

Notes to the Financial Statements

for the year ended 30th June, 2003

1 GENERAL

The Company is a public limited liability company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Henderson Development Limited, a private limited liability company incorporated in Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are property development and investment, investment holding, infrastructure, department store operation, security guard services, hotel operations and information technology development.

2 ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity and the changes of the following accounting policies:

(a) Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas operations and subsidiaries at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has had no material effect on the results for the current or prior accounting periods.

(b) Cash flow statements

Under SSAP 15 (Revised) "Cash flow statements", cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which are previously presented under a separate heading, are classified as operating cash flows for interest paid and interest on finance lease paid, investing cash flows for interest received and dividend received and as financing cash flows for dividend paid. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations and subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The presentation in the prior year's cash flow statement has been changed in order to achieve a consistent presentation.

(c) Employee benefits

SSAP 34 "Employee benefits" introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs and liabilities for the defined benefit retirement benefit plans by certain associates of the Group. The adoption of SSAP 34 has resulted in a decrease in the Group's share of post-acquisition reserves of its associates of HK\$76,987,000 at 1st July, 2001 and 1st July, 2002.

The change in policy has resulted in a decrease in the net profit for the year ended 30th June, 2003 of HK\$6,903,000 (2002: Nil).

3 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3 SIGNIFICANT ACCOUNTING POLICIES *(cont'd)***(b) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions on or after 1st July, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the interests in associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill arising on acquisitions prior to 1st July, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

(c) Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented as a deduction from intangible assets.

(d) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(e) Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year based on their financial statements made up to 30th June each year or to a date which is not more than six months before the Group's balance sheet date. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid/less any discount on acquisition in so far as it has not already been amortised/released to income, less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(f) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any identified impairment losses. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Notes to the Financial Statements *(cont'd)*

for the year ended 30th June, 2003

3 SIGNIFICANT ACCOUNTING POLICIES *(cont'd)***(g) Jointly controlled assets**

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of jointly controlled assets, together with its share of joint venture expenses are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group.

(h) Revenue recognition

- (i) Income from the sale of completed properties is recognised upon the execution of a binding sale agreement. 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, if any.
- (ii) The fixed portion of rental income under operating leases is recognised on a straight-line basis over the respective lease term. Contingent rent, which is determined based on a factor other than just the passage of time, is recognised when the Group's entitlement to receive payment has been established in accordance with the terms of the agreements.
- (iii) Sale of goods from the retail business are recognised when goods are delivered and title of goods passes to the purchaser.
- (iv) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (v) Investment income and dividend income from investments are recognised when the Group's rights to receive payment have been established.
- (vi) Income from hotels and restaurants and management services are recognised when the relevant services are provided.
- (vii) Income from security guard services/consultancy service and commission income are recognised when services are provided.
- (viii) Toll fee income is recognised on a cash receipt basis.
- (ix) Income from customer use of data centre services is recognised on a straight-line basis over the terms of the respective leases.
- (x) Revenue from the provision of network services is recognised at the time when the services are rendered.

(i) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value which is assessed annually by professional valuers of the Group and at least once every three years by independent professional valuers. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve, unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(j) Hotel properties**

Hotel properties are stated at their open market value which is assessed annually by qualified valuers of the Group and at least once every three years by independent professional qualified valuers. Any surplus or deficit arising on the revaluation of hotel properties is credited or charged to the other property revaluation reserve on individual basis. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of a hotel property, the balance on the revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on hotel properties held on leases of more than 20 years. Due to the fact that the hotels are maintained in a continuous state of proper repairs and improvements thereto from time to time, the directors consider that given the estimated lives of the hotel properties, any depreciation would be insignificant due to their high residual value.

(k) Properties held for development

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less any identified impairment losses, where appropriate.

(l) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes interest, finance charges, professional fees and other direct costs attributable to such properties until they reach a marketable state. Net realisable value is calculated as the estimated selling price less all costs to completion and costs to be incurred in marketing and selling.

(m) Property, plant and equipment

Property, plant and equipment, other than hotel properties and construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than hotel properties, toll highway operation rights, bridges and construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 50 years
Others	10% to 33%

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

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(n) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that other accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Notes to the Financial Statements *(cont'd)*

for the year ended 30th June, 2003

3 SIGNIFICANT ACCOUNTING POLICIES *(cont'd)***(o) Inventories**

Inventories, which represent retail, catering stocks and trading goods, are stated at the lower of cost and net realisable value. Costs, which comprises all costs of purchase, is calculated on the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(p) Instalments receivable

Instalments receivable represent the principal amounts of proceeds from sale of flats contracted to be received by instalments. The gross amounts repaid by customers include principal and interest calculated at contracted rates on the remaining balance outstanding. The principal amounts receivable within twelve months from the balance sheet date have been included in current assets.

(q) Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased assets at the inception of the leases or, if lower, at the present value of the minimum lease payments. Leased assets are subject to depreciation the same as other owned depreciable assets unless there is no reasonable certainty that the Group will obtain ownership by the end of the lease term whereby the assets are then depreciated over the shorter of the lease term or their estimated useful lives.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

An operating lease is a lease other than a finance lease. Payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term after deducting incentive benefits which are recognised as part of the net consideration agreed for the use of the leased asset, irrespective of their nature or form or the timing of payments.

