

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property investment, management and development.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Hong Kong Financial Reporting Standard ("HKFRS"), the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes", issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAP and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Accumulated profits as at 1 January 2003 have been reduced by HK\$106.7 million (2002: HK\$96.3 million) which is the cumulative effect of the change in policy on the results up to that date. The balances on the Company's investment properties and assets revaluation reserves at 1 January 2003 have been reduced by HK\$4.3 million (2002: HK\$4.3 million) and HK\$1.3 million (2002: HK\$1.4 million) respectively, representing the deferred tax liabilities recognised in respect of the revaluation surpluses on the Company's properties at that date. The effect of the changes is an increased charge to taxation in the current year of HK\$65.5 million (2002: HK\$10.4 million).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

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 or an associate at the date of acquisition.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight line basis over its useful life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 or an associate at the date of acquisition over the cost of acquisition.

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

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *continued***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 based on independent professional valuations at each balance sheet date. 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 disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of 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.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 40 years
Furniture, fixtures and equipment	20%
Computers	20%
Motor vehicles	25%

The gain or loss arising on 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.

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 loss is recognised as an expense immediately, unless the asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

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 asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation increase under that SSAP.

Fixed rate notes/floating rate notes issue expenses

Expenses incurred directly in connection with the issue of fixed rate notes/floating rate notes are deferred and amortised on a straight line basis over the terms of the notes.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date, with the exception of those items covered under forward exchange contracts, which are re-translated at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of associates which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the interests in associates are disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *continued*

Taxation *continued*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Recognition of income

Rental income is recognised on a straight line basis over the relevant lease term.

Income from property sales is recognised on the execution of a binding sales agreement.

Management fee income and security service income are recognised when the services are rendered.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Financial instruments and derivatives

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

4. TURNOVER

	2003 HK\$'000	2002 HK\$'000
Turnover comprises:		
Gross rental income from properties	1,135,126	1,229,599
Income from property sales	—	1,550
Management fee and security service income	4,182	2,249
	1,139,308	1,233,398

As the Group's turnover is derived principally from rental income and wholly in Hong Kong, no segment financial analysis is provided.

5. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs	118,555	111,699
Retirement benefits scheme contributions (<i>note 35</i>)	5,006	4,821
Forfeited contributions (<i>note 35</i>)	(1,067)	(1,189)
	122,494	115,331
Depreciation	4,643	4,793
Auditors' remuneration	1,866	1,629
Rental income arising from operating leases less out-goings	(899,948)	(996,702)
Dividends from		
- listed investments	(19,795)	(3,145)
- unlisted investments	(2,818)	(7,367)
Gain on property sales	—	(1,500)
Interest income	(1,926)	(4,842)
(Gain) loss on disposal of property, plant and equipment	(46)	2
Exchange loss	1,631	—

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

6. DIRECTORS' REMUNERATION

	2003 HK\$'000	2002 HK\$'000
Directors' fees	725	757
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	12,093	10,548
Bonus paid	981	1,552
Retirement benefits scheme contributions	243	232
	14,042	13,089

The number of Directors whose remuneration/fees within the bands set out below is as follows:

	2003 No. of Directors	2002 No. of Directors
HK\$ 0 - HK\$1,000,000	9	9
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	—	—
HK\$2,000,001 - HK\$2,500,000	—	—
HK\$2,500,001 - HK\$3,000,000	1	—
HK\$3,000,001 - HK\$3,500,000	2	2
HK\$3,500,001 - HK\$4,000,000	—	—
HK\$4,000,001 - HK\$4,500,000	1	1
	13	13

The above includes total emoluments actually paid to Directors. All executive Directors are entitled to housing benefits. Two Directors (the Chairman and Managing Director) did not take such housing benefits for a substantial part of 2003.

Directors' fees paid to Independent non-executive Directors during the year totalled HK\$223,219 (2002: HK\$255,000). They received no other emoluments from the Company or any of its subsidiaries.

6. DIRECTORS' REMUNERATION *continued*

Remuneration breakdown of each of the current executive Directors for year 2003 are set out below:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Peter T.C. Lee (<i>Note a</i>)	82	2,809	310	12	3,213
Michael T.H. Lee (<i>Note b</i>)	50	2,468	175	12	2,705
Pauline W.L. Yu Wong	50	2,642	248	207	3,147
	182	7,919	733	231	9,065

Notes:

- (a) The Chairman did not take up housing benefits to which he was entitled for a substantial part of 2003. Following a review of his compensation in November 2003, his fixed base package is HK\$4.1 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review.
- (b) The Managing Director did not take up housing benefits to which he was entitled for a substantial part of 2003. Following a review of his compensation in November 2003, his fixed base package is HK\$3.5 million as from December 2003. The portion of his total remuneration which is performance-based has also been increased following the review.

