

for the year ended 31st December, 2002

1. GENERAL

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”). Its ultimate holding company is Allied Group Limited (“Allied Group”), a listed public limited company which is also incorporated in Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 45, 46 and 47 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 in 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 period 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.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue recognition (Cont'd)

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

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 an accrual basis, except in the case of receivables which are overdue or deemed to be doubtful 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 shareholders' 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.

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 using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Fixed assets

Fixed assets, other than investment properties and hotel properties, are stated at cost less depreciation and impairment loss. 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:

Land	Over the remaining terms of the leases
Buildings	2% to 3% or over the remaining terms of the leases, if less than 50 years
Leasehold improvements	20%
Furniture, fixtures and equipment	10% – 50%
Motor vehicles and vessels	16 ² / ₃ % – 20%

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 sale 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 of 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 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. 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.

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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 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 rentals 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

4. TURNOVER

Turnover represents the gross proceeds received and receivable derived from the sale of properties, securities trading, income from property rental and property management services, hotel operations, term loans and other financial assets, 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	273,844	201,443
Property rental and management services	128,982	122,496
Securities broking	122,749	77,635
Sale of properties	112,883	98,760
Income from forex, bullion, commodities and futures	79,145	39,424
Securities trading	67,578	32,153
Income from corporate finance and others	58,045	19,990
Dividend income	39,650	49,008
Hotel operating income	20,753	19,452
	903,629	660,361

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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.
- Property rental and management services – property rental and providing property management services.
- Sales of property and property based investments – development and sale of properties and property based investments.
- Hotel operations – providing hospitality related services.

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:

	2002				Total HK\$'000
	Investment, broking and finance HK\$'000	Property rental and management services HK\$'000	Sale of properties and property based investments HK\$'000	Hotel operations HK\$'000	
Turnover	649,946	134,567	112,883	20,753	918,149
Less: inter-segment turnover	(8,935)	(5,585)	-	-	(14,520)
	<u>641,011</u>	<u>128,982</u>	<u>112,883</u>	<u>20,753</u>	<u>903,629</u>
Profit (loss) from operations	110,408	(414,405)	(123,807)	4,787	(423,017)
Finance costs					(72,183)
Release of negative goodwill					76,184
Amortisation of capital reserve					20,412
Share of results of associates					123,454
Share of results of jointly controlled entities					29,527
Loss before taxation					(245,623)
Taxation					(38,139)
Loss after taxation					<u>(283,762)</u>
Segment assets	2,562,136	1,723,472	893,202	317,886	5,496,696
Interest in associates					2,163,937
Interest in jointly controlled entities					1,316,709
Amounts due from associates					294,787
Amount due from a jointly controlled entity					1,564
Total assets					<u>9,273,693</u>
Segment liabilities	(702,879)	(52,417)	(62,103)	(13,777)	(831,176)
Amounts due to associates					(37,544)
Amount due to a jointly controlled entity					(178,041)
Bank and other borrowings					(1,775,873)
Taxation					(6,112)
Deferred taxation					(7,686)
Total liabilities					<u>(2,836,432)</u>
Other information					
Depreciation	16,697	3,367	182	1,843	22,089
Amortisation of intangible assets	1,366	-	-	-	1,366
Impairment losses recognised	11,686	620	105,400	15,700	133,406
Deficits arising on revaluation of investment properties and hotel property	-	300,672	-	142,776	443,448
Bad and doubtful debts	37,276	1,383	-	-	38,659
Capital expenditure	<u>18,065</u>	<u>5,269</u>	<u>62,297</u>	<u>29,030</u>	<u>114,661</u>

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5. SEGMENTAL INFORMATION (CONT'D)

	2001				Total HK\$'000
	Investment, broking and finance HK\$'000	Property rental and management services HK\$'000	Sale of properties and property based investments HK\$'000	Hotel operations HK\$'000	
Turnover	457,688	123,533	98,760	19,452	699,433
Less: inter-segment turnover	(38,035)	(1,037)	-	-	(39,072)
	<u>419,653</u>	<u>122,496</u>	<u>98,760</u>	<u>19,452</u>	<u>660,361</u>
Profit (loss) from operations	117,117	(203,681)	(80,520)	2,332	(164,752)
Finance costs					(111,391)
Release of negative goodwill					36,524
Amortisation of capital reserve					20,417
Share of results of associates					118,661
Share of results of jointly controlled entities					51,377
Loss before taxation					(49,164)
Taxation					(29,818)
Loss after taxation					<u>(78,982)</u>
Segment assets	3,319,623	1,967,539	1,164,669	419,640	6,871,471
Interest in associates					2,132,992
Interest in jointly controlled entities					1,443,503
Amounts due from associates					72,805
Amount due from a jointly controlled entity					1,763
Tax reserve certificates					3,557
Total assets					<u>10,526,091</u>
Segment liabilities	(562,533)	(64,685)	(66,296)	(10,243)	(703,757)
Amounts due to associates					(31,557)
Amount due to a jointly controlled entity					(118,100)
Bank borrowings					(2,477,089)
Taxation					(18,307)
Deferred taxation					(13,277)
Total liabilities					<u>(3,362,087)</u>
Other information					
Depreciation	12,263	2,793	177	1,330	16,563
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	25,816	2,901	-	-	28,717
Capital expenditure	36,431	72,509	32,273	2,742	143,955

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.

