

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

#### a. Basis of preparation

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

Certain presentational changes have been made upon the adoption of SSAP 1 (Revised) "Presentation of Financial Statements" and SSAP 15 (Revised) "Cash Flow Statements".

#### b. Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30th June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either co-terminus with the financial statements of the Company or cover a year ended not more than six months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation.

Goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities is recognized as an asset in the balance sheet and amortized to the profit and loss account on a straight line basis over its estimated useful life. Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Upon disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of purchased goodwill not previously amortized through the profit and loss account is included in the calculation of the profit and loss on disposal. Any impairment arising on goodwill is recognized in the profit and loss account.

Minority interests in the consolidated profit and loss account and balance sheet represents the interests of third parties outside the Group in the results and net assets of subsidiaries.

#### c. Turnover

Turnover derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from properties letting under operating leases, revenue from hotel operation and revenue derived from other business activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, telecommunications, internet infrastructure and enabling services. It does not include the turnover of associates and jointly controlled entities.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. Principal accounting policies (cont'd)

## d. Revenue recognition

Revenue of a transaction is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group which will result in increases in equity and these benefits can be measured reliably, on the following basis:

*(i) Property sales*

Revenue and profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, revenue and profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sales proceeds receivable over the interest-free period.

*(ii) Rental income*

Rental income from properties letting under operating leases is recognized on straight line basis over the lease terms.

*(iii) Hotel operation*

Revenue from hotel operation is recognized upon provision of services.

*(iv) Interest income*

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

*(v) Construction*

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

*(vi) Investment income*

Income from securities and other investments is recognized when the right to receive payment is established.

*(vii) Use of internet services centre facilities*

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

*(viii) Telecommunications*

Revenue from telecommunication is recognized when the service is rendered.

*(ix) Other income*

Property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

## 1. Principal accounting policies (cont'd)

### e. Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the balance sheet of the Company at cost less provision for impairment in value.

### f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

### g. Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the parties has unilateral control.

#### (i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

#### (ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

## NOTES TO THE FINANCIAL STATEMENTS

**1. Principal accounting policies (cont'd)****g. Joint ventures (cont'd)***(ii) Jointly controlled assets (cont'd)*

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

**h. Investments in securities***(i) Long-term investments*

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less provision for impairment in value. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities which are intended to be held to maturity are measured at amortized cost, less any impairment losses recognized, if necessary, in the balance sheet. The amortization of any discount or premium arising on acquisition is aggregated with other investment income receivable over the period from the date of acquisition to the date of maturity so as to give a constant yield on the investment. Held-to-maturity debt securities maturing within one year are classified as short-term investments under current assets.

*(ii) Marketable securities*

Marketable securities, which are that part of liquid assets temporarily invested in debt and equity securities, are stated at fair value, with unrealized gains and losses included in net profit or loss for the year.

**i. Properties***(i) Land pending development*

Land pending development, which is stated at cost less provision for impairment in value made by the directors, embraces all land acquired pending any definite intention whether to develop it for long-term retention or for sale. When the intention is clear and action initiated, land to be developed for long-term retention is reclassified as fixed assets whereas land to be developed for sale and expected to be realized in the normal course of the Group's property development cycle is reclassified as stocks under current assets.

*(ii) Investment properties*

Investment properties are completed properties which are income producing and held for their investment potential on a long-term basis. Investment properties are included in fixed assets at open market value on the basis of an annual professional valuation related to properties on the basis that increases in valuations are credited to the investment property revaluation reserve and decreases in valuations are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to operating profit. Upon disposal of an investment property, the revaluation surplus or deficit realized is transferred to operating profit in calculating the profit or loss on disposal.

## 1. Principal accounting policies (cont'd)

### i. Properties (cont'd)

#### *(iii) Hotel properties*

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at open market value on the basis of an annual professional valuation related to individual hotel properties.

#### *(iv) Properties under development*

Properties under development for long-term retention are classified under fixed assets and are stated at cost less provision for impairment in value. These properties are reclassified as investment properties or other properties as the case may be upon completion of the development.

Properties under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

Cost of property in the course of development comprises land cost and development costs during the development period.

#### *(v) Stocks of completed properties*

Completed properties remaining unsold at year end are stated at the lower of cost and net realizable value.

Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

Net realizable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

#### *(vi) Other properties*

Other properties are properties held for production or administrative purposes and are included in fixed assets at cost less accumulated depreciation and impairment losses, if any.

### j. Depreciation

#### *(i) Investment properties*

No depreciation is provided on investment property except where the unexpired term of the lease of the investment property is 20 years or less, in which case the then carrying amount is amortized on a straight line basis over the remaining unexpired term of the lease.

## NOTES TO THE FINANCIAL STATEMENTS

**1. Principal accounting policies (cont'd)****j. Depreciation (cont'd)***(ii) Hotel properties*

No depreciation is provided on hotel property or on its integral fixed plant. It is the Group's policy to maintain these assets in a continual state of sound repair and maintenance and to extend and make improvements thereto from time to time, and accordingly the directors consider that given the estimated lives of these assets and their high residual values, any depreciation would be insignificant. The related repair and maintenance expenditure is charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalized.