Remuneration breakdown of Michael C.K. Moy, who resigned as a Director on 28 January 2004, for year 2003 were as follows:

	Directors' fees HK\$'000	Basic salaries, housing, allowances and benefits HK\$'000	Bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Michael C.K. Moy	50	4,174	248	12	4,484

7. EMPLOYEE COSTS

The five highest paid individuals included four (2002: four) directors, details of whose remuneration are set out in note 6. The remuneration of the remaining individual (2002: one individual), whose remuneration is within the band ranged from HK\$2,000,001 to HK\$2,500,000, is detailed as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,296	2,120
Bonus paid	92	277
Retirement benefits scheme contributions	12	12
	2,400	2,409

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on		
- bank loans, overdraft and other loans:		
wholly repayable within five years	49,304	78,947
not repayable within five years	20,001	27,913
- floating rate notes	10,059	24,952
- fixed rate notes	109,200	88,149
	188,564	219,961
Net interest paid (received) from financial instruments:		
- due within five years	710	(322)
- due after five years	(32,926)	(11,621)
	(32,216)	(11,943)
Amortisation of fixed rate and floating rate notes issue expenses	2,030	2,401
Bank charges	6,884	9,543
Net exchange loss	—	82
Medium Term Note Programme expenses	897	509
Hedging expenses	2,131	—
	168,290	220,553

9. TAXATION

	2003 HK\$'000	2002 HK\$'000 (restated)
Hong Kong Profits Tax for the year	51,532	64,703
Under (over) provision in prior years	158	(10,095)
Provision arising from prior years additional assessments	48,000	42,000
	99,690	96,608
Deferred tax (<i>note 29</i>):		
- current year	55,408	11,724
- attributable to change in tax rate	10,126	—
	165,224	108,332

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

During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at the balance sheet date.

9. TAXATION *continued*

The charge for the year ended 31 December 2003 and 31 December 2002 can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	736,704		696,365	
Tax at the domestic income tax rate of 17.5% (2002: 16%)	128,923	17.5	111,418	16.0
Tax effect of expenses that are not deductible in determining taxable profit	871	0.1	2,202	0.3
Tax effect of utilisation of tax losses not previously recognised	(10,222)	(1.4)	(15,992)	(2.3)
Tax effect of income that are not assessable in determining taxable profit	(12,872)	(1.8)	(2,609)	(0.4)
Tax effect of tax loss not provided	331	0.1	40	—
Tax effect of share of results of associates	(3,191)	(0.4)	(23)	—
Tax effect of deferred tax assets (liabilities) not recognised	3,093	0.4	(18,440)	(2.6)
Under (over) provision in prior years	158	—	(10,095)	(1.4)
Provision arising from prior years additional assessments	48,000	6.5	42,000	6.0
Increase in opening deferred tax balances resulting from an increase in the tax rate in Hong Kong	10,126	1.4	—	—
Others	7	—	(169)	—
Tax expense and effective tax rate for the year	165,224	22.4	108,332	15.6

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 29).

At the date of issue of the accounts, certain subsidiaries of the Group have disputes with the Hong Kong Inland Revenue ("IRD") regarding additional tax assessments disallowing certain expense deductions claimed in the tax returns for years of assessment 1995/1996 to 1999/2000 (total tax claimed by IRD: HK\$193 million). Having taken separate legal advice from two leading counsel, the Directors are of the view that there were ample grounds to contest the assessments and such Group subsidiaries are pursuing objection against the additional assessments vigorously.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:		
Interim dividend, paid - HK\$0.10 per share (2002: HK\$0.10)	104,044	103,355
Final dividend, proposed - HK\$0.265 per share (2002: HK\$0.265)	276,547	274,174
	380,591	377,529

The 2003 final dividend of HK\$0.265 (2002: HK\$0.265) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. The proposed final dividend for 2003 will be payable in cash with a scrip dividend alternative.

During the year, scrip dividend alternatives were offered to shareholders in respect of the 2002 final and 2003 interim dividends. These alternatives were accepted by the shareholders as follows:

	2003 Interim HK\$'000	2002 Final HK\$'000
Dividends:		
Cash	75,262	237,878
Share alternative	28,782	36,296
	104,044	274,174

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (net profit for the year)	545,406	533,445
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,038,528	1,032,758
Effect of dilutive potential ordinary shares: Share options	40	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,038,568	1,032,758

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices are higher than the fair value per share for 2002.

11. EARNINGS PER SHARE *continued*

The adjustment to comparative basic and diluted earnings per share, arising from the adoption of SSAP 12 (Revised) is as follows:

	HK\$'000	Basic and diluted HK cents
Reconciliation of 2002 earnings per share:		
Reported figures before adjustments	543,874	52.66
Adjustments arising from the adoption of SSAP 12 (Revised)	(10,429)	(1.01)
Restated	533,445	51.65

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong under long lease HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 2003	41,000	42,135	14,711	1,611	99,457
Additions	—	1,564	345	—	1,909
Disposals	—	(3)	—	(480)	(483)
Surplus on revaluation	3,500	—	—	—	3,500
At 31 December 2003	44,500	43,696	15,056	1,131	104,383
Comprising:					
At cost	—	43,696	15,056	1,131	59,883
At valuation 2003	44,500	—	—	—	44,500
	44,500	43,696	15,056	1,131	104,383
ACCUMULATED DEPRECIATION					
At 1 January 2003	—	37,698	3,819	1,611	43,128
Provided for the year	624	1,444	2,575	—	4,643
Eliminated on disposals	—	(1)	—	(480)	(481)
Adjustment on revaluation	(624)	—	—	—	(624)
At 31 December 2003	—	39,141	6,394	1,131	46,666
NET BOOK VALUES					
At 31 December 2003	44,500	4,555	8,662	—	57,717
At 31 December 2002	41,000	4,437	10,892	—	56,329