(r) Development costs

Research and development costs, including website/portal development costs, are charged to the income statement as incurred, except insofar as those product development costs that relate to a clearly defined project and the future benefits therefrom are reasonably assured. Such development costs are then deferred and written off over the life of the project from the date of commencement of commercial operation.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(t) Retirement benefit costs

Payments to defined contribution retirement schemes and mandatory provident fund schemes are charged as an expense as they fall due.

(u) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(v) Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

4 TURNOVER

	The Group	
	2003 HK\$'000	2002 HK\$'000
Hotel operation	71,828	84,696
Information technology services income	83,725	67,437
Rental income	562,500	539,976
Sale of goods	117,924	116,791
Sale of properties	643	2,967
Security guard services	72,896	73,373
Toll fee income	215,704	220,992
Commission income	—	25,421
Others	56,025	56,669
	<u>1,181,245</u>	<u>1,188,322</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

5 BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

The business upon which the Group reports its primary segment information is as follows:

Property leasing	—	property rental
Hotel operation	—	hotel operations and management
Department store	—	department store operations and management
Infrastructure	—	infrastructure project investment
Others	—	sale of properties, provision of cleaning and security guard services and provision of information technology services

Segment information about these businesses is presented below:

2003

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
INCOME AND RESULTS							
Turnover	562,500	71,828	117,924	215,704	213,289	—	1,181,245
Other operating income	3,973	750	1,381	440	63,209	—	69,753
External income	566,473	72,578	119,305	216,144	276,498	—	1,250,998
Inter-segment income	53,228	1,800	—	—	5,474	(60,502)	—
Total income	619,701	74,378	119,305	216,144	281,972	(60,502)	1,250,998

Inter-segment sales were charged at prices determined by management with reference to market prices.

Segment results	314,230	(8,730)	39	138,738	14,620	(7)	458,890
Interest income							28,701
Gain on disposal of investments in securities	—	—	—	—	12,815	—	12,815
Unrealised holding gain on investments in securities	—	—	—	—	63,104	—	63,104
Impairment loss on property, plant and equipment recognised	—	—	—	—	(14,318)	—	(14,318)
Impairment loss on properties held for development recognised	—	—	—	—	(6,404)	—	(6,404)
Allowance for completed properties for sale	—	—	—	—	(46,302)	—	(46,302)
Unallocated corporate expenses							(30,027)
Profit from operations							466,459
Finance costs							(33,240)
Share of results of associates							1,539,060
Gain on disposal of interests in associates							1,734
Amortisation of goodwill							(50,555)
Profit before taxation							1,923,458
Taxation							(253,528)
Profit before minority interests							1,669,930
Minority interests							(44,173)
Net profit for the year							1,625,757

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments** (cont'd)

2003

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000
BALANCE SHEET						
Assets						
Segment assets	4,186,677	740,461	53,310	1,294,424	1,171,775	7,446,647
Investments in associates						13,222,062
Amounts due from associates						126,909
Unallocated corporate assets						944,402
Consolidated total assets						21,740,020
Liabilities						
Segment liabilities	93,513	4,140	89,901	18,237	46,934	252,725
Unallocated corporate liabilities						959,976
Consolidated total liabilities						1,212,701
OTHER INFORMATION						
Capital additions	—	94	8,981	454	15,550	25,079
Depreciation and amortisation	—	(888)	(12,851)	(38,194)	(21,605)	(73,538)

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments** (cont'd)

2002

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
INCOME AND RESULTS							
Turnover	539,976	84,696	142,212	220,992	200,446	—	1,188,322
Other operating income	4,199	735	1,661	532	60,743	—	67,870
External income	544,175	85,431	143,873	221,524	261,189	—	1,256,192
Inter-segment income	62,509	1,740	—	—	4,524	(68,773)	—
Total income	606,684	87,171	143,873	221,524	265,713	(68,773)	1,256,192

Inter-segment sales were charged at prices determined by management with reference to market prices.

Segment results	338,897	(10,590)	2,022	145,334	(45,352)	397	430,708
Interest income							24,269
Gain on disposal of investments in securities	—	—	—	—	2,285	—	2,285
Unrealised holding loss on investments in securities	—	—	—	—	(52,504)	—	(52,504)
Impairment loss on property, plant and equipment recognised	—	—	—	—	(60,260)	—	(60,260)
Impairment in value of investments in securities recognised	—	—	—	—	(11,002)	—	(11,002)
Unallocated corporate expenses							(27,471)
Profit from operations							306,025
Finance costs							(65,559)
Loss on disposal of interests in subsidiaries							(4,417)
Share of results of associates							1,580,147
Gain on disposal of interests in associates							134,455
Impairment in value of associates written back							120,000
Amortisation of goodwill							(38,000)
Profit before taxation							2,032,651
Taxation							(250,132)
Profit before minority interests							1,782,519
Minority interests							(2,361)
Net profit for the year							1,780,158

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Business segments** (cont'd)

