

Notes on The Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

- (a) **Statement of compliance**
These 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, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.
- (b) **Basis of preparation of financial statements**
The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.
- (c) **Basis of consolidation**
The consolidated financial statements include the financial statements of China Motor Bus Company, Limited and its subsidiaries made up to 30th June each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (d) **Subsidiaries and controlled enterprises**
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 financial statements, 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 consolidated profit and loss account as they arise.
Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. 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(j)), 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 profit and loss account as they arise.
- (e) **Jointly controlled entities**
A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.
An investment in a jointly controlled entity is accounted for in the consolidated financial statements 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 jointly controlled entity'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 investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the group's share of the post-acquisition results of the jointly controlled entities for the year.
Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.
- (f) **Other investments in securities**
The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:
- (i) Other investments in 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.
- (ii) Profits or losses on disposal of other investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated profit and loss account as they arise.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets

(i) Investment properties

Freehold investment properties and those with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value assessed annually by persons holding recognised professional qualifications and every three years by qualified external valuers. Surpluses arising on revaluations on a portfolio basis are credited to the profit and loss account to the extent of any deficits arising on revaluations previously charged to the profit and loss account and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account.

On disposal of the investment properties, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve are transferred to the profit and loss account.

(ii) Property held for redevelopment

Property held for redevelopment is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any impairment losses (see note 1(j)).

(iii) Other properties and fixed assets

Other properties are stated at valuation less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(j)).

All other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(j)).

(iv) 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 enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains 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.

(h) Depreciation

Depreciation is calculated to write off the cost or valuation of the company's and the group's fixed assets over their estimated useful lives as follows:-

Other properties	-	over the period of the lease
Motor buses	-	on a straight line basis, over 12 years for new buses and 7 years for converted or second hand buses, to a residual value of \$10,000 and \$7,000 respectively
Plant, fixtures and equipment	-	on a straight line basis to write off the assets over 10 or 5 years

No depreciation is provided on property held for redevelopment. Leasehold land is depreciated over its estimated useful life to the extent that the charge would be material.

No depreciation is provided in respect of freehold investment properties or those with an unexpired lease term of over 20 years since the valuation takes into account the state of each property at the date of valuation.

(i) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

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. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies, as set out in note 1(q)(i).

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts); and
- investments in subsidiaries and jointly controlled entities (except for those accounted for at fair value under notes 1(d) and (e)).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

(k) Cash equivalents

Cash and cash equivalents comprise 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, having been 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 cash flow statement.

(l) Employee benefits

(i) 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.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated profit and loss account as incurred.

(iii) The group's net obligations in respect of defined benefit retirement schemes are calculated separately for each scheme by estimating the amount of future benefits 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 the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a 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 the 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 profit and loss account.

In calculating the group's obligations 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 obligations and the fair value of scheme assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

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

(m) Deferred taxation

Deferred taxation is calculated using 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.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (n) **Deferred profits**
Profits from the sale of land and buildings to jointly controlled entities for development for resale and investment are deferred to the extent of the group's attributable interest in the jointly controlled entities. The deferred profits will be recognised and taken to profit and loss account as and when the properties are sold by the jointly controlled entities.
- (o) **Provisions and contingent liabilities**
Provisions are recognised for liabilities of uncertain timing or amount when the company or 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 the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.
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.
- (p) **Contingency reserves – insurance**
The company sets aside annually, after receiving independent advice from an actuary, an amount to meet possible liabilities arising from third party claims in connection with the operation of franchised motor buses.
- (q) **Revenue recognition**
Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:
- (i) **Rental income**
Rental income receivable under operating leases is recognised on a straight line basis over the term of the lease.
 - (ii) **Interest income from bank deposits** is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.
 - (iii) **Dividend income from listed investments** is recognised at the time when the right to receive payment is established.
- (r) **Translation of foreign currencies**
Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date and the exchange gains and losses arising are dealt with in the profit and loss account. Exchange gains arising on consolidation are taken directly to reserves.
- (s) **Related parties**
For the purposes of these financial statements, 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.
- (t) **Segment reporting**
A segment is a distinguishable component of the group that is engaged either 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. For example, segment assets may include trade receivables and property, plant and equipment. 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 enterprises 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 that are expected to be used for more than one period.

Notes on The Financial Statements (Continued)

2. TURNOVER

The principal activities of the company and the group are property development and investment. The principal activities of the subsidiaries are set out in note 13 on the financial statements.