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

12. PROPERTY, PLANT AND EQUIPMENT *continued*

	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2003	20,883	14,166	1,611	36,660
Additions	31	257	—	288
Disposals	(3)	—	(480)	(483)
At 31 December 2003	20,911	14,423	1,131	36,465
ACCUMULATED DEPRECIATION				
At 1 January 2003	18,820	3,754	1,611	24,185
Provided for the year	552	2,448	—	3,000
Eliminated on disposals	(1)	—	(480)	(481)
At 31 December 2003	19,371	6,202	1,131	26,704
NET BOOK VALUES				
At 31 December 2003	1,540	8,221	—	9,761
At 31 December 2002	2,063	10,412	—	12,475

The leasehold land and buildings of the Group were revalued at 31 December 2003 by Knight Frank, an independent professional valuer, on an open market value basis. The surplus arising on revaluation has been credited to asset revaluation reserve.

If leasehold land and buildings of the Group had not been revalued, they would have been included in these financial statements at cost less accumulated depreciation at HK\$33,035,506 (2002: HK\$33,560,049).

Furniture, fixtures and equipment of the Group and the Company include assets carried at cost of HK\$24,064,907 (2002: HK\$21,897,838) and HK\$1,297,354 (2002: HK\$1,266,778) respectively and accumulated depreciation of HK\$20,340,314 (2002: HK\$19,216,069) and HK\$948,631 (2002: HK\$841,662) respectively in respect of assets held for use under operating leases. Depreciation charges in respect of those assets for the year amounted to HK\$1,067,160 (2002: HK\$776,954) and HK\$103,446 (2002: HK\$37,483) respectively.

13. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	24,841,010	26,638,500	3,295,000	3,500,000
Additions	417,852	362,465	3,054	2,274
Adjustment resulted from cost variation	(378)	(96)	—	—
Disposals	—	(1,542)	—	—
Deficit on revaluation	(891,704)	(2,158,317)	(268,054)	(207,274)
At 31 December	24,366,780	24,841,010	3,030,000	3,295,000

The value of investment properties comprises:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Land in Hong Kong:				
- Medium term lease	4,400,000	4,000,000	—	—
- Long lease	19,966,780	20,841,010	3,030,000	3,295,000
	24,366,780	24,841,010	3,030,000	3,295,000

The investment properties of the Group and the Company were revalued at 31 December 2003 by Knight Frank, an independent professional valuer, on an open market value basis. The deficit arising on revaluation has been charged to investment property revaluation reserve.

All of the investment properties of the Group and the Company are held for use under operating leases.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	5	5
Amounts due therefrom	11,752,758	13,394,620
	11,752,763	13,394,625
Less: Allowances on amounts due therefrom	(404,000)	(404,000)
	11,348,763	12,990,625

The Directors consider that the unlisted investments are worth at least their cost.

Details of the principal subsidiaries held by the Company at 31 December 2003 are set out in note 41.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	3	3
Share of net liabilities	(15,519)	(77,171)	—	—
	(15,519)	(77,171)	3	3
Amounts due therefrom	909,947	159,850	—	—
	894,428	82,679	3	3
Less: Impairment loss	(21,362)	(21,362)	—	—
	873,066	61,317	3	3

The aggregate attributable share of results of the associates is based on the unaudited management accounts for the year ended 31 December 2003.

The Group's share of post-acquisition losses of an associate exceeds the carrying amount of its equity investment in that associate, since the Group has obligation to meet its funding requirements.

Details of the Group's associates at 31 December 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation/ registration and operation	Class of share held/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activity
				indirectly	directly	
Parallel Asia Engineering Company Limited	Incorporated	Hong Kong	Share	—	25%	Investment holding
Wingrove Investment Pte Limited	Incorporated	Singapore	Share	25%	—	Property development
Country Link Enterprises Limited	Incorporated	Hong Kong	Share	26.3%	—	Investment holding
Shanghai Kong Hui Property Development Company Limited	Sino-Foreign equity joint venture	The People's Republic of China	US\$165,000,000	23.7%	—	Property development and leasing

16. INVESTMENTS IN SECURITIES**THE GROUP**

	Other securities	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed in Hong Kong	873,547	772,827
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Unlisted shares	136,855	136,856
Amounts due therefrom	56,788	700,440
	193,643	837,296
Less: Impairment losses	(128,333)	(128,333)
	65,310	708,963
	67,341	710,994
	940,888	1,483,821
Market value of securities listed in Hong Kong	873,547	772,827
Carrying amount analysed for reporting purposes as:		
Non-current	940,888	1,483,821

THE COMPANY

	Other securities	
	2003 HK\$'000	2002 HK\$'000
Other investments:		
Club debentures	2,831	2,831
Less: Impairment loss	(800)	(800)
	2,031	2,031
Carrying amount analysed for reporting purpose as:		
Non-current	2,031	2,031

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

17. NEGATIVE GOODWILL

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Carrying amount at 1 January	1,076	1,136
Released to income during the year	(60)	(60)
Carrying amount at 31 December	1,016	1,076

The negative goodwill which arose on the Group's acquisition of additional interest in a subsidiary is released to income on a straight line basis over a period of twenty years.

