

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the accounts

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

(c) 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. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is accounted for in accordance with note 1(f).

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(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 accounted for in accordance with note 1(f).

(d) Associates and jointly controlled entities

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

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 an associate or a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associate or the jointly controlled entity, 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 accounted for in accordance with note 1(f). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or 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.

On disposal of an associate or a jointly controlled entity during the year, the attributable amount of capital reserve is included in the calculation of the profit or loss on disposal.

Notes on the Accounts *(cont'd)***1 PRINCIPAL ACCOUNTING POLICIES** *(cont'd)***(d) Associates and jointly controlled entities** *(cont'd)*

The results of the associates and jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less 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 that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is accounted for in accordance with note 1(f).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

For acquisitions before 1st July, 2001, positive goodwill is written off on acquisition.

For acquisitions on or after 1st July, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life.

In respect of controlled subsidiaries, positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

Negative goodwill is accounted for as follows:

- for acquisitions before 1st July, 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1st July, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets or when the underlying non-monetary assets are disposed. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill or as a deduction from its underlying assets; and
- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

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

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(f) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entities are as follows: —

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (iii) All other securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (iv) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (v) Profits or losses on disposal of 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 profit and loss account as they arise.

(g) Valuation of properties

- (i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which are assessed annually by qualified valuer of the Group and at least every three years by external qualified valuers. Surpluses arising on revaluations on a portfolio basis are credited to the investment property 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 an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the profit and loss account for the year.
- (ii) Hotel properties are stated at their open market value based on an annual professional valuation.
- (iii) Other land and buildings are stated at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).
- (iv) Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.
- (v) Completed properties remaining unsold at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.
- (vi) Properties held for and under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, and expenses relating to the marketing and sale of development properties prior to the issue of an occupation permit in Hong Kong or the issue of a completion certificate in the People's Republic of China ("PRC"), less any impairment losses (see note 1(j)).
- (vii) Leasehold land acquired by exchange of land exchange entitlements is stated at cost which represents the cost of land exchange entitlements surrendered, and the premium, if any, payable to the Government of the Hong Kong Special Administrative Region less impairment losses (see note 1(j)), where appropriate.
- (viii) Other leasehold land is stated at cost less impairment losses (see note 1(j)), where appropriate.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(h) Leased assets**

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

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(o)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(i) Amortisation and depreciation of fixed assets**(i) Investment properties**

No depreciation is provided in respect of investment properties 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.

(ii) Hotel properties

No depreciation is provided on hotel properties held on lease of more than 20 years. The directors consider that the value of the hotels do not diminish, due to the fact that hotels are maintained in a continuous state of proper repair and improvements thereto from time to time.

(iii) Toll highway operation rights and bridges

Depreciation of toll highway operation rights and bridges is provided for on the basis of a sinking fund calculation whereby annual depreciation amounts compounded at 6% per annum will be equal to the costs of the relevant toll highway operation rights and bridges at the expiry of the relevant operating periods.

(iv) Other land and buildings

Leasehold land is amortised, using the straight-line method, over the unexpired terms of the leases.

Buildings are depreciated on a straight-line basis over the remaining terms of the respective leases or 40 years if shorter.

(v) Properties held for and under development

No depreciation is provided on properties held for and under development.

(vi) Other fixed assets

Other fixed assets are stated at cost, less accumulated depreciation and impairment losses (see note 1(j)). Depreciation is provided on a straight-line basis over their estimated useful lives as follows: —

Leasehold improvements, furniture and fixtures	— 20%
Others	— 10% to 33%

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(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);
- investments in subsidiaries, associates and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and (d));
- positive goodwill;
- properties held for development;
- properties under development; and
- leasehold land.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. 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.

(ii) Reversals of impairment losses

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

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

(k) Valuation of construction contracts in progress

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" as an asset or "Amounts due to customers for contract work" as a liability, as applicable.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(m) Deferred taxation

Deferred taxation is provided 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 Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(n) 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 expenditures 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.

(o) Recognition of revenue

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 profit and loss account as follows: —

(i) Sale of properties

Revenue arising from the development of properties for sale together with the interest earned on the instalment sales of properties are recognised upon the sale of properties or the issue of an occupation permit or a completion certificate by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received.

(ii) Rental income from operating leases

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

(iii) Interest income

Interest earned on loans and advances to customers and from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Income from construction contracts

When the outcome of the construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(v) Toll fee income

Toll fee income is recognised on a cash receipt basis.

(vi) Hotel operation

Income from hotel operation is recognised when services are provided.

(vii) Sale of goods

Sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(p) 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. Exchange gains and losses are dealt with in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(q) 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 the defined contribution retirement scheme and the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account as incurred.

(iii) When the Group grants employees options to acquire shares of the subsidiaries at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(r) Borrowing costs

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

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

(s) Related parties

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

(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 system, 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 inventories, trade receivables and fixed assets. 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.

Notes on the Accounts (cont'd)

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(t) Segment reporting (cont'd)**

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

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

2 CHANGES IN ACCOUNTING POLICIES**(a) Employee benefits**

In order to comply with Statement of Standard Accounting Practice 34 issued by the Hong Kong Society of Accountants, two of the Group's listed associates have adopted a new accounting policy for defined benefits plans. As a result of the new accounting policy, the Group's net assets as at the year end have been decreased by HK\$56,572,000 (2002-HK\$56,572,000). The new accounting policy has no significant impact on the Group's profit attributable to shareholders for the years presented. The effect of adopting the new accounting policy relating to prior periods has been adjusted to the opening balances of retained profits at 1st July 2001 and 2002, and the comparative information has been restated as disclosed in the consolidated statement of changes in equity.

(b) Translation of accounts of foreign enterprises

In prior years, the results of foreign enterprises were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1st July 2002, in order to comply with Statement of Standard Accounting Practice 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of foreign enterprises at the average exchange rate for the year. The effect of this change in the accounting policy is not material and, therefore, the opening balances have not been restated.

3 TURNOVER

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, project management, construction, property management, department store operation, hotel operation, finance, investment holding and infrastructure business.