Turnover represents rental income from investment properties.

The analysis of geographical location of the operations of the company and its subsidiaries during the year is as follows:

	Group turnover		Operating profit	
	2003	2002	2003	2002
	\$000's	\$000's	\$000's	\$000's
Geographical locations of operations				
Hong Kong	42,982	38,277	70,546	70,080
United Kingdom	45,005	33,407	44,071	34,476
	<u>87,987</u>	<u>71,684</u>	<u>114,617</u>	<u>104,556</u>

3. OTHER INCOME

	2003	2002
	\$000's	\$000's
Other revenue:		
Dividend income from other investments	214	87
Management fee	496	496
Write back of provision for third party claims	24,759	9,023
Sundry income	1,184	1,268
Other net income:		
Exchange gains	4,563	4,672
Net unrealised (losses)/gains on other investments at fair value	(104)	536
Gain on sales of other investments	60	229
	<u>31,172</u>	<u>16,311</u>

Notes on The Financial Statements (Continued)

4. OPERATING PROFIT

Operating profit is arrived at	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
after charging:-		
(a) Staff costs:		
Contributions to defined contribution retirement scheme	50	56
Increase in asset for defined benefit retirement schemes (note 16)	(2,105)	–
Salaries, wages and other benefits	<u>8,069</u>	<u>8,166</u>
	<u>6,014</u>	<u>8,222</u>
(b) Other items:		
Auditors' remuneration	1,948	1,893
Legal and professional fees	18,624	19,910
Property expenses	<u>2,963</u>	<u>1,964</u>
and after crediting:-		
Rental income less outgoings	85,024	69,720
which includes		
– gross rental income from investment properties	<u>87,987</u>	<u>71,684</u>

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:-

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Fees	274	260
Bonus in accordance with article 155	1,761	750
Salaries, allowances and other benefits	<u>4,432</u>	<u>4,453</u>
	<u>6,467</u>	<u>5,463</u>

Fees and other emoluments in respect of independent non-executive directors for the year ended 30th June, 2003 amounted to \$747,071 (2002: \$330,078).

Notes on The Financial Statements (Continued)

6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:-

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Provision for Hong Kong profits tax for the year	186	211
Overseas taxation	<u>3,593</u>	<u>1,897</u>
	3,779	2,108
Underprovision/(overprovision) in respect of previous year	171	(156)
Share of taxation of jointly controlled entities	<u>2,539</u>	<u>27,470</u>
	<u>6,489</u>	<u>29,422</u>

The provision for Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year ended 30th June, 2003. The provision for overseas taxation is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) The liability to taxation represents:-

	<u>The group</u>		<u>The company</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	\$000's	\$000's	\$000's	\$000's
Provision for Hong Kong profits tax for the year	186	211	-	-
Balance of profits tax recoverable relating to prior years	<u>(32)</u>	<u>(48)</u>	-	-
	154	163	-	-
Overseas taxation	<u>3,188</u>	<u>1,629</u>	-	-
	<u>3,342</u>	<u>1,792</u>	-	-

(c) No provision for deferred taxation is required as there are net deferred tax assets for both the company and the group. The major components of the unprovided deferred tax are:-

	<u>Group and company</u>	
	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Depreciation allowances in excess of related depreciation	1,064	824
General provisions:		
- third party claims	(1,872)	(6,784)
- others	39	20
Tax losses	<u>(2,448)</u>	<u>(1,189)</u>
Net deferred tax assets not recognised	<u>(3,217)</u>	<u>(7,129)</u>

Notes on The Financial Statements (Continued)

7. DIVIDENDS

(a) Dividends attributable to the year:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
First interim dividend declared and paid of \$0.10 per share (2002: \$0.10)	4,561	4,508
Special dividend declared and paid of \$0.40 per share (2002: \$0.50)	18,244	22,881
Second interim dividend declared after the balance sheet date of \$0.30 per share (2002: \$Nil)	13,678	-
Second special interim dividend declared after the balance sheet date of \$Nil per share (2002: \$18.00)	-	823,335
Final dividend proposed after the balance sheet date of \$0.10 per share (2002: \$0.10)	4,559	4,574
Special dividend proposed after the balance sheet date of \$1.10 per share (2002: \$0.90)	50,154	41,167
	<u>91,196</u>	<u>896,465</u>