18. STAFF HOUSING LOANS, SECURED

	THE GROUP AND THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Staff housing loans, secured	15,375	18,315
Less: Amounts due within one year shown under current assets	(3,188)	(1,863)
	12,187	16,452

The secured advances arise in connection with an established Staff Housing Loan scheme granted to the employees who meet the qualifying criteria. The advances bear a fixed interest rate of 4% (2002: 4%) per annum.

19. PREPAYMENTS AND DEPOSITS

In 2002, deposits paid amounted to HK\$27,485,710 and HK\$4,620,822 for the Group and the Company respectively for acquiring non-current assets were reclassified from current assets to non-current assets.

20. ACCOUNTS RECEIVABLE

Accounts receivable are mainly in respect of rents which are normally payable in advance. Rents in arrears of the Group as at 31 December 2003 and 2002 were aged less than 90 days.

21. CREDITORS AND ACCRUALS

All of the trade payables of the Group as at 31 December 2003 and 2002 were aged less than 90 days.

22. DEFERRED INCOME

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Deferred income	5,541	6,227
Less: Amount due within one year shown under current liabilities	(686)	(686)
	4,855	5,541

In connection with the US\$200 million ten-year inaugural notes, the Group has entered into derivative transactions to lock in the ten-year US Treasury rate so as to manage its interest rate exposures. The gain on the transactions is deferred and recognised on a straight line basis over the term of the ten-year notes, with final maturity in February 2012.

23. AMOUNTS DUE TO SUBSIDIARIES

The advances are unsecured and are not repayable within one year.

24. ADVANCES FROM INVESTEEES

The advances are unsecured, interest free and are not repayable within one year.

25. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and are not repayable within one year.

26. LONG TERM BANK LOANS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans, unsecured	3,962,423	3,746,861	1,225,523	2,887,761
The bank loans are repayable as follows:				
Within one year	78,000	737,638	4,000	687,638
More than one year, but not exceeding two years	668,300	685,600	668,300	685,600
More than two years, but not exceeding five years	1,626,423	1,617,600	553,223	1,200,500
More than five years	1,589,700	706,023	—	314,023
	3,962,423	3,746,861	1,225,523	2,887,761
Less: Amounts due within one year shown under current liabilities	(78,000)	(737,638)	(4,000)	(687,638)
	3,884,423	3,009,223	1,221,523	2,200,123

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

27. FLOATING RATE NOTES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Floating rate notes	400,000	400,000
Less: Unamortised notes issue expenses	(868)	(1,910)
	399,132	398,090
Less: Amount due within one year shown under current liabilities	(399,132)	—
	—	398,090

HD Finance (BVI) Limited, a wholly-owned subsidiary of the Company, issued HK\$400 million five-year floating rate notes on 3 November 1999. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 1.25% over the 3-month HIBOR and are repayable in full in November 2004.

28. FIXED RATE NOTES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fixed rate notes	1,559,977	1,559,977
Less: Unamortised notes issue expenses	(7,986)	(8,974)
	1,551,991	1,551,003

Hysan (MTN) Limited, a wholly-owned subsidiary of the Company, issued US\$200 million ten-year fixed rate notes in February 2002. The notes are guaranteed as to principal and interest by the Company, bear interest at the rate of 7% per annum and are repayable in full in February 2012.

29. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognized by the Group and Company and movements thereon during the year.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Deferred payments HK\$'000	Retirement benefits scheme contributions HK\$'000	Tax losses HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2002						
- as previously reported	—	—	—	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	103,188	5,742	545	(208)	(7,235)	102,032
- as restated	103,188	5,742	545	(208)	(7,235)	102,032
Charge (credit) to income for the year	13,028	—	(240)	141	(1,205)	11,724
Credit to equity for the year	—	(137)	—	—	—	(137)
At 1 January 2003	116,216	5,605	305	(67)	(8,440)	113,619
Charge (credit) to income for the year	57,056	—	(182)	63	(1,529)	55,408
Charge to equity for the year	—	722	—	—	—	722
Effect of change in tax rate						
- charge (credit) to income for the year	10,895	—	29	(6)	(792)	10,126
- charge to equity for the year	—	525	—	—	—	525
At 31 December 2003	184,167	6,852	152	(10)	(10,761)	180,400
			Accelerated tax depreciation HK\$'000	Retirement benefits scheme contributions HK\$'000		Total HK\$'000

THE COMPANY

At 1 January 2002					
- as previously reported			—	—	—
- adjustment on adoption of SSAP 12 (Revised)			4,483	(90)	4,393
- as restated			4,483	(90)	4,393
Charge to income for the year			1,871	51	1,922
At 1 January 2003			6,354	(39)	6,315
Charge to income for the year			632	40	672
Effect of change in tax rate					
- charge (credit) to income for the year			596	(4)	592
At 31 December 2003			7,582	(3)	7,579