*(iii) Properties under development*

No depreciation is provided on properties under development.

*(iv) Network equipment*

Network equipment including assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight line basis to write off their costs less accumulated impairment losses over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum. No depreciation is provided on network equipment under construction.

*(v) Other properties*

The cost of leasehold land and construction cost of buildings thereon are depreciated on a straight line basis over the term of the lease.

*(vi) Other fixed assets*

Other fixed assets including equipment, furniture, fixtures and vehicles are stated at cost less depreciation calculated on a straight line method to write off the assets over their estimated useful lives at rates ranging from ten per cent to 33.3 per cent per annum.

**k. Capitalization of borrowing costs**

Borrowing costs are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale.

**l. Materials**

Materials comprising mainly building materials, hotel stocks and handsets are valued at the lower of cost, calculated on a weighted average cost basis, and net realizable value.

## 1. Principal accounting policies (cont'd)

### m. Translation of foreign currencies

Foreign currency transactions during the year are converted into Hong Kong dollars at the market rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of the balance sheet. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of overseas subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the date of balance sheet whereas the profit and loss accounts are translated at average exchange rates for the year. Exchange differences arising on translation are dealt with as a movement in reserves.

### n. Deferred taxation

Deferred taxation is provided, using the liability method, on all material timing differences other than those which are not expected to crystallize in the foreseeable future. Deferred tax asset is not recognized unless its realization is certain.

### o. Segment Reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be represented as the primary reporting format.

### p. Financial instruments and derivatives

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

### q. Retirement benefits

The retirement benefit costs charged to the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution schemes and Mandatory Provident Fund Schemes.

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***2. SEGMENT INFORMATION****(i) Segment Results***(a) The Company and its subsidiaries*

The Group's turnover and contribution to profit from operations before finance cost by business segments are analysed as follows:

	Turnover		Profit from Operations before Finance Cost	
	2003	2002	2003	2002
Property				
Property sales	<b>12,543</b>	16,164	<b>2,769</b>	4,044
Rental income	<b>5,175</b>	5,336	<b>3,857</b>	4,087
	<b>17,718</b>	21,500	<b>6,626</b>	8,131
Hotel operation	<b>510</b>	561	<b>154</b>	189
Other business activities	<b>4,717</b>	3,312	<b>650</b>	398
	<b>22,945</b>	25,373	<b>7,430</b>	8,718
Other revenue			<b>339</b>	394
Unallocated administrative expenses			<b>(502)</b>	(497)
Profit from operations before impairment of properties			<b>7,267</b>	8,615
Impairment of properties			<b>(1,229)</b>	–
Profit from operations			<b>6,038</b>	8,615

Other business activities comprise revenue and profit derived from other activities including property management, car parking and transport infrastructure management, logistics business, construction, financial services, telecommunications, internet infrastructure and enabling services.

Less than ten per cent of the operations of the Group in terms of turnover and operating results were carried on outside Hong Kong.

*(b) Associates and jointly controlled entities*

The Group's share of profits less losses of associates and jointly controlled entities by business segments is analysed as follows:

	Share of Profits less Losses before Taxation	
	2003	2002
Property		
Property sales	<b>925</b>	793
Rental income	<b>243</b>	345
	<b>1,168</b>	1,138
Other business activities	<b>668</b>	946
Profit from operations	<b>1,836</b>	2,084
Finance cost	<b>(249)</b>	(367)
	<b>1,587</b>	1,717



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

**2. Segment Information (Cont'd)****(i) Segment Results (Cont'd)***(c) Combined results of the Group and its share of results of associates and jointly controlled entities by business segments*

	Attributable Profit	
	2003	2002
Property		
Property sales	<b>3,694</b>	4,837
Rental income	<b>4,100</b>	4,432
	<b>7,794</b>	9,269
Hotel operation	<b>154</b>	189
Other business activities	<b>1,318</b>	1,344
	<b>9,266</b>	10,802
Other revenue	<b>339</b>	394
Unallocated administrative expenses	<b>(502)</b>	(497)
Profit from operations before impairment of properties	<b>9,103</b>	10,699
Impairment of properties	<b>(1,229)</b>	–
Profit from operations	<b>7,874</b>	10,699

**(ii) Assets and Liabilities**

The Group's assets and liabilities by business segments are analysed as follows:

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Total Liabilities
At 30th June 2003				
Property				
Development	<b>31,508</b>	<b>6,496</b>	<b>38,004</b>	<b>(4,461)</b>
Investment	<b>79,319</b>	<b>11,358</b>	<b>90,677</b>	<b>(1,382)</b>
	<b>110,827</b>	<b>17,854</b>	<b>128,681</b>	<b>(5,843)</b>
Hotel operation	<b>4,528</b>	–	<b>4,528</b>	<b>(54)</b>
Other business activities	<b>7,272</b>	<b>4,969</b>	<b>12,241</b>	<b>(3,375)</b>
	<b>122,627</b>	<b>22,823</b>	<b>145,450</b>	<b>(9,272)</b>
Bank balances and deposits			<b>8,891</b>	–
Bank and other borrowings			–	<b>(22,127)</b>
Unallocated corporate assets/(liabilities)			<b>6,438</b>	<b>(3,596)</b>
Total assets/(liabilities)			<b>160,779</b>	<b>(34,995)</b>

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

## 2. Segment Information (Cont'd)

### (ii) Assets and Liabilities (Cont'd)

	The Company and Subsidiaries	Associates and Jointly Controlled Entities	Total Assets	Total Liabilities
At 30th June 2002				
Property				
Development	41,271	8,995	50,266	(6,997)
Investment	85,536	10,011	95,547	(1,842)
	126,807	19,006	145,813	(8,839)
Hotel operation	4,540	–	4,540	(60)
Other business activities	5,468	5,946	11,414	(3,264)
	136,815	24,952	161,767	(12,163)
Bank balances and deposits			8,272	–
Bank and other borrowings			–	(28,329)
Unallocated corporate assets/(liabilities)			3,954	(3,327)
Total assets/(liabilities)			173,993	(43,819)

Less than ten per cent of the Group's assets situated outside Hong Kong.

The Group's depreciation and capital expenditure by business segments are analysed as follows:

	Depreciation		Capital Expenditure	
	2003	2002	2003	2002
Property				
Development	<b>3</b>	3	<b>281</b>	1,921
Investment	<b>26</b>	8	<b>1,492</b>	871
	<b>29</b>	11	<b>1,773</b>	2,792
Hotel operation	<b>9</b>	14	<b>14</b>	21
Other business activities	<b>316</b>	203	<b>236</b>	156
Unallocated corporate assets	<b>8</b>	23	<b>9</b>	5
	<b>362</b>	251	<b>2,032</b>	2,974

## 3. IMPAIRMENT OF PROPERTIES

The impairment represents provision for diminution in value of interest in property development projects of the Group and jointly controlled entities in the aggregate sum of HK\$1,106 million (2002: nil) and an impairment of HK\$123 million (2002: nil) made by SUNeVision Holdings Ltd., the Group's subsidiary for revaluation deficit on its properties operating as internet data centres.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

**4. NET FINANCE COST**

	2003	2002
Interest expense on		
Bank loans and overdrafts	<b>398</b>	637
Other loans wholly repayable within five years	<b>104</b>	267
Other loans not wholly repayable within five years	<b>58</b>	65
	<b>560</b>	969
Less: Portion capitalized	<b>(233)</b>	(317)
	<b>327</b>	652
Interest income on bank deposits	<b>(102)</b>	(86)
	<b>225</b>	566

Interest is capitalized at an average annual rate of approximately 2.1 per cent (2002: 2.9 per cent).

**5. PROFIT ON DISPOSAL OF LONG-TERM INVESTMENTS**

	2003	2002
Profit on disposal of interests in jointly controlled entities	<b>305</b>	–
Profit on disposal of long-term investments	<b>43</b>	48
	<b>348</b>	48

**6. IMPAIRMENT OF INVESTMENTS**

During the year, SUNeVision Holdings Ltd., the Group's subsidiary made a HK\$252 million (2002: HK\$356 million) provision for impairment losses of its equity technology investments.

**7. PROFIT BEFORE TAXATION**

	2003	2002
Profit before taxation is arrived at after charging:		
Cost of properties sold	<b>9,156</b>	11,622
Loss on disposal of marketable securities	<b>9</b>	–
Net holding loss on marketable securities	<b>12</b>	–
Depreciation	<b>362</b>	251
Impairment of goodwill	<b>19</b>	–
Staff costs (including directors' emoluments and retirement schemes contributions)	<b>1,884</b>	1,819
Auditors' remuneration	<b>8</b>	7
and crediting:		
Negative goodwill released	<b>26</b>	–
Dividend income from:		
listed investments	<b>11</b>	22
unlisted investments	<b>17</b>	41
Interest income from:		
listed debt securities	<b>218</b>	139
unlisted debt securities	<b>29</b>	–
Profit on disposal of marketable securities	<b>–</b>	13
Net holding gain on marketable securities	<b>–</b>	58

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

## 8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

	2003	2002
Directors' emoluments:-		
Fees	1	1
Salaries, allowances and benefits in kind	18	16
Bonuses	3	17
Retirement scheme contributions	1	1
	<b>23</b>	<b>35</b>

Fees paid to independent non-executive directors amounted to HK\$160,000 (2002: HK\$160,000). They received HK\$700,000 (2002: HK\$700,000) as other emoluments.

