

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, warehouses, logistics centres, freehold land and buildings and investments in securities, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy are set out below.

#### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly and indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged to or recognised in the consolidated profit and loss account and any related accumulated exchange fluctuation reserve.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (b) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the post acquisition results of associated companies for the year and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill on acquisition (net of accumulated amortisation).

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (d) Equity joint ventures in the PRC

Equity joint ventures are Sino-foreign joint ventures in respect of which the partners' capital contribution ratios are defined in the joint venture contracts and the partners' profit sharing ratios are in proportion to the capital contribution ratios.

The Group's investments in equity joint ventures are accounted for as long-term investments, associated companies or subsidiaries depending on the Group's equity or controlling interest therein.

#### (e) Wholly foreign owned enterprises in the PRC

Interests in wholly foreign owned enterprises are accounted for as subsidiaries.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### (f) Goodwill/negative goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of the subsidiaries, associated companies and businesses acquired at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is amortised using the straight-line method over its estimated useful life of not more than twenty years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

Where an indication of impairment exists, the carrying value of the goodwill, including goodwill previously written off against reserves, is assessed and written down to its recoverable amount.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill or negative goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill or negative goodwill written off against reserves to the extent it has not previously been realised in the consolidated profit and loss account.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (g) Investments in securities

##### (i) Non-trading securities

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the non-trading securities revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the non-trading securities revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account. Transfers from non-trading securities revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

##### (ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains and losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

#### (h) Properties and other fixed assets

##### (i) Investment properties

Investment properties, including hotel properties, are interests in land and buildings in respect of which construction work and development have been completed and are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at annual professional valuation at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on revaluation on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying value over the remaining term of the lease.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (h) Properties and other fixed assets (Continued)

##### (i) Investment properties (Continued)

The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant assets together with any revaluation reserve balance remaining attributable to the relevant asset, is recognised in the profit and loss account.

In prior years, the changes in the valuation of hotel properties of the Group are dealt with in the revaluation reserves on an individual basis. During the year, the directors have determined that all changes in valuation of the hotel properties should be dealt with in the revaluation reserves on a portfolio basis. The change in the accounting policy does not have material impact on the Group's prior years and current year accounts.

##### (ii) Freehold and other leasehold land and buildings

Freehold land and buildings and both warehouses and logistics centres classified as other leasehold land and buildings are stated at valuation, being the open market value at the date of valuation, less subsequent aggregate depreciation and accumulated impairment losses. Changes in the value of freehold land and buildings, warehouses and logistics centres arising from revaluation are dealt with as movements in the freehold land and buildings revaluation reserve and other properties revaluation reserve, respectively. If the reserve is insufficient to cover a deficit on revaluation on an individual basis, the excess of the deficit on revaluation is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account on an individual basis to the extent of the deficit previously charged.

No depreciation is provided on freehold land. Depreciation on buildings situated on freehold land is calculated to write off their valuation less residual value on a straight-line basis over their expected useful lives to the Group. The principal annual rate used for this purpose is 2.5%.

Depreciation on both warehouses and logistics centres which are classified as other leasehold land and buildings is calculated to write off their valuation less residual value on a straight-line basis over their expected remaining useful lives to the Group ranging from ten to twenty-nine years.

Staff quarters are stated at cost less aggregate depreciation and accumulated impairment losses. Cost represents the purchase price of the staff quarters and other costs incurred to bring them into existing use.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (h) Properties and other fixed assets (Continued)

##### (ii) Freehold and other leasehold land and buildings (Continued)

Depreciation on staff quarters is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rate used for this purpose is 5%.

The gain or loss on disposal of freehold and other leasehold land and buildings is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

##### (iii) Properties held for/under development

Properties held for/under development for long-term purposes are stated at cost less accumulated impairment losses.

Properties under development for sale are included in current assets and are stated at the lower of cost and net realisable value, if presale of properties has not commenced.

Properties under development for sale are included in current assets and are stated at cost plus attributable profits recognised on the basis set out in note 1(t)(i) less sales instalments received and receivable and provision for any foreseeable losses, if presale of properties has commenced.

Cost of properties in the course of development comprises land cost, fees for land use rights and development costs including attributable interest and professional charges capitalised during the development period. Where properties, previously held as investment properties, are subject to redevelopment, they are valued at the date redevelopment commenced. Cost of properties under development includes the carrying value of the properties at the date when redevelopment commences. The properties under development revaluation reserve is transferred to the investment properties revaluation reserve or completed properties revaluation reserve upon completion of redevelopment. If sales of the properties commence before redevelopment is completed, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties under development revaluation reserve to the profit and loss account.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (h) Properties and other fixed assets (Continued)

##### (iii) Properties held for/under development (Continued)

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

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

##### (iv) Stock of completed properties held for sale

Stock of completed properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost comprises land and development costs and is determined by apportionment of the total land and development costs attributable to the unsold properties.

Upon the disposal of stock of completed properties held for sale, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the completed properties revaluation reserve to the profit and loss account.

##### (v) Other fixed assets

Other fixed assets are stated at cost less aggregate depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use.

Depreciation on other fixed assets is calculated to write off their cost on a straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Leasehold improvements	15%
Warehouse operating equipment	5% to 20%
Motor vehicles, furniture, fixtures and office equipment	15% to 20%

The gain or loss on disposal of other fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the profit and loss account.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### (h) Properties and other fixed assets (Continued)

###### (vi) Cost of restoring and improving fixed assets

Costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

###### (vii) Impairment of assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in freehold and other leasehold land and buildings, properties held for/under development for long-term purposes and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

##### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

##### (j) Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue plus finance costs provided.

The net proceeds represent the amount received on the issue of the convertible bonds after deduction of direct issue costs. Direct issue costs are amortised to the profit and loss account on a straight-line basis over the period from the date of issue to the date on which the bondholders can exercise their redemption option (the "Bondholders' Redemption Date"). If any of the convertible bonds are purchased and cancelled, redeemed or converted prior to the Bondholders' Redemption Date, any remaining unamortised costs attributable to such convertible bonds will be written off immediately to the profit and loss account.