Turnover of the Group represents proceeds from the sale of properties, rental and interest income, income from construction contracts earned from third parties, income of infrastructure business, income from hotel operation, proceeds from department store operation, and others including management and sales commission, dividends from investments in securities and property management and security services income.

The major items are analysed as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Sale of properties	3,910,024	1,744,622
Rental income	2,011,654	2,067,717
Interest income	119,760	174,676
Building construction	661,300	953,980
Infrastructure	215,704	220,992
Hotel operation	104,460	122,936
Department store operation	117,924	142,212
Others	526,638	802,428
	<u>7,667,464</u>	<u>6,229,563</u>

4 OTHER REVENUE AND OTHER NET INCOME

	The Group	
	2003 HK\$'000	2002 HK\$'000
Other revenue: —		
Interest income	78,862	125,399
Others	197,246	47,695
	<u>276,108</u>	<u>173,094</u>
Other net income: —		
Profit on disposal of investments in securities	12,815	2,285
(Loss) / profit on disposal of fixed assets	(5,649)	92,789
Others	21,684	1,785
	<u>28,850</u>	<u>96,859</u>

5 OTHER OPERATING EXPENSES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Bad debts written off	93,098	5,111
Provision on property projects*	327,707	57,722
Others	139,173	187,041
	<u>559,978</u>	<u>249,874</u>

* Provision on property projects for the year includes the write-back of provision of HK\$336,999,000 (2002 — HK\$Nil) made in prior years mainly in respect of certain project sites for which the Group has amended their intended use from industrial/commercial to hotel development purpose during the year.

6 NON-OPERATING INCOME

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit / (loss) on disposal of interest in subsidiaries	99,530	(4,417)
(Loss) / profit on disposal of interest in associates and a jointly controlled entity	(76,699)	32,842
Surplus / (deficit) on revaluation of investments in securities	63,104	(52,984)
Impairment loss in value of investment securities	(1,094)	(11,002)
Impairment loss on property, plant and equipment (note 14(b))	(14,318)	(60,260)
(Impairment loss) / reversal of impairment loss in value of associates	(1,364)	120,000
Profit realised on dilution of interest in a subsidiary (note 33)	—	34,456
Amortisation of goodwill	(27,973)	(38,000)
Others	1,338	674
	<u>42,524</u>	<u>21,309</u>

Notes on the Accounts (cont'd)

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The consolidated profit from ordinary activities before taxation for the year is arrived at after charging/(crediting):

(a) Finance costs:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Bank interest	256,770	361,621
Interest on loans wholly repayable within five years	90,076	156,587
Finance charges on obligations under finance leases	70	226
Other borrowing costs	<u>101,465</u>	<u>160,298</u>
	448,381	678,732
Less: Amount capitalised *		
— interest	(295,457)	(438,843)
— other borrowing costs	<u>(86,795)</u>	<u>(142,246)</u>
	<u>66,129</u>	<u>97,643</u>

* The borrowing costs have been capitalised at rates ranging from 2.28% to 2.50% (2002 — from 3.13% to 3.96%) per annum.

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (cont'd)

(b) Items other than those separately disclosed in notes 3 to 7(a):

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Amortisation and depreciation		
— owned assets	102,813	116,120
— assets held under finance leases	453	699
	<u>103,266</u>	<u>116,819</u>
Less: Amount capitalised	—	(679)
	<u>103,266</u>	<u>116,140</u>
Staff cost - including retirement costs of HK\$30,782,000 (2002 — HK\$31,742,000)	751,346	751,694
Less: Amount capitalised (including retirement costs of HK\$850,000 (2002 — HK\$1,441,000))	(18,981)	(30,677)
	<u>732,365</u>	<u>721,017</u>
Cost of sales		
— completed properties for sale	3,560,282	1,548,107
— inventories	154,681	156,824
Auditors' remuneration	11,190	12,206
Rentals receivable from investment properties net of outgoings of HK\$647,783,000 (2002 — HK\$558,674,000) **	(1,017,481)	(1,186,386)
Other rental income less outgoings	(204,996)	(142,764)
Dividends from investments in securities		
— listed	(53,840)	(28,048)
— unlisted	(11,160)	(12,522)

** Included contingent rental income of HK\$94,544,000 (2002 — HK\$72,053,000).

Notes on the Accounts (cont'd)

8 SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net profits / (losses) before taxation: —		
Listed associates	1,506,941	1,510,472
Unlisted associates	(63,824)	52,244
	<u>1,443,117</u>	<u>1,562,716</u>
Attributable taxation	(205,193)	(222,397)
	<u>1,237,924</u>	<u>1,340,319</u>

9 TAXATION**(a) Taxation in the consolidated profit and loss account represents: —**

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Provision for Hong Kong profits tax for the year	148,228	140,889
Underprovision in respect of prior years	15,706	6,678
	<u>163,934</u>	<u>147,567</u>
Provision for taxation outside Hong Kong	33,160	13,078
	<u>197,094</u>	<u>160,645</u>

Provision for Hong Kong profits tax has been made at 17.5% (2002 — 16%) on the estimated assessable profits for the year.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

(b) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.**10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit attributable to shareholders includes a profit of HK\$696,440,000 (2002 — HK\$14,521,000) which has been dealt with in the accounts of the Company.

11 DIVIDENDS

(a) Dividends attributable to the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of HK\$0.35 per share (2002 — HK\$0.35 per share)	602,749	602,749
Final dividend proposed after the balance sheet date of HK\$0.45 per share (2002 — HK\$0.45 per share)	<u>774,963</u>	<u>774,963</u>
	<u><u>1,377,712</u></u>	<u><u>1,377,712</u></u>

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

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

	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.45 per share (2002 — HK\$0.55 per share)	<u>774,963</u>	<u>947,177</u>

12 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$2,242,342,000 (2002 — HK\$2,153,149,000) and on 1,722,140,000 ordinary shares (2002 — 1,722,140,000 ordinary shares) in issue during the year. Diluted earnings per share is not shown as there was no potential dilution of earnings per share for both years.

Notes on the Accounts (cont'd)

13 SEGMENTAL INFORMATION

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.

