Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the accounts

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

c. Basis of consolidation

i. Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as other investments in securities.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1 (f)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the same way as other investments in securities.

ii. Associates

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

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

c. Basis of consolidation *(continued)*

ii. Associates (continued)

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case it is stated at fair value with changes in fair value recognised in the same way as other investments in securities. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(c)(iii).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

iii. Goodwill/negative goodwill

The Group adopted Statement of Standard Accounting Practice 30 "Business combinations" ("SSAP 30") issued by Hong Kong Society of Accountants with effect from January 1, 2001. In doing so the Group has relied upon the transitional provisions set out in SSAP 30 such that goodwill/negative goodwill arising on acquisition of a subsidiary or an associate by the Group prior to January 1, 2001, representing the excess/shortfall of the cost of investment over the appropriate share of the fair value of the identifiable assets and liabilities acquired, has been written off against/taken to capital reserves in the period in which it arose and has not been restated.

For acquisitions after January 1, 2001, goodwill is recognised as an asset and is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

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

The carrying amount of goodwill is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists an impairment loss is recognised as an expense in the consolidated profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

d. Fixed assets

i. Investment properties

Investment properties are defined as properties which are income producing and intended to be held for the long term. Such properties are included in the balance sheet at their open market value, which is assessed annually by external qualified valuers. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserves. If the total of these reserves is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the consolidated profit and loss account. When a surplus arises on subsequent revaluation on a portfolio basis, it will be credited to the consolidated profit and loss account if and to the extent that a deficit on revaluation had previously been charged to the consolidated profit and loss account. On disposal of investment properties, the revaluation surplus or deficit previously taken to the investment properties revaluation reserves is included in calculating the profit or loss on disposal. Investment properties with an unexpired lease term of 20 years or less are stated at carrying value less accumulated depreciation and provision for impairment loss.

ii. Properties under or held for redevelopment

Properties under or held for redevelopment for investment purposes are stated at cost, including borrowing costs, or carrying value, less such provisions for impairment loss. These properties are reclassified as investment properties upon issue of the occupation permit.

In preparing these accounts, the Group has relied on the transitional provision set out in paragraph 80 of Statement of Standard Accounting Practice 17 "Property, Plant and Equipment" (revised) issued by the Hong Kong Society of Accountants with the effect that certain properties under or held for redevelopment for investment purposes owned by the Group at December 31, 1994 are stated at professional valuation as at that date plus subsequent capital expenditure at cost less provision for impairment loss. Such properties have not been revalued to their fair value at the balance sheet date and will not be revalued in future years until they are reclassified as investment properties upon completion of the redevelopment. Subsequent provisions for impairment loss will first be set off against the related revaluation reserve previously recognised on an individual property basis, if any, and thereafter will be recognised in the consolidated profit and loss account.

All development costs including borrowing costs are capitalised up to the date of practical completion.

iii. Hotel and club properties

Hotel and club properties are stated at their open market value based on an annual professional valuation. Changes in the value of hotel and club properties are dealt with as movements in the other properties revaluation reserves. When a deficit arises on revaluation, it will be charged to the consolidated profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same property. When a surplus arises on subsequent revaluation, it will be credited to the consolidated profit and loss account, if and to the extent that a deficit on revaluation in respect of that same property had previously been charged to the consolidated profit and loss account.

iv. Broadcasting and communications equipment

Broadcasting and communications equipment is stated at cost less accumulated depreciation and any provision for impairment loss. Cost includes materials, labour and an appropriate proportion of overheads and borrowing costs directly attributable to the acquisition, construction or production of such equipment which necessarily takes a substantial period of time to get ready for its intended use.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

d. Fixed assets *(continued)*

v. Other properties and fixed assets held for own use

Other properties and fixed assets held for own use are stated at cost less accumulated depreciation and provision for impairment loss.

vi. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

vii. Gain or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of fixed assets other than investment properties, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

e. Depreciation of fixed assets

i. Investment properties

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuation takes into account the state of each building at the date of valuation. Where the Group confidently anticipates being able to renew a lease upon its expiry, the renewable period is included in the unexpired term for this purpose. The carrying amount of investment properties with an unexpired lease term of 20 years or less is depreciated on a straight line basis over the remaining term of the lease.

ii. Properties under or held for redevelopment

No depreciation is provided on properties under or held for redevelopment.

iii. Hotel and club properties

No depreciation is provided on hotel and club properties on leases with 20 years or more to run at the balance sheet date or on their integral fixed plant. It is the Group's practice to maintain these assets in a continuous state of sound repair and to make improvements thereto from time to time and, accordingly, the Directors consider that, given the estimated lives of these assets and their residual values, any depreciation would be immaterial. Where the Group confidently anticipates being able to renew a lease upon its expiry, the renewable period is included in the unexpired term for this purpose. The carrying amount of hotel and club properties with an unexpired lease term of 20 years or less is depreciated on a straight line basis over the remaining term of the lease.

iv. Broadcasting and communications equipment

Depreciation is provided on a straight line basis on the cost of the equipment at rates determined by the estimated useful lives of the assets of two to 20 years.

v. Other properties and fixed assets held for own use

Depreciation is provided on the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Construction costs of the buildings thereon are depreciated on a straight line basis at 2.5 per cent per annum.

Depreciation is provided on a straight line basis on the cost of other fixed assets held for own use at rates determined by the estimated useful lives of these assets of three to 25 years.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

e. Depreciation of fixed assets *(continued)*

v. Other properties and fixed assets held for own use (continued)

Following a review undertaken during the year, the estimated useful lives of certain plant and equipment were revised with effect from January 1, 2002, resulting in a reduction in the Group's annual depreciation charge of approximately HK$76 million. The revised estimated useful lives of such plant and equipment have been changed from 15 years to 25 years as management considers that the extended lives better reflect the period during which these assets will generate economic benefits for the Group.

f. Impairment of assets

The carrying amounts of assets, other than properties carried at revalued amounts, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated profit and loss account.

i. Recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use.

ii. Reversals of impairment losses

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

g. Investments in securities

i. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the consolidated profit and loss account for each security individually.

ii. Non-trading investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the investments revaluation reserves until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investments revaluation reserves to the consolidated profit and loss account.