2002

	Property leasing HK\$'000	Hotel operation HK\$'000	Department store HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Consolidated HK\$'000 (Restated)
BALANCE SHEET						
Assets						
Segment assets	4,495,993	742,656	58,333	1,331,154	1,374,155	8,002,291
Investments in associates						13,787,202
Amounts due from associates						126,560
Unallocated corporate assets						<u>1,048,886</u>
Consolidated total assets						<u><u>22,964,939</u></u>
Liabilities						
Segment liabilities	85,600	6,061	112,281	21,971	42,220	268,133
Unallocated corporate liabilities						<u>1,909,650</u>
Consolidated total liabilities						<u><u>2,177,783</u></u>
OTHER INFORMATION						
Capital additions	—	227	17,198	5,623	14,341	37,389
Depreciation and amortisation	—	(894)	(11,644)	(36,234)	(34,377)	(83,149)

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

5 BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)**Geographical segments**

The Group's sale of properties, property leasing, hotel operation, department store operation, security guard services and information technology services are carried out in Hong Kong. Infrastructure is carried out in other regions of the People's Republic of China ("PRC").

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

2003

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Turnover	952,352	228,893	1,181,245
Other operating income	67,401	2,352	69,753
External income	1,019,753	231,245	1,250,998

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Carrying amount of segment assets	20,295,694	1,444,326	21,740,020
Additions to property, plant and equipment	24,347	732	25,079

2002

	Hong Kong HK\$'000 (Restated)	PRC HK\$'000	Consolidated HK\$'000 (Restated)
Turnover	961,110	227,212	1,188,322
Other operating income	60,570	7,300	67,870
External income	1,021,680	234,512	1,256,192

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Carrying amount of segment assets	21,581,900	1,383,039	22,964,939
Additions to property, plant and equipment	31,700	5,689	37,389

Segmental information for the principal associates of the Group are shown on pages 83 to 89.

6 OTHER OPERATING INCOME

	The Group	
	2003 HK\$'000	2002 HK\$'000
Compensation for early termination of tenancy agreements	43	187
Interest income	28,701	24,269
Dividend income from listed investments	53,840	28,048
Dividend income from unlisted investments	2,966	7,083
Sponsorship fee	1,388	1,584
Sundry income	11,516	30,968
	<u>98,454</u>	<u>92,139</u>

7 PROFIT FROM OPERATIONS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Allowances for doubtful debts	4,511	178
Auditors' remuneration	3,323	2,969
Cost of inventories recognised as an expense	122,627	128,346
Cost of properties recognised as an expense	46,634	2,145
Depreciation and amortisation		
Owned assets	73,085	82,450
Assets held under finance leases	453	699
Development costs	41	17
Loss on disposal of property, plant and equipment	1,269	7,154
Minimum leases payments under operating lease in respect of		
Rented premises	90,095	85,289
Telecommunications network facilities	8,731	12,236
Staff costs including directors emoluments	215,274	221,313
and after crediting:		
Rental from investment properties net of outgoings		
of HK\$119,898,000 (2002: HK\$111,209,000) (Note a)	210,105	230,627
Other rental income less outgoings (Notes a and b)	<u>67,925</u>	<u>60,393</u>

Notes:

- (a) Including contingent rental income of HK\$89,257,000 from investment properties and other properties (2002: HK\$66,777,000).
- (b) Including rental income of HK\$1,619,000 (2002: HK\$1,894,000) from jointly controlled assets less expenses of HK\$573,000 (2002: HK\$583,000).

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

8 FINANCE COSTS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	18,143	57,006
Bank loans and overdrafts wholly repayable after five years	11,442	—
Finance leases	70	226
Other borrowings	3,585	8,327
	<u>33,240</u>	<u>65,559</u>

9 IMPAIRMENT IN VALUE OF ASSOCIATES WRITTEN BACK

The amount represented reversal of an impairment loss recognised in respect of an investment in one of the Group's associates in prior years. This followed a review of the carrying amount of the said investment on 30th June, 2002.

10 DIRECTORS' EMOLUMENTS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Directors' fees	360	360
Other emoluments	180	180
Total emoluments	<u>540</u>	<u>540</u>

Except for directors' fees of HK\$60,000 (2002: HK\$60,000) and other emoluments of HK\$100,000 (2002: HK\$100,000), no emoluments were paid to the independent non-executive directors during the two years ended 30th June, 2003.

The aggregate emoluments of each of the directors during the relevant periods were within the emolument band of Nil to HK\$1,000,000.

There was no arrangement under which a director had waived or agreed to waive any emoluments during the year.

Certain of the directors received remuneration from the Company's intermediate holding company for services provided to the Group headed by the intermediate holding company of which the Company is a member.

No apportionment has been made as the directors are of the opinion that it is impracticable to apportion this amount between their services to the Company's intermediate holding company and each of that company's subsidiaries.