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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	<u>443,448</u>	<u>251,036</u>
	<u>576,854</u>	<u>344,018</u>

Notes to the Financial Statements (Cont'd)

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7. LOSS FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	4,024	3,306
(Over) underprovision in prior years	(172)	285
	3,852	3,591
Amortisation of intangible assets (included in other operating expenses)	1,366	1,108
Depreciation		
Owned assets	21,619	16,563
Assets under a finance lease	470	–
	22,089	16,563
Loss arising from default of loan agreement with Millennium Touch Limited (note 23)	10,110	–
Loss on disposal of fixed assets	1,047	1,148
Net realised loss on derivatives	–	1,318
Net realised loss on trading securities	5,361	–
Net unrealised loss on trading securities	3,336	–
Retirement benefit scheme contributions, net of forfeited contributions of HK\$530,000 (2001: HK\$2,080,000) (note 40)	8,685	4,093
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	165,632	141,681
and after crediting:		
Dividend income from investments in listed securities	6,925	20,608
Dividend income from investments in unlisted securities	32,725	28,400
Net realised profit on trading securities	–	423
Net unrealised profit on trading securities	–	29,304
Net realised profit on derivatives	75	–
Net unrealised profit on derivatives	–	1,056
Net profit on other dealing activities	706	289
Profit on dealing in foreign currencies	9,110	6,117
Profit on disposal of non-trading securities	1,119	13,072
Profit on disposal of investment properties	–	7,690
Profit on disposal of subsidiaries	1,301	180
Profit on disposal of associates	3,725	477
Rental income from investment properties under operating leases, net of outgoings of HK\$17,279,000 (2001: HK\$15,438,000)	41,758	41,122

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8. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) **Directors' emoluments**

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executive Directors	10	6
Independent Non-Executive Directors	10	6
	<u>20</u>	<u>12</u>
Other emoluments:		
Executive Directors:		
Salaries, housing and other benefits	2,997	3,079
Retirement benefit scheme contributions	90	90
Independent Non-Executive Directors:		
Consultancy fees	75	–
	<u>3,162</u>	<u>3,169</u>
	<u>3,182</u>	<u>3,181</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\$3,000,001 – HK\$3,500,000	<u>1</u>	<u>1</u>

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

(b) Employees' emoluments

The five highest paid individuals included one (2001: one) of the Directors, details of whose emoluments are set out in note 8(a) above. The emoluments of the remaining four (2001: four) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	6,291	3,792
Performance related incentive payments	–	1,687
Retirement benefit scheme contributions	356	195
	<u>6,647</u>	<u>5,674</u>

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

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

9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	55,879	89,492
Bank borrowings not wholly repayable within five years	21,578	49,781
Obligations under a finance lease	93	–
Other borrowings wholly repayable within five years	–	300
	<u>77,550</u>	<u>139,573</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>72,183</u>	<u>111,391</u>

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10. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	11,226	9,258
Overprovision in prior years	(3,426)	(2,592)
	<u>7,800</u>	<u>6,666</u>
Taxation outside Hong Kong	219	295
Deferred taxation (note 31)	(1,437)	1,275
Share of taxation attributable to associates	22,658	16,632
Share of deferred taxation attributable to associates	4,548	226
Share of taxation attributable to jointly controlled entities	4,351	4,724
	<u>38,139</u>	<u>29,818</u>

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 31.

11. DIVIDEND

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

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$374,878,000 (2001: HK\$178,931,000) and on the weighted average number of 4,573,294,755 (2001: 3,723,315,574) shares in issue during the year.

No diluted loss per share is presented because the Company has no dilutive potential ordinary shares during both years.

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13. FIXED ASSETS

	Investment properties HK\$'000	Hotel property HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
The Group							
Cost or valuation							
At 1st January, 2002	1,940,800	410,603	87,536	31,783	84,244	22,966	2,577,932
Exchange adjustments	-	-	-	(3)	(10)	2	(11)
Acquisition of a subsidiary	22,000	-	-	-	-	-	22,000
Additions	2,239	-	-	3,958	13,517	275	19,989
Transfer from properties held for sale	50,130	-	-	-	-	-	50,130
Transfer to intangible assets	-	-	-	-	(155)	-	(155)
Reclassification	20,809	-	(21,000)	-	-	-	(191)
Disposals	-	-	-	(2,013)	(4,409)	(317)	(6,739)
Underprovision of construction costs	-	8,752	-	-	-	-	8,752
Deficit arising on revaluation	(302,941)	(142,776)	-	-	-	-	(445,717)
At 31st December, 2002	1,733,037	276,579	66,536	33,725	93,187	22,926	2,225,990
Comprising:							
At cost	-	-	50,536	33,725	93,187	22,926	200,374
At valuation in 1985	-	-	16,000	-	-	-	16,000
At valuation in 2002	1,733,037	276,579	-	-	-	-	2,009,616
	1,733,037	276,579	66,536	33,725	93,187	22,926	2,225,990
Depreciation							
At 1st January, 2002	-	-	4,547	14,437	48,313	21,049	88,346
Exchange adjustments	-	-	-	(1)	(10)	2	(9)
Provided for the year	-	-	1,124	5,058	15,057	850	22,089
Reclassification	-	-	(191)	-	-	-	(191)
Transfer to intangible assets	-	-	-	-	(25)	-	(25)
Eliminated on disposals	-	-	-	(1,335)	(4,029)	(317)	(5,681)
At 31st December, 2002	-	-	5,480	18,159	59,306	21,584	104,529
Net book values							
At 31st December, 2002	1,733,037	276,579	61,056	15,566	33,881	1,342	2,121,461
At 31st December, 2001	1,940,800	410,603	82,989	17,346	35,931	1,917	2,489,586

for the year ended 31st December, 2002

13. 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	1,434,337	276,579	59,597	1,632,000	410,603	81,367
Medium-term	298,700	-	-	308,800	-	-
Properties outside Hong Kong:						
Medium-term	-	-	1,459	-	-	1,622
	<u>1,733,037</u>	<u>276,579</u>	<u>61,056</u>	<u>1,940,800</u>	<u>410,603</u>	<u>82,989</u>

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\$2,009,616,000 (2001: HK\$2,351,403,000).