At 31 December 2003, the Group has unused tax losses of HK\$1,170 million (2002: HK\$824 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$61 million (2002: HK\$53 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,109 million (2002: HK\$771 million) due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Company does not have any unused tax loss as at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

30. SHARE CAPITAL

	Number of shares		Share capital	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
THE COMPANY				
Ordinary shares of HK\$5 each				
Authorised:				
At 1 January and 31 December	1,450,000	1,450,000	7,250,000	7,250,000
Issued and fully paid:				
At 1 January	1,034,617	1,031,303	5,173,084	5,156,516
Issue of shares pursuant to scrip dividend scheme	8,955	3,314	44,773	16,568
At 31 December	1,043,572	1,034,617	5,217,857	5,173,084

On 13 June 2003 and 10 October 2003 respectively, the Company issued and allotted a total of 5,826,061 shares and 3,128,547 shares of HK\$5 each in the Company at HK\$6.23 and HK\$9.20 to the shareholders who elected to receive shares in the Company in lieu of cash for the 2002 final and 2003 interim dividends pursuant to the scrip dividend scheme announced by the Company on 13 May 2003 and 19 August 2003. These shares rank pari passu in all respects with other shares in issue.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

31. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January				
- as previously reported	3,747,017	3,580,672	3,741,503	3,957,698
- adjustment on adoption of SSAP 12 (Revised)	(106,719)	(96,290)	(5,020)	(4,393)
- as restated	3,640,298	3,484,382	3,736,483	3,953,305
Net profit for the year	545,406	533,445	177,833	160,707
Profit available for distribution	4,185,704	4,017,827	3,914,316	4,114,012
Dividends	(380,591)	(377,529)	(380,591)	(377,529)
At 31 December	3,805,113	3,640,298	3,533,725	3,736,483

The accumulated profits of the Group include accumulated losses of HK\$69,754,658 (2002: HK\$87,987,293) attributable to associates of the Group.

The distributable reserves of the Company as at 31 December 2003 amounted to HK\$3,633,725,475 (2002: HK\$3,836,482,838), being its accumulated profits and general reserve at that date.

32. OTHER RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE GROUP										
At 1 January 2002										
- as previously reported	1,303,354	9,568,162	603,497	8,729	502,235	—	154,995	100,000	288,765	12,529,737
- adjustment on adoption of SSAP 12 (Revised)	—	(4,345)	—	(1,397)	—	—	—	—	—	(5,742)
- as restated	1,303,354	9,563,817	603,497	7,332	502,235	—	154,995	100,000	288,765	12,523,995
Premium on issue of shares pursuant to scrip dividend scheme	10,199	—	—	—	—	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	—	—	—	—	(10)
Unrealised loss on investments in other securities	—	—	(284,395)	—	—	—	—	—	—	(284,395)
Deficit on revaluation of investment properties	—	(2,158,317)	—	—	—	—	—	—	—	(2,158,317)
Deficit on revaluation of land and buildings	—	—	—	(856)	—	—	—	—	—	(856)
Deficit on revaluation of investment properties shared by minority shareholders	—	86,600	—	—	—	—	—	—	—	86,600
Realisation on disposal of investment properties	—	(1,492)	—	—	—	—	—	—	—	(1,492)
Deferred taxation liabilities released on revaluation	—	—	—	137	—	—	—	—	—	137
Final dividend for 2001 paid	—	—	—	—	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	—	—	—	—	(103,355)	(103,355)
At 1 January 2003	1,313,543	7,490,608	319,102	6,613	502,235	—	154,995	100,000	274,174	10,161,270
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	—	—	—	—	(20)
Unrealised gain on investments in other securities	—	—	206,455	—	—	—	—	—	—	206,455
Deficit on revaluation of investment properties	—	(891,704)	—	—	—	—	—	—	—	(891,704)
Surplus on revaluation of land and buildings	—	—	—	4,124	—	—	—	—	—	4,124
Deficit on revaluation of investment properties shared by minority shareholders	—	114,462	—	—	—	—	—	—	—	114,462
Realisation on disposal of investment in other securities	—	—	(37,944)	—	—	—	—	—	—	(37,944)
Share of reserve of an associate	—	41,763	—	—	—	12	—	—	—	41,775
Deferred taxation liabilities arising on revaluation	—	—	—	(722)	—	—	—	—	—	(722)
Effect of change in tax rate on deferred taxation liabilities arising on revaluation of properties and charged to reserves	—	(407)	—	(118)	—	—	—	—	—	(525)
Final dividend for 2002 paid	—	—	—	—	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	—	—	—	—	380,591	380,591
Interim dividend for 2003 paid	—	—	—	—	—	—	—	—	(104,044)	(104,044)
Exchange differences on translation of an overseas associate	—	—	—	—	—	(3,020)	—	—	—	(3,020)
At 31 December 2003	1,333,828	6,754,722	487,613	9,897	502,235	(3,008)	154,995	100,000	276,547	9,616,829