11 EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals in the Group, none of whom is a director, are as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances and benefits in kind	5,593	5,958
Contributions to retirement benefit schemes	158	157
Bonus	215	535
	<u>5,966</u>	<u>6,650</u>

Their emoluments are within the following bands:

Bands	Number of employees	
	2003	2002
Nil — HK\$1,000,000	2	1
HK\$1,000,001 — HK\$1,500,000	2	2
HK\$1,500,001 — HK\$2,000,000	1	2
	<u>5</u>	<u>5</u>

12 TAXATION

	The Group	
	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Profit for the year		
Hong Kong	34,616	30,156
PRC	12,072	9,040
	<u>46,688</u>	<u>39,196</u>
(Over)underprovision in prior years		
Hong Kong	(52)	2,893
	<u>46,636</u>	<u>42,089</u>
Share of tax on results of associates	206,892	208,043
	<u>253,528</u>	<u>250,132</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit 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 jurisdiction during the year.

Details of the unprovided deferred tax are set out in note 33.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

13 DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim paid, 11 cents (2002: 11 cents) per share	309,906	309,906
Final proposed, 11 cents (2002: 11 cents) per share	<u>309,906</u>	<u>309,906</u>
	<u><u>619,812</u></u>	<u><u>619,812</u></u>

14 EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$1,625,757,000 (2002: HK\$1,780,158,000) and on 2,817,327,395 (2002: 2,817,327,395) ordinary shares in issue during the year. Diluted earnings per share is not shown as there were no dilutive potential shares in existence during the two years ended 30th June, 2003.

15 INVESTMENT PROPERTIES

	The Group HK\$'000
At 1st July, 2002	4,215,740
Revaluation decrease	<u>(267,554)</u>
At 30th June, 2003	<u><u>3,948,186</u></u>

Representing:

	2003 HK\$'000	The Group 2002 HK\$'000
Long-term leasehold properties situated in Hong Kong	967,023	1,030,325
Medium-term leasehold properties situated in Hong Kong	<u>2,981,163</u>	<u>3,185,415</u>
	<u><u>3,948,186</u></u>	<u><u>4,215,740</u></u>

Investment properties were revalued on 30th June, 2003 on an open market value basis by Messrs. DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers. The deficit arising on revaluation of investment properties attributable to the Group has been debited to the investment property revaluation reserve.

All the investment properties of the Group are rented out under operating leases.

Investment properties in Hong Kong with a total carrying value of HK\$356,586,000 (2002: HK\$399,440,000) were co-owned with certain fellow subsidiaries as tenants in common. The carrying values represent the Group's proportionate share in the valuation of the relevant properties.

16 PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000	Other land and buildings HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Construction in progress HK\$'000	Leasehold improvements, equipment, furniture, fixtures and motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st July, 2002	736,000	54,808	789,529	655,617	974	394,443	2,631,371
Additions	—	—	—	136	56	24,887	25,079
Disposals	—	(1)	—	—	—	(28,251)	(28,252)
Reclassification	—	—	—	—	(1,018)	1,018	—
At 30th June, 2003	<u>736,000</u>	<u>54,807</u>	<u>789,529</u>	<u>655,753</u>	<u>12</u>	<u>392,097</u>	<u>2,628,198</u>
Comprising:							
At cost	—	54,807	789,529	655,753	12	392,097	1,892,198
At valuation – 30th June, 2003	<u>736,000</u>	—	—	—	—	—	<u>736,000</u>
	<u>736,000</u>	<u>54,807</u>	<u>789,529</u>	<u>655,753</u>	<u>12</u>	<u>392,097</u>	<u>2,628,198</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1st July, 2002	—	7,717	66,287	65,800	—	253,963	393,767
Provided for the year	—	1,249	21,239	14,250	—	36,800	73,538
Eliminated on disposals	—	—	—	—	—	(24,336)	(24,336)
Impairment loss (Note)	—	—	—	—	—	14,318	14,318
At 30th June, 2003	<u>—</u>	<u>8,966</u>	<u>87,526</u>	<u>80,050</u>	<u>—</u>	<u>280,745</u>	<u>457,287</u>
NET BOOK VALUES							
At 30th June, 2003	<u>736,000</u>	<u>45,841</u>	<u>702,003</u>	<u>575,703</u>	<u>12</u>	<u>111,352</u>	<u>2,170,911</u>
At 30th June, 2002	<u>736,000</u>	<u>47,091</u>	<u>723,242</u>	<u>589,817</u>	<u>974</u>	<u>140,480</u>	<u>2,237,604</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

16 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Hotel properties		Other land and buildings		Toll highway operation rights		Bridges		Construction in progress	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long-term leasehold properties situated in										
— Hong Kong	216,000	216,000	1	1	—	—	—	—	—	—
— PRC	—	—	915	959	—	—	—	—	—	—
Medium-term leasehold properties situated in										
— Hong Kong	520,000	520,000	42,059	43,077	—	—	—	—	—	—
— PRC	—	—	2,866	3,054	702,003	723,242	575,703	589,817	12	974
	<u>736,000</u>	<u>736,000</u>	<u>45,841</u>	<u>47,091</u>	<u>702,003</u>	<u>723,242</u>	<u>575,703</u>	<u>589,817</u>	<u>12</u>	<u>974</u>

Hotel properties were revalued on 30th June, 2003 on an open market value basis by Messrs. DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers.

The net book value of motor vehicles and equipment include an amount of HK\$634,000 (2002: HK\$1,087,000) in respect of assets held under finance leases.