Number of directors whose emoluments fell within:-

Emoluments Band		Number of Directors	Number of Directors
HK\$M	HK\$M		
0 –	1.0	8	7
1.5 –	2.0	4	4
2.5 –	3.0	1	1
3.0 –	3.5	1	–
4.0 –	4.5	2	–
5.5 –	6.0	–	1
6.0 –	6.5	–	1
12.5 –	13.0	–	1
		<b>16</b>	<b>15</b>

The above analysis included two (2002: three) individuals whose emoluments were among the five highest pay in the Group. Details of the emoluments paid to the remaining three (2002: two) individuals are:

	2003	2002
Salaries, allowances and benefits in kind and retirement scheme contributions	7	6
Bonuses	7	1
	<b>14</b>	<b>7</b>

Number of employees whose emoluments fell within:-

Emoluments Band		Number of Employees	Number of Employees
HK\$M	HK\$M		
3.0 –	3.5	–	1
3.5 –	4.0	1	1
4.0 –	4.5	1	–
6.0 –	6.5	1	–
		<b>3</b>	<b>2</b>

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***9. STAFF RETIREMENT SCHEMES**

The Group operates a number of defined contribution schemes for all qualified employees. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions to these schemes are made by both the employers and employees at rates ranging from five per cent to ten per cent on the employees' salary.

With effect from 1st December 2000, the Group sets up an employer sponsored scheme ("MPF Scheme") for other employees. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at specific rates. Contributions of the Group to the MPF Scheme are charged to profit and loss account as incurred.

Total contributions to the retirement schemes made by the Group during the year amounted to HK\$103 million (2002: HK\$99 million). Forfeited contributions for the year of HK\$8 million (2002: HK\$7 million) were used to reduce the existing level of contributions.

**10. TAXATION**

	2003	2002
Hong Kong		
The Company and subsidiaries	<b>854</b>	687
Over provision in prior year	<b>(10)</b>	(5)
	<b>844</b>	682
Associates	<b>38</b>	85
Jointly controlled entities	<b>37</b>	105
	<b>919</b>	872

(a) Hong Kong profits tax is provided at the rate of 17.5 per cent (2002: 16 per cent) based on the estimated assessable profits for the year.

(b) No provision for deferred taxation has been made as the aggregate effect of all timing differences is insignificant.

**11. DIVIDENDS**

	2003	2002
Interim dividend of HK\$0.60 per share based on 2,401 million shares (2002: HK\$0.55 per share based on 2,401 million shares) paid	<b>1,441</b>	1,321
Proposed final dividend of HK\$1.00 per share based on 2,401 million shares (2002: HK\$1.00 per share based on 2,401 million shares)	<b>2,401</b>	2,401
Proposed special cash dividend (2002: HK\$0.60 per share based on 2,401 million shares)	–	1,441
	<b>3,842</b>	5,163

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on HK\$6,584 million (2002: HK\$8,519 million) being profit attributable to shareholders and on 2,400,907,362 shares in issue throughout both 2003 and 2002.

No diluted earnings per share is presented for the year ended 30th June 2003 and 30th June 2002 as there are no potential dilutive ordinary shares.

## 13. FIXED ASSETS

The Group	Investment Properties	Hotel Properties	Properties under Development	Network Equipment	Other Properties	Other Fixed Assets	Total
(a) Movement during year							
Cost or valuation							
At beginning of year	75,105	4,470	8,252	–	2,628	1,693	92,148
Acquired on acquisition of a subsidiary	–	–	–	1,562	–	91	1,653
Additions	39	11	1,452	168	5	79	1,754
Transfer in	641	–	–	–	–	–	641
Disposals	(41)	–	–	–	–	(23)	(64)
Cost adjustments	–	–	–	–	(23)	–	(23)
Transfer out	–	–	(274)	–	–	(1)	(275)
Revaluation deficit	(7,874)	(11)	–	–	–	–	(7,885)
At end of year	67,870	4,470	9,430	1,730	2,610	1,839	87,949
Accumulated depreciation							
At beginning of year	–	–	–	–	377	782	1,159
Charge for the year	–	–	–	121	85	156	362
Disposals	–	–	–	–	–	(17)	(17)
Impairment loss	–	–	–	–	123	–	123
At end of year	–	–	–	121	585	921	1,627
Net book value at 30/6/2003	<b>67,870</b>	<b>4,470</b>	<b>9,430</b>	<b>1,609</b>	<b>2,025</b>	<b>918</b>	<b>86,322</b>
Net book value at 30/6/2002	75,105	4,470	8,252	–	2,251	911	90,989
(b) Basis of book value							
2003 professional valuation	67,870	4,470	–	–	–	–	72,340
Cost	–	–	9,430	1,730	2,610	1,839	15,609
	<b>67,870</b>	<b>4,470</b>	<b>9,430</b>	<b>1,730</b>	<b>2,610</b>	<b>1,839</b>	<b>87,949</b>

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***13. Fixed Assets (cont'd)**

(c) Net book value of properties shown above comprises:

	2003	2002
Land in Hong Kong held under long lease (not less than 50 years)		
Investment properties	<b>14,194</b>	16,690
Hotel properties	<b>1,490</b>	1,490
Other properties	<b>432</b>	529
	<b>16,116</b>	18,709
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	<b>51,773</b>	56,543
Hotel properties	<b>2,980</b>	2,980
Properties under development	<b>9,333</b>	8,163
Other properties	<b>1,593</b>	1,722
	<b>65,679</b>	69,408
Land outside Hong Kong held under long lease (not less than 50 years)		
Investment properties	<b>655</b>	663
Properties under development	<b>97</b>	89
	<b>752</b>	752
Medium-term lease (less than 50 years but not less than ten years)		
Investment properties	<b>1,248</b>	1,209
	<b>83,795</b>	90,078

(d) Investment properties and hotel properties revaluation

The Group's investment properties and hotel properties have been revalued as at 30th June 2003 by Messrs. Knight Frank and Chesterton Petty, Chartered Surveyors on an open market value basis.

(e) Gross rental receivable from and profit on disposal of the Group's investment properties during the year amounted to HK\$4,817 million (2002: HK\$4,964 million) and HK\$18 million (2002: HK\$97 million) respectively.

(f) The carrying amount of properties under development as at 30th June 2003 included interest capitalized in the amount of HK\$1,080 million (2002: HK\$891 million).

**14. SUBSIDIARIES****The Company**

	2003	2002
Unlisted shares, at cost	<b>30,076</b>	30,076

Particulars regarding principal subsidiaries are set out on pages 138 to 142.

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

## 15. ASSOCIATES

## The Group

	2003	2002
Share of net assets		
Listed in Hong Kong	<b>1,564</b>	2,985
Unlisted	<b>308</b>	352
Amounts due from associates	<b>1,447</b>	1,804
Amounts due to associates	<b>(18)</b>	(35)
	<b>3,301</b>	5,106
Market value of Hong Kong listed shares	<b>4,753</b>	7,034

Particulars regarding principal associates are set out on page 144.

## 16. JOINTLY CONTROLLED ENTITIES

	2003		2002	
	The Group	The Company	The Group	The Company
Unlisted shares, at cost		–		4
Share of net assets, unlisted	<b>984</b>		926	
Amounts due from jointly controlled entities	<b>18,860</b>	<b>1</b>	19,056	3
Amounts due to jointly controlled entities	<b>(322)</b>	<b>(5)</b>	(136)	–
	<b>19,522</b>	<b>(4)</b>	19,846	7

Particulars regarding principal jointly controlled entities are set out on page 143.

## 17. LONG-TERM INVESTMENTS

	2003		2002	
	The Group	The Company	The Group	The Company
Listed held-to-maturity debt securities, overseas	<b>3,157</b>	–	1,917	–
Unlisted held-to-maturity debt securities	<b>950</b>	–	125	–
Listed equity securities, overseas	<b>156</b>	–	–	–
Listed equity securities, Hong Kong	<b>306</b>	–	369	–
Unlisted equity securities	<b>373</b>	–	698	–
	<b>4,942</b>	–	3,109	–
Amounts due from investee companies	<b>41</b>	–	98	–
Amounts due to investee companies	<b>(13)</b>	<b>(2)</b>	(18)	(2)
	<b>4,970</b>	<b>(2)</b>	3,189	(2)
Market value				
Listed overseas	<b>3,843</b>	–	1,973	–
Listed in Hong Kong	<b>277</b>	–	397	–
	<b>4,120</b>	–	2,370	–



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 18. STOCKS

## The Group

	2003	2002
Properties under development	<b>17,240</b>	22,314
Stock of completed properties for sale	<b>2,954</b>	2,834
Materials	<b>79</b>	52
	<b>20,273</b>	25,200

The amount of the above stocks that are carried at net realizable value was HK\$1,169 million (2002: HK\$1,079 million).

## 19. TRADE AND OTHER RECEIVABLES

	Note	2003		2002	
		The Group	The Company	The Group	The Company
Debtors, deposits and prepayments		<b>2,964</b>	<b>24</b>	5,908	142
Amounts due from customers for contract works	19a	<b>92</b>	–	107	–
Short-term loans		<b>185</b>	–	283	–
		<b>3,241</b>	<b>24</b>	6,298	142

Considerations in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rents in respect of leased properties are payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in contracts.

Included in trade and other receivables of the Group are trade debtors of HK\$1,485 million (2002: HK\$4,495 million), of which 85 per cent aged less than 60 days, five per cent between 61 to 90 days and ten per cent more than 90 days (2002: 94 per cent, two per cent and four per cent respectively).