In preparing these accounts, the Group has placed reliance on paragraph 80 of 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\$62,769,000 (2001: HK\$84,732,000), had the property been carried at cost less accumulated depreciation.

Of the deficit of HK\$445,717,000 (2001: HK\$251,036,000) arising on revaluation during the year, HK\$2,269,000 (2001: Nil) has been charged against the property revaluation reserve and HK\$443,448,000 (2001: HK\$251,036,000) has been charged to the income statement.

The net book value of furniture, fixtures and equipment of HK\$33,881,000 includes an amount of HK\$2,093,000 (2001: Nil) in respect of assets held under a finance lease.

The Company did not have any fixed assets at 31st December, 2002 or 2001.

for the year ended 31st December, 2002

14. INTANGIBLE ASSETS

	The Group HK\$'000
Computer Software	
Cost	
At 1st January, 2002	7,148
Transfer from fixed assets	155
Additions	4,528
Written off	(6,240)
At 31st December, 2002	<u>5,591</u>
Amortisation	
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	<u>731</u>
Net book values	
At 31st December, 2002	<u>4,860</u>
At 31st December, 2001	<u>6,040</u>

15. NEGATIVE GOODWILL

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Gross amount		
At 1st January	249,625	–
Acquisition of subsidiaries	–	249,125
Acquisition of additional interest in a subsidiary	249,155	500
At 31st December	<u>498,780</u>	<u>249,625</u>
Released to the income statement		
At 1st January	36,524	–
Released during the year	76,184	36,524
At 31st December	<u>112,708</u>	<u>36,524</u>
Net book values		
At 31st December	<u>386,072</u>	<u>213,101</u>

for the year ended 31st December, 2002

16. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2002	2001
	HK\$'000	HK\$'000
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>

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.

17. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares at cost, less impairment loss recognised	14	14
Amounts due from subsidiaries, less allowances	2,834,422	3,597,406
	<u>2,834,436</u>	<u>3,597,420</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 45.

for the year ended 31st December, 2002

18. INTEREST IN ASSOCIATES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Listed securities in Hong Kong (note 18(i))	1,958,365	1,927,924
Unlisted shares (note 18(ii))	205,572	205,068
	<u>2,163,937</u>	<u>2,132,992</u>

Notes:

	The Group	
	2002	2001
	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)
	<u>1,958,365</u>	1,725,623
Amounts due from associates, less allowances	-	202,301
	<u>1,958,365</u>	<u>1,927,924</u>
Market value of listed securities	<u>585,287</u>	<u>731,197</u>
(ii) Unlisted shares		
Share of net assets other than goodwill	148,127	138,590
Unamortised negative goodwill on acquisition of associates	(1,963)	(8,713)
	<u>146,164</u>	129,877
Amounts due from associates	59,408	75,191
	<u>205,572</u>	<u>205,068</u>

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 46.

for the year ended 31st December, 2002

18. 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 years 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>

for the year ended 31st December, 2002

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares		
Share of net assets other than goodwill	1,236,190	1,360,270
Share of goodwill of a jointly controlled entity	8,141	10,855
	1,244,331	1,371,125
Elimination of unrealised profit	(17,622)	(17,622)
	1,226,709	1,353,503
Amount due from a jointly controlled entity	90,000	90,000
	1,316,709	1,443,503

The amount due from a jointly controlled entity is not repayable within twelve months.

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

for the year ended 31st December, 2002

19. INTEREST IN JOINTLY CONTROLLED ENTITIES (CONT'D)

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 Allied Kajima's audited consolidated financial statements are as follows:

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

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

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	<u>467,842</u>	<u>589,305</u>
Total assets	<u>3,067,471</u>	<u>3,337,434</u>
Non-current liabilities	482,887	95,903
Current liabilities	<u>103,891</u>	<u>516,068</u>
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>
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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.

for the year ended 31st December, 2002

20. INVESTMENTS

	Investments in Securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group								
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	204,041	260,455	5,104	14,395	-	-	209,145	274,850
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	-
	205,502	261,838	8,316	20,405	-	-	213,818	282,243
Unlisted equity securities issued by corporate entities								
Hong Kong	177,521	188,190	335	509	-	-	177,856	188,699
Outside Hong Kong	67,513	69,119	-	-	-	-	67,513	69,119
	245,034	257,309	335	509	-	-	245,369	257,818
Unlisted marketable debt securities								
issued by overseas government	-	-	7,772	7,772	-	-	7,772	7,772
issued by banks	-	-	5,424	5,056	-	-	5,424	5,056
	-	-	13,196	12,828	-	-	13,196	12,828
Exchange seats and 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
	450,536	519,147	21,847	33,742	119,562	120,336	591,945	673,225
Carrying amount analysed for reporting purposes as:								
Non-current	450,536	519,147	-	-	119,562	120,336	570,098	639,483
Current	-	-	21,847	33,742	-	-	21,847	33,742
	450,536	519,147	21,847	33,742	119,562	120,336	591,945	673,225

for the year ended 31st December, 2002

20. INVESTMENTS (CONT'D)

	Investments in Securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company								
Unlisted equity securities issued by corporate entities								
Hong Kong	510	510	-	-	-	-	510	510
Carrying amount analysed for reporting purposes as:								
Non-current	510	510	-	-	-	-	510	510

21. 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).