Business segments:

The Group comprises the following main business segments:—

Property development	—	development and sale of properties
Property leasing	—	leasing of properties
Finance	—	provision of financing
Building construction	—	construction of building works
Infrastructure	—	investment in infrastructure projects
Hotel operation	—	hotel operations and management
Department store operation	—	department store operations and management
Others	—	investment holding, project management, property management, agency services, provision of cleaning and security guard services and provision of information technology services.

For the year ended 30th June, 2003

	Property develop- ment HK\$'000	Property leasing HK\$'000	Finance HK\$'000	Building con- struction HK\$'000	Infra- structure HK\$'000	Hotel operation HK\$'000	Depart- ment store operation HK\$'000	Others HK\$'000	Elimi- nations HK\$'000	Consoli- dated HK\$'000
Turnover	3,910,024	2,011,654	119,760	661,300	215,704	104,460	117,924	526,638	—	7,667,464
Other revenue (excluding bank interest income)	393	3,509	34,285	2,377	440	—	1,219	213,384	—	255,607
External revenue	3,910,417	2,015,163	154,045	663,677	216,144	104,460	119,143	740,022	—	7,923,071
Inter-segment revenue	—	202,398	8,132	912,490	—	1,800	—	36,178	(1,160,998)	—
Total revenue	3,910,417	2,217,561	162,177	1,576,167	216,144	106,260	119,143	776,200	(1,160,998)	7,923,071
Segment result	(262,388)	1,320,609	96,077	62,911	138,738	(9,911)	39	97,930	—	1,444,005
Inter-segment transactions	18,480	(98,132)	(8,132)	(24,971)	—	44,010	15,442	69,196	—	15,893
Contribution from operations	(243,908)	1,222,477	87,945	37,940	138,738	34,099	15,481	167,126	—	1,459,898
Bank interest income	—	—	—	—	—	—	—	—	—	20,501
Unallocated operating expenses net of income	—	—	—	—	—	—	—	—	—	(237,829)
Profit from operations	—	—	—	—	—	—	—	—	—	1,242,570
Finance costs	—	—	—	—	—	—	—	—	—	(66,129)
Non-operating income	—	—	—	—	—	—	—	—	—	42,524
Share of profits less losses of associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	2,092,718
Taxation	—	—	—	—	—	—	—	—	—	(407,368)
Minority interests	—	—	—	—	—	—	—	—	—	(661,973)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	—	2,242,342
Depreciation & amortisation for the year	(1,317)	(3,346)	(57)	(646)	(38,194)	(3,986)	(12,851)	(42,869)	—	—
Impairment loss for the year	—	—	—	—	—	—	—	(16,776)	—	—
Provision on property projects	(327,707)	—	—	—	—	—	—	—	—	—
Significant non-cash expenses (other than depreciation and amortisation)	—	—	—	—	—	—	—	—	—	—
Segment assets	22,527,930	32,536,798	2,017,791	585,593	1,294,424	1,160,558	53,310	1,413,691	(348,607)	61,241,488
Investments in associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	20,917,289
Unallocated assets	—	—	—	—	—	—	—	—	—	3,174,321
Total assets	—	—	—	—	—	—	—	—	—	85,333,098
Segment liabilities	1,272,700	696,382	92,049	435,686	18,237	6,514	89,901	214,130	(348,607)	2,476,992
Unallocated liabilities	—	—	—	—	—	—	—	—	—	15,575,776
Total liabilities	—	—	—	—	—	—	—	—	—	18,052,768
Capital expenditure incurred during the year	1,689,575	376,187	—	1,620	454	271	8,981	28,890	—	—

13 SEGMENTAL INFORMATION (cont'd)

For the year ended 30th June, 2002 (restated)

	Property develop- ment HK\$'000	Property leasing HK\$'000	Finance HK\$'000	Building con- struction HK\$'000	Infra- structure HK\$'000	Hotel operation HK\$'000	Depart- ment store operation HK\$'000	Others HK\$'000	Elimi- nations HK\$'000	Consoli- dated HK\$'000
Turnover	1,744,622	2,067,717	174,676	953,980	220,992	122,936	142,212	802,428	—	6,229,563
Other revenue (excluding bank interest income)	—	—	2,199	—	532	737	1,661	154,561	—	159,690
External revenue	1,744,622	2,067,717	176,875	953,980	221,524	123,673	143,873	956,989	—	6,389,253
Inter-segment revenue	—	209,517	16,083	814,131	—	1,740	—	15,855	(1,057,326)	—
Total revenue	<u>1,744,622</u>	<u>2,277,234</u>	<u>192,958</u>	<u>1,768,111</u>	<u>221,524</u>	<u>125,413</u>	<u>143,873</u>	<u>972,844</u>	<u>(1,057,326)</u>	<u>6,389,253</u>
Segment result	57,492	1,466,404	138,772	53,683	145,334	(8,666)	2,022	155,812	—	2,010,853
Inter-segment transactions	346	(137,254)	(16,083)	(36,931)	—	50,634	23,613	53,400	—	(62,275)
Contribution from operations	57,838	1,329,150	122,689	16,752	145,334	41,968	25,635	209,212	—	1,948,578
Bank interest income	—	—	—	—	—	—	—	—	—	13,404
Unallocated operating expenses net of income	—	—	—	—	—	—	—	—	—	(209,475)
Profit from operations	—	—	—	—	—	—	—	—	—	1,752,507
Finance costs	—	—	—	—	—	—	—	—	—	(97,643)
Non-operating income	—	—	—	—	—	—	—	—	—	21,309
Share of profits less losses of associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	1,409,779
Taxation	—	—	—	—	—	—	—	—	—	(388,311)
Minority interests	—	—	—	—	—	—	—	—	—	(544,492)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	—	<u>2,153,149</u>
Depreciation & amortisation for the year	(466)	(734)	(57)	(4,577)	(36,234)	(3,992)	(11,644)	(58,436)	—	—
Impairment loss for the year	—	—	—	—	—	—	—	(71,262)	—	—
Provision on property projects	(57,722)	—	—	—	—	—	—	—	—	—
Significant non-cash expenses (other than depreciation and amortisation)	—	—	—	—	—	—	—	(15,532)	—	—
Segment assets	24,182,869	35,379,093	2,343,096	444,939	1,331,154	1,166,525	58,333	1,811,493	(212,659)	66,504,843
Investments in associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	21,867,488
Unallocated assets	—	—	—	—	—	—	—	—	—	<u>2,300,144</u>
Total assets	—	—	—	—	—	—	—	—	—	<u>90,672,475</u>
Segment liabilities	3,115,060	506,657	50,332	458,495	21,971	9,711	112,281	165,593	(212,659)	4,227,441
Unallocated liabilities	—	—	—	—	—	—	—	—	—	<u>16,314,463</u>
Total liabilities	—	—	—	—	—	—	—	—	—	<u>20,541,904</u>
Capital expenditure incurred during the year	<u>1,594,277</u>	<u>805,158</u>	<u>—</u>	<u>34</u>	<u>5,623</u>	<u>227</u>	<u>17,198</u>	<u>24,228</u>	—	—