## 19a. Amounts due from/(to) customers for contract works

## The Group

	Note	2003	2002
Contract costs incurred plus recognized profits less recognized losses		<b>3,427</b>	2,086
Less: Progress billings		<b>(3,350)</b>	(2,022)
		<b>77</b>	64
Represented by:			
Due from customers included in current assets	19	<b>92</b>	107
Due to customers included in current liabilities	23	<b>(15)</b>	(43)
		<b>77</b>	64

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

## 20. SHORT-TERM INVESTMENTS

## The Group

	2003	2002
<b>Marketable securities</b>		
Equity securities, at market value		
Listed in Hong Kong	<b>313</b>	296
Listed overseas	<b>16</b>	15
Debt securities, at market value		
Listed overseas	–	53
<b>Held-to-maturity debt securities maturing within one year, at amortized cost</b>		
Listed overseas (Market value: HK\$450 million)	<b>438</b>	–
Unlisted	<b>85</b>	–
	<b>852</b>	364

## 21. BANK BALANCES AND DEPOSITS

	2003		2002	
	The Group	The Company	The Group	The Company
Bank deposits	<b>8,602</b>	–	8,035	–
Bank balances and cash	<b>289</b>	–	237	21
	<b>8,891</b>	–	8,272	21

Certain bank deposits of Group's subsidiary, SmarTone Telecommunications Holdings Limited with the aggregate amount of HK\$392 million (2002: nil) has been pledged for securing performance bonds related to 3G licence and some other guarantees issued by the banks.

## 22. BANK AND OTHER BORROWINGS

	Note	2003		2002	
		The Group	The Company	The Group	The Company
Unsecured bank overdrafts		<b>52</b>	–	42	–
Non-current bank and other borrowings due within one year	24	<b>882</b>	–	3,786	–
		<b>934</b>	–	3,828	–

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 23. TRADE AND OTHER PAYABLES

	Note	2003		2002	
		The Group	The Company	The Group	The Company
Creditors and accrued expenses		<b>8,051</b>	<b>213</b>	8,229	244
Amounts due to customers for contract works	19a	<b>15</b>	–	43	–
		<b>8,066</b>	<b>213</b>	8,272	244

Included in trade and other payables of the Group are trade creditors of HK\$652 million (2002: HK\$501 million), of which 40 per cent aged less than 60 days, six per cent between 61 to 90 days and 54 per cent more than 90 days (2002: 47 per cent, ten per cent and 43 per cent respectively).

## 24. BANK AND OTHER BORROWINGS

## The Group

	Note	2003	2002
<b>Unsecured bank loans repayable</b>			
Within one year		<b>82</b>	3,486
After one year, but within two years		<b>945</b>	5,477
After two years, but within five years		<b>5,262</b>	6,183
After five years		<b>11,500</b>	8,855
		<b>17,789</b>	24,001
<b>Other unsecured loans repayable</b>			
Within one year		<b>800</b>	300
After one year, but within two years		<b>800</b>	800
After two years, but within five years		<b>1,652</b>	2,152
After five years		<b>1,034</b>	1,034
		<b>4,286</b>	4,286
		<b>22,075</b>	28,287
Less: Amount due within one year included under current liabilities	22	<b>(882)</b>	(3,786)
		<b>21,193</b>	24,501

(a) The above other unsecured loans are repayable on various dates up to April 2010 at commercial market rates.

(b) Bank loans shown above that are not wholly repayable within five years amounted to HK\$11,500 million (2002: HK\$9,203 million).

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***25. MINORITY INTERESTS****The Group**

	2003	2002
Share of equity and reserves in subsidiaries	<b>3,181</b>	638
Amounts due to minority shareholders	<b>930</b>	987
Amounts due from minority shareholders	<b>(48)</b>	(49)
	<b>4,063</b>	1,576

**26. SHARE CAPITAL**

	2003		2002	
	Number of Shares in Million	Amount	Number of Shares in Million	Amount
<b>Authorized:</b>				
Ordinary shares of \$0.50 each				
At beginning and end of year	<b>2,900</b>	<b>1,450</b>	2,900	1,450
<b>Issued and fully paid:</b>				
Ordinary shares of \$0.50 each				
At beginning and end of year	<b>2,401</b>	<b>1,201</b>	2,401	1,201

**27. SHARE OPTION SCHEME**

The Company has a share option scheme which was adopted on 5th December 2002 ("the New Scheme"), to replace a former scheme previously adopted on 20th November 1997 ("the Old Scheme"), whereby the directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Details of the share option schemes are set out in the Directors' Report on pages 83 to 84.

**The Old Scheme**

Upon the termination of the Old Scheme, no further options could be offered but the outstanding options granted shall continue to be valid and exercisable in accordance with its provisions. At 30th June 2003, the number of shares in respect of which options had been granted and remained outstanding was 2,820,000 (2002: 2,931,000), representing 0.12 per cent (2002: 0.12 per cent) of the shares of the Company in issue at that date.