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

32. OTHER RESERVES *continued*

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2002	1,303,354	2,198,905	154,995	100,000	288,765	4,046,019
Premium on issue of shares pursuant to scrip dividend scheme	10,199	—	—	—	—	10,199
Share issue expenses	(10)	—	—	—	—	(10)
Deficit on revaluation of investment properties	—	(207,274)	—	—	—	(207,274)
Final dividend for 2001 paid	—	—	—	—	(288,765)	(288,765)
Amount set aside for 2002 dividend	—	—	—	—	377,529	377,529
Interim dividend for 2002 paid	—	—	—	—	(103,355)	(103,355)
At 1 January 2003	1,313,543	1,991,631	154,995	100,000	274,174	3,834,343
Premium on issue of shares pursuant to scrip dividend scheme	20,305	—	—	—	—	20,305
Share issue expenses	(20)	—	—	—	—	(20)
Deficit on revaluation of investment properties	—	(268,054)	—	—	—	(268,054)
Final dividend for 2002 paid	—	—	—	—	(274,174)	(274,174)
Amount set aside for 2003 dividend	—	—	—	—	380,591	380,591
Interim dividend for 2003 paid	—	—	—	—	(104,044)	(104,044)
At 31 December 2003	1,333,828	1,723,577	154,995	100,000	276,547	3,588,947

(a) General reserve

General reserve was set up from the transfer of accumulated profits.

(b) Capital reserve

Capital reserve comprises negative goodwill of HK\$516,142,884 (2002: HK\$516,142,884) arising from acquisition of subsidiaries prior to 1 January 2001 and capitalisation issue of a subsidiary.

33. MAJOR NON-CASH TRANSACTION

On 15 January 2003, a subsidiary of the Company acquired additional 1,313,158 ordinary shares of HK\$1 each of Country Link Enterprises Limited ("Country Link"), grouped under investments in securities during the year ended 31 December 2002, for an aggregate consideration of HK\$1,313,158 which is satisfied by setting off the amounts due therefrom. As a result, the Group increased its shareholding from 18.75% to 26.3% and Country Link became an associate of the Group.

Investment cost of HK\$1,875 and loan totalled of HK\$642,338,253 previously advanced by the Group to Country Link were therefore reclassified to interests in associates on that date.

34. EXECUTIVE SHARE OPTION SCHEME

The Company operates an Executive Share Option Scheme (the "Scheme") under which options may be granted to employees of the Company or any of its wholly-owned subsidiaries to subscribe for ordinary shares of the Company, thereby strengthening the links between individual staff and shareholder interests. Approved by shareholders on 28 April 1995, the Scheme has a term of ten years. The maximum number of shares in respect of which options may be granted under the Scheme (together with shares issued and issuable under the Scheme) is 3% of the issued share capital of the Company (excluding shares issued pursuant to the Scheme) from time to time. The maximum entitlement of each participant under the Scheme is 25% of the maximum number of shares in respect of which options may at any time be granted under the Scheme. The exercise price was fixed at 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the twenty trading days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00, with full payment for exercise price to be made on exercise of the relevant option.

As at 31 December 2003, Scheme participants were executive Directors of the Company with shares issuable under options granted representing less than 0.4% (2002: 0.4%) of the issued share capital of the Company. Options expiring, granted and outstanding to them are as follows:

	Balance	Changes during the year				Balance	Exercise price (HK\$)	Exercisable period
	as at 1.1.2002 and 1.1.2003	Date of grant	Cancelled/ lapsed	Granted	Exercised	as at 31.12.2002 and 31.12.2003		
Peter Ting Chang Lee	1,350,000	7.1.99	NIL	NIL	NIL	1,350,000	9.22	7.1.01-6.1.09
Pauline Wah Ling Yu Wong	900,000	3.5.95	NIL	NIL	NIL	900,000	13.46	3.5.97-2.5.05
Michael Chi Kung Moy*	1,200,000	23.12.99	NIL	NIL	NIL	1,200,000	7.54	23.12.01-22.12.09

* Michael Chi Kung Moy resigned as Director of the Company on 28 January 2004.

All options referred to above are subject to a five-year vesting period and a bar on the exercise of options within the first two years of their issue.

No options have been granted since the coming into force of certain new Listing Rules requirements. Future grants will only be made under the existing Scheme where new Listing Rules requirements are complied with.

The Board delegated the authority to make grants to other management staff to the Chairman and Managing Director, with the view to further strengthening the links between staff and shareholder objectives and to balance the interests of shareholders generally. The exercise price will be set at at least the higher of (i) the closing price of the Company's ordinary shares on the date of grant; and (ii) the average closing price of such shares for the five days immediately before the grant. Interests of shareholders will be balanced by having appropriate aggregate and individual grant limits, also being in line with new Listing Rules requirements. A clear performance criterion will be the main driver.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

35. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an enhanced MPF scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF Relevant Income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF Relevant Income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK\$5,006,517 (2002: HK\$4,821,554). Forfeited contributions for the year of HK\$1,067,210 (2002: HK\$1,189,078) were fully utilised to fund the Group's contributions.

