respect of the development project to provide funding of HK\$115,910,000, of which HK\$18,740,000 represents interest accrued. A trial date, originally set for April 2002 was vacated at NWD's request, and a likely trial date is anticipated in June 2003.

Legal costs are recorded in the income statement as incurred.

- (d) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C. registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth approximately HK\$37,000,000) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with.

At 31st December, 2002, the Company had guarantees of HK\$155,000,000 (2001: HK\$167,000,000) given to banks in respect of banking facilities utilised by a subsidiary. No facilities were utilised as at 31st December, 2002 (2001: HK\$43,000,000).

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#### 40. CAPITAL COMMITMENTS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	26,700	37,512
Others	4,355	1,209
	<u>31,055</u>	<u>38,721</u>
Capital expenditure authorised but not contracted for:		
Others	<u>47,175</u>	<u>–</u>

The Company did not have any significant capital commitment at 31st December, 2002 and 2001.

#### 41. OPERATING LEASE ARRANGEMENTS

##### As lessee

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Minimum lease payments under operating leases recognised in the income statement during the year:				
Land and buildings	58,059	47,526	3,794	3,664
Others	640	–	–	–
	<u>58,699</u>	<u>47,526</u>	<u>3,794</u>	<u>3,664</u>

At 31st December, 2002, the Group and the Company had outstanding minimum lease payments under non-cancellable operating leases which fall due as follows :

	The Group				The Company	
	2002		2001		2002	2001
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	HK\$'000
Within one year	45,344	77	58,859	12,372	4,507	7,825
In the second to fifth years inclusive	32,848	–	64,717	8,980	–	3,841
	<u>78,192</u>	<u>77</u>	<u>123,576</u>	<u>21,352</u>	<u>4,507</u>	<u>11,666</u>

Operating leases are negotiated for terms ranging from one to five years.

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#### 41. OPERATING LEASE ARRANGEMENTS (CONT'D)

##### As lessor

Property rental income earned during the year was HK\$59,702,000 (2001: HK\$57,809,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next two years.

At 31st December, 2002, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	39,729	39,356
In the second to fifth years inclusive	14,881	14,347
	<u>54,610</u>	<u>53,703</u>

The Company did not have any significant lease commitments under non-cancellable operating leases at 31st December 2002 and 2001.

#### 42. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2002 and 2001, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The scheme has now been closed to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

From 1st December, 2000 onwards, the new staff in Hong Kong joining the Group are required to join the Mandatory Provident Fund Scheme ("MPF Scheme"). The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the MPF Scheme.

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#### 43. PLEDGES OF ASSETS

At 31st December, 2002, certain of the Group's investment properties, hotel property, land and buildings, properties under development, properties under development for sale and properties held for sale with an aggregate carrying value of HK\$2,790,137,000 (2001: HK\$3,363,979,000), consumer loan portfolio of nil balance (2001: HK\$487,516,000), listed investments belonging to margin clients with a carrying value of HK\$761,412,000 (2001: HK\$3,798,857,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,804,999,000 (2001: HK\$3,695,815,000) were pledged to secure loans and general banking facilities to the extent of HK\$4,226,202,000 (2001: HK\$4,980,675,000) granted to the Group. Facilities amounting to HK\$1,774,034,000 (2001: HK\$2,962,427,000) were utilised at 31st December, 2002.

At 31st December, 2002, certain of the Group's bank deposits of HK\$1,000,000 (2001: HK\$ 1,000,000) were pledged to secure bank guarantee amounting to HK\$1,000,000 (2001: HK\$1,000,000).

At 31st December, 2002, certain of the Company's interests in a listed subsidiary with an aggregate carrying value of HK\$674,636,000 (2001: HK\$636,239,000) together with certain investments of its subsidiaries, were pledged to secure credit facilities to the extent of HK\$150,000,000 (2001: HK\$150,000,000) granted to a subsidiary. No facilities were utilised at 31st December, 2002 (2001: HK\$43,000,000).