**The New Scheme**

The New Scheme was adopted by the Company in order to comply with the new requirements under Chapter 17 of the Listing Rules. No option shares have been granted to any person since its adoption.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 27. Share Option Scheme (Cont'd)

Movements in share options to subscribe for ordinary shares in the Company under the Old Scheme during the year are as follows:

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options			
			At 1st July 2002	Granted During the Year	Lapsed During the Year	At 30th June 2003
15th February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	–	–	810,000
16th July 2001	HK\$70	16.7.2002 to 15.7.2006	2,121,000	–	(111,000)	2,010,000
			<b>2,931,000</b>	<b>–</b>	<b>(111,000)</b>	<b>2,820,000</b>

Date of Grant	Exercise Price	Exercisable Period	Number of Share Options			
			At 1st July 2001	Granted During the Year	Lapsed During the Year	At 30th June 2002
15th February 2000	HK\$70	15.2.2001 to 14.2.2005	810,000	–	–	810,000
16th July 2001	HK\$70	16.7.2002 to 15.7.2006	–	2,121,000	–	2,121,000
			810,000	2,121,000	–	2,931,000

## 28. SHARE PREMIUM AND RESERVES

	2003		2002	
	The Group	The Company	The Group	The Company
<b>Share premium</b>				
At beginning of year and end of year	<b>17,000</b>	<b>17,000</b>	17,000	17,000
<b>Capital reserve</b>				
At beginning of year	<b>694</b>	<b>5,281</b>	627	5,281
Goodwill adjustments	<b>72</b>	–	67	–
At end of year	<b>766</b>	<b>5,281</b>	694	5,281

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 28. Share Premium And Reserves (Cont'd)

	2003		2002	
	The Group	The Company	The Group	The Company
<b>Property revaluation reserves</b>				
At beginning of year	<b>45,808</b>	–	50,482	–
Surplus/(deficit) on revaluation of properties held by subsidiaries attributable to the Group				
– Investment properties	<b>(7,858)</b>	–	(4,158)	–
– Hotel properties	<b>(11)</b>	–	350	–
Surplus realized on disposal of investment properties held by subsidiaries	<b>(14)</b>	–	(72)	–
Surplus realized on disposal of jointly controlled entities	<b>(305)</b>	–	–	–
Share of deficit on revaluation of investment properties held by jointly controlled entities	<b>(45)</b>	–	(798)	–
Share of surplus/(deficit) on revaluation of investment properties held by associates	<b>(17)</b>	–	4	–
At end of year	<b>37,558</b>	–	45,808	–
<b>Exchange reserve</b>				
At beginning of year	<b>7</b>	–	7	–
Exchange difference arising on translation of financial statements of				
– Subsidiaries	–	–	(2)	–
– Jointly controlled entities	–	–	2	–
At end of year	<b>7</b>	–	7	–
<b>Retained profits</b>				
At beginning of year	<b>60,046</b>	<b>57,934</b>	56,690	56,378
Profit attributable to shareholders	<b>6,584</b>	<b>5,002</b>	8,519	6,719
Interim dividend paid	<b>(1,441)</b>	<b>(1,441)</b>	(1,321)	(1,321)
Proposed final dividend	<b>(2,401)</b>	<b>(2,401)</b>	(2,401)	(2,401)
Proposed special cash dividend	–	–	(1,441)	(1,441)
At end of year	<b>62,788</b>	<b>59,094</b>	60,046	57,934
Total share premium and reserves	<b>118,119</b>	<b>81,375</b>	123,555	80,215

At the balance sheet date, retained profits of the Group included HK\$1,217 million (2002: HK\$1,473 million) retained by associates and losses of HK\$651 million (2002: losses of HK\$1,036 million) retained by jointly controlled entities. Distributable reserves of the Company as at 30th June 2003 including the proposed dividends amounted to HK\$61,495 million (2002: HK\$61,776 million).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

## 29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit from operations to net cash inflow from operating activities

	2003	2002
Profit from operations	<b>6,038</b>	8,615
Depreciation	<b>362</b>	251
Release of negative goodwill	<b>(26)</b>	–
Impairment of goodwill	<b>19</b>	–
Profit on disposal of investment properties	<b>(18)</b>	(59)
Loss on disposal of other fixed assets	<b>2</b>	67
Profit on disposal of associates and jointly controlled entities	–	(19)
Dividends received from investments	<b>(28)</b>	(63)
Interest income	<b>(300)</b>	(216)
Provision for restructuring costs	–	(131)
Provision for impairment of land pending development	–	140
Impairment of investments	<b>44</b>	–
Impairment of properties	<b>1,229</b>	–
<b>Operating profit before changes in working capital</b>	<b>7,322</b>	8,585
Decrease in stocks	<b>5,757</b>	6,134
Decrease/(increase) in trade and other receivables	<b>3,389</b>	(3,010)
Decrease in marketable securities	<b>74</b>	35
Decrease in trade and other payables	<b>(749)</b>	(511)
Decrease in deposits received on sale of properties	<b>(2,601)</b>	(3,513)
<b>Cash generated from operations</b>	<b>13,192</b>	7,720