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

Note:

During the year, the operating environment of the information technology services was difficult and the operation of the retailing business in PRC has been 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 improvement were written down by HK\$3,857,000 (2002: HK\$60,260,000) and HK\$10,461,000 (2002: Nil), respectively.

	Furniture and equipment HK\$'000
THE COMPANY	
COST	
At 1st July, 2002 and 30th June, 2003	21
DEPRECIATION	
At 1st July, 2002 and 30th June, 2003	<u>21</u>
NET BOOK VALUES	
At 30th June, 2003 and 30th June, 2002	<u><u>—</u></u>

17 PROPERTIES HELD FOR DEVELOPMENT**THE GROUP**

Included in properties held for development is net interest capitalised of HK\$618,000 (2002: HK\$618,000).

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>2,107,070</u>	<u>2,263,258</u>

Details of the principal subsidiaries are shown on pages 77 to 81.

19 INTERESTS IN ASSOCIATES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Unlisted				
Shares, at cost	—	—	164,226	167,183
Share of net assets	<u>401,706</u>	<u>466,329</u>	—	—
	<u>401,706</u>	<u>466,329</u>	<u>164,226</u>	<u>167,183</u>
Listed in Hong Kong				
Share of net assets	<u>11,892,923</u>	<u>12,460,631</u>	—	—
Goodwill on acquisition of associates	<u>1,190,913</u>	<u>1,073,167</u>	—	—
Amortisation	<u>(104,555)</u>	<u>(45,000)</u>	—	—
	<u>1,086,358</u>	<u>1,028,167</u>	—	—
Negative goodwill on acquisition of associates	<u>(174,925)</u>	<u>(174,925)</u>	—	—
Release to income statement	<u>16,000</u>	<u>7,000</u>	—	—
	<u>(158,925)</u>	<u>(167,925)</u>	—	—
	<u>12,820,356</u>	<u>13,320,873</u>	—	—
	<u>13,222,062</u>	<u>13,787,202</u>	<u>164,226</u>	<u>167,183</u>
Market value of listed investments	<u>22,578,027</u>	<u>23,688,952</u>	—	—

The goodwill (negative goodwill) is amortised (released) to the consolidated income statement on a straight-line basis over 20 years.

Details of the principal associates are shown on page 82.

21 AMOUNTS DUE FROM INVESTEE COMPANIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
The amounts are repayable as follows:		
Within one year	1,613	630
After one year	<u>4,725</u>	<u>5,670</u>
	6,338	6,300
Less: Amounts due within one year shown under current assets	<u>(1,613)</u>	<u>(630)</u>
	<u>4,725</u>	<u>5,670</u>

The amounts are unsecured. Included above is an amount of HK\$6,300,000 (2002: HK\$6,300,000), which bears interest at 10% (2002: 10%) per annum, repayable by instalments and the last instalment is repayable in October 2006. The remaining balances are interest-free and with no fixed repayment terms.

22 INVENTORIES**THE GROUP**

Inventories of HK\$1,323,000 (2002: HK\$1,131,000) are carried at net realisable value.

23 COMPLETED PROPERTIES FOR SALE**THE GROUP**

Completed properties for sale with a total carrying value of HK\$29,536,000 (2002: HK\$30,686,000) were co-owned with certain fellow subsidiaries as tenants in common and the carrying value represents the Group's proportionate share in the total cost of the relevant properties.

Completed properties for sale of HK\$187,154,000 (2002: HK\$86,501,000) are carried at net realisable value.

24 DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchases pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties are payable in advance by tenants. In respect of retailing, most of transaction are being on cash basis. Other trade debtors settle their accounts according to the payment terms as stated in contracts. An aged analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The aged analysis of trade debtors (net of allowances for bad debts) of the Group is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Under 1 month overdue	57,410	29,284
1 to 3 months overdue	23,983	31,868
More than 3 months overdue but less than 6 months overdue	6,206	5,110
Over 6 months overdue	<u>3,879</u>	<u>7,451</u>
	91,478	73,713
Prepayments, deposits and other receivable	<u>164,249</u>	<u>393,880</u>
	<u>255,727</u>	<u>467,593</u>

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

25 CREDITORS AND ACCRUED EXPENSES

The aged analysis of trade payables of the Group included in creditors and accrued expenses by due date is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Due within 1 month or on demand	110,620	140,526
Due after 1 month but within 3 months	42,139	44,240
Due after 3 months but within 6 months	4,155	4,053
Due after 6 months	5,757	4,186
	<u>162,671</u>	<u>193,005</u>
Rental deposits and other payable	97,946	95,402
Total creditors and accrued expenses	<u>260,617</u>	<u>288,407</u>

26 BORROWINGS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans	536,985	1,494,524
Other loans	26,320	26,320
Bank overdrafts	36,987	42,330
	<u>600,292</u>	<u>1,563,174</u>
Secured	259,485	294,614
Unsecured	340,807	1,268,560
	<u>600,292</u>	<u>1,563,174</u>