22. PROPERTIES HELD FOR SALE

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

Certain of the Group's properties held for sale of HK\$50,130,000 (2001: 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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23. 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 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$1,883,640,000 (2001: HK\$2,337,991,000), the aged analysis of which is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
0 to 30 days	1,748,929	1,581,574
31 to 180 days	11,335	216,020
181 to 365 days	12,573	409,849
Over 365 days	509,550	542,481
	2,282,387	2,749,924
Allowance for doubtful debts	(398,747)	(411,933)
	1,883,640	2,337,991

The above balance of HK\$2,282,387,000 (2001: HK\$2,749,924,000) includes term loans totalling HK\$687,547,000 (2001: HK\$1,187,376,000), the maturity profile of which is shown in note 44.

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\$3,531,596,000 (2001: HK\$7,152,636,000).

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 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 those 770,000,000 Tian An shares.

for the year ended 31st December, 2002

23. 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 to a 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.

24. 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 stated 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

for the year ended 31st December, 2002

25. 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	30,000,000,000	6,000,000
Issued and fully paid:		
At 1st January, 2001	2,900,539,424	580,108
Rights issue during 2001	1,450,269,712	290,054
Exercise of warrant subscription rights	484	–
At 31st December, 2001	4,350,809,620	870,162
Exercise of warrant subscription rights	542,916,539	108,583
At 31st December, 2002	4,893,726,159	978,745

Rights issue of new shares

On 20th April, 2001, the Board of Directors approved a rights issue of 1,450,269,712 new shares of HK\$0.20 each on the basis of one new share for every two existing shares held at HK\$0.25 per new share payable in full on acceptance. The rights shares issued rank pari passu in all respects with the existing fully paid shares. A total of 1,450,269,712 new shares were allotted on 19th June, 2001.

The net proceeds (after deduction of expenses) from the rights issue amounted to HK\$358,714,000, of which HK\$112,000,000 was used to set off from the amount due by the Company to Allied Group and the remaining balance was applied to reducing the Group's debts and as general working capital of the Group.

Exercise of warrants

Details of the exercise of warrants are set out in note 26.

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26. WARRANTS

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 17th September, 2001, a bonus issue of warrants in the proportion of one warrant for every five shares held was approved. A total of 870,161,827 units of warrants were allotted on 17th September, 2001. Warrantholders were entitled to subscribe in cash for one fully paid share at an initial subscription price of HK\$0.27 per share, subject to adjustment, at any time from 20th September, 2001 to 17th September, 2002 (both days inclusive). During the year ended 31st December, 2001, 484 warrants were converted into 484 ordinary shares at a subscription price of HK\$0.27 per share. Accordingly, 870,161,343 warrants were outstanding at 31st December, 2001. During the year ended 31st December, 2002, 542,916,539 warrants were converted into 542,916,539 ordinary shares at a subscription price of HK\$0.27 per share. The remaining 327,244,804 warrants, representing 327,244,804 ordinary shares issuable, lapsed at the close of business on 17th September, 2002.

27. SHARE OPTION SCHEME

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed by the Company's shareholders on 30th June, 1993 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 will expire on 29th June, 2003. Under the Scheme, the Board of Directors of the Company is 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 Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted or may be granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the 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 the Company, and will 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 options were granted under the Scheme during the year, nor were there any options outstanding at 31st December, 2001 and 31st December, 2002.

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2002

28. RESERVES

	2002 HK\$'000	2001 HK\$'000
The Group		
Share premium	492,778	454,812
Property revaluation reserve	325,051	397,858
Investment revaluation reserve	(35,943)	(1,671)
Special capital reserve (note 28(a))	2,320,430	2,320,430
Capital redemption reserve	72,044	72,044
Translation reserve	(232,793)	(222,291)
Capital (goodwill) reserve (note 28(b))	8,396	12,801
Accumulated profits (note 28(c))	720,506	1,094,231
	<u>3,670,469</u>	<u>4,128,214</u>

	Share premium HK\$'000	Special capital reserve (note 28 (a)) HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
The Company					
At 1st January, 2001	386,152	2,320,430	72,044	42,089	2,820,715
Premium on issue of shares	72,513	–	–	–	72,513
Share issue expenses	(3,853)	–	–	–	(3,853)
Loss attributable to shareholders	–	–	–	(632,908)	(632,908)
At 31st December, 2001	454,812	2,320,430	72,044	(590,819)	2,256,467
Premium on issue of shares	38,004	–	–	–	38,004
Share issue expenses	(38)	–	–	–	(38)
Loss attributable to shareholders	–	–	–	(902,198)	(902,198)
At 31st December, 2002	<u>492,778</u>	<u>2,320,430</u>	<u>72,044</u>	<u>(1,493,017)</u>	<u>1,392,235</u>

The Company did not have any reserve available for distribution to shareholders at 31st December, 2002 and 2001.

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28. RESERVES (CONT'D)

Notes:

- (a) When sanctioning a reduction in nominal value of the Company's shares in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributable until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. At 31st December, 2002, liabilities of the Company included HK\$3,516,000 (2001: HK\$7,057,000) in respect of liabilities in existence at 14th July, 1998. Accordingly, the special capital reserve was not distributable at 31st December, 2002.