## (b) Purchase of subsidiaries

	2003	2002
Net assets acquired:		
Fixed assets	<b>1,653</b>	6
Associates	<b>20</b>	–
Long-term investments	<b>995</b>	–
Stocks	<b>38</b>	–
Trade and other receivables	<b>349</b>	11
Pledged bank deposits	<b>392</b>	–
Cash and bank balances	<b>2,513</b>	14
Trade and other payables	<b>(575)</b>	(15)
Minority interests	<b>(2,644)</b>	(5)
	<b>2,741</b>	11
Less:		
Associates	<b>(1,657)</b>	–
Jointly controlled entities	–	(6)
Negative goodwill on acquisition	<b>(26)</b>	–
	<b>1,058</b>	5
Satisfied by:		
Cash paid	<b>1,058</b>	5

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

## 29. Notes to Consolidated Cash Flow Statement (Cont'd)

## (b) Purchase of subsidiaries (cont'd)

	2003	2002
Analysis of net cash outflow/(inflow) in respect of the purchase of subsidiaries:		
Cash consideration paid	1,058	5
Cash and bank balances acquired	(2,513)	(14)
	<b>(1,455)</b>	(9)

## (c) Analysis of the balances of cash and cash equivalents at end of year

	2003	2002
Bank deposits	8,602	8,035
Bank balances and cash	289	237
Bank overdrafts	(52)	(42)
	<b>8,839</b>	8,230
Less: pledged bank deposits	(392)	–
	<b>8,447</b>	8,230

## 30. JOINTLY CONTROLLED ASSETS

At the date of the balance sheet, the aggregate amounts of assets and liabilities recognized in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	2003	2002
Investment properties	4,620	5,250
Land pending development	71	71
Land under development	1,530	2,672
Stocks of completed properties for sale	422	58
	<b>6,643</b>	8,051
Creditors and accrued expenses	203	97



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of Hong Kong dollars)

**31. RELATED PARTY TRANSACTIONS**

During the year, the Group undertook various transactions with related parties for provision of finance, lease of premises, purchasing of goods and rendering of certain services related to property construction, management and marketing activities. The following is a summary of significant transactions between the Group and related parties, which were carried out at similar terms to other customers or suppliers and at market prices:

	Associates		Jointly controlled entities	
	2003	2002	2003	2002
Interest income	20	59	105	143
Rental income	28	60	1	1
Rental expenses	–	–	7	–
Other revenue from services rendered	126	135	984	812
Purchase of goods and services	–	–	574	438

The outstanding balances with associates and jointly controlled entities at the balance sheet date were disclosed in Notes (15) and (16).

**32. CONTINGENT LIABILITIES AND COMMITMENTS****The Group**

At the date of the balance sheet, the Group had contingent liabilities and commitments, so far as not provided for in the consolidated financial statements, as follows:

	2003	2002
(a) Capital commitments in respect of fixed assets		
Contracted but not provided for	1,426	1,592
Authorized but not contracted for	437	206
(b) Capital commitments in respect of investments		
Contracted but not provided for	152	–
(c) Group's share of capital commitments of joint ventures:		
Contracted but not provided for	1,097	2,332
Authorized but not contracted for	312	235
(d) Guarantees given to banks and financial institutions for the borrowings of jointly controlled entities of HK\$3,819 million (2002: HK\$3,789) and other guarantees of HK\$202 million (2002: nil).		

**The Company**

At the date of the balance sheet, the Company had contingent liabilities, not included in the Company's financial statements, in respect of guarantees for bank and other borrowings drawn by:

	2003	2002
Subsidiaries	22,011	28,209
Jointly controlled entities	3,588	3,622
	25,599	31,831

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)***33. OPERATING LEASE**

At the balance sheet date, the future aggregate minimum lease income receivable by the Group under non-cancellable operating leases for land and buildings is analysed as follows:

	2003	2002
Not later than one year	<b>3,491</b>	3,622
Later than one year but not later than five years	<b>2,960</b>	3,314
Later than five years	<b>12</b>	77
	<b>6,463</b>	7,013

At the balance sheet date, the future aggregate minimum lease charges payable by the Group under non-cancellable operating leases is analysed as follows:

	2003	2002
Not later than one year	<b>207</b>	–
Later than one year but not later than five years	<b>120</b>	–
Later than five years	<b>17</b>	–
	<b>344</b>	–

**34. FINANCIAL INSTRUMENTS**

Details of the Group's outstanding interest rate swaps and currency swaps at balance sheet date are as follows:

	Notional principal amount	
	2003	2002
Interest rate swaps		
– Less than one year	<b>600</b>	300
– One to five years	<b>1,650</b>	1,950
– After five years	<b>800</b>	800
	<b>3,050</b>	3,050
Currency swaps		
– After five years	<b>234</b>	234

Counterparties to swap transactions are reputable international financial institutions with strong credit ratings. The Group has established treasury policies and control procedures to assess and monitor the counterparty limits and exposure. The Group does not consider that it has any significant exposure to any individual counterparty, nor does it anticipate non-performance by any of its counterparties.

## NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in millions of Hong Kong dollars)*

### 35. COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of adoption of the requirements of SSAP 1 (Revised) "Presentation of Financial Statements" and SSAP 15 (Revised) "Cash Flow Statements".

### 36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 106 to 144 were approved by the board of directors on 25th September 2003.