Notes on the Accounts (cont'd)

13 SEGMENTAL INFORMATION (cont'd)

Geographical segments:

For the year ended 30th June, 2003

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Turnover	7,278,186	389,278	7,667,464
Other revenue (excluding bank interest income)	213,760	41,847	255,607
External revenue	7,491,946	431,125	7,923,071
Segment assets	49,569,003	12,021,092	
Capital expenditure incurred during the year	2,092,703	13,275	

For the year ended 30th June, 2002

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Turnover	5,421,880	807,683	6,229,563
Other revenue (excluding bank interest income)	152,299	7,391	159,690
External revenue	5,574,179	815,074	6,389,253
Segment assets	56,275,029	10,442,473	
Capital expenditure incurred during the year	2,438,197	8,548	

14 FIXED ASSETS

(a) Investment properties

The Group:

	HK\$'000
Cost or valuation:	
At 1st July, 2002	27,734,592
Additions	30,006
Transfer from properties under development	
— under non-current assets	4,786,862
— under current assets	89,562
Disposals	(92,434)
Deficits on revaluation	<u>(3,236,159)</u>
At 30th June, 2003	<u>29,312,429</u>

(b) Other fixed assets

The Group:

	Hotel properties HK\$'000	Other land & buildings HK\$'000	Properties held for/under development HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation:							
At 1st July, 2002	1,151,000	508,313	7,391,241	789,529	655,617	805,316	11,301,016
Additions	176	—	478,446	—	136	52,700	531,458
Transfer to completed properties for sale	—	—	(277,878)	—	—	—	(277,878)
Transfer to investment properties	—	—	(4,786,862)	—	—	—	(4,786,862)
Transfer from properties under development under current assets	—	—	108,940	—	—	—	108,940
Disposals	—	(3)	—	—	—	(39,901)	(39,904)
Deficits on revaluation	<u>(176)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(176)</u>
At 30th June, 2003	<u>1,151,000</u>	<u>508,310</u>	<u>2,913,887</u>	<u>789,529</u>	<u>655,753</u>	<u>818,115</u>	<u>6,836,594</u>
Amortisation and depreciation:							
At 1st July, 2002	—	56,390	—	66,287	65,800	615,309	803,786
Charge for the year	—	7,099	—	21,239	14,250	60,678	103,266
Impairment loss (Note)	—	—	—	—	—	14,318	14,318
Written back on disposals	—	—	—	—	—	(35,329)	(35,329)
At 30th June, 2003	<u>—</u>	<u>63,489</u>	<u>—</u>	<u>87,526</u>	<u>80,050</u>	<u>654,976</u>	<u>886,041</u>
Net book value:							
At 30th June, 2003	<u>1,151,000</u>	<u>444,821</u>	<u>2,913,887</u>	<u>702,003</u>	<u>575,703</u>	<u>163,139</u>	<u>5,950,553</u>
At 30th June, 2002	<u>1,151,000</u>	<u>451,923</u>	<u>7,391,241</u>	<u>723,242</u>	<u>589,817</u>	<u>190,007</u>	<u>10,497,230</u>

Notes on the Accounts (cont'd)

14 FIXED ASSETS (cont'd)

(b) Other fixed assets (cont'd)

	Hotel properties HK\$'000	Other land & buildings HK\$'000	Properties held for/under development HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation at 30th June, 2003 representing:							
Cost	—	442,230	2,765,887	789,529	655,753	818,115	5,471,514
Valuation:							
— 30th June, 1992	—	20,110	—	—	—	—	20,110
— 30th June, 1994	—	45,970	—	—	—	—	45,970
— 30th June, 1997	—	—	148,000	—	—	—	148,000
— 30th June, 2003	1,151,000	—	—	—	—	—	1,151,000
	<u>1,151,000</u>	<u>508,310</u>	<u>2,913,887</u>	<u>789,529</u>	<u>655,753</u>	<u>818,115</u>	<u>6,836,594</u>

Note: During the year, the operating environment of the information technology services was difficult and the operation of the department store in the PRC was down-sized. Based on the Group's assessment of the recoverable amount of the related assets, the carrying amount of the data centre and network equipment and facilities, and certain leasehold improvements were written down by HK\$3,857,000 (2002 — HK\$60,260,000) and HK\$10,461,000 (2002 — HK\$Nil) respectively.

(c) The analysis of net book value of properties is as follows: —

	The Group 2003 HK\$'000	2002 HK\$'000
In Hong Kong		
— under long leases	3,740,877	3,876,574
— under medium-term leases	26,846,327	29,389,938
	<u>30,587,204</u>	<u>33,266,512</u>
Outside Hong Kong		
— under long leases	915	959
— under medium-term leases	4,511,736	4,775,318
	<u>4,512,651</u>	<u>4,776,277</u>
	<u>35,099,855</u>	<u>38,042,789</u>

The Group's investment and hotel properties were revalued as at 30th June, 2003 by an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited, on an open market value basis in their existing state by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential.

In the opinion of the directors, any capital gains arising on disposal of the revalued leasehold properties in Hong Kong at their carrying value will not be subject to any tax liability. The contingent liabilities in respect of Land Appreciation Tax and PRC Income Tax arising on disposal of certain revalued properties in other areas of the PRC are disclosed in note 39(f) on the accounts.