The interim dividend, final dividend and special dividend declared or proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Second interim dividend declared in respect of previous financial year of \$Nil per share (2002: \$0.40)	-	18,348
Second special interim dividend declared in respect of previous financial year of \$18.00 per share (2002: \$Nil)	823,242	-
Final dividend approved in respect of previous financial year of \$0.10 per share (2002: \$0.10)	4,567	4,584
Special dividend approved in respect of previous financial year of \$0.90 per share (2002: \$1.80)	41,103	82,510
	<u>868,912</u>	<u>105,442</u>

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of \$98,236,000 (2002: \$777,680,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Amount of profit attributable to shareholders dealt with in the company's financial statements	98,236	777,680
Third interim dividend from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	138,805	-
Final dividend from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	-	83,283
Company's profit for the year (note 21)	<u>237,041</u>	<u>860,963</u>

Notes on The Financial Statements (Continued)

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders of \$110,811,000 (2002: \$114,351,000) and the weighted average of 45,663,358 (2002: 45,797,377) shares in issue during the year.

10. CHANGES IN ACCOUNTING POLICIES

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

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

(b) SSAP 15 (Revised) "Cash flow statements"

With effect from 1st July, 2002, with the introduction of SSAP 15 (revised) "Cash flow statements" the presentation and classification of items in the consolidated cash flow statement have been changed. As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

(c) SSAP 34 "Employee benefits"

Defined benefit retirement schemes provide benefits to employees based on their final pay and number of years of service. In prior years, contributions to the 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 retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued retirement scheme obligations and were determined by a qualified actuary on the basis of valuations using the aggregate cost method. The assets of the schemes are held separately from those of the group in an independently administered fund.

With effect from 1st July, 2002, in order to comply with SSAP 34 "Employee benefits" issued by the Hong Kong Society of Accountants, the group adopted a new accounting policy for defined benefit retirement schemes as set out in note 1(I). As a result of the adoption of this accounting policy, the group's profit for the year and net assets as at 30th June, 2003 have been increased by \$2,105,000. No prior year adjustment or restatement of comparative information has been made as the amounts involved are not material.

Notes on The Financial Statements (Continued)

11. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

(a) Business segments

The group comprises the following main business segments:

	Property investment and development		Treasury management		Unallocated		Consolidated	
	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's
Turnover	87,987	71,684	-	-	-	-	87,987	71,684
Interest income	-	-	31,057	54,915	-	-	31,057	54,915
Other income	-	-	4,733	5,524	26,439	10,787	31,172	16,311
Total revenue	87,987	71,684	35,790	60,439	26,439	10,787	150,216	142,910
Segment results	84,586	69,487	35,790	60,439			120,376	129,926
Unallocated expenses							(5,759)	(25,370)
Operating profit							114,617	104,556
Share of results of jointly controlled entities	59,547	177,347	-	-			59,547	177,347
Deficit on revaluation of investment properties	(56,864)	(138,130)	-	-			(56,864)	(138,130)
Taxation							(6,489)	(29,422)
Profit attributable to shareholders							110,811	114,351
Depreciation for the year	(78)	(70)	-	-	(1,017)	(1,111)	(1,095)	(1,181)
Fixed assets	1,280,144	1,043,995	-	-	30,448	31,454	1,310,592	1,075,449
Other investments	-	-	3,512	4,009	-	-	3,512	4,009
Defined benefit asset	-	-	-	-	2,105	-	2,105	-
Debtors, deposits and prepayments	1,213	691	1,023	2,760	432	330	2,668	3,781
Cash balances	-	-	1,634,510	2,559,465	-	-	1,634,510	2,559,465
Segment assets	1,281,357	1,044,686	1,639,045	2,566,234	32,985	31,784	2,953,387	3,642,704
Interest in jointly controlled entities	712,664	807,209	-	-	-	-	712,664	807,209
Total assets							3,666,051	4,449,913
Segment liabilities	28,312	22,764	-	-	21,710	68,478	50,022	91,242
Capital expenditure incurred during the year	210,488	2,318	-	-	12	27	210,500	2,345

(b) Geographical segments

The group participates in two principal economic environments. Hong Kong is a major market for all of the group's business. In the United Kingdom, the major business is property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong		United Kingdom	
	2003 \$000's	2002 \$000's	2003 \$000's	2002 \$000's
Turnover	42,982	38,277	45,005	33,407
Segment assets	2,189,903	3,009,978	763,484	632,726
Capital expenditure incurred during the year	109,344	2,345	101,156	-