Transfers from the investments revaluation reserves to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

g. Investments in securities *(continued)*

ii. Profits or losses on disposal of non-trading investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are recognised in the consolidated profit and loss account as they arise. On disposal of non-trading investments, the revaluation surplus or deficit previously taken to the investments revaluation reserves is also transferred to the consolidated profit and loss account for the year.

iii. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.

h. Deferred items

i. Prepaid revenue expenses

Prepaid revenue expenses represent prepaid expenditure attributable to periods after more than one year.

ii. Programming library

Programming library consists of commissioned and acquired programming costs. The costs are amortised over the licence period or estimated period of use calculated on an individual programme basis, whereas the costs of in house programmes are written off as incurred.

i. Inventories

i. Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is determined by the Directors, based on prevailing market conditions.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

ii. Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes the aggregate costs of development, borrowing costs capitalised and other direct expenses plus attributable profit, less pre-sales proceeds. Net realisable value is determined by the Directors, based on prevailing market conditions.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

Pre-sale proceeds received and receivable from the purchasers of the properties under development for sale are set off against inventories in the balance sheet. Profit on pre-sale of properties under development for sale is recognised over the course of the development and is calculated each year as a proportion of the total estimated profit to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total estimated sales.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

i. Inventories *(continued)*

ii. Properties under development for sale (continued)

Borrowing costs relating to properties under development for sale are capitalised up to the date of practical completion.

iii. Spare parts and consumables

Spare parts and consumables are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location. Net realisable value is determined by the Directors, based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j. Cash and cash equivalents

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

k. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at weighted average exchange rates for the year. Differences arising from the translation of the accounts of overseas subsidiaries are dealt with in capital reserves and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated profit and loss account. On disposal of an overseas subsidiary, the cumulative amount of the exchange differences which relate to that overseas subsidiary is included in the calculation of the profit or loss on disposal.

Forward foreign exchange contracts and swaps entered into as hedges against foreign currency assets and liabilities are revalued at the balance sheet date at the exchange rates ruling at that date. Realised gains and losses on currency hedging transactions are offset against gains and losses resulting from currency fluctuations inherent in the underlying foreign currency assets and liabilities. Unrealised gains and losses on foreign exchange rate contracts and swaps designated as hedges are included under the same classification as the assets and liabilities which they hedge. Gains and losses on foreign exchange contracts and swaps not entered into for hedging purposes are dealt with in the consolidated profit and loss account.

l. Assets held for use in operating leases

Where the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(e) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m) (i) below.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m. Recognition of revenue

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

ii. Income from sale of completed property is recognised upon completion of the sales agreements.

iii. Income from pre-sale of properties under development is recognised by reference to the stage of completion over the course of development (see note 1 (i) (ii)).

iv. Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

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

vii. Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

viii. Deferred revenue

Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

n. Borrowing costs

Borrowing costs are expensed in the consolidated profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

o. Deferred taxation

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

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

p. Related parties

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

q. Provisions

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

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

r. Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

s. Employee benefits

i. The Group operates the following principal pension schemes:–

Defined contribution schemes

Contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Mandatory provident funds

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the consolidated profit and loss account when incurred.

Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by an independent qualified actuary using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in consolidated profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

ii. Equity compensation benefits

When the Group grants employees options to acquire shares of the Company, the option exercise price must be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, shareholders' equity is increased by the amount of the proceeds received.

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

2. SEGMENT INFORMATION

a. Business segments

i. Revenue and results

	Segment revenue		Segment results	
	2002 ***HK$ Million***	2001 *HK$ Million* Restated	**2002** ***HK$ Million***	2001 *HK$ Million* Restated
Property investment	**4,442**	4,351	**3,125**	2,964
Hong Kong	**3,674**	3,583	**2,874**	2,780
China	**152**	125	**28**	12
Hotels	**616**	643	**223**	172
Communications, media and entertainment ("CME")	**3,435**	3,157	**429**	312
Pay television	**1,711**	1,595	**332**	349
Internet and multimedia	**450**	336	**9**	(50)
i-CABLE	**2,161**	1,931	**341**	299
Telecommunications	**1,117**	1,089	**53**	8
Others	**157**	137	**35**	5
Logistics	**3,203**	3,280	**1,838**	1,795
Terminals	**2,785**	2,918	**1,691**	1,700
Other logistics business	**418**	362	**147**	95
	11,080	10,788	**5,392**	5,071
Property development	**214**	827	**(9)**	(88)
Investment and others	**308**	357	**202**	314
Inter-segment revenue (Note)	**(269)**	(247)	**–**	–
	11,333	11,725	**5,585**	5,297
Unallocated income and expenses			**(244)**	(245)
Operating profit			**5,341**	5,052
Borrowing costs			**(755)**	(1,106)
Net other charges				
Property development			**(285)**	339
Investment and others			**(149)**	(438)
Associates				
Property development			**(505)**	(298)
Investment and others			**10**	17
Profit before taxation			**3,657**	3,566

Property investment included gross rental income from investment properties of HK$2,901 million (2001: HK$2,804 million).

2. SEGMENT INFORMATION *(continued)*

a. Business segments *(continued)*

Note: Inter-segment revenue eliminated on consolidation includes:

	2002 *HK$ Million*	2001 *HK$ Million* Restated
Property investment	**101**	102
CME	**119**	95
Pay television	**37**	35
Internet and multimedia	**4**	1
i-CABLE	**41**	36
Telecommunications	**43**	35
Others	**35**	24
Logistics	**16**	16
Investment and others	**33**	34
	269	247

ii. Assets and liabilities

	Assets		Liabilities	
	2002 *HK$ Million*	2001 *HK$ Million* Restated	2002 *HK$ Million*	2001 *HK$ Million* Restated
Property investment	**59,276**	65,452	**7,566**	7,148
Hong Kong	**50,935**	57,105	**6,257**	6,564
China	**4,883**	4,609	**1,184**	469
Hotels	**3,458**	3,738	**125**	115
CME	**5,996**	5,890	**1,616**	3,330
Pay television	**1,620**	1,727	**786**	2,351
Internet and multimedia	**948**	886	**265**	279
i-CABLE	**2,568**	2,613	**1,051**	2,630
Telecommunications	**3,363**	3,148	**530**	667
Others	**65**	129	**35**	33
Logistics	**5,633**	5,277	**1,503**	1,187
Terminals	**5,415**	4,659	**1,458**	1,141
Other logistics business	**218**	618	**45**	46
	70,905	76,619	**10,685**	11,665
Property development	**6,108**	6,151	**92**	273
Unallocated	**4,301**	7,494	**18,095**	19,951
Inter-group transactions	**(300)**	(1,800)	**(300)**	(1,800)
Total assets/liabilities	**81,014**	88,464	**28,572**	30,089

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

Included in the property development segment is the Group's share of property under development undertaken by associates of HK$3,241 million (2001: HK$3,276 million).