14 FIXED ASSETS (cont'd)

(c) The analysis of net book value of properties is as follows: — (cont'd)

The gross carrying amounts of investment and hotel properties of the Group held for use in operating leases were HK\$29,312,429,000 (2002 — HK\$27,734,592,000) and HK\$1,151,000,000 (2002 — HK\$1,151,000,000) respectively.

The Group leases assets under finance leases expiring within one year. At the end of the lease terms, the Group has the option to purchase the assets at a price deemed to be a bargain purchase option. The net book value of assets held under finance leases of the Group was HK\$634,000 (2002 — HK\$1,087,000).

The Group's toll highway operation rights are pledged as securities for certain bank loans.

Included in the Group's others of HK\$818,115,000 (2002 — HK\$805,316,000) was HK\$12,000 (2002 — HK\$974,000) relating to construction in progress of bridge.

15 INTEREST IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	2,315,451	2,315,216
Amounts due from subsidiaries	39,960,690	40,093,130
	42,276,141	42,408,346
Less: Impairment loss	(83,000)	(83,000)
	42,193,141	42,325,346
Amounts due to subsidiaries	(5,003,507)	(4,491,365)
	37,189,634	37,833,981

Details of principal subsidiaries are shown on pages 116 to 125.

16 INTEREST IN ASSOCIATES

	The Group		The Company	
	2003 HK\$'000	2002 restated HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted				
Shares, at cost	—	—	262,991	262,991
Share of net assets	113,100	419,510	—	—
Amounts due from associates	2,494,421	3,207,316	943,953	888,448
	2,607,521	3,626,826	1,206,944	1,151,439
Less: Impairment loss	—	—	(128,849)	(128,849)
	2,607,521	3,626,826	1,078,095	1,022,590
Amounts due to associates	(21,253)	(48,896)	(62,568)	(2,938)
	2,586,268	3,577,930	1,015,527	1,019,652
Listed in Hong Kong				
Share of net assets	11,280,612	11,848,320	—	—
Goodwill	927,433	860,242	—	—
	12,208,045	12,708,562	—	—
	14,794,313	16,286,492	1,015,527	1,019,652
Market value of listed shares	22,578,027	23,688,952	—	—

Included in the balance of amounts due from associates at 30th June, 2002 was an amount of HK\$695,849,000, which has been reclassified to loans receivable during the year (note 25(a)).

Details of principal associates are shown on page 126.

Notes on the Accounts (cont'd)

17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	10	260
Share of net assets	1,388,138	779,033	—	—
Amounts due from jointly controlled entities	4,754,313	4,846,297	114,621	114,175
	<u>6,142,451</u>	<u>5,625,330</u>	<u>114,631</u>	<u>114,435</u>
Amounts due to jointly controlled entities	(19,475)	(44,334)	(5,879)	(4,891)
	<u>6,122,976</u>	<u>5,580,996</u>	<u>108,752</u>	<u>109,544</u>

Details of principal jointly controlled entities are shown on page 127.

18 INVESTMENTS IN SECURITIES

The Group:

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities								
Listed in Hong Kong	—	—	—	545,674	641,275	123,614	641,275	669,288
Listed outside Hong Kong	—	—	20,314	20,314	—	—	20,314	20,314
Unlisted	—	—	140,658	140,321	41,218	40,562	181,876	180,883
	<u>—</u>	<u>—</u>	<u>160,972</u>	<u>706,309</u>	<u>682,493</u>	<u>164,176</u>	<u>843,465</u>	<u>870,485</u>
Debt securities								
Listed outside Hong Kong	11,699	83,123	—	—	—	—	11,699	83,123
Unlisted	173,092	280,908	—	—	—	—	173,092	280,908
	<u>184,791</u>	<u>364,031</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>184,791</u>	<u>364,031</u>
	<u>184,791</u>	<u>364,031</u>	<u>160,972</u>	<u>706,309</u>	<u>682,493</u>	<u>164,176</u>	<u>1,028,256</u>	<u>1,234,516</u>
Market value of listed securities	11,443	84,267	20,331	509,928	641,275	123,614	673,049	717,809
Carrying amount analysed for reporting purposes as:								
Non-current	54,402	147,331	160,972	706,309	601,613	164,176	816,987	1,017,816
Current	130,389	216,700	—	—	80,880	—	211,269	216,700
	<u>184,791</u>	<u>364,031</u>	<u>160,972</u>	<u>706,309</u>	<u>682,493</u>	<u>164,176</u>	<u>1,028,256</u>	<u>1,234,516</u>

19 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong	1,450,980	1,730,832
In other areas of the PRC	3,038,444	3,410,135
	<u>4,489,424</u>	<u>5,140,967</u>

20 INSTALMENTS RECEIVABLE

- (a) This represents the principal content of instalments receivable from the sale of flats after twelve months from the balance sheet date. The amounts receivable within twelve months from the balance sheet date are included under current assets.
- (b) The ageing analysis of instalments receivable within twelve months from the balance sheet date (net of provision for bad debts) is as follows: —

	The Group	
	2003 HK\$'000	2002 HK\$'000
Under 1 month overdue	399,306	351,547
More than 1 month overdue but less than 3 months overdue	3,967	5,837
More than 3 months overdue but less than 6 months overdue	3,642	6,687
More than 6 months overdue	23,194	41,577
	<u>430,109</u>	<u>405,648</u>

21 PROPERTIES UNDER DEVELOPMENT

	The Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong	6,249,853	10,301,824
In other areas of the PRC	963,709	898,096
	<u>7,213,562</u>	<u>11,199,920</u>

The amount of properties under development expected to be completed after more than one year is HK\$5,759,631,000 (2002 — HK\$6,304,942,000).

Notes on the Accounts (cont'd)

22 COMPLETED PROPERTIES FOR SALE

Completed properties for sale include properties of HK\$3,754,228,000 (2002 — HK\$1,894,162,000) carried at net realisable value.

23 INVENTORIES

Inventories of HK\$1,512,000 (2002 — HK\$1,131,000) are carried at net realisable value.