36. CONTINGENT LIABILITIES

As at 31 December 2003, there were contingent liabilities in respect of the following:

	THE GROUP		THE COMPANY	
	2003 Million	2002 Million	2003 Million	2002 Million
Corporate guarantee to a third party in respect of the sale of the interest in an associate	HK\$3.6	HK\$3.6	HK\$3.6	HK\$3.6
Corporate guarantee to subsidiaries				
- for issue of floating rate notes	—	—	HK\$400.0	HK\$400.0
- for issue of fixed rate notes	—	—	US\$200.0	US\$200.0
Undertaking given to a bank in proportion to shareholding regarding facilities granted to a joint venture property project	S\$18.6	S\$18.6	—	—
Guarantees to banks to provide finance to				
- An associate	S\$12.0	S\$12.0	S\$12.0	S\$12.0
- A property development project	S\$22.0	S\$22.0	S\$22.0	S\$22.0
- Subsidiaries	—	—	HK\$3,930.0	HK\$1,280.0

As at balance sheet date, the Group had given guarantees to banks and financial institutions for entering of derivatives transactions under the ISDA agreement. The notional amounts of the forward rate agreements, interest rate swaps and currency swaps are disclosed in note 39.

37. CAPITAL COMMITMENTS

As at 31 December 2003, the Group had capital commitments in respect of the following:

	2003 Million	2002 Million
(a) Investment properties: Contracted but not provided for	HK\$37.6	HK\$171.4
(b) Share of capital commitments for joint ventures: Contracted but not provided for	—	HK\$7.7

38. LEASE COMMITMENTS

The Group and the Company as lessee

As at 31 December 2003, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	—	—	8,072	5,884
In the second to fifth year inclusive	—	—	10,451	138
	—	—	18,523	6,022

Operating lease payments represent rentals payable by the Company to its subsidiaries for its staff quarters and office premises which are negotiated and fixed for an average of two years and three years respectively.

The Group and the Company as lessor

At at 31 December 2003, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	798,758	829,154	119,148	126,789
In the second to fifth year inclusive	1,146,345	1,139,991	151,638	148,671
After five years	136,143	253,768	5,948	15,525
	2,081,246	2,222,913	276,734	290,985

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

39. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Details of the Group's outstanding derivative instruments at balance sheet date are as follows:

	Notional Principal Amount	
	2003 HK\$'000	2002 HK\$'000
Forward rate agreement - less than one year	786,996	400,000
Foreign exchange forward contracts - less than one year	205,558	—
Interest rate swaps - one to five years	1,598,983	428,983
Currency swaps - after five years	1,559,977	1,559,977
	4,151,514	2,388,960

The Group has used off balance sheet derivative instruments to manage the interest rate and foreign exchange exposures. These instruments, such as interest rate swaps and currency swaps, are employed solely for hedging purpose and no speculative positions have been taken. The Group has also followed the established policy on monitoring and managing the counterparty risk by restricting the derivative transactions to financial institutions with strong investment grade ratings and limiting the exposures to each counterparty at prudent levels.

40. RELATED PARTY AND CONNECTED TRANSACTIONS**A. Related party transactions**

During the year, the Group has the following transactions with related parties:

	Notes	Substantial shareholder		Directors	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Repairs and maintenance expenses paid to	(a)	—	—	19,969	20,823
Gross rental income from	(b)	5,063	6,147	31,468	36,567
Construction cost paid during the year for investment properties	(c)	—	—	82,934	—

40. RELATED PARTY AND CONNECTED TRANSACTIONS *continued***A. Related party transactions** *continued*

As at 31 December 2003, the Group has the following balances with related parties:

Notes	Substantial shareholder		Directors		
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	
Included in creditors and accruals were repairs and maintenance expenses payable to	(a)	—	—	2,248	1,737
Construction cost payable to	(c)	—	—	5,248	—
Amount due to a minority shareholder	(d)	—	—	92,843	84,486

Notes:

- (a) Such expenses were incurred in connection with the repair and maintenance charges for escalators/lifts, electrical and gondola services.
- (i) F.K. Hu (and his alternate, Raymond L.M. Hu) were directors of Ryoden Lift Services Limited ("RLS") and Ryoden Engineering Contracting Company Limited ("REC") and both of them have indirect equity interests in each of these companies. RLS and REC entered into a number of maintenance contracts regarding lifts, electrical works and other miscellaneous works with a subsidiary of the Company.
- (ii) Hans Michael Jebsen is a director and shareholder of Jebsen and Company Limited which provided certain gondola maintenance related services to a subsidiary of the Company.

These transactions were carried out in the normal course of business and the fees were determined with reference to market rates.

- (b) The Group has, in the ordinary course of its business, entered into lease agreements with related parties to lease premises for varying periods. The leases were entered into in the normal course of business and the rentals were determined with reference to market rates.
- (c) Dr. Geoffrey M.T. Yeh (and his alternate, V-nee Yeh) are substantial shareholders and V-nee Yeh is also Chairman of Hsin Chong Construction Group Limited whose wholly-owned subsidiary, Hsin Chong Construction (Asia) Limited ("Hsin Chong Asia"), entered into a main contract with a subsidiary of the Company relating to the renovation project of Lee Gardens Two. Such transaction was entered into on normal commercial terms and on arm's length basis.