2. SEGMENT INFORMATION *(continued)*

a. Business segments *(continued)*

iii. Other information	Capital expenditure 2002 HK$ Million	Capital expenditure 2001 HK$ Million Restated	Depreciation and amortisation 2002 HK$ Million	Depreciation and amortisation 2001 HK$ Million Restated
Property investment	**336**	354	**87**	71
Hong Kong	**181**	221	**36**	36
China	**120**	99	**20**	6
Hotels	**35**	34	**31**	29
CME	**1,326**	1,552	**929**	759
Pay television	**443**	417	**450**	388
Internet and multimedia	**201**	286	**202**	143
i-CABLE	**644**	703	**652**	531
Telecommunications	**678**	841	**277**	210
Others	**4**	8	**–**	18
Logistics	**512**	682	**192**	256
Terminals	**502**	674	**172**	236
Other logistics business	**10**	8	**20**	20
Total capital expenditure/ depreciation and amortisation	**2,174**	2,588	**1,208**	1,086

The Group has no significant non-cash expenses other than depreciation and amortisation.

b. Geographical segment

During the year, more than 90 per cent of the operations and assets and liabilities of the Group in terms of the above items was in Hong Kong.

3. OPERATING PROFIT

a. Operating profit is arrived at after charging:

	2002 *HK$ Million*	2001 *HK$ Million*
Depreciation		
– assets held for use under operating leases	**74**	45
– other assets	**941**	901
Amortisation of prepaid expenses and programming library	**171**	118
Amortisation of goodwill	**22**	22
Staff costs	**1,983**	1,987
including:		
Contributions to defined contribution pension schemes		
including MPF schemes	**77**	88
Increase in liability for defined benefit pension schemes (Note 30)	**–**	35
Auditors' remuneration	**9**	9
Cost of properties sold during the year	**204**	869
and crediting:		
Rental income less direct outgoings, including contingent rentals		
HK$58 million (2001: HK$72 million)	**3,050**	2,977
Interest income	**166**	246
Dividend income from listed investments	**46**	41
Dividend income from unlisted investments	**109**	35

b. Directors' emoluments

	2002 *HK$ Million*	2001 *HK$ Million*
Fees	**1**	–
Basic salaries, housing and other allowances, and benefits in kind	**21**	13
Deemed profit on share option exercise	**3**	3
Contributions to pension schemes	**–**	1
Discretionary bonuses and/or performance related bonuses	**13**	13
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
	38	30

For the year under review, total emoluments (including any reimbursement of expenses) amounting to HK$0.3 million (2001: HK$0.1 million), being wholly in the form of Directors' fees, were paid/payable to Independent Non-executive Directors of the Company.

3. OPERATING PROFIT *(continued)*

b. Directors' emoluments *(continued)*

The emoluments in respect of the year ended December 31, 2002 of all the Directors of the Company in office during the year were in the following ranges:–

Bands (in HK$)	2002 *Number*	2001 *Number*
Not more than $1,000,000	**12**	8
$1,500,001 – $2,000,000	**–**	1
$2,000,001 – $2,500,000	**2**	–
$2,500,001 – $3,000,000	**1**	–
$3,000,001 – $3,500,000	**1**	2
$4,000,001 – $4,500,000	**–**	1*
$6,000,001 – $6,500,000	**1**	–
$7,500,001 – $8,000,000	**1**	1
$9,500,001 – $10,000,000	**–**	1*
$12,500,001 – $13,000,000	**1***	–
	19	14

Note: The emoluments of Directors in the band marked * above include deemed profit on share option exercise totalling HK$2.6 million (2001: HK$2.9 million).

c. Emoluments of the highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended December 31, 2002 of two employees (2001: one) of the Group who, not being a Director of the Company, are among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group.

Aggregate emoluments	2002 *HK$ Million*	2001 *HK$ Million*
Basic salaries, housing and other allowances, and benefits in kind	**5**	3
Contributions to pension schemes	**–**	–
Discretionary bonuses and/or performance related bonuses	**2**	1
Compensation for loss of office	**–**	–
Inducement for joining the Group	**–**	–
Total	**7**	4

Bands (in HK$)	2002 *Number*	2001 *Number*
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**1**	1
	2	1

4. OTHER NET LOSS

Other net loss represents a net loss on disposal of investments (2001: net loss on disposal of investments and loss on sale of an associate).

5. BORROWING COSTS

	2002 HK$ Million	2001 HK$ Million
Interest on:–		
Bank loans and overdrafts	**362**	622
Other loans repayable within five years	**390**	475
Other loans repayable after more than five years	**–**	168
Other borrowing costs	**97**	30
	849	1,295
Less: Amount capitalised *	**(94)**	(189)
Net borrowing costs for the year	**755**	1,106

* The borrowing costs have been capitalised at annual rates of between 3.1% to 5.1% (2001: 3.6% to 7.6%).

6. NET OTHER CHARGES

	2002 HK$ Million	2001 HK$ Million
Net provisions for impairment in value of non-trading investments	**(73)**	(438)
Net (charge)/write-back of provisions for properties held for development and for sale	**(285)**	339
Provision for diminution in value of listed debt securities	**(19)**	–
Others	**(57)**	–
	(434)	(99)

Net provisions for impairment in value of non-trading investments include a deficit of HK$58 million (2001: HK$358 million) transferred from the investments revaluation reserves in accordance with the Group's accounting policy on accounting for investments in securities.

7. TAXATION

a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 16 per cent (2001: 16 per cent).

b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.

c. Taxation in the consolidated profit and loss account represents:–

	2002 HK$ Million	2001 HK$ Million
Hong Kong profits tax for the year	**556**	409
Underprovision in respect of prior years	**108**	–
Overseas taxation for the year	**4**	2
Deferred taxation (Note 28a)	**12**	(11)
	680	400
Share of associates' Hong Kong profits tax for the year	**2**	3
	682	403

d. None of the taxation payable in the balance sheet is expected to be settled after more than one year.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of HK$1,372 million (2001: HK$2,016 million).