(b)

	Goodwill	Capital	Statutory	Total
	HK\$'000	HK'000	HK'000	HK'000
At 1st January, 2001	(91,639)	121,995	704	31,060
Share of post-acquisition reserve movement of associates	-	-	32	32
Released on reclassification of an associate to a subsidiary	-	-	(169)	(169)
Released on disposal of subsidiaries	634	-	-	634
Amortisation of capital reserve	-	(20,417)	-	(20,417)
Transfer from accumulated profits	-	-	1,661	1,661
At 31st December, 2001	(91,005)	101,578	2,228	12,801
Released on disposal of associates	17,160	-	-	17,160
Amortisation of capital reserve	-	(20,412)	-	(20,412)
Transfer to accumulated profits	-	-	(1,153)	(1,153)
At 31st December, 2002	<u>(73,845)</u>	<u>81,166</u>	<u>1,075</u>	<u>8,396</u>

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

- (c) The accumulated profits of the Group include HK\$127,772,000 (2001: HK\$48,341,000) retained by associates of the Group and HK\$1,209,806,000 (2001: HK\$1,241,662,000) retained by its jointly controlled entities.

29. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free except for an amount of HK\$316,085,000 (2001: HK\$294,071,000) which is subject to interest at 2.5% per annum. The amounts due to subsidiaries are not repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

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30. BANK BORROWINGS

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings comprise:				
Bank loans	1,771,202	2,389,605	–	–
Bank overdrafts	2,855	87,484	–	28,880
	1,774,057	2,477,089	–	28,880
Analysed as:				
Secured	1,774,034	2,431,911	–	–
Unsecured	23	45,178	–	28,880
	1,774,057	2,477,089	–	28,880
Bank loans and overdrafts are repayable as follows:				
Within one year or on demand	812,018	1,599,010	–	28,880
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	–	–
	1,774,057	2,477,089	–	28,880
Less: Amount repayable within one year and shown under current liabilities	(812,018)	(1,599,010)	–	(28,880)
Amount due after one year	962,039	878,079	–	–

Details of the assets of the Group pledged to secure bank borrowings are set out in note 41.

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31. DEFERRED TAXATION

	The Group	
	2002	2001
	HK\$'000	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	(2,269)	–
Acquisition of subsidiaries	–	2,212
(Credit) charge for the year (note 10)	(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 the 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	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	(316)	553	–	–
Tax losses incurred	(53,465)	(40,605)	(1,676)	(945)
Other timing differences	(575)	(495)	–	–
	<u>(54,356)</u>	<u>(40,547)</u>	<u>(1,676)</u>	<u>(945)</u>

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2002

31. 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:				
Excess of tax allowances over depreciation	813	1,129	-	-
Tax losses carried forward	(327,183)	(273,718)	(3,127)	(1,451)
Other timing differences	(2,230)	(1,655)	-	-
	<u>(328,600)</u>	<u>(274,244)</u>	<u>(3,127)</u>	<u>(1,451)</u>

32. OTHER LIABILITIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Obligations under a finance lease (note)	1,816	-
Other employee benefits	6,353	-
	<u>8,169</u>	<u>-</u>
Less: Amount repayable within one year shown under current liabilities	(1,070)	-
Amount due after one year	<u>7,099</u>	<u>-</u>

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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
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 charge	(91)	-	-	-
Present value of obligations under a finance lease	<u>1,816</u>	<u>-</u>		
Less: Amount repayable within one year shown under current liabilities			(850)	-
Amount due after one year			<u>966</u>	<u>-</u>

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33. RECONCILIATION OF LOSS FROM OPERATIONS TO CASH GENERATED BY OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations	(423,017)	(164,752)
Deficits arising on revaluation of investment properties and hotel property	443,448	251,036
Impairment loss recognised in respect of properties under development for sale	–	81,000
Impairment loss recognised in respect of non-trading securities	12,306	11,482
Impairment loss recognised in respect of properties held for sale	104,000	500
Impairment loss recognised in respect of properties under development	17,100	–
Net unrealised loss (profit) on trading securities	3,336	(29,304)
Net unrealised profit on derivatives	–	(1,056)
Bad and doubtful debts	38,659	28,717
Depreciation	22,089	16,563
Loss arising from default of loan agreement with Millennium Touch Limited (note 23)	10,110	–
Intangible assets written off	4,472	–
Loss on disposal of fixed assets	1,047	1,148
Amortisation of intangible assets	1,366	1,108
Profit on disposal of non-trading securities	(1,119)	(13,072)
Profit on disposal of subsidiaries	(1,301)	(180)
Profit on disposal of associates	(3,725)	(477)
Operating cash flow before movements in working capital	228,771	182,713
Decrease in accounts receivable, deposits and prepayments	562,099	365,569
(Decrease) increase in amount due to Allied Group Limited	(5,786)	22,374
Decrease in properties held for sale	118,386	9,871
Increase (decrease) in accounts payable and accrued charges	122,079	(217,126)
Increase in properties under development for sale	(51,185)	(83,241)
Decrease in trading securities	8,391	1,629
Increase in inventories	(8)	(36)
Cash generated by operations	982,747	281,753