The sum represented the sum paid to, or as the case may be, outstanding balances due under the main contract with Hsin Chong Asia. To the best of the Company's knowledge having made due enquiries, substantially the whole of such contracts were sub-contracted by Hsin Chong Asia to other sub-contractors. The contract sum is not the indicative of the amount actually derived by Hsin Chong Asia under the relevant contract, which amount is substantially less than the relevant contract sum.

- (d) The sum represents outstanding loan advanced by Jebsen and Company Limited to a non wholly-owned subsidiary of the Group, Barrowgate Limited, in proportion to its shareholding for general funding purpose. The amount is unsecured, interest free and is not repayable within one year.

B. Connected transaction

Loans totalling HK\$606,717,961 were advanced by the Group to Barrowgate Limited (The Group: 65.36%; Hang Seng Bank: 24.64%; Jebsen and Company Limited: 10%) for general funding purpose which sum has been included in the disclosure in note 14. Loans totalling HK\$321,713,346 advanced by the other shareholders in proportion to their respective shareholdings are disclosed in note 25. These quasi-equity loans are non-interest-bearing and have no fixed settlement date and are not repayable within one year. The grant of loans by the Group constitutes a grant of financial assistance and is a connected transaction under Rule 14.25(2) of the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the year ended 31 December 2003

41. PRINCIPAL SUBSIDIARIES AT 31 DECEMBER 2003

Name of subsidiary	Place of incorporation	Place of operation
Admore Investments Limited	Hong Kong	Hong Kong
Golden Capital Investment Limited	Hong Kong	Hong Kong
HD Finance (BVI) Limited	British Virgin Islands	British Virgin Islands
HD Treasury Limited	Hong Kong	Hong Kong
HD Treasury Management Limited	Hong Kong	Hong Kong
Hysan China Holdings Limited	British Virgin Islands	British Virgin Islands
Hysan Leasing Company Limited	Hong Kong	Hong Kong
Hysan Treasury Limited	Hong Kong	Hong Kong
Hysan (MTN) Limited	British Virgin Islands	Hong Kong
Hysan Property Management Limited	Hong Kong	Hong Kong
Kwong Hup Holding Limited	British Virgin Islands	British Virgin Islands
Kwong Wan Realty Limited	Hong Kong	Hong Kong
Minsal Limited	Hong Kong	Hong Kong
Mondsee Limited	Hong Kong	Hong Kong
Stangard Limited	Hong Kong	Hong Kong
Teamfine Enterprises Limited	Hong Kong	Hong Kong
Tohon Development Limited	Hong Kong	Hong Kong
Bamboo Grove Recreational Services Limited	Hong Kong	Hong Kong
HD Investment Limited	British Virgin Islands	British Virgin Islands
Jarrow Properties Limited	British Virgin Islands	British Virgin Islands
Kochi Investments Limited	British Virgin Islands	British Virgin Islands
Lee Theatre Realty Limited	Hong Kong	Hong Kong
Leighton Property Company Limited	Hong Kong	Hong Kong
Main Rise Development Limited	Hong Kong	Hong Kong
OHA Property Company Limited	Hong Kong	Hong Kong
Perfect Win Properties Limited	Hong Kong	Hong Kong
Silver Nicety Company Limited	Hong Kong	Hong Kong
South Eagle Investments Limited	British Virgin Islands	Hong Kong
Barrowgate Limited	Hong Kong	Hong Kong

The Directors are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially affected the results or assets of the Group. Other than the floating rate notes and fixed rate notes issued by HD Finance (BVI) Limited and Hysan (MTN) Limited as disclosed in notes 27 and 28 respectively, none of the subsidiaries had issued any debt securities at the year end.

Class of share held	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
		indirectly	directly	
Ordinary Share	HK\$2	—	100%	Investment holding
Share	HK\$2	—	100%	Investment holding
Share	HK\$1	—	100%	Treasury operation
Share	HK\$2	—	100%	Treasury operation
Share	HK\$2	—	100%	Treasury operation
Share	HK\$1	—	100%	Investment holding
Share	HK\$2	—	100%	Leasing administration
Share	HK\$2	—	100%	Treasury operation
Share	US\$1	—	100%	Treasury operation
Share	HK\$2	—	100%	Property management
Share	HK\$1	—	100%	Investment holding
Ordinary	HK\$1,000	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$2	—	100%	Property investment
Ordinary	HK\$300,000	—	100%	Provision of security services
Share	HK\$2	—	100%	Investment holding
Share	HK\$2	—	100%	Property investment
Ordinary	HK\$2	100%	—	Resident club management
Share	HK\$1	100%	—	Investment holding
Share	HK\$1	100%	—	Investment holding
Share	HK\$1	100%	—	Capital market investment
Ordinary	HK\$10	100%	—	Property investment
Ordinary	HK\$2	100%	—	Property investment
Share	HK\$2	100%	—	Investment holding
Ordinary	HK\$2	100%	—	Property investment
Share	HK\$2	100%	—	Property investment
Share	HK\$20	100%	—	Property investment
Share	US\$1	100%	—	Property investment
Share	HK\$10,000	65.36%	—	Property investment