9. DIVIDENDS

a. Dividends attributable to the year

	2002 *HK$ Million*	2001 *HK$ Million*
Interim dividend declared and paid of 28 cents (2001: 28 cents) per share	**685**	685
Final dividend of 28 cents proposed after the balance sheet date (2001: 50 cents) per share	**685**	1,223
	1,370	1,908

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

b. Dividends attributable to the previous financial year, approved and paid during the year

	2002 *HK$ Million*	2001 *HK$ Million*
Final dividend in respect of the previous financial year, approved and paid during the year, of 50 cents (2001: 50 cents) per share	**1,223**	1,223

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the year of HK$2,303 million (2001: HK$2,519 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 million ordinary shares) in issue during the year.

The calculation of diluted earnings per share is based on earnings for the year of HK$2,303 million (2001: HK$2,519 million) and the weighted average of 2,447 million ordinary shares (2001: 2,446 million ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the year ended December 31, 2002 (see Note 25) has no material dilutive effect on the calculation of diluted earnings per share for the year ended December 31, 2002.

11. CHANGES IN ACCOUNTING POLICIES

a. SSAP 1 (Revised) "Presentation of financial statements"

With effect from January 1, 2002, the consolidated statement of recognised gains and losses has been replaced by the consolidated statement of changes in equity.

b. SSAP 11 (Revised) "Foreign currency translation"

In prior years, the profit and loss accounts of foreign enterprises were translated at the exchange rates ruling at the balance sheet date. With effect from January 1, 2002, these are translated into Hong Kong dollars at the weighted average exchange rates during the year. The effect of such change is not material to the accounts.

c. SSAP 15 (Revised) "Cash flow statement"

With effect from January 1, 2002, with the introduction of SSAP 15 (Revised) "Cash flow statements", a revised classification of activities from which cash flows are derived has been made and the Group defines cash and cash equivalents as cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition.

In prior years, for the purpose of preparing the consolidated cash flow statement, cash equivalents were shown net of advances from banks repayable within three months from the date of advance. By adoption of the revised SSAP 15, bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. The accounting policy has been adopted retrospectively. In adjusting prior year's figures, cash and cash equivalents as at January 1, 2001 and 2002 were restated and increased by HK$2 million and HK$10 million respectively. In addition, certain presentational changes have been made on adoption of SSAP 15 (Revised).

d. SSAP 34 "Employee benefits"

Defined benefit pension schemes provide benefits to the employees based on their final pay and number of years of service. In prior years, contributions to defined benefit pension schemes were charged against profit and loss account in the period in which they were payable to the schemes. The contributions were determined based on the value of the schemes' assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations and were determined by a qualified actuary on the basis of triennial valuations using the attained age method. The assets of the schemes are held separately from those of the Group in independently administered funds.

With effect from January 1, 2002, in order to comply with Statement of Standard Accounting Practice 34 issued by the Hong Kong Society of Accountants, the Group has adopted a new policy for defined benefit pension schemes as set out in note 1(s). The new accounting policy has been adopted prospectively, with the effect of the adoption on the opening balance of retained profits recognised on a straight-line basis over a maximum of five years from January 1, 2002. The transitional net assets recognised during the year 2002 was HK$31 million.

12. FIXED ASSETS

	Group					
	Investment properties *HK$ Million*	Properties under or held for redevelop-ment *HK$ Million*	Hotel and club properties *HK$ Million*	Broad-casting & communi-cations equipment *HK$ Million*	Other properties and fixed assets *HK$ Million*	Total *HK$ Million*
a. Cost or valuation						
Balance at January 1, 2002	57,147	4,242	3,643	7,451	8,712	81,195
Additions	–	651	–	1,016	416	2,083
Disposals	–	–	–	(80)	(52)	(132)
Reclassification	1,117	(1,089)	–	(71)	–	(43)
Written off	–	–	–	–	(15)	(15)
Provisions for impairment	–	(230)	–	–	–	(230)
Revaluation deficits	(5,891)	–	(304)	–	–	(6,195)
Balance at December 31, 2002	52,373	3,574	3,339	8,316	9,061	76,663
Accumulated depreciation						
Balance at January 1, 2002	–	–	–	2,941	3,809	6,750
Charge for the year	–	–	12	659	344	1,015
Written back on disposals	–	–	–	(76)	(42)	(118)
Reclassification	–	–	–	(1)	–	(1)
Written off	–	–	–	–	(15)	(15)
Revaluation deficits	–	–	(12)	–	–	(12)
Balance at December 31, 2002	–	–	–	3,523	4,096	7,619
Net book value						
at December 31, 2002	52,373	3,574	3,339	4,793	4,965	69,044
at December 31, 2001	57,147	4,242	3,643	4,510	4,903	74,445

b. The analysis of cost or valuation of the above assets is as follows:–

	Investment properties *HK$ Million*	Properties under or held for redevelop-ment *HK$ Million*	Hotel and club properties *HK$ Million*	Broad-casting & communi-cations equipment *HK$ Million*	Other properties and fixed assets *HK$ Million*	Total *HK$ Million*
2002 valuation	52,373	–	3,339	–	–	55,712
1994 valuation	–	288	–	–	–	288
Cost less provisions	–	3,286	–	8,316	9,061	20,663
	52,373	3,574	3,339	8,316	9,061	76,663

If the hotel and club properties had not been revalued, the carrying value of these assets on the basis of cost less accumulated depreciation would be HK$354 million (2001: HK$366 million).

12. FIXED ASSETS *(continued)*

	Group					
	Investment properties *HK$ Million*	Properties under or held for redevelopment *HK$ Million*	Hotel and club properties *HK$ Million*	Broad-casting & communi-cations equipment *HK$ Million*	Other properties and fixed assets *HK$ Million*	Total *HK$ Million*
c. Tenure of title to properties (at cost or valuation):–						
Held in Hong Kong						
Long lease	39,746	342	3,291	–	3	43,382
Medium lease	8,926	2,136	–	–	4,498	15,560
Short lease	–	–	48	–	1	49
	48,672	2,478	3,339	–	4,502	58,991
Held outside Hong Kong						
Freehold	19	–	–	–	–	19
Long lease	–	–	–	–	11	11
Medium lease	3,682	1,096	–	–	–	4,778
	52,373	3,574	3,339	–	4,513	63,799

d. Properties revaluation
The Group's investment properties together with its hotel and club properties have been revalued as at December 31, 2002 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

Certain properties under or held for redevelopment were valued at December 31, 1994 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into account the development potential of the properties where appropriate.