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34. ACQUISITION OF SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	22,000	198,137
Interest in associates	–	1,699,481
Interest in jointly controlled entities	–	124,694
Investments	–	966,139
Properties held for sale	–	6,375
Accounts receivable, deposits and prepayments	34	2,750,267
Short-term bank deposits	–	58,643
Bank balances and cash	197	234,476
Accounts payable and accrued charges	(231)	(755,795)
Amounts due to associates	–	(18,258)
Taxation	–	(22,829)
Bank loans and overdrafts	–	(796,710)
Deferred taxation	–	(2,212)
Minority interests	–	(2,047,859)
	22,000	2,394,549
Negative goodwill on acquisition	–	(249,125)
Total consideration	22,000	2,145,424
Satisfied by:		
Cash	22,000	227,985
Reclassification of interest in associates	–	1,890,848
Reclassification of interest in jointly controlled entities	–	26,591
	22,000	2,145,424
Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash consideration paid	(22,000)	(227,985)
Bank deposits, bank balances and cash acquired	197	293,119
Bank overdrafts acquired	–	(459)
	(21,803)	64,675

The subsidiary acquired during the year contributed HK\$14,000 (2001: HK\$409,477,000) to the Group's turnover, and loss of HK\$2,244,000 (2001: profit of HK\$140,066,000) to the Group's loss from operations.

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35. DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Net assets (liabilities) disposed of:		
Accounts receivable and prepayments	12	–
Bank balances	537	22
Accounts payable and accrued charges	(33)	(653)
Taxation	(3)	–
	<u>513</u>	<u>(631)</u>
Translation reserve released upon disposal	(1,311)	(33)
Goodwill reserve released upon disposal	–	634
Profit on disposal of subsidiaries	<u>1,301</u>	<u>180</u>
Proceeds on disposal	<u>503</u>	<u>150</u>
Satisfied by:		
Cash	25	–
Other receivables	<u>478</u>	<u>150</u>
	<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	<u>(537)</u>	<u>(22)</u>
	<u>(512)</u>	<u>(22)</u>

The subsidiaries disposed of in both 2002 and 2001 did not have any significant impact on the Group's turnover and loss from operations.

36. MAJOR NON-CASH TRANSACTIONS

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

- (i) In 2001, the Group increased its capital by way of rights issue, part of the proceeds of which, amounting to HK\$112,000,000, was used to set off against the amount due by the Company to Allied Group.
- (ii) At 30th June, 2001, a 8.83% interest in a listed associate held by Sun Hung Kai as trading securities with a carrying value of HK\$142,480,000 was reclassified as interest in associates, resulting in Sun Hung Kai's interest in Tian An increased from 34.44% to 43.27%. A negative goodwill of HK\$192,152,000 has arisen as a result of the reclassification.

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36. MAJOR NON-CASH TRANSACTIONS (CONT'D)

- (iii) 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.

37. CONTINGENT LIABILITIES

- (a) At 31st December, 2002, the Group had guarantees as follows:

	2002 HK\$'000	2001 HK\$'000
Guarantees for banking facilities granted to subsidiaries of jointly controlled entities	100,000	340,000
Guarantees for banking facilities granted to an investee company	7,020	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540
Other guarantees	1,734	715
	<u>113,294</u>	<u>352,275</u>

- (b) 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.

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37. CONTINGENT LIABILITIES (CONT'D)

- (c) 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\$1,728,733,000 (2001: HK\$1,777,023,000) given to banks in respect of credit facilities utilised by its subsidiaries. At 31st December 2001, the Company also had a guarantee amounting to HK\$215,000,000 given to banks in respect of credit facilities utilised by a wholly-owned subsidiary of a jointly controlled entity. Such guarantee was released during the year.

38. CAPITAL COMMITMENTS

	The Group	
	2002	2001
	HK\$'000	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	4,339	1,101
	31,039	38,613
Capital expenditure authorised but not contracted for:		
Others	47,175	-

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

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39. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments under operating leases recognised in the income statement for the year:		
Land and buildings	21,861	17,089
Others	640	–
	<u>22,501</u>	<u>17,089</u>

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

	The Group			
	2002		2001	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	23,512	77	24,515	12,372
In the second to fifth year inclusive	26,875	–	46,438	8,980
	<u>50,387</u>	<u>77</u>	<u>70,953</u>	<u>21,352</u>

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

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39. OPERATING LEASE ARRANGEMENTS (CONT'D)

The Group as lessor

Property rental income earned during the year was HK\$59,037,000 (2001: HK\$56,560,000). 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	38,691
In the second to fifth year inclusive	14,881	14,347
	<u>54,610</u>	<u>53,038</u>

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

40. 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 benefit 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 schemes have 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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41. 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\$2,852,371,000 (2001: HK\$3,405,179,000), certain securities in respect of a listed subsidiary with a cost of HK\$1,607,866,000 (2001: HK\$1,607,866,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$761,412,000 (2001: HK\$3,798,857,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,876,202,000 (2001: HK\$4,276,159,000) granted to the Group. Facilities amounting to HK\$1,774,034,000 (2001: HK\$2,431,911,000) 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 guarantees amounting to HK\$1,000,000 (2001: HK\$1,000,000).

At 31st December, 2002 and 2001, the Company had not pledged any assets.

42. SUBSEQUENT EVENTS

- (a) On 19th December, 2002, the Group entered into a conditional sale and purchase agreement with an indirect subsidiary of the ultimate holding company to sell its interest in Earnest Finance Limited, a jointly controlled entity, together with the assignments of advances to that company and its subsidiary, at a consideration of HK\$87,500,000. The agreement was completed in January 2003 and resulted in a loss of HK\$3,422,000 attributable to the Group in year 2003.
- (b) 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 the Group amounted to 74.27%.