The borrowings bear interest at prevailing market rates and are repayable as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	360,243	430,772
Between one to two years	65,485	996,257
Between two to five years	109,289	70,870
After five years	65,275	65,275
	<u>600,292</u>	<u>1,563,174</u>
Less: Amounts due within one year and included in current liabilities	<u>(360,243)</u>	<u>(430,772)</u>
Amounts due after one year	<u>240,049</u>	<u>1,132,402</u>

27 OBLIGATIONS UNDER FINANCE LEASES

At the balance sheet date, the total minimum lease payments and the present value of the obligations under financial leases for each of the following periods are:

	The Group			
	Total outstanding minimum lease payments		Present value	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Not later than one year	51	487	47	417
Later than one year and not later than five years	—	51	—	47
	51	538	47	464
Less: Future finance charges	(4)	(74)	—	—
Present value of lease obligations	47	464	47	464
Amount due within one year shown under current liabilities			(47)	(417)
Amount shown under non-current liabilities			—	47

The difference between the total outstanding minimum lease payments and the present value represents the discount implicit in the leases.

The Group enters into finance leasing arrangements for certain of its motor vehicles and equipment. The average term of finance leases entered into is two years.

28 SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.2 each	600,000	600,000
Issued and fully paid:		
2,817,327,395 (2002: 2,817,327,395) ordinary shares of HK\$0.2 each	563,466	563,466

There was no movement in the share capital of the Company for the two years ended 30th June, 2003.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

29 RESERVES

	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital reserve HK\$'000	Share premium account HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1st July, 2001							
As previously reported	2,969,661	527,432	12,909	6,158,568	338,079	8,679,539	18,686,188
Prior period adjustment (Note a)	—	—	—	—	—	(76,987)	(76,987)
As restated	2,969,661	527,432	12,909	6,158,568	338,079	8,602,552	18,609,201
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Surplus (deficit) on revaluation							
Company and subsidiaries	(56,948)	(94,000)	—	—	—	—	(150,948)
Associates	34,327	—	—	—	—	—	34,327
Net profit for the year	—	—	—	—	—	1,780,158	1,780,158
Realisation of revaluation reserve	(443)	(23,436)	—	—	—	—	(23,879)
Realisation on disposal of associates	(282,290)	—	—	—	—	—	(282,290)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 1st July, 2002	2,664,307	409,996	12,909	6,158,568	309,906	9,762,898	19,318,584
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Deficit on revaluation							
Company and subsidiaries	(264,585)	—	—	—	—	—	(264,585)
Associates	(940,552)	—	—	—	—	—	(940,552)
Net profit for the year	—	—	—	—	—	1,625,757	1,625,757
Realisation of revaluation reserve	(3,315)	(39,472)	—	—	—	—	(42,787)
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 30th June, 2003	<u>1,455,855</u>	<u>370,524</u>	<u>12,909</u>	<u>6,158,568</u>	<u>309,906</u>	<u>10,768,843</u>	<u>19,076,605</u>
THE COMPANY							
At 1st July, 2001	—	—	3,461	6,158,568	338,079	4,547,755	11,047,863
Final dividend paid	—	—	—	—	(338,079)	—	(338,079)
Net profit for the year	—	—	—	—	—	785,570	785,570
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 1st July, 2002	—	—	3,461	6,158,568	309,906	4,713,513	11,185,448
Final dividend paid	—	—	—	—	(309,906)	—	(309,906)
Net profit for the year	—	—	—	—	—	598,730	598,730
Interim dividend paid	—	—	—	—	—	(309,906)	(309,906)
Final dividend proposed	—	—	—	—	309,906	(309,906)	—
At 30th June, 2003	<u>—</u>	<u>—</u>	<u>3,461</u>	<u>6,158,568</u>	<u>309,906</u>	<u>4,692,431</u>	<u>11,164,366</u>

29 RESERVES (cont'd)

Included in the above is the Group's share of post-acquisition reserves of its associates as follows:

	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Capital reserve HK\$'000	Share premium account HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st July, 2001							
As previously reported	1,248,937	62,908	—	—	—	3,529,628	4,841,473
Prior period adjustment (Note a)	—	—	—	—	—	(76,987)	(76,987)
As restated	1,248,937	62,908	—	—	—	3,452,641	4,764,486
Surplus on revaluation	34,327	—	—	—	—	—	34,327
Realisation of revaluation reserve	(443)	(23,436)	—	—	—	—	(23,879)
Realisation on disposal of associates	(282,290)	—	—	—	—	28,177	(254,113)
Net profit for the year	—	—	—	—	—	490,867	490,867
At 1st July, 2002	1,000,531	39,472	—	—	—	3,971,685	5,011,688
Deficit on revaluation	(940,552)	—	—	—	—	—	(940,552)
Realisation of revaluation reserve	(3,315)	(39,472)	—	—	—	—	(42,787)
Net profit for the year	—	—	—	—	—	464,572	464,572
At 30th June, 2003	56,664	—	—	—	—	4,436,257	4,492,921

Notes:

- (a) Retained profits and the Group's share of post-acquisition reserves of its associates have been restated as a result of a change in accounting policy.
- (b) The Company's reserves available for distribution to shareholders at the balance sheet date are represented by its dividend reserve and retained profits amounting to HK\$309,906,000 and HK\$4,692,431,000 (2002: HK\$309,906,000 and HK\$4,713,513,000) respectively.