The surplus or deficit arising on revaluation less minority interests is dealt with in capital reserves.

e. Impairment of fixed assets
The value of properties, other than investment properties and hotel and club properties which are revalued annually, is assessed at each balance sheet date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. As a consequence of this exercise, at December 31, 2002 impairment losses of HK$230 million were recognised in the consolidated profit and loss account principally to reflect the current prevailing property market conditions (2001: write back of impairment losses of HK$379 million and impairment losses of HK$52 million).

f. The gross amounts of fixed assets of the Group held for use in operating leases were HK$53,234 million (2001: HK$58,400 million).

g. The Group leases out properties under operating leases, which generally run for an initial period of two to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

12. FIXED ASSETS *(continued)*

h. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:–

	Group	
	2002	2001
	HK$ Million	*HK$ Million*
Within 1 year	**2,914**	3,006
After 1 year but within 5 years	**3,099**	3,300
After 5 years	**124**	47
	6,137	6,353

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$ Million	*HK$ Million*
Unlisted shares, at cost less provision	**7,376**	20,682
Amounts due from subsidiaries	**36,819**	35,271
	44,195	55,953
Amounts due to subsidiaries	**(31,525)**	(43,151)
	12,670	12,802

Details of principal subsidiaries at December 31, 2002 are shown on pages 112 and 113.

The amounts due to and from subsidiaries are non-current as these are not expected to be paid within the next twelve months.

14. GOODWILL

	Group
	HK$ Million
Cost	
Balance at January 1, 2002	441
Addition through acquisition of subsidiaries	–
Balance at December 31, 2002	441
Amortisation	
Balance at January 1, 2002	(22)
Charge for the year	**(22)**
Balance at December 31, 2002	(44)
Carrying amount	
At December 31, 2002	**397**
At December 31, 2001	419

15. LONG TERM DEPOSITS

The Group has placed deposits with a financial institution maturing in 2003 and 2006 at a margin above market rates. The deposits are credit-linked to investment grade debt securities, either issued by the Group or other corporations. Deposits maturing in 2003 which amount to HK$468 million have been classified as deposits and cash within current assets.

16. INTEREST IN ASSOCIATES

	Group	
	2002 *HK$ Million*	2001 *HK$ Million*
Share of net tangible assets	**(1,047)**	(455)
Amounts due from associates	**4,451**	3,883
Amounts due to associates	**(37)**	(39)
	3,367	3,389

Details of principal associates at December 31, 2002 are shown on page 113.

The amounts due to and from associates are non-current as these are not expected to be paid within the next twelve months.

Included in the amount due from associates are loans totalling HK$4,332 million (2001: HK$3,697 million) advanced to certain associates involved in the Sorrento and Bellagio property developments projects, of which HK$1,925 million (2001: HK$1,730 million) is interest bearing and HK$2,407 million (2001: HK$1,967 million) is interest-free. The annual interest rates are determined by the shareholders of the associate with reference to prevailing market rates which were between 2.8% and 4.0% for the current year (2001: 3.6% to 7.4%). The loans are unsecured and are repayable as may from time to time be agreed among the shareholders.

17. LONG TERM INVESTMENTS

	Group	
	2002 *HK$ Million*	2001 *HK$ Million*
Non-trading investments		
Equity securities		
Listed in Hong Kong	**701**	474
Listed outside Hong Kong	**445**	524
	1,146	998
Unlisted	**32**	90
	1,178	1,088
Market value of listed securities	**1,146**	998

18. DEFERRED DEBTORS

Deferred debtors represent receivables due after more than one year.

19. DEFERRED ITEMS

	Group	
	2002 **HK$ Million**	2001 HK$ Million
Prepaid revenue expenses	**305**	322
Defined benefit pension scheme assets (Note 30)	**14**	–
Programming library	**149**	211
	468	533

20. INVENTORIES

	Group	
	2002 **HK$ Million**	2001 HK$ Million
Properties under development for sale, less pre-sale proceeds received and receivable	**2,144**	1,996
Properties held for sale	**632**	751
Spare parts and consumables	**109**	135
	2,885	2,882

The properties under development for sale are expected to be completed and recovered after more than one year.

The amount of properties held for sale/under development for sale carried at net realisable value is HK$995 million (2001: HK$827 million).

21. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at December 31, 2002 as follows:–

	Group		Company	
	2002 **HK$ Million**	2001 HK$ Million	**2002** **HK$ Million**	2001 HK$ Million
0 – 30 days	**398**	442	**–**	–
31 – 60 days	**164**	157	**–**	–
61 – 90 days	**34**	41	**–**	–
Over 90 days	**43**	52	**–**	–
	639	692	**–**	–

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are receivable upon completion of the properties under development.

22. PLEDGED DEPOSITS

Deposits are pledged as security for certain bonds and notes.

23. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at December 31, 2002 as follows:–

	Group		Company	
	2002 HK$ Million	2001 HK$ Million	**2002 HK$ Million**	2001 HK$ Million
0 – 30 days	**218**	745	**–**	–
31 – 60 days	**100**	99	**–**	–
61 – 90 days	**64**	74	**–**	–
Over 90 days	**153**	311	**–**	–
	535	1,229	**–**	–

24. SHORT TERM LOANS AND OVERDRAFTS

	Group		Company	
	2002 HK$ Million	2001 HK$ Million	**2002 HK$ Million**	2001 HK$ Million
US dollar floating rate notes	**2,743**	–	**–**	–
HK dollar floating rate notes	**1,049**	1,417	**–**	–
HK dollar fixed rate notes	**665**	–	**–**	–
Secured bank loans	**37**	91	**–**	–
Unsecured bank loans and overdrafts	**1,778**	5,346	**121**	314
Unsecured other loans	**–**	20	**–**	–
	6,272	6,874	**121**	314

25. SHARE CAPITAL

	2002 No. of shares Million	2001 No. of shares Million	**2002 HK$ Million**	2001 HK$ Million
Authorised				
Ordinary shares of HK$1 each	**3,600**	3,600	**3,600**	3,600
Issued and fully paid				
Balance at January 1	**2,447**	2,446	**2,447**	2,446
Exercise of share options	**–**	1	**–**	1
Balance at December 31	**2,447**	2,447	**2,447**	2,447

Executive share incentive scheme

As at December 31, 2002, options to subscribe for 2.6 million (2001: 3.3 million) ordinary shares of the Company at prices ranging from HK$19.0 to HK$25.0 (2001: HK$12.0 to HK$25.0) per share granted to a number of executives under the Company's executive share incentive scheme were unexercised. These options are exercisable before July 31, 2006.