#### 44. SUBSEQUENT EVENT

Sun Hung Kai repurchased 255,234,309 of its shares, by paying HK\$76,570,293 in cash and issuing loan notes bearing interest at 4% per annum of HK\$255,234,309 on 7th March, 2003 to satisfy the consideration. Immediately after the repurchase, the proportion of nominal value of issued share capital of Sun Hung Kai attributable to Allied Properties amounted to 74.27% (attributable to the Group amounted to 55.02%).

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#### 45. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of income and expense items

	(Income) / Expense	
	2002	2001
	HK\$'000	HK\$'000
Dividend income from associates	(7,504)	(7,344)
Dividend income from a jointly controlled entity	(60,000)	(47,000)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(14,639)	(14,862)
Administration and management fees from a jointly controlled entity	(5,860)	(1,860)
Interest income from associates	(15,867)	(12,316)
Rent, property management and air-conditioning fees and other related service fees from an associate	(2,050)	(1,789)
Insurance premium from an associate	(1,149)	–
Rent, property management and air-conditioning fees to a jointly controlled entity	<u>13,183</u>	<u>11,801</u>

- (b) During the year, both a subsidiary of the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 31st December, 2002 the amounts lent by the jointly controlled entity to the Group totalled HK\$178,000,000 (2001: HK\$118,000,000).
- (c) Up to 13th June, 2002, the Group had a guarantee outstanding which was provided to banks in respect of credit facilities utilised by a wholly-owned subsidiary of a jointly controlled entity. The guarantee provided was in proportion to the Group's interest in the jointly controlled entity and the amount at 13th June, 2002 was HK\$207,500,000 (2001: HK\$215,000,000). The guarantee was released on 14th June, 2002.
- (d) A promissory note of HK\$40,419,000 was issued by a listed associate during the year for the purpose of repaying the outstanding principal and interest under the 4% convertible loan note dated 2nd June, 1998 due on 2nd June, 2002. The promissory note bears interest at 7% per annum and matures on 2nd June, 2003.
- (e) Two promissory notes of HK\$57,144,327 and HK\$21,900,000 were issued by a listed associate to repay the principal and interest of two promissory notes which matured in December, 2002. The two new promissory notes bear interest at 4.75% per annum and are due on 27th December, 2003.

None of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on the Stock Exchange.

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**45. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)**

- (f) The net balances due from (to) related parties at 31st December, 2002 and 2001 are summarised as follows :

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Associates	322,293	328,645	-	-
Jointly controlled entity	(176,359)	(111,391)	-	-
	<u>145,934</u>	<u>217,254</u>	<u>-</u>	<u>-</u>

The above amounts are included in the balance sheet of the Group and the Company in the following ways :

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest in associates	59,408	277,492	-	-
Accounts receivable, deposits and prepayments	6,535	15,358	-	-
Amounts due from associates	294,787	72,805	-	-
Amount due from a jointly controlled entity	1,564	1,763	-	-
Accounts payable and accrued charges	(775)	(507)	-	-
Amounts due to associates	(37,544)	(31,557)	-	-
Amount due to a jointly controlled entity	(178,041)	(118,100)	-	-
	<u>145,934</u>	<u>217,254</u>	<u>-</u>	<u>-</u>

The above transactions have been entered into on terms agreed by the parties concerned.



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#### 46. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are reported as on demand.

	At 31st December, 2002					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
<b>Assets</b>						
Fixed deposits with banks	-	312,659	-	-	-	312,659
Loans and advances to consumer finance customers	165,945	441,261	883,941	340,478	8,344	1,839,969
Promissory note of a listed associate	-	-	264,463	-	-	264,463
Term loans	248,241	168,659	341,800	2,467	-	761,167
Marketable debt securities	-	13,196	-	-	-	13,196
<b>Liabilities</b>						
Bank and other borrowings	-	618,189	338,829	814,729	147,310	1,919,057
Obligations under a finance lease	-	209	641	966	-	1,816
<b>At 31st December, 2001</b>						
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	Total HK\$'000
<b>Assets</b>						
Fixed deposits with banks	-	356,206	-	-	-	356,206
Loans and advances to consumer finance customers	173,687	547,441	1,167,814	404,165	-	2,293,107
Convertible loan note and promissory note of a listed associate	-	-	110,202	145,000	-	255,202
Accounts receivable due after one year	-	-	-	167,453	-	167,453
Term loans	276,878	443,132	590,566	-	-	1,310,576
Marketable debt securities	-	12,828	-	-	-	12,828
<b>Liabilities</b>						
Bank and other borrowings	-	1,067,941	1,270,448	383,701	494,378	3,216,468