30 MINORITY INTERESTS**THE GROUP**

Including amounts due to minority shareholders of HK\$156,613,000 (2002: HK\$186,782,000).

The minority shareholders have agreed that no repayment will be demanded within the next twelve months from the balance sheet date.

Notes to the Financial Statements *(cont'd)*

for the year ended 30th June, 2003

31 DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	14,836
Property held for development	—	2,922
Inventories	—	216
Debtors, deposits and prepayments	—	444
Amount due from immediate holding company	—	151
Bank balances and cash	—	245
Creditors and accrued expenses	—	(814)
Taxation	—	(45)
	<u>—</u>	<u>17,955</u>
Net assets	—	17,955
Loss on disposal	—	(4,417)
	<u>—</u>	<u>13,538</u>
Total consideration	<u>—</u>	<u>13,538</u>
Satisfied by:		
Cash consideration	<u>—</u>	<u>13,538</u>
Net cash inflow arising on disposal:		
Cash consideration	—	13,538
Bank balances and cash disposed of	—	(245)
	<u>—</u>	<u>13,293</u>

The subsidiary disposed of during last year did not have any significant contribution to the Group's cash flows or operating results for last year.

32 MAJOR NON-CASH TRANSACTIONS

Part of the consideration from the disposal of associates in prior year of HK\$257,903,000 remained unsettled at 30th June, 2002.

33 UNPROVIDED DEFERRED TAX

At the balance sheet date, the major components of the unprovided deferred tax assets (liabilities) are as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(37,737)	(24,326)	—	—
Unutilised tax losses	220,723	197,684	1,554	378
Other timing differences	—	62	—	—
	<u>182,986</u>	<u>173,420</u>	<u>1,554</u>	<u>378</u>

The amount of the unprovided deferred tax (credit) charge for the year is analysed as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:				
Excess (shortfall) of tax allowances over depreciation	11,130	(3,711)	—	—
Tax losses (arising) utilised	(4,506)	(6,875)	1,176	3,012
Other timing differences	68	(78)	—	—
Effect of change in tax rate	(16,258)	—	—	—
	<u>(9,566)</u>	<u>(10,664)</u>	<u>1,176</u>	<u>3,012</u>

The deferred tax asset primarily relating to taxation losses has not been recognised in the financial statements as it is uncertain that the resulting deferred tax asset will crystallise in the foreseeable future.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of investment properties and hotel properties as profit arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purpose.

34 JOINTLY CONTROLLED ASSETS

Completed properties for sale include the Group's share of interest in jointly controlled assets with an aggregate book value of HK\$17,998,000 (2002: HK\$35,493,000). The Group's share of liabilities incurred in relation to the jointly controlled assets included in creditors and accrued expenses amounted to HK\$411,000 (2002: HK\$451,000).

35 PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Of the pledged bank deposits and bank balances and cash items, a total sum being the equivalent of HK\$118,519,000 (2002: HK\$76,593,000) was kept in other regions of the PRC and is subject to exchange control regulations.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

36 SHARE OPTION SCHEMES

Under the Pre-IPO Share Option Plan ("Option Plan") of Henderson Cyber Limited ("Henderson Cyber") a subsidiary of the Company, options to subscribe for an aggregate of 32,000,000 shares of Henderson Cyber were granted to certain directors and employees of Henderson Cyber, its holding companies, subsidiaries, fellow subsidiaries and affiliated company on 28th June, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Option Plan, each of the grantees will be entitled to exercise at the price of HK\$1.25 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 14th July, 2000, (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 14th July, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 14th July, 2000 and, in each case, not later than four years from 14th July, 2000.

Under the Share Option Scheme ("Share Option Scheme") of Henderson Cyber, options to subscribe for an aggregate of 150,000 shares of Henderson Cyber were granted to certain employees of the Group on 4th October, 2000 at the consideration of HK\$1.00 for each grant of options.

Subject to the terms and conditions of the Share Option Scheme, each of the grantees will be entitled to exercise at the price of HK\$0.89 per share (i) thirty per cent of the share options so granted at any time after the expiry of 12 months from 16th October, 2000 (the date of acceptance of the share options), (ii) a further thirty per cent of the share options so granted at any time after the expiry of 24 months from 16th October, 2000 and (iii) the remaining share options at any time after the expiry of 36 months from 16th October, 2000 and, in each case, not later than four years from 16th October, 2000.

2003

	Number of share option at 1st July, 2002	Number of share option lapsed during the year	Reclassification	Number of share option at 30th June, 2003
Option Plan				
Directors	9,200,000	—	—	9,200,000
Employees	1,250,000	—	600,000	1,850,000
Other participants	17,300,000	(100,000)	(600,000)	16,600,000
	<u>27,750,000</u>	<u>(100,000)</u>	<u>—</u>	<u>27,650,000</u>
Share Option Scheme				
Employees	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>

2002

	Number of share option at 1st July, 2002	Number of share option lapsed during the year	Reclassification	Number of share option at 30th June, 2003
Option Plan				
Directors	9,200,000	—	—	9,200,000
Employees	1,300,000	(50,000)	—	1,250,000
Other participants	19,150,000	(1,850,000)	—	17,300,000
	<u>29,650,000</u>	<u>(1,900,000)</u>	<u>—</u>	<u>27,750,000</u>
Share Option Scheme				
Employees	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>

37 EMPLOYEES RETIREMENT SCHEMES

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Schemes Ordinance ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. The amount of forfeited contributions utilised during the year was HK\$192,000 (2002: HK\$155,000). At 30th June, 2003, there was no remaining balance available to be utilised (2002: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1st December, 2000.