During the year, options were exercised to subscribe for 722,000 (2001: 480,000) ordinary shares of HK$1.00 each at a consideration between HK$12.0 and HK$19.0 (2001: between HK$9.5 and HK$19.0) per share.

26. RESERVES

	Share premium *HK$ Million*	Capital redemption reserve *HK$ Million*	Investment properties revaluation reserves *HK$ Million*	Investments revaluation reserves *HK$ Million*	Other capital reserves *HK$ Million*	Revenue reserves *HK$ Million*	Total *HK$ Million*
a. The Group							
i. Company and subsidiaries							
Balance at January 1, 2001	7,730	7	40,517	(390)	(298)	8,052	55,618
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	(1,223)	(1,223)
Exercise of share options	5	–	–	–	–	–	5
Goodwill written off on disposal of an associate	–	–	–	–	301	–	301
Transferred to the profit and loss account on disposal of non-trading investments	–	–	–	107	–	–	107
Transferred to the profit and loss account on impairment of non-trading investments	–	–	–	358	–	–	358
Revaluation deficit							
– investment properties	–	–	(4,361)	–	–	–	(4,361)
– other properties	–	–	–	–	(244)	–	(244)
– non-trading investments	–	–	–	(85)	–	–	(85)
Others	–	–	–	–	6	–	6
Profit for the year	–	–	–	–	–	2,859	2,859
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	(685)	(685)
Balance at December 31, 2001 and January 1, 2002	7,735	7	36,156	(10)	(235)	9,003	52,656

26. RESERVES *(continued)*

	Share premium *HK$ Million*	Capital redemption reserve *HK$ Million*	Investment properties revaluation reserves *HK$ Million*	Investments revaluation reserves *HK$ Million*	Other capital reserves *HK$ Million*	Revenue reserves *HK$ Million*	Total *HK$ Million*
a. The Group *(continued)*							
i. Company and subsidiaries *(continued)*							
Balance at December 31, 2001 and January 1, 2002	7,735	7	36,156	(10)	(235)	9,003	52,656
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	(1,223)	(1,223)
Exercise of share options	7	–	–	–	–	–	7
Transferred to the profit and loss account on disposal of non-trading investments	–	–	–	7	–	–	7
Transferred to the profit and loss account on impairment of non-trading investments	–	–	–	58	–	–	58
Revaluation deficit							
– investment properties	–	–	(5,858)	–	–	–	(5,858)
– other properties	–	–	–	–	(219)	–	(219)
– non-trading investments	–	–	–	(284)	–	–	(284)
Others	–	–	–	–	(28)	–	(28)
Profit for the year	–	–	–	–	–	2,800	2,800
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	(685)	(685)
Balance at December 31, 2002	7,742	7	30,298	(229)	(482)	9,895	47,231
					(Note)		

Note: Included in other capital reserves of the Group are other properties revaluation reserves totalling HK$2,514 million (2001: HK$2,733 million).

26. RESERVES *(continued)*

	Share premium HK$ Million	Capital redemption reserve HK$ Million	Investment properties revaluation reserves HK$ Million	Investments revaluation reserves HK$ Million	Other capital reserves HK$ Million	Revenue reserves HK$ Million	Total HK$ Million
a. The Group *(continued)*							
ii. Associates							
Balance at January 1, 2001	–	–	–	13	–	(127)	(114)
Transferred to the profit and loss account on disposal of non-trading investments	–	–	–	(2)	–	–	(2)
Revaluation deficit – non-trading investments	–	–	–	(2)	–	–	(2)
Loss absorbed for the year	–	–	–	–	–	(340)	(340)
Balance at December 31, 2001 and January 1, 2002	–	–	–	9	–	(467)	(458)
Revaluation deficit – non-trading investments	–	–	–	(10)	–	–	(10)
Loss absorbed for the year	–	–	–	–	–	(497)	(497)
Balance at December 31, 2002	–	–	–	(1)	–	(964)	(965)
Total reserves							
At December 31, 2002	7,742	7	30,298	(230)	(482)	8,931	46,266
At December 31, 2001	7,735	7	36,156	(1)	(235)	8,536	52,198

26. RESERVES *(continued)*

	Share premium *HK$ Million*	Capital redemption reserve *HK$ Million*	Other capital reserves *HK$ Million*	Revenue reserves *HK$ Million*	Total *HK$ Million*
b. The Company					
Balance at January 1, 2001	7,730	7	306	2,930	10,973
Exercise of share options	5	–	–	–	5
Dividends approved in respect of the previous year (Note 9b)	–	–	–	(1,223)	(1,223)
Profit for the year	–	–	–	2,016	2,016
Dividends declared in respect of the current year (Note 9a)	–	–	–	(685)	(685)
Balance at December 31, 2001 and January 1, 2002	7,735	7	306	3,038	11,086
Exercise of share options	7	–	–	–	7
Dividend approved in respect of the previous year (Note 9b)	–	–	–	(1,223)	(1,223)
Profit for the year	–	–	–	1,372	1,372
Dividend declared in respect of the current year (Note 9a)	–	–	–	(685)	(685)
Balance at December 31, 2002	7,742	7	306	2,502	10,557

Reserves of the Company available for distribution to shareholders at December 31, 2002 amounted to HK$2,502 million (2001: HK$3,038 million).

The application of the share premium account and capital redemption reserves are governed by Section 48B and Section 49 of the Hong Kong Companies Ordinance respectively. The revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of investment properties, hotel and club properties and non-trading securities.

After the balance sheet date the Directors proposed a final dividend of 28 cents per share (2001: 50 cents per share) amounting to HK$685 million (2001: HK$1,223 million). This dividend has not been recognised as a liability at the balance sheet date.