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43. 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)/Expenses	
	2002	2001
	HK\$'000	HK\$'000
Corporate management services, calculated at 0.5% of the Group's net assets to the ultimate holding company	24,992	24,899
Service fees paid to a fellow subsidiary	6,200	–
Advertising income from the ultimate holding company	(1,600)	–
Advertising income from a fellow subsidiary	(800)	–
Underwriting commission paid to the ultimate holding Company (note)	–	2,660
Rent, property management and air-conditioning fees from the ultimate holding company	(3,568)	(3,514)
Dividend income from a fellow subsidiary	(16,570)	(12,200)
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, management and consultancy fees from a jointly controlled entity	(5,860)	(1,860)
Rent, property management and air-conditioning fees to a jointly controlled entity	815	3,137
Dividend income from associates	(7,504)	(7,344)
Rent, property management, air-conditioning fees and other related service fees from an associate	(2,050)	(1,789)
Interest income from an associate	(15,867)	(11,318)
Insurance premium from an associate	(1,149)	–

(b) During the year, both 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 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 (At 31st December, 2001: HK\$215,000,000). The guarantee was released on 14th June, 2002.

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43. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

- (d) During the year, the Group had guarantees provided for banking and loan facilities of HK\$100,000,000 (2001: HK\$125,000,000) to a subsidiary of a jointly controlled entity.
- (e) 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 will mature on 2nd June, 2003.
- (f) 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.
- (g) A sale and purchase agreement was entered into on 23rd July, 2002 between a wholly-owned subsidiary of the Company and the ultimate holding company for the acquisition of the entire issued share capital of a company which holds a property in Hong Kong and the assignment of the ultimate holding company's rights and benefits in and to the shareholder's loan for HK\$22,000,000.
- (h) A subsidiary entered into a sale and purchase agreement with a fellow subsidiary pursuant to which the subsidiary agreed to sell its entire shareholding in a joint venture company for an aggregate consideration of HK\$87,500,000. The agreement was completed in January 2003.

Apart from a tenancy agreement between the ultimate holding company and a subsidiary of the Company and the transactions as mentioned in 43(g) and (h), 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 of Hong Kong Limited.

Note:

In June 2001, a total of 1,450,269,712 new shares were allotted by the Company by way of rights issue of HK\$0.20 each in the capital of the Company at a subscription price of HK\$0.25 per share as detailed in the Prospectus dated 30th May, 2001 to shareholders. Pursuant to an underwriting agreement made between the ultimate holding company and the Company, the ultimate holding company agreed to act as the underwriter of the rights issue and in return, a 2% underwriting commission equivalent to HK\$2,660,000 was paid to the ultimate holding company. Out of the total net proceeds (after deduction of expenses) of HK\$358,714,000, HK\$112,000,000 was used to set off against the amount due by the Company to the ultimate holding company and the remaining balance was applied for reducing the Group's debt and as general working capital of the Group.

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43. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Ultimate holding company	(8,462)	(13,996)	(8,210)	(13,996)
A fellow subsidiary	800	–	–	–
Associates	322,293	328,645	2,404	2,404
Jointly controlled entities	(86,359)	(21,391)	–	–
	<u>228,272</u>	<u>293,258</u>	<u>(5,806)</u>	<u>(11,592)</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 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest in associates	59,408	277,492	–	–
Interest in jointly controlled entities	90,000	90,000	–	–
Accounts receivable, deposits and prepayments	7,335	15,358	2,404	2,404
Amounts due from associates	294,787	72,805	–	–
Amount due from a jointly controlled entity	1,564	1,763	–	–
Accounts payable and accrued charges	(1,027)	(507)	–	–
Amount due to Allied Group Limited	(8,210)	(13,996)	(8,210)	(13,996)
Amounts due to associates	(37,544)	(31,557)	–	–
Amount due to a jointly controlled entity	(178,041)	(118,100)	–	–
	<u>228,272</u>	<u>293,258</u>	<u>(5,806)</u>	<u>(11,592)</u>

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

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44. 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	
Assets						
Fixed deposits						
with banks	–	157,060	–	–	–	157,060
Promissory notes						
of a listed associate	–	–	264,463	–	–	264,463
Term loans	248,241	127,339	309,500	2,467	–	687,547
Marketable debt securities	–	13,196	–	–	–	13,196
Liabilities						
Bank loans and						
Overdrafts	–	473,189	338,829	814,729	147,310	1,774,057
Obligations under a finance lease	–	209	641	966	–	1,816

	At 31st December, 2001					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	
Assets						
Fixed deposits						
with banks	–	100,442	–	–	–	100,442
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	358,682	551,816	–	–	1,187,376
Marketable debt securities	–	12,828	–	–	–	12,828
Liabilities						
Bank loans and overdrafts	–	982,078	616,932	383,701	494,378	2,477,089