24 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	The Group	
	2003 HK\$'000	2002 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less anticipated losses	480,550	478,540
Progress billings	(314,010)	(377,785)
Net contract work	<u>166,540</u>	<u>100,755</u>
Represented by:		
Amounts due from customers for contract work	166,540	100,806
Amounts due to customers for contract work	—	(51)
	<u>166,540</u>	<u>100,755</u>

The amounts due from customers for contract work expected to be recovered after more than one year is HK\$52,971,000 (2002 — HK\$21,846,000).

25 LOANS RECEIVABLE, DEBTORS, PREPAYMENTS AND DEPOSITS**(a) Loans receivable**

Included in loans receivable of HK\$695,849,000 (note 16) were advanced by the Group to an investee company, a former associate of the Group.

During the year, a master sale and purchase agreement was signed by the Group in connection with the purchase of a property in the PRC from the former associate at a consideration of US\$124,000,000. The Group paid US\$38,500,000, which is equivalent to HK\$300,251,000 as a deposit for the acquisition. Upon signing of a formal property acquisition agreement, the loans advanced to the former associate will be paid as part of the consideration for the acquisition of the property.

(b) Debtors, prepayments and deposits

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchaser pursuant to the terms of the sale and purchase agreement. Monthly rent in respect of leasing properties are payable in advance by tenants. Housing instalment and other trade debtors settle their accounts according to the payment terms as stated in the contracts. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The ageing analysis of trade debtors (net of provision for bad debts) is as follows: —

	The Group	
	2003 HK\$'000	2002 HK\$'000
Under 1 month overdue	252,200	268,114
More than 1 month overdue but less than 3 months overdue	69,493	116,105
More than 3 months overdue but less than 6 months overdue	21,149	47,164
More than 6 months overdue	<u>228,582</u>	<u>154,256</u>
	571,424	585,639
Prepayments, deposits and other receivables	<u>668,741</u>	<u>930,651</u>
	<u>1,240,165</u>	<u>1,516,290</u>

The debtors, prepayments and deposits of the Group include HK\$398,637,000 (2002 — HK\$404,791,000) which is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered within one year.

26 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deposits with banks and other financial institutions	1,694,232	1,047,452	—	—
Cash at bank and in hand	668,357	304,520	375	329
Cash and cash equivalents in the balance sheets	2,362,589	1,351,972	375	329
Investments in securities	656	—		
Bank overdrafts	(152,769)	(237,782)		
Cash and cash equivalents in the cash flow statement	2,210,476	1,114,190		

27 BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans and overdrafts (note a)		
— secured	259,485	294,614
— unsecured	11,134,284	11,084,788
	11,393,769	11,379,402
Unsecured other loans (note b)	26,320	783,861
	11,420,089	12,163,263
(a) Bank loans and overdrafts are repayable as follows: —		
Within 1 year and included in current liabilities	1,545,095	1,542,942
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	5,348,420	5,211,000
After 2 years but within 5 years	4,434,979	4,010,185
After 5 years	65,275	615,275
	9,848,674	9,836,460
	11,393,769	11,379,402
(b) Unsecured other loans are repayable as follows: —		
Within 1 year and included in current liabilities	—	757,541
After 1 year but within 2 years and included in non-current liabilities	26,320	26,320
	26,320	783,861

The unsecured other loans as at 30th June, 2002 included foreign currency loans amounting to HK\$757,541,000 stated at rates fixed under currency swap arrangements with banks. These loans were fully repaid during the year.

Notes on the Accounts (cont'd)

28 OBLIGATIONS UNDER FINANCE LEASES

The Group had obligations under finance leases repayable as follows: —

	Present value of the minimum lease payments HK\$'000	2003 Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	2002 Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year and included in current liabilities	47	4	51	417	70	487
After 1 year but within 5 years and included in non-current liabilities	—	—	—	47	4	51
	<u>47</u>	<u>4</u>	<u>51</u>	<u>464</u>	<u>74</u>	<u>538</u>

29 RENTAL AND OTHER DEPOSITS

The rental and other deposits of the Group include HK\$186,894,000 (2002 — HK\$194,202,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

30 CREDITORS AND ACCRUED EXPENSES

The creditors and accrued expenses of the Group include HK\$208,164,000 (2002 — HK\$114,686,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

The ageing analysis of trade creditors is as follows: —

	The Group	
	2003 HK\$'000	2002 HK\$'000
Due within 1 month and on demand	407,537	354,032
Due after 1 month but within 3 months	166,549	116,273
Due after 3 months but within 6 months	173,351	185,833
Due after 6 months	<u>479,231</u>	<u>588,999</u>
	1,226,668	1,245,137
Other payables and accrued expenses	<u>409,031</u>	<u>326,400</u>
	<u>1,635,699</u>	<u>1,571,537</u>

31 SHARE CAPITAL

	No. of shares		Nominal value	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
Authorised				
Ordinary shares of HK\$2.00 each	<u>1,800,000</u>	<u>1,800,000</u>	<u>3,600,000</u>	<u>3,600,000</u>
Issued and fully paid				
Ordinary shares of HK\$2.00 each	<u>1,722,140</u>	<u>1,722,140</u>	<u>3,444,280</u>	<u>3,444,280</u>

32 SHARE PREMIUM

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

33 CAPITAL RESERVES

The Group:

	Other properties revaluation reserve HK\$'000	Reserve on consolidation HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2001	262,089	1,481,158	20,200	(3,971)	2,395	1,761,871
Deficits on revaluation of other properties	(69,074)	—	—	—	—	(69,074)
Share of revaluation deficits in associates	(11,779)	—	—	—	—	(11,779)
Realised to profit and loss account (Note)	—	(34,456)	—	—	—	(34,456)
Exchange difference arising from investment in a foreign entity	—	—	—	1,376	—	1,376
Transfer from profit and loss account (note 35)	—	—	—	—	46	46
At 30th June, 2002	<u>181,236</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(2,595)</u>	<u>2,441</u>	<u>1,647,984</u>
Dealt with by:						
Company and subsidiaries	181,363	1,446,702	20,200	—	2,441	1,650,706
Associates and jointly controlled entities	(127)	—	—	(2,595)	—	(2,722)
	<u>181,236</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(2,595)</u>	<u>2,441</u>	<u>1,647,984</u>

Notes on the Accounts (cont'd)

33 CAPITAL RESERVES (cont'd)

The Group:

	Other properties revaluation reserve HK\$'000	Reserve on consolidation HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2002	181,236	1,446,702	20,200	(2,595)	2,441	1,647,984
Deficits on revaluation of other properties	(176)	—	—	—	—	(176)
Realisation upon disposal of other properties in associates	(29,006)	—	—	—	—	(29,006)
Exchange difference arising from investment in a foreign entity	—	—	—	(1,220)	—	(1,220)
Transfer from profit and loss account (note 35)	—	—	—	—	15	15
At 30th June, 2003	<u>152,054</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(3,815)</u>	<u>2,456</u>	<u>1,617,597</u>
Dealt with by:						
Company and subsidiaries	181,187	1,446,702	20,200	—	2,456	1,650,545
Associates and jointly controlled entities	(29,133)	—	—	(3,815)	—	(32,948)
	<u>152,054</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(3,815)</u>	<u>2,456</u>	<u>1,617,597</u>

Note: This represents the gain arising on dilution of interest in a subsidiary which was included in capital reserves and the amount released to the consolidated profit and loss account in 2002 was based on the disposal of interest of the undeveloped underlying properties of the subsidiary prior to completion to third parties.

The Company:

	Capital redemption reserve 2003 HK\$'000	2002 HK\$'000
At 1st July and 30th June	<u>20,200</u>	<u>20,200</u>

The application of capital redemption reserve is governed by Section 49H of the Hong Kong Companies Ordinance.

The other properties revaluation reserve, reserve on consolidation and exchange reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities, the valuation of properties and foreign currency translation (note 1).

Other reserve represents statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, two of the Group's PRC subsidiaries are required to transfer at least 10% of their profits after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant subsidiaries' registered capital.

34 INVESTMENT PROPERTY REVALUATION RESERVE

	The Group	
	2003 HK\$'000	2002 HK\$'000
At 1st July	12,311,082	13,209,198
Deficits on revaluation	(3,002,497)	(526,054)
Share of revaluation (deficits) / surpluses in associates	(693,577)	25,342
Share of revaluation deficits in jointly controlled entities	(60,277)	(172,646)
Realised upon disposal of properties	(7,029)	(107,462)
Realised upon disposal of interest in associates	—	(74,648)
Realised upon disposal of interest in a jointly controlled entity	—	(42,648)
At 30th June	<u>8,547,702</u>	<u>12,311,082</u>
Dealt with by:		
Company and subsidiaries	8,493,491	11,503,017
Associates	202,662	896,239
Jointly controlled entities	(148,451)	(88,174)
	<u>8,547,702</u>	<u>12,311,082</u>

The investment property revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for investment properties (note 1).

35 RETAINED PROFITS

	The Group		The Company	
	2003 HK\$'000	2002 restated HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st July				
— as previously reported	31,060,366	30,457,189	27,048,058	28,583,463
— prior period adjustment in respect of employee benefits (note 2(a))	(56,572)	(56,572)	—	—
— as restated	31,003,794	30,400,617	27,048,058	28,583,463
Dividends approved in respect of the previous year (note 11(b))	(774,963)	(947,177)	(774,963)	(947,177)
Profit for the year	2,242,342	2,153,149	696,440	14,521
Transfer to capital reserve (note 33)	(15)	(46)	—	—
Dividends declared and paid in respect of the current year (note 11(a))	(602,749)	(602,749)	(602,749)	(602,749)
At 30th June	<u>31,868,409</u>	<u>31,003,794</u>	<u>26,366,786</u>	<u>27,048,058</u>
Retained by:				
Company and subsidiaries	28,419,172	28,040,734		
Associates	3,292,722	3,123,880		
Jointly controlled entities	156,515	(160,820)		
	<u>31,868,409</u>	<u>31,003,794</u>		

36 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2003 amounted to HK\$26,366,786,000 (2002 — HK\$27,048,058,000).

Notes on the Accounts (cont'd)

37 COMMITMENTS

At 30th June, 2003, the Group had commitments not provided for in these accounts as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
(i) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	334,197	1,022,341
(ii) Contracted obligations to fund the subsidiaries and associates established outside Hong Kong	2,327,265	2,825,018
(iii) Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	4,945,939	2,613,073
	<u>7,607,401</u>	<u>6,460,432</u>

Based on information available at the balance sheet date, the directors estimate that the Group's commitments disclosed above are payable as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	2,929,952	2,090,614
After 1 year but within 2 years	1,745,394	1,296,315
After 2 years	2,932,055	3,073,503
	<u>7,607,401</u>	<u>6,460,432</u>

38 SIGNIFICANT LEASING ARRANGEMENTS

At 30th June, 2003, the Group is both a lessee and a lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows: —

(a) Lessor

The Group leases out a number of land / building facilities under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 14.

During the current year, HK\$2,011,654,000 (2002 — HK\$2,067,717,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	1,385,883	1,517,008
After 1 year but within 5 years	903,049	1,195,193
After 5 years	83,971	37,817
	<u>2,372,903</u>	<u>2,750,018</u>

(b) Lessee

(i) The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to twenty years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals .

During the current year, HK\$27,698,000 (2002 — HK\$50,927,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of building facilities.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	16,303	23,100
After 1 year but within 5 years	37,009	63,091
After 5 years	152,082	253,041
	<u>205,394</u>	<u>339,232</u>

(ii) The Group also leases telecommunications network facilities under operating leases. Some of the leases are with no specific terms while the remaining leases typically run for an initial period of three months, six months or one year, with an option to renew the lease upon the expiry of the initial lease term. None of the leases includes contingent rentals.