Notes on The Financial Statements (Continued)

12. FIXED ASSETS

	Investment properties	Other properties	Property held for redevelopment	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
(a) The group						
Cost or valuation:						
At 1st July, 2002	969,942	27,600	73,857	8,565	6,867	1,086,831
Exchange adjustments	45,049	-	-	-	-	45,049
Additions	200,874	-	9,597	-	29	210,500
Revaluation deficits	(19,311)	-	-	-	-	(19,311)
At 30th June, 2003	<u>1,196,554</u>	<u>27,600</u>	<u>83,454</u>	<u>8,565</u>	<u>6,896</u>	<u>1,323,069</u>
Representing:						
Cost	-	-	83,454	8,565	6,896	98,915
2002 valuation	-	27,600	-	-	-	27,600
2003 valuation	<u>1,196,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,196,554</u>
	<u>1,196,554</u>	<u>27,600</u>	<u>83,454</u>	<u>8,565</u>	<u>6,896</u>	<u>1,323,069</u>
Accumulated depreciation:						
At 1st July, 2002	-	-	-	5,198	6,184	11,382
Charge for the year	-	118	-	758	219	1,095
At 30th June, 2003	<u>-</u>	<u>118</u>	<u>-</u>	<u>5,956</u>	<u>6,403</u>	<u>12,477</u>
Net book value:						
At 30th June, 2003	<u>1,196,554</u>	<u>27,482</u>	<u>83,454</u>	<u>2,609</u>	<u>493</u>	<u>1,310,592</u>
At 30th June, 2002	<u>969,942</u>	<u>27,600</u>	<u>73,857</u>	<u>3,367</u>	<u>683</u>	<u>1,075,449</u>
Tenure of title to properties:						
2003						
Held in Hong Kong						
- Long leases	244,000	22,324	83,454	-	-	349,778
- Medium term leases	225,000	5,158	-	-	-	230,158
	<u>469,000</u>	<u>27,482</u>	<u>83,454</u>	<u>-</u>	<u>-</u>	<u>579,936</u>
Held outside Hong Kong						
- Freehold	<u>727,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>727,554</u>
	<u>1,196,554</u>	<u>27,482</u>	<u>83,454</u>	<u>-</u>	<u>-</u>	<u>1,307,490</u>
2002						
Held in Hong Kong						
- Long leases	256,000	22,400	73,857	-	-	352,257
- Medium term leases	152,000	5,200	-	-	-	157,200
	<u>408,000</u>	<u>27,600</u>	<u>73,857</u>	<u>-</u>	<u>-</u>	<u>509,457</u>
Held outside Hong Kong						
- Freehold	<u>561,942</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>561,942</u>
	<u>969,942</u>	<u>27,600</u>	<u>73,857</u>	<u>-</u>	<u>-</u>	<u>1,071,399</u>

Notes on The Financial Statements (Continued)

12. FIXED ASSETS (Continued)

	Investment properties	Other properties	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
(b) The company					
Cost or valuation:					
At 1st July, 2002	256,000	27,600	8,565	6,496	298,661
Additions	-	-	-	12	12
Revaluation deficits	(12,000)	-	-	-	(12,000)
At 30th June, 2003	<u>244,000</u>	<u>27,600</u>	<u>8,565</u>	<u>6,508</u>	<u>286,673</u>
Representing:					
Cost	-	-	8,565	6,508	15,073
2002 valuation	-	27,600	-	-	27,600
2003 valuation	<u>244,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,000</u>
	<u>244,000</u>	<u>27,600</u>	<u>8,565</u>	<u>6,508</u>	<u>286,673</u>
Accumulated depreciation:					
At 1st July, 2002	-	-	5,198	6,009	11,207
Charge for the year	-	118	758	142	1,018
At 30th June, 2003	<u>-</u>	<u>118</u>	<u>5,956</u>	<u>6,151</u>	<u>12,225</u>
Net book value:					
At 30th June, 2003	<u>244,000</u>	<u>27,482</u>	<u>2,609</u>	<u>357</u>	<u>274,448</u>
At 30th June, 2002	<u>256,000</u>	<u>27,600</u>	<u>3,367</u>	<u>487</u>	<u>287,454</u>
Tenure of title to properties:					
2003					
Held in Hong Kong					
- Long leases	244,000	22,324	-	-	266,324
- Medium term leases	-	5,158	-	-	5,158
	<u>244,000</u>	<u>27,482</u>	<u>-</u>	<u>-</u>	<u>271,482</u>
2002					
Held in Hong Kong					
- Long leases	256,000	22,400	-	-	278,400
- Medium term leases	-	5,200	-	-	5,200
	<u>256,000</u>	<u>27,600</u>	<u>-</u>	<u>-</u>	<u>283,600</u>