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45. 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	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 %	
Alaston Development Limited	US\$1	100	100	Property trading
Allied Real Estate Agency Limited	2	100	100	Real estate agency
AP Administration Limited	2	100	100	Provision of management and consultancy services
AP Corporate Services Limited	2	100	100	Provision of corporate services
AP Development Limited	2	100*	100	Investment holding
AP Diamond Limited	US\$1	100	100	Property trading and holding
AP Emerald Limited	US\$1	100	100	Investment holding
AP Finance Limited	2	100	100	Money lending
AP Property Management Limited	2	100	100	Building management
Bali International Finance Limited	137,500,000	100	62	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	62	Securities dealer
Best Melody Development Limited	5,000	100	100	Property holding
Cheeroll Limited	2	100	62	Share trading
China Direction Investments Limited	4,500,000	67	41	Share trading and investment holding
Cowslip Company Limited	2	100	62	Investment holding
Fame Arrow Company Limited	100,000	95	95	Loan financing
Florich Development Limited	10,000	100	100	Investment holding
Front Sail Limited	5,000	100	100	Property holding
Gloria (Nominees) Limited	200	100	62	Investment holding
Gloxin Limited	2	100	62	Investment holding
Hilarious (Nominees) Limited	10,000	100	62	Investment holding
Hillcrest Development Limited	20	100	100	Property holding
Hi-Link Limited	200	100	100	Investment holding
Integrated Custodian Limited	2	100	100	Property holding
Itso Limited	2	100	62	Share trading
Jaffe Development Limited	US\$1	100	100	Property holding
Kalix Investment Limited	2	100	100	Property holding
King Policy Development Limited	2	100	100	Property holding

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45. 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 %	
Lexshan Nominees Limited	2	100	62	Nominee service
Macdonnell (Nominees) Limited	10,000	100	62	Investment holding
Maxplan Investment Limited	2	100	100	Securities trading
Mightyton Limited	10,000	100	100	Property holding
Oakfame Investment Limited	2	100	62	Investment holding
Ontone Limited	2	100	100	Hotel operations, property development and property holding
Pine Most Limited	2	67	41	Property holding
Pioneer Score Development Limited	2	100	62	Investment holding
Plentiwind Limited	2	100	62	Futures trading
Polyking Services Limited	2	100	65	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	65	Building management
Quick Art Limited	3,540,000	100	62	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	62	Money lending
San Pack Properties Limited	10	100	100	Property holding
Scienter Investments Limited	20	100	62	Share trading
SHK Financial Data Limited	100	51	31	Provision of financial information service
SHK Financial Management Nominee Limited	2	100	62	Nominee service
SHK Fund Management Limited	5,000,000	100	62	Funds management and securities business development
SHK Online (Securities) Limited	30,000,000	100	62	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	62	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	62	Investing holding
Sierra Joy Limited	2	100	100	Property holding
Splendid Gain Limited	2	100	62	Investment holding

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45. 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 Bullion Company Limited	5,000,000	100	62	Bullion trading
Sun Hung Kai & Co. Limited **	300,844,693	62	62	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	62	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	62	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	62	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	62	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	62	Insurance broking
Sun Hung Kai International Commodities Limited	5,000,000	100	62	Commodities dealer
Sun Hung Kai International Limited	10,000,000	100	62	Corporate finance service
Sun Hung Kai Investment Services Limited	260,000,000	100	62	Share broking
Sun Hung Kai Research Limited	10,000	100	62	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	62	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	62	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	62	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	62	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	62	Investment holding
Sun Hung Kai Wealth Management Limited (formerly Sun Hung Kai Financial Management Limited)	5,000,000	100	62	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	62	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	62	Financial service

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45. 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 %	
Texgulf Limited	20	100	62	Property holding
To Wan Development Company Limited	10,000	100	62	Investment holding
Tung Wo Investment Company, Limited	10,000	100	62	Investment holding
Wah Cheong Development Company, Limited	25,100,000	100	62	Investment holding
Wineur Secretaries Limited	2	100	62	Secretarial service

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald 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 operations 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 the Company* / subsidiaries %	attributable to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100*	100	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	62	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	62	Investment holding
Constable Development S.A.	Panama	US\$5	100	62	Investment holding
Elecrent Consultants Limited	British Virgin Islands	US\$1	100	100	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	62	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	100	Investment holding

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by the Company* / subsidiaries %	attributable to the Group %	
Lakewood Development Corporation	United States of America	US\$1,000	100	100	Property development and management
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	62	Money lending
Shipshape Investments Limited	British Virgin Islands	US\$1	100	62	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	62	Funds management
Sun Hung Kai Capital Markets (Cayman) Limited	Cayman Islands	US\$1	100	62	Financial product origination
Sun Hung Kai Holdings, Inc.	The Philippines	Peso250,000,000 ordinary shares Peso50,000,000 preferred shares	100	62	Investment holding
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	62	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	62	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	62	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	62	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso273,600,000	100	62	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	62	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	62	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	62	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	62	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	62	Investment holding

** This subsidiary is listed in Hong Kong and further details about this subsidiary are available in its published 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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46. 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		Principal activity
		held by subsidiaries %	attributable to the Group %	
Chronicle Gain Limited	Hong Kong	45	28	Property holding
Drinkwater Investment Limited	Hong Kong	22	14	Property holding
Omicron International Limited	British Virgin Islands	38	23	Investment holding
Quality HealthCare Asia Limited **	Bermuda	29	18	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	25	Property development
Shanghai Orient-Sun International Investment Management Co., Ltd.	People's Republic of China	49	30	Consultancy service in equity and direct investments
Silver York Development Limited	Hong Kong	40	25	Property development
Start Hold Limited	Hong Kong	33	20	Investment holding
Tian An China Investments Company Limited **	Hong Kong	43	27	Investment holding
Yu Ming Investments Limited **	Hong Kong	21	13	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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47. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by		Principal activity
		subsidiaries	attributable to the Group	
		%	%	
Allied Kajima Limited	Hong Kong	50	50	Property and investment holding
Earnest Finance Limited	British Virgin Islands	50	31	Investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	20	Corporate finance advisory

The above table lists the jointly controlled entities 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.