During the current year, HK\$8,731,000 (2002 — HK\$12,236,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of telecommunications network facilities.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 1 year	3,502	5,711
After 1 year but within 5 years	155	1,438
	<u>3,657</u>	<u>7,149</u>

Notes on the Accounts (cont'd)

39 CONTINGENT LIABILITIES

At 30th June, 2003, contingent liabilities of the Group and of the Company were as follows: —

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions on behalf of purchasers of flats	232,647	273,289	3,327	4,619
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	—	—	9,618,615	8,926,691
(c) Guarantees given by the Company to banks to secure banking facilities of an associate and jointly controlled entities	3,526,014	3,963,523	3,526,014	3,963,523
(d) Guarantees given by the Company to holders of bonds issued by a subsidiary	—	—	—	758,309
	<u>3,758,661</u>	<u>4,236,812</u>	<u>13,147,956</u>	<u>13,653,142</u>

- (e) The Group has given guarantees to third parties in respect of contracted commitments of its subsidiaries to provide attributable portion of capital to joint property development project and funding of property development project. At 30th June, 2003, the Company had contingent liabilities of HK\$294 million (2002 — HK\$453 million) in relation to the said guarantees.
- (f) Pursuant to an indemnity deed dated 15th March, 1996 signed between the Company and a subsidiary, the Company, under certain conditions, has undertaken to indemnify the subsidiary in respect of any PRC Income Tax and Land Appreciation Tax ("LAT") payable in consequence of the disposal by the subsidiary of its property interests owned as at 31st December, 1995. At 30th June, 2003, the Company had contingent PRC Income Tax and LAT liabilities of HK\$37 million (2002 — HK\$78 million) and HK\$48 million (2002 — HK\$101 million) respectively in relation to certain investment properties of the subsidiary upon a revaluation of these properties at 30th June, 2003. However, the directors of the subsidiary have no current intention to dispose of these properties.
- (g) As at 30th June, 2002, there were contingent liabilities in respect of performance bond guaranteed by a bank on behalf of a subsidiary of the Group amounting to HK\$12 million. Such performance bond was provided in accordance with the terms of the Fixed Telecommunications Network Services Licence granted to the subsidiary on 16th February, 2000 and amended on 30th May, 2002. As at 30th June, 2003, there were no such contingent liabilities.

40 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with fellow subsidiaries

Details of material related party transactions between the Group and Henderson Development Limited and its subsidiaries are as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Loan arrangement fee (note i)	69,387	114,140
Building construction income (note ii)	415	21,817
Building management service income (note iii)	32,409	36,723
Rental commission income (note iii)	13,501	14,256
Other interest expense (note i)	<u>65,130</u>	<u>110,815</u>

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions between the Group and its associates and jointly controlled entities are as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Other interest income (note i)	36,427	59,853
Building construction income (note ii)	477,666	290,719
Management fee income (note iii)	20,318	37,620
Professional fee income (note iii)	54,974	25,543
Payment for acquisition of property development rights (note iv)	380,529	—
Sale of goods (note iii)	<u>1,915</u>	<u>8,959</u>

Notes on the Accounts (cont'd)

40 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)**(c) Transactions with related companies**

Details of material related party transactions between the Group and its related companies which represented a trust fund managed by the directors of the Group are as follows: —

	The Group	
	2003 HK\$'000	2002 HK\$'000
Building construction income (note ii)	11,958	418,513
Sales commission income (note iii)	<u>3,309</u>	<u>5,949</u>

Notes:

- (i) Loan arrangement fee, interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Inter-Bank Offer Rate or prime rate.
- (ii) Building construction income represents cost reimbursements plus certain percentage thereon as service fees.
- (iii) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (iv) The consideration was paid by the Group pursuant to the terms of agreement signed between the Group and the associate for entitlement to 27% of the future net sales proceeds of the residential portion of the property development project.
- (v) The amounts due to fellow subsidiaries at 30th June, 2003 are shown in the balance sheet. The amounts due to / from associates and jointly controlled entities at 30th June, 2003 are set out in note 16 and 17 respectively.

(d) Transactions with companies controlled by a director of the Company

Mr Lee Ka Kit, a director of the Company, through companies controlled or owned by him has separate interests in certain subsidiaries and associates of the Company or the Group and through which the Group holds its interest in certain development projects in the PRC. Mr Lee through companies controlled or owned by him had provided finance in the form of advances to these subsidiaries and associates in accordance with the percentage of his equity interest in these companies. At 30th June, 2003, the advances made to these subsidiaries and associates through companies controlled or owned by Mr Lee amounting to HK\$414,438,000 (2002 — HK\$410,158,000) and HK\$664,322,000 (2002 — HK\$646,116,000) respectively are unsecured. Interest payable by these subsidiaries and associates to companies controlled or owned by Mr Lee under such arrangements during the year ended 30th June, 2003 are HK\$Nil (2002 — HK\$Nil) and HK\$17,943,000 (2002 — HK\$39,597,000) respectively.

41 DIRECTORS' REMUNERATION

(a) Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Executive directors		
Fees	1,110	1,060
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	36,010	36,893
Pension scheme contributions	1,572	1,558
Discretionary bonuses	17,920	19,160
	<u>56,612</u>	<u>58,671</u>
Non-executive directors		
Fees	140	140
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	2,000	3,000
	<u>2,140</u>	<u>3,140</u>
Independent non-executive directors		
Fees	240	240
Others	250	250
	<u>490</u>	<u>490</u>

(b) The number of directors whose remuneration fell within designated bands are as follows: —

	The Group	
	2003	2002
	Number of directors	Number of directors
Remuneration bands:		
HK\$		
Nil — 1,000,000	8	8
2,000,001 — 2,500,000	2	—
2,500,001 — 3,000,000	3	4
3,000,001 — 3,500,000	1	2
3,500,001 — 4,000,000	1	1
4,000,001 — 4,500,000	2	2
4,500,001 — 5,000,000	1	1
7,500,001 — 8,000,000	1	—
8,000,001 — 8,500,000	1	2
8,500,001 — 9,000,000	1	—
10,000,001 — 10,500,000	—	1

Notes on the Accounts (cont'd)

42 SENIOR MANAGEMENT REMUNERATION

Of the five individuals with the highest emoluments, four (2002 — four) of them are directors whose emoluments are disclosed in note 41. The aggregate of the emoluments in respect of the other one (2002 — one) individual are as follows: —

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries and other emoluments	3,982	2,696
Discretionary bonuses	440	1,956
Retirement scheme contributions	238	161
	<u>4,660</u>	<u>4,813</u>

43 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2003 to be Henderson Development Limited, incorporated in Hong Kong.

44 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, 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.

Certain comparative figures have also been adjusted as a result of change in accounting policy for employee benefits, details of which are set out in note 2(a).