Notes on The Financial Statements (Continued)

12. FIXED ASSETS (Continued)

- (i) The group's investment properties which are situated in Hong Kong and held under long and medium term leases, have been revalued at 30th June, 2003 by Insignia Brooke (Hong Kong) Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for development potential or reversionary potential as appropriate.
- (ii) The group's investment properties which are situated in the United Kingdom and are freehold properties, have been revalued at 30th June, 2003 by FPDSAVILLS Commercial Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for reversionary potential.
- (iii) The gross carrying amounts of investment properties of the group held for use in operating leases were \$1,196,554,000 (2002: \$969,942,000). Further details of the leasing arrangements are contained in note 26(a).
- (iv) The carrying amount of other properties of the group at 30th June, 2003 would have been \$21,472,000 (2002: \$21,581,000) had they been carried at cost less accumulated depreciation.

13. INTEREST IN SUBSIDIARIES

	The company	
	2003	2002
	\$'000's	\$'000's
Unlisted shares, at cost	1,018,356	1,018,356

Details of the subsidiaries are as follows:-

Name of company	Place of incorporation	Place of operation	Issued ordinary share capital	Percentage		Principal activity
				directly held	indirectly held	
Island Communication Enterprises Limited	Hong Kong	Hong Kong	185,073,024 HK\$1 shares	100%	-	Investment holding
Heartwell Limited	Hong Kong	Hong Kong	9,000,002 HK\$10 shares	100%	-	Investment holding
Communication Holdings Limited	British Virgin Islands	Hong Kong	35,900,010 HK\$10 shares	100%	-	Investment holding
Affluent Dragon Island Limited	Hong Kong	Hong Kong	2 HK\$10 shares	100%	-	Dormant
Island Communication Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	-	100%	Investment property holding
Grand Island Place Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	-	100%	Investment property holding
Nottingham Developments Limited	British Virgin Islands	Hong Kong	1 US\$1 share	-	100%	Investment holding
Oxney Investments Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Communication Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Eaglefield Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Prosperous Orient Limited	Hong Kong	Hong Kong	2 HK\$10 shares	-	100%	Property holding for redevelopment

Notes on The Financial Statements (Continued)

14. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The group	
	2003	2002
	\$000's	\$000's
Share of net assets/(liabilities)	(73,492)	(4,947)
Loans to jointly controlled entities	786,156	812,156
	<u>712,664</u>	<u>807,209</u>

Details of the group's interest in the jointly controlled entities are as follows:-

Name of jointly controlled entity	Form of business structure	Place of incorporation	Place of operation	Particulars of issued share capital	Proportion of ownership interest		Financial year end
					Group's effective interest or held by subsidiary company	Principal activity	
Swire and Island Communication Developments Limited	Incorporated	British Virgin Islands	Hong Kong	60 'A' shares of HK\$10 40 'B' shares of HK\$10 1 non-voting dividend share of HK\$10	– 100% 100%	Property development for resale and investment	31st December
Island Land Development Limited	Incorporated	British Virgin Islands	Hong Kong	100 shares of HK\$10	50%	Property development for investment	31st December
Hareton Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	50%	Property development for resale and investment	31st December
Uttoxeter Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	20%	Property development for resale and investment	31st December

The loans to the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Notes on The Financial Statements (Continued)

14. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The following supplementary financial information is disclosed relating to the three principal jointly controlled entities based on the management accounts of the respective jointly controlled entities at 30th June:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
(i) Swire and Island Communication Developments Limited		
(a) Profit and loss account		
Turnover	<u>63,068</u>	<u>71,083</u>
(Loss)/profit before taxation	(2,026)	46,085
Taxation	<u>(3,775)</u>	<u>(4,940)</u>
(Loss)/profit after taxation	<u>(5,801)</u>	<u>41,145</u>
(b) Balance sheet		
Fixed assets	630,002	675,089
Current assets	110,979	155,812
Current liabilities	<u>(19,347)</u>	<u>(27,798)</u>
Net assets	<u>721,634</u>	<u>803,103</u>
	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
(ii) Island Land Development Limited		
(a) Profit and loss account		
Turnover	<u>50,220</u>	<u>49,644</u>
Loss before taxation	(104,684)	(134,687)
Taxation	<u>-</u>	<u>-</u>
Loss after taxation	<u>(104,684)</u>	<u>(134,687)</u>
(b) Balance sheet		
Fixed assets	634,000	772,102
Deferred expenditure	1,723	2,837
Current assets	11,002	28,373
Current liabilities	(13,023)	(12,926)
Shareholders' loans	<u>(1,155,700)</u>	<u>(1,207,700)</u>
Net liabilities	<u>(521,998)</u>	<u>(417,314)</u>

Notes on The Financial Statements (Continued)

14. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
(iii) Uttoxeter Limited		
(a) Profit and loss account		
Turnover	<u>260,806</u>	<u>2,510,797</u>
Profit before taxation	34,474	816,263
Taxation	<u>(5,144)</u>	<u>(127,671)</u>
Profit after taxation	<u>29,330</u>	<u>688,592</u>
(b) Balance sheet		
Current assets	561,686	1,001,110
Current liabilities	<u>(91,512)</u>	<u>(260,265)</u>
Net assets	<u>470,174</u>	<u>740,845</u>

15. OTHER INVESTMENTS

	<u>The group</u>	
	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Equity securities listed in Hong Kong, at fair value	<u>3,512</u>	<u>4,009</u>

Notes on The Financial Statements (Continued)

16. DEFINED BENEFIT RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated and daily rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually.

With effect from 1st July, 2002, pursuant to SSAP 34 "Employee benefits" issued by the Hong Kong Society of Accountants, the calculation of the group's net obligations in respect of the defined benefit retirement schemes is determined using the projected unit credit method. The actuary of these schemes is Watson Wyatt Hong Kong Limited.

(a) The amounts recognised in the balance sheets are as follows:

	2003
	\$000's
Present value of the funded obligations	10,394
Fair value of scheme assets	(12,810)
Net unrecognised actuarial gains	311
	<u>(2,105)</u>

(b) Movements in net asset recognised in the balance sheets are as follows:

	2003
	\$000's
Balance brought forward	-
Transitional assets recognised upon adoption of SSAP 34	(2,717)
	<u>(2,717)</u>
Expenses for the year recognised in the profit and loss account	612
	<u>(2,105)</u>

(c) Expenses for the year recognised in the consolidated profit and loss account are as follows:

	2003
	\$000's
Current service cost	348
Interest cost	456
Expected return on scheme assets	(192)
	<u>612</u>

The expenses for the year and transitional assets are recognised in the line of staff costs in the consolidated profit and loss account.

	2003
	\$000's
Actual return on scheme assets	77
	<u>77</u>

(d) The principal actuarial assumptions used as at 30th June, 2003 are as follows:

	2003
Discount rate	3.0% p.a.
Expected rate of return on scheme assets	1.5% p.a.
Future salary increases	2.5% p.a.

Notes on The Financial Statements (Continued)

17. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors with the following ageing analysis:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Current	335	167
1 - 3 months	36	50
More than 3 months but less than 12 months	-	1
Total trade debtors	<u>371</u>	<u>218</u>

A defined credit policy is maintained within the Group.

The following amounts are expected to be recovered after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	\$000's	\$000's	\$000's	\$000's
Debtors, deposits and prepayments	<u>903</u>	<u>662</u>	<u>76</u>	<u>93</u>

18. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors with the following ageing analysis:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Due after 3 months	<u>201</u>	<u>706</u>

The following amounts are expected to be settled after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	\$000's	\$000's	\$000's	\$000's
Creditors and accruals	<u>2,654</u>	<u>9,559</u>	<u>-</u>	<u>7,633</u>

19. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Notes on The Financial Statements (Continued)

20. SHARE CAPITAL

	2003		2002	
	No. of shares	Amount \$000's	No. of shares	Amount \$000's
Authorised:				
Ordinary shares of \$2 each	<u>50,000,000</u>	<u>100,000</u>	<u>50,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1st July	45,740,856	91,482	45,903,056	91,806
Shares repurchased	<u>(146,200)</u>	<u>(293)</u>	<u>(162,200)</u>	<u>(324)</u>
At 30th June	<u>45,594,656</u>	<u>91,189</u>	<u>45,740,856</u>	<u>91,482</u>