Employees of the Group who are not members of the Fund and the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. The amount of forfeited contributions utilised during the year was HK\$312,000 (2002: Nil), and there was no remaining balance available to be utilised at 30th June, 2003 (2002: HK\$278,000).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the income statement for the year ended 30th June, 2003 were HK\$7,968,000 (2002: HK\$8,606,000).

38 CAPITAL COMMITMENTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted commitments for the acquisition of property, plant and equipment and for property development and renovation expenditure	<u>14,579</u>	<u>14,579</u>
Contracted commitments for system development costs	<u>907</u>	<u>—</u>
System development costs approved by the directors but not yet contracted for	<u>—</u>	<u>1,447</u>

39 CONTINGENT LIABILITIES

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Guarantees given to banks to secure banking facilities utilised by subsidiaries	<u>313,789</u>	<u>1,242,240</u>

As at 30th June, 2002, there were contingent liabilities in respect of a performance bond guaranteed by a bank on behalf of a subsidiary of the Company amounting to HK\$12,000,000. The performance bond was provided in accordance with the terms of the fixed telecommunication network services licence granted to the subsidiary on 16th February, 2000 and amended on 30th May, 2002.

Notes to the Financial Statements (cont'd)

for the year ended 30th June, 2003

40 OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	85,292	55,154
Later than one year and not later than five years	111,865	154,300
Later than five years	<u>152,082</u>	<u>256,374</u>
	<u>349,239</u>	<u>465,828</u>

Operating lease commitments represent rentals payable by the Group for retail shopping centre, telecommunication network facilities and certain of its office premises. The leases for retail shopping centre and office premises are negotiated for terms of six months to twenty years at fixed rental. Some of leases for telecommunications network facilities 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 for telecommunication network facilities includes contingent rentals.

The Group as lessor

At the balance sheet date, the following assets were rented out under operating leases:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Investment properties	3,948,186	4,215,740
Other land and buildings	25,875	18,215
Completed properties for sale	176,340	230,024
Properties held for development	<u>7,222</u>	<u>12,541</u>

These assets were leased out for periods of one to six years with an option to renew the lease and terms are subject to renegotiated upon expiry.

Contingent rental income were calculated based on the excess of certain percentages of turnover of the relevant operation that occupied the premise/property over the fixed portion of the monthly rentals.

At the balance sheet date, the future minimum lease payments under non-cancellable operating leases for each of the following periods is:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	319,506	333,278
Later than one year and not later than five years	<u>170,359</u>	<u>194,379</u>
	<u>489,865</u>	<u>527,657</u>

At the balance sheet date, the Company had no commitment under operating lease.

41 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

	Fellow subsidiaries		Associates		Investee companies	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accountancy fee paid	5,859	5,859	—	—	—	—
Agency commission paid	17,754	18,407	—	—	—	—
Building management fee paid	54,065	57,530	—	—	—	—
Cleaning services income	10,059	8,153	—	—	—	—
Consultancy service income	11,014	2,584	2,070	118	—	—
Hotel management fee income	750	735	—	—	—	—
Hotel management fee paid	—	—	2,418	2,927	—	—
Interest expenses	1,992	5,610	—	—	—	—
Interest income	—	—	2,417	2,436	—	—
Licence fee	837	952	—	—	—	—
Management fee income	1,008	1,131	—	—	—	—
Professional fee paid	2,470	2,538	1,007	756	—	—
Rental expenses	75,787	70,804	4,802	4,718	—	—
Rental income	10,513	5,596	—	—	—	—
Security guard service income	47,631	53,194	—	—	—	—
Staff cost reimbursement	—	211	557	2,460	—	—
At the balance sheet date						
Amounts due to						
— Interest-free	—	—	234	26,097	4,143	360
— Interest bearing	199,414	159,469	—	—	—	—
Amounts due from						
— Interest-free	—	—	66,909	66,560	38	—
— Interest bearing	—	—	60,000	60,000	6,300	6,300
	—	—	126,909	126,560	6,338	6,300
Rental deposit paid	2,727	2,701	—	—	—	—

Notes:

- (1) Apart from the above interest-bearing advances with interest chargeable on the balances outstanding from time to time based on Hong Kong Inter-Bank Offer Rate or with interest at market rates, the other transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.
- (2) During the year, interests in certain associates were transferred to the ultimate holding company at loss of HK\$3,000 (2002: at profit of HK\$1,877,000).
- (3) The Company's holding company performed administrative services comprising company secretarial, accounting and personnel to certain group companies at no charge as the directors consider that the costs involved were not significant.

42 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.