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#### 47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2002 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Proportion of nominal value			Principal activity
	Paid up issued ordinary share capital HK\$	of issued capital held by the Company* / subsidiaries %	attributable to the Group %	
AG Capital Limited	2	100	100	Share trading, money lending and business of consultancy
Alaston Development Limited	US\$1	100	74	Property trading
Allied Aquatic Produce Development Limited	50,000,000	100*	100	Investment holding
Allied Capital Management Limited	2	100	100	Securities trading
Allied Properties (H.K.) Limited**	4,893,726,159	18* 56	74	Investment holding
Allied Real Estate Agency Limited	2	100	74	Real estate agency
AP Administration Limited	2	100	74	Provision of management and consultancy services
AP Corporate Services Limited	2	100	74	Provision of corporate services
AP Development Limited	2	100	74	Investment holding
AP Diamond Limited	US\$1	100	74	Property trading & holding
AP Emerald Limited	US\$1	100	74	Investment holding
AP Finance Limited	2	100	74	Money lending
AP Property Management Limited	2	100	74	Building management
Bali International Finance Limited	137,500,000	100	45	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	45	Securities dealer
Best Melody Development Limited	5,000	100	74	Property holding
Capscore Limited	2	100*	100	Investment holding
Cheeroll Limited	2	100	45	Share trading
China Direction Investments Limited	4,500,000	67	30	Share trading and investment holding
Citiwealth Investment Limited	2	100*	100	Share trading and investment holding
Cowslip Company Limited	2	100	45	Investment holding
Earnest Finance Limited	100	100	50	Investment holding
Easy Capital Investments Limited	US\$1	100	54	Investment holding
Fame Arrow Company Limited	100,000	95	70	Loan financing

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**47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Proportion of nominal value of issued capital			Principal activity
	Paid up issued ordinary share capital	held by the Company*/ subsidiaries	attributable to the Group	
	HK\$	%	%	
Florich Development Limited	10,000	100	74	Investment holding
Front Sail Limited	5,000	100	74	Property holding
Gloria (Nominees) Limited	200	100	45	Investment holding
Gloxin Limited	2	100	45	Investment holding
Hilarious (Nominees) Limited	10,000	100	45	Investment holding
Hillcrest Development Limited	20	100	74	Property holding
Hi-Link Limited	200	100	74	Investment holding
Integrated Custodian Limited	2	100	74	Property holding
Itso Limited	2	100	45	Share trading
Jaffe Development Limited	US\$1	100	74	Property holding
Kalix Investment Limited	2	100	74	Property holding
King Policy Development Limited	2	100	74	Property holding
Lexshan Nominees Limited	2	100	45	Nominee service
Macdonnell (Nominees) Limited	10,000	100	45	Investment holding
Maxplan Investment Limited	2	100	74	Securities trading
Mightyton Limited	10,000	100	74	Property holding
Oakfame Investment Limited	2	100	45	Investment holding
Ontone Limited	2	100	74	Hotel operations, property development and property holding
Pine Most Limited	2	67	30	Property holding
Pioneer Alliance Limited	10,000	100*	100	Investment holding
Pioneer Score Development Limited	2	100	45	Investment holding
Plentiwind Limited	2	100	45	Futures trading
Polyking Services Limited	2	100	48	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	48	Building management
Quick Art Limited	3,540,000	100	45	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	45	Money lending
Rank Crown Investment Limited	2	100*	100	Investment holding
San Pack Properties Limited	10	100	74	Property holding
Scienter Investments Limited	20	100	45	Share trading
SHK Financial Data Limited	100	51	23	Provision of financial information service
SHK Finance Limited	150,000,000	100	50	Consumer financing
SHK Financial Management Nominee Limited	2	100	45	Nominee service