During the year, the company repurchased 146,200 of its own shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	No. of ordinary shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		\$	\$	\$000's
October 2002	5,200	69.25	69.25	361
November 2002	65,400	51.75	51.00	3,383
December 2002	39,000	50.00	48.50	1,951
January 2003	16,600	48.40	48.20	805
February 2003	3,800	47.80	47.00	181
March 2003	3,000	44.00	44.00	133
April 2003	4,200	45.00	44.50	189
May 2003	3,000	43.40	43.00	130
June 2003	<u>6,000</u>	<u>45.30</u>	<u>45.00</u>	<u>272</u>
	<u>146,200</u>			<u>7,405</u>

Except for the repurchase of ordinary shares by the company referred to above, the company and its subsidiaries have not purchased, sold or redeemed any of the company's shares during the year.

The repurchased shares were cancelled and accordingly the issued share capital of the company was reduced by the nominal value of these shares. However, pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the nominal value of the shares cancelled of \$292,400 was transferred from the retained profits to the capital redemption reserve (note 21). The premium paid on the repurchase of the shares of \$7,112,000 was charged to the retained profits (note 21).

Notes on The Financial Statements (Continued)

21. RESERVES

	Capital redemption reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
The group						
At 1st July, 2001						
– as previously reported	731	29,875	–	240,000	3,504,322	3,774,928
– prior period adjustments in respect of:						
– dividend proposed	–	–	–	–	105,442	105,442
– as restated	731	29,875	–	240,000	3,609,764	3,880,370
Dividends declared/approved in respect of the previous year (note 7(b))	–	–	–	–	(105,442)	(105,442)
Exchange differences transferred between reserves	–	53,622	–	–	(53,622)	–
Revaluation (deficits)/surpluses	–	(83,497)	6,019	–	–	(77,478)
Profit for the year	–	–	–	–	114,351	114,351
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	223	223
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(10,541)	(10,541)
– transfer between reserves	324	–	–	–	(324)	–
Exchange differences arising on consolidation	–	–	–	–	41,897	41,897
Dividends declared and paid in respect of the current year (note 7(a))	–	–	–	–	(27,389)	(27,389)
At 30th June, 2002	<u>1,055</u>	<u>–</u>	<u>6,019</u>	<u>250,000</u>	<u>3,558,917</u>	<u>3,815,991</u>
At 1st July, 2002	1,055	–	6,019	250,000	3,558,917	3,815,991
Dividends declared/approved in respect of the previous year (note 7(b))	–	–	–	–	(868,912)	(868,912)
Realisation of other properties revaluation reserve	–	–	(9)	–	9	–
Profit for the year	–	–	–	–	110,811	110,811
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	620	620
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(7,112)	(7,112)
– transfer between reserves	293	–	–	–	(293)	–
Exchange differences arising on consolidation	–	–	–	–	45,049	45,049
Dividends declared and paid in respect of the current year (note 7(a))	–	–	–	–	(22,805)	(22,805)
At 30th June, 2003	<u>1,348</u>	<u>–</u>	<u>6,010</u>	<u>260,000</u>	<u>2,806,284</u>	<u>3,073,642</u>

Notes on The Financial Statements (Continued)

21. RESERVES (Continued)

	Capital redemption reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
The company						
At 1st July, 2001						
– as previously reported	731	283,933	–	240,000	775,972	1,300,636
– prior period adjustments in respect of:						
– dividend received	–	–	–	–	(83,283)	(83,283)
– dividend proposed	–	–	–	–	105,442	105,442
– as restated	731	283,933	–	240,000	798,131	1,322,795
Dividends declared/approved in respect of the previous year (note 7(b))	–	–	–	–	(105,442)	(105,442)
Revaluation (deficits)/surpluses	–	(45,000)	6,019	–	–	(38,981)
Profit for the year	–	–	–	–	860,963	860,963
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	223	223
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(10,541)	(10,541)
– transfer between reserves	324	–	–	–	(324)	–
Dividends declared and paid in respect of the current year (note 7(a))	–	–	–	–	(27,389)	(27,389)
At 30th June, 2002	<u>1,055</u>	<u>238,933</u>	<u>6,019</u>	<u>250,000</u>	<u>1,505,621</u>	<u>2,001,628</u>
At 1st July, 2002	1,055	238,933	6,019	250,000	1,505,621	2,001,628
Dividends declared/approved in respect of the previous year (note 7(b))	–	–	–	–	(868,912)	(868,912)
Realisation of other properties revaluation reserve	–	–	(9)	–	9	–
Revaluation deficits	–	(12,000)	–	–	–	(12,000)
Profit for the year	–	–	–	–	237,041	237,041
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	620	620
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(7,112)	(7,112)
– transfer between reserves	293	–	–	–	(293)	–
Dividends declared and paid in respect of the current year (note 7(a))	–	–	–	–	(22,805)	(22,805)
At 30th June, 2003	<u>1,348</u>	<u>226,933</u>	<u>6,010</u>	<u>260,000</u>	<u>834,169</u>	<u>1,328,460</u>