27. LONG TERM LOANS

	Group		Company	
	2002 *HK$ Million*	2001 *HK$ Million*	**2002** *HK$ Million*	2001 *HK$ Million*
Bonds and notes (secured and due May 15, 2003)				
US dollar floating rate notes	**2,743**	2,743	**–**	–
HK dollar floating rate notes	**1,049**	1,049	**–**	–
HK dollar fixed rate notes	**665**	665	**–**	–
	4,457	4,457	**–**	–
Bonds and notes (unsecured)				
HK dollar floating rate notes due July 16, 2002	**–**	1,417	**–**	–
HK dollar guaranteed notes due March 15, 2004	**500**	500	**–**	–
HK dollar fixed rate notes due June 7, 2004	**300**	–	**–**	–
HK dollar fixed rate notes due June 7, 2005	**300**	–	**–**	–
US dollar notes due November 1, 2004	**1,560**	1,560	**–**	–
US dollar notes due March 13, 2007	**2,730**	2,730	**–**	–
	5,390	6,207	**–**	–
Bank loans (secured)				
Due within 1 year	**37**	91	**–**	–
Due after more than 1 year but not exceeding 2 years	**28**	–	**–**	–
Due after more than 2 years but not exceeding 5 years	**508**	287	**–**	–
	573	378	**–**	–
Bank loans (unsecured)				
Due within 1 year	**1,778**	5,346	**121**	314
Due after more than 1 year but not exceeding 2 years	**5,253**	406	**–**	–
Due after more than 2 years but not exceeding 5 years	**5,202**	7,079	**–**	–
	12,233	12,831	**121**	314
Other loans (unsecured)				
Due within 1 year	**–**	20	**–**	–
	–	20	**–**	–
Total loans	**22,653**	23,893	**121**	314
Less: Amounts due within 1 year (Note 24)	**(6,272)**	(6,874)	**(121)**	(314)
Total long term loans	**16,381**	17,019	**–**	–

27. LONG TERM LOANS *(continued)*

a. As at December 31, 2002, the Group's net debts, representing the total loans less deposits, listed debt securities and cash, are analysed as follows:–

	2002 *HK$ Million*	2001 *HK$ Million*
Secured	**5,030**	4,835
Bonds and notes	**4,457**	4,457
Bank loans	**573**	378
Unsecured	**17,623**	19,058
Bonds and notes	**5,390**	6,207
Bank loans and other loans	**12,233**	12,851
Total loans	**22,653**	23,893
Long term deposits	**(156)**	(468)
Listed debt securities	**(525)**	(514)
Deposits and cash	**(1,225)**	(2,852)
Pledged deposits	**(293)**	(288)
	20,454	19,771

b. As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

c. Over 90% of the bonds and notes either bear interest at floating rates or have been swapped to floating rates determined by reference to the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate.

d. Included in the Group's total loans are bank loans totaling HK$1,327 million borrowed by two non-wholly owned subsidiaries, Modern Terminals Limited and i-CABLE Communications Limited (2001: HK$992 million borrowed by Modern Terminals Limited and Harbour Centre Development Limited). These loans are without recourse to the Company and other subsidiaries.

e. The banking facilities of the Group are secured by mortgages over certain investment properties with carrying value of HK$17,923 million (2001: HK$19,171 million).

28. DEFERRED TAXATION

a. Movements on deferred taxation comprise:–

	Group	
	2002	2001
	HK$ Million	*HK$ Million*
Balance at January 1	**467**	478
Transfer to the profit and loss account (Note 7c)	**12**	(11)
Balance at December 31	**479**	467

b. Major components of deferred taxation are set out below:–

	Group			
	2002		2001	
	Provided	**Potential liabilities/ (assets) unprovided**	Provided	Potential liabilities/ (assets) unprovided
	HK$ Million	***HK$ Million***	*HK$ Million*	*HK$ Million*
Depreciation allowances in excess of the related depreciation	**479**	**671**	467	821
Unutilised tax losses	**–**	**(1,618)**	–	(1,618)
Others	**–**	**(118)**	–	(110)
	479	**(1,065)**	467	(907)

The major part of the unprovided potential liabilities represents the maximum taxation arising from balancing charges in the event of a future realisation of investment and other properties at an amount equal to the valuations or carrying values recorded in the balance sheet.

The deferred tax assets arising from the Group's unutilised tax losses have not been recognised in the accounts as it is not certain that the future benefits thereof will crystallise in the foreseeable future.

c. No deferred taxation has been provided in the accounts of the Company as the net effect of all timing differences is considered to be immaterial.

29. OTHER DEFERRED LIABILITIES

	Group	
	2002	2001
	HK$ Million	*HK$ Million*
Club debentures (non-interest bearing) due after more than 5 years	**220**	220
Deferred revenue (Note 1 (m) (viii))	**22**	127
Others	**50**	75
	292	422

30. DEFINED BENEFIT PENSION SCHEMES

	2002 *HK$ Million*
Defined benefit pension scheme assets	14

The Group makes contributions to six defined benefit pension schemes that provide pension benefits for employees upon retirement.

a. The amount recognised in the consolidated balance sheet is as follows:–

	2002 *HK$ Million*
Present value of funded obligations	(664)
Fair value of plan assets	585
Net unrecognised actuarial losses	63
Unrecognised transitional liability	30
	14

b. Movements in the net (liability)/asset in the consolidated balance sheet are as follows:–

	2002 *HK$ Million*
At January 1	(22)
Contributions paid	36
Expense recognised in the profit and loss account	–
At December 31	14

c. Expense recognised in the consolidated profit and loss account is as follows:–

	2002 *HK$ Million*
Current service cost	33
Interest cost	41
Expected return on scheme assets	(43)
Net transitional asset recognised	(31)
	–
The (income)/expense is recognised in the following line items in the consolidated profit and loss account:–	
Direct costs and operating expenses	(2)
Administrative and corporate expenses	2
	–
Actual loss on scheme assets for the year 2002	38

30. DEFINED BENEFIT PENSION SCHEMES *(continued)*

d. The principal actuarial assumptions used as at December 31, 2002 (expressed as a range) are as follows:–