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**47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
SHK Fund Management Limited	5,000,000	100	45	Fund management and securities business development
SHK Online (Securities) Limited	30,000,000	100	45	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	45	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	45	Investment holding
Sierra Joy Limited	2	100	74	Property holding
Splendid Gain Limited	2	100	45	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	45	Bullion trading
Sun Hung Kai & Co. Limited**	300,844,693	62	45	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	45	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	45	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	45	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	45	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	45	Insurance broking
Sun Hung Kai International Commodities Limited	5,000,000	100	45	Commodities dealer
Sun Hung Kai International Limited	10,000,000	100	45	Corporate finance service
Sun Hung Kai Investment Services Limited	260,000,000	100	45	Share broking
Sun Hung Kai Research Limited	10,000	100	45	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	45	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	45	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	45	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	45	Investment holding

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**47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
Sun Hung Kai Venture Capital Limited	2	100	45	Investment holding
Sun Hung Kai Wealth Management Limited (formerly Sun Hung Kai Financial Management Limited)	5,000,000	100	45	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	45	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	45	Financial service
Sunhill Investments Limited	2	100*	100	Investment holding
Texgulf Limited	20	100	45	Property holding
To Wan Development Company Limited	10,000	100	45	Investment holding
Tung Wo Investment Company, Limited	10,000	100	45	Investment holding
United Asia Finance Limited	137,500,000	58	54	Consumer financing
Wah Cheong Development Company, Limited	25,100,000	100	45	Investment holding
Wineur Secretaries Limited	2	100	45	Secretarial service

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited, Earnest Finance Limited, Easy Capital Investments Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

Particulars of the Company's principal subsidiaries at 31st December, 2002 which were incorporated and have their principal place of operation outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by subsidiaries %	attributable to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100	74	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	45	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	45	Investment holding
Constable Development S.A.	Panama	US\$5	100	45	Investment holding

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**47. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)**

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital attributable		Principal activity
			held by subsidiaries %	to the Group %	
Elecrent Consultants Limited	British Virgin Islands	US\$1	100	74	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	45	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	74	Investment holding
Lakewood Development Corporation	United States of America	US\$1,000	100	74	Property development and management
Ranbridge, Inc.	The Philippines	Peso 5,385,000	100	45	Money lending
Shipshape Investments Limited	British Virgin Islands	US\$1	100	45	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	45	Fund management
Sun Hung Kai Capital Markets (Cayman) Limited	Cayman Islands	US\$1	100	45	Financial product origination
Sun Hung Kai Holdings, Inc.	The Philippines	Peso 250,000,000 ordinary shares Peso 50,000,000 preferred shares	100	45	Investment holding
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	45	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP 1,000,000	100	45	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	45	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	45	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso 273,600,000	100	45	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	45	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	45	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	45	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	45	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	45	Investment holding

\*\* The subsidiaries are listed in Hong Kong and further details of these subsidiaries are available in its published audited accounts.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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#### 48. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2002 are set out below.

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital attributable		Principal activity
		held by subsidiaries %	to the Group %	
Chronicle Gain Limited	Hong Kong	45	21	Property holding
Drinkwater Investment Limited	Hong Kong	22	10	Property holding
Omicron International Limited	British Virgin Islands	38	17	Investment holding
Quality HealthCare Asia Limited**	Bermuda	29	13	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	18	Property development
Shanghai Orient-Sun International Investment Management Co. Ltd.	People's Republic of China	49	22	Consultancy service in equity and direct investments
Silver York Development Limited	Hong Kong	40	18	Property development
Start Hold Limited	Hong Kong	33	15	Investment holding
Tian An China Investments Company Limited**	Hong Kong	43	20	Investment holding
Yu Ming Investments Limited**	Hong Kong	21	10	Investment holding

\*\* These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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#### 49. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entity at 31st December, 2002 are set out below.

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital attributable		Principal activity
		held by subsidiaries %	to the Group %	
Allied Kajima Limited	Hong Kong	50	37	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	15	Corporate finance advisory

The above table lists the jointly controlled entity of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.