Notes on The Financial Statements (Continued)

21. RESERVES (Continued)

Included in the figure for the group's retained profits at 30th June, 2003 is the amount of \$120,583,000 (2002: \$208,439,000) being the retained profits attributable to the jointly controlled entities.

The directors consider that \$43,785,000 (2002: \$43,785,000) of the company's retained profits are not distributable since such profits arose from an intra group sale of property which was disposed of to a wholly-owned subsidiary during the year ended 30th June, 1994 and which was subsequently sold during the year ended 30th June, 1995 to a jointly controlled entity in which the group has a 50% shareholding.

The directors consider that all of the general reserve and \$790,384,000 (2002: \$1,461,836,000) of the retained profits of the company, totalling \$1,050,384,000 (2002: \$1,711,836,000), are distributable.

The application of the capital redemption reserve is governed by section 49 of the Hong Kong Companies Ordinance. The investment properties and other properties revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

The group treats its investment properties on a portfolio basis.

22. DEFERRED PROFITS

	The group		The company	
	2003	2002	2003	2002
	\$000's	\$000's	\$000's	\$000's
Balance brought forward and carried forward	451,198	451,198	237,225	237,225

23. CONTINGENCY RESERVES

	Group and company	
	2003	2002
	\$000's	\$000's
Third party claims		
Balance brought forward	42,400	57,100
Payments during the year	(6,941)	(5,677)
Provision written back for the year	(24,759)	(9,023)
At 30th June	10,700	42,400

24. CONTINGENT LIABILITIES

At 30th June, 2003, there were potential contingent liabilities in respect of third party claims for which provision of \$10,700,000 (2002: \$42,400,000) has been included in contingency reserves. In the opinion of the directors, having received independent advice from an actuary, the amount provided is sufficient to cover any liabilities which may subsequently arise in respect of these claims.

Notes on The Financial Statements (Continued)

25. CAPITAL COMMITMENTS

The Board of a subsidiary has given approval to develop the site at 3 Jordan Road. An amount of \$48,000,000 (2002: \$48,000,000) representing the total estimated development costs has been authorised of which approximately \$11,864,000 (2002: \$2,267,000) has been incurred and approximately \$34,874,000 (2002: \$2,073,000) has been contracted for at the balance sheet date.

In addition, the Board has given formal in principle approval to develop the site at the Chai Wan Bus Depot by means of a 50:50 joint venture. An amount of \$1,065,000,000 (2002: \$1,065,000,000), representing 50% of the total estimated development costs, has been authorised for the purpose of the development of the site.

26. OPERATING LEASES

(a) Significant leasing arrangements

The group leases out investment properties in Hong Kong and United Kingdom under operating leases. The leases for investment properties in Hong Kong typically run for an initial period of two to three years. The leases for investment properties in United Kingdom run for an initial period of fourteen to twenty-five years. Lease payments are subject to upward only rent review for every 5 years for investment properties in United Kingdom. One of the leases in United Kingdom is subject to upward only rent review in 2006 and 2011. None of the leases includes contingent rentals. Further details of the carrying value of the investment properties are contained in note 12.

\$87,987,000 (2002: \$71,684,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

(b) Future operating lease income

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<u>2003</u>	<u>2002</u>
	\$000's	\$000's
Within one year	90,015	72,401
After one but within five years	201,572	161,088
After five years	635,051	519,916
	<u>926,638</u>	<u>753,405</u>

27. MATERIAL RELATED PARTY TRANSACTIONS

Loans to the jointly controlled entities at 30th June, 2003 are disclosed in note 14. The loans are unsecured, interest-free and have no fixed terms of repayment.