	2002
Discount rate at December 31	**5.0% – 5.5%**
Expected rate of return on plan assets	**5.0% – 8.0%**
Future salary increases – 2003	**0% – 3.5%**
– 2004-2005	**2.0% – 3.5%**
– thereafters	**3.5% – 4.0%**

31. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on June 30, 1998, to replace a former scheme previously adopted on September 29, 1988, whereby the Directors of the Company are authorised, at their discretion, to invite employees, including directors, of the Company and/or any of its subsidiaries to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. Options under the share option scheme are exercisable during such period as determined by the Directors prior to the grant of the option provided that no option may be granted which is exercisable earlier than 1 year from the date of grant or later than 10 years after such date.

a. Movement in share options

	2002 *Number*	2001 *Number*
At January 1	**3,273,000**	3,753,000
Exercised	**(722,000)**	(480,000)
At December 31	**2,551,000**	3,273,000
Options vested at December 31	**2,111,000**	2,503,000

b. During the year ended December 31, 2002, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme.

c. Terms of share options at the balance sheet date

Exercise period	Exercise price	2002 *Number*	2001 *Number*
13/4/1995 – 12/4/2002	HK$12.00	–	680,000
17/6/1996 – 16/6/2003	HK$19.00	**1,781,000**	1,823,000
1/8/2002 – 31/7/2003	HK$25.00	**330,000**	330,000
1/8/2005 – 31/7/2006	HK$25.00	**440,000**	440,000
		2,551,000	3,273,000

31. EQUITY COMPENSATION BENEFITS *(continued)*

d. Details of share options exercised

Exercise date	Exercise Price *HK$*	Market value per share at exercise date *HK$*	Proceeds received *HK$*	2002 No. of shares	2001 No. of shares
02-Feb-2001	19.00	21.45	190,000		10,000
19-Feb-2001	19.00	21.80	190,000		10,000
08-Mar-2001	19.00	23.40	190,000		10,000
08-Aug-2001	9.50	16.65	1,900,000		200,000
05-Dec-2001	12.00	17.55	1,800,000		150,000
12-Dec-2001	12.00	17.90	1,200,000		100,000
15-Jan-2002	12.00	17.10	720,000	**60,000**	
08-Mar-2002	12.00	18.25	240,000	**20,000**	
08-Apr-2002	12.00	17.10	3,600,000	**300,000**	
08-Apr-2002	12.00	17.10	600,000	**50,000**	
10-Apr-2002	12.00	17.10	600,000	**50,000**	
12-Apr-2002	12.00	17.15	2,400,000	**200,000**	
06-May-2002	19.00	21.00	570,000	**30,000**	
12-Jun-2002	19.00	18.80	228,000	**12,000**	
				722,000	480,000

32. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transaction during the year ended December 31, 2002:–

a. As disclosed in Note 16, loans totalling HK$4,332 million (2001: HK$3,697 million) advanced by the Group to certain associates involved in the Sorrento and Bellagio property developments projects (as described in more detail in (b) and (c) below) are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements (as set out in further detail under (b) and (c) hereunder). The net interest earned by the Group from these loans during the year is not material in the context of these accounts.

b. As disclosed in Note 33(b), the Company and a subsidiary, together with its controlling shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of the associate under an agreement to develop the Sorrento property development project.

The same parties have also severally guaranteed loans granted to a subsidiary of the above associate to finance the property development project. The amount attributable to the Company and a subsidiary was HK$175 million (2001: HK$866 million).

Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

32. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

c. As disclosed in Note 33(c), the Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed loans granted to a subsidiary of an associate to finance the Bellagio property development project. The amount attributable to the Company was HK$263 million (2001: HK$1,267 million).

   Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1994.

d. In respect of the year ended December 31, 2002, the Group earned rental income amounting to HK$146 million (2001: HK$134 million) from affiliated companies of its controlling shareholder.

33. CONTINGENT LIABILITIES

As at December 31, 2002:–

a. There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdraft, short term loan and credit facilities, bonds and notes of up to HK$26,256 million (2001: HK$29,849 million).

b. The Company and a subsidiary together with its principal shareholder and two subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for the Sorrento property development project by the subsidiary of an associate. Also, all the parties have severally guaranteed loans granted to a subsidiary of the associate to finance its property development project. The amount attributable to the Company and a subsidiary is HK$175 million (2001: HK$866 million).

c. The Company together with its controlling shareholder and one of its subsidiaries, have jointly and severally guaranteed loans granted to a subsidiary of the associate to finance its Bellagio property development project. The amount attributable to the Company was HK$263 million (2001: HK$1,267 million).

d. Forward exchange contracts amounting to HK$5,616 million (2001: HK$6,537 million) will mature in 2003.

34. COMMITMENTS

	Group	
	2002 ***HK$ Million***	2001 *HK$ Million*
a. Capital commitments		
No provision has been made in the accounts for planned capital expenditure of	**4,408**	4,966
In respect of which contracts have been entered into for	**1,763**	1,858

b. The Company's subsidiary, Modern Terminals Limited ("MTL"), had entered into a Joint Development Agreement ("JDA") with Hong Kong International Terminals Limited ("HIT") and Asia Container Terminals Limited ("ACT") to jointly procure the construction of Container Terminal 9. The total cost of construction for the whole Container Terminal 9 is estimated by the Directors to be HK$4.8 billion with a target completion date in 2005. MTL, ACT and HIT have agreed to share the construction cost at an agreed ratio as stipulated in the JDA.

   Furthermore, under a Berth Swap Agreement with ACT, upon the completion of the whole of Container Terminal 9, MTL will transfer to ACT all of its rights, title and interest in Container Terminal 8 West and ACT will transfer to MTL all of its rights, title and interest in Container Terminal 9.

35. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 9.

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for cash and cash equivalents in the consolidated cash flow statement and the consolidated statement of recognised gains and losses is replaced by the consolidated statement of changes in equity in order to comply with SSAP 15 (revised) and SSAP 1 (revised) respectively. As a result, certain advances from banks have been excluded from the definition of cash equivalents and cash flows from taxation, returns on investments and servicing of finance have been classified into operating and financing activities respectively.

In addition, the presentation of certain comparative figures in the segment reporting as disclosed in Note 2 to the accounts has been reclassified to conform to the current year's presentation which management consider gives a better indication of the results of the Group for the year.

37. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Directors on March 31, 2003.