Finance costs represent the premium that is to be paid to the bondholders upon redemption on or before the Bondholders' Redemption Date. The estimated premium is provided for at a constant rate over the period when the bondholders' redemption option is outstanding and is charged to the profit and loss account. If any of the convertible bonds are purchased and cancelled or converted prior to the Bondholders' Redemption Date, any provision of such redemption premium in previous years in respect of the convertible bonds purchased or converted will be taken to the profit and loss account.



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (j) Convertible bonds (Continued)

The gain or loss on purchase of convertible bonds, representing the difference between the consideration paid and the nominal value of the convertible bonds purchased, is recognised in the profit and loss account.

#### (k) Borrowing costs

Borrowing costs incurred on assets under active development that take a substantial period of time to be ready for their intended use or sale are capitalised into the carrying value of properties held for/under development. The capitalisation rate is based on attributable cost of the specific borrowings.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and pursuant to SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", revised SSAP 12 has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (l) Deferred taxation (Continued)

As a result of the retrospective application of revised SSAP 12, an additional provision of HK\$1,204,140,000 has been made for net deferred tax liabilities attributable to the Group as at 31 December 2002, of which HK\$860,045,000 and HK\$344,095,000 have been charged against reserves and retained profits, respectively. Accordingly, associated companies, other non-current assets and minority interests have been reduced by HK\$310,294,000, HK\$212,651,000 and HK\$289,057,000, respectively and deferred taxation has been increased by HK\$970,252,000. The previously reported profit attributable to shareholders for the year ended 31 December 2002 has also been reduced by HK\$60,639,000.

#### (m) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

##### (ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

##### (iii) Retirement benefit costs

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred. Contributions to the defined contribution retirement scheme which is operated in Hong Kong are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of all these schemes are held separately and independently from those of the Group.

##### (iv) Share options

The nominal income received from the grantees as consideration for the grant is recognised as income upon acceptance by the grantees. No employee benefits cost is recognised when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at average rates. Exchange differences are dealt with as a movement in reserves.

#### (p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

#### (q) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (s) Segment reporting

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

Segment assets consist primarily of fixed assets, stock of completed properties held for sale, properties under development for sale, receivables and operating cash, and mainly exclude associated companies, other non-current assets, tax recoverable, tax reserve certificates and trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation and minority interests and loans. Capital expenditure comprises additions to fixed assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, turnover is based on the country of operations. Segment assets and capital expenditure are where the assets are located.

#### (t) Revenue and profit recognition

(i) The recognition of revenue and profits from the sale of properties under development in advance of completion commences when a legally binding contract of sale has been executed. The revenues and profits recognised in a year are a proportion of the total revenues and profits expected on completion, the proportion used being the percentage of the construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowances for contingencies). The profit so recognised is restricted to the amount of instalments received.

Where purchasers fail to pay the balances of the purchase price on completion and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profits; any profits recognised so far are reversed.

(ii) Revenue in respect of sale of completed properties and investment properties is recognised upon completion of sale agreements.

## > NOTES TO THE ACCOUNTS

31 DECEMBER 2003

### I PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (t) Revenue and profit recognition (Continued)

- (iii) Rental revenue and other revenues incidental to the letting of properties are recognised on a straight-line basis over the periods of the respective leases.
- (iv) Revenue from general storage and other ancillary services is recognised when the services are rendered. Revenue from leased storage is recognised on a straight-line basis over the periods of the respective leases.
- (v) Income on development consultancy and project management is recognised on a pro-rata basis according to the progress of the projects.
- (vi) Income from property management is recognised on an accrual basis.
- (vii) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (viii) Dividend income is recognised when the right to receive payment is established.
- (ix) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) The principal activities of the Group are disclosed in the Report of the Directors. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>		
Proceeds from sale of properties		
– completed properties		
– PRC	150,654	299,057
– Hong Kong	877,117	2,294,771
	1,027,771	2,593,828
– properties under development for sale in the PRC	356,478	12,496
– property held for development in the PRC	–	25,120
– investment properties		
– PRC	89,286	64,811
– Hong Kong	60,480	37,223
	149,766	102,034
	1,534,015	2,733,478
Rental income	788,023	828,774
Hotel revenue	174,628	231,974
Storage and services income		
– warehouse	358,928	399,094
– logistics	1,307,786	918,495
	1,666,714	1,317,589
Development consultancy, project management and property management fees	41,086	44,347
	4,204,466	5,156,162
<b>Other revenues</b>		
Dividend income from:		
– listed investments	62	61
– unlisted investments	11,356	27,666
	11,418	27,727
Interest income	26,018	28,188
	37,436	55,915
<b>Total revenues</b>	<b>4,241,902</b>	<b>5,212,077</b>

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

(b) An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover		Operating profit	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Principal activities:				
Property rental				
– PRC	470,541	456,033	270,451	271,459
– Hong Kong	317,482	372,741	(4,107)	184,141
	788,023	828,774	266,344	455,600
Property sales				
– PRC	596,418	401,484	88,893	70,060
– Hong Kong	937,597	2,331,994	(150,283)	(210,271)
	1,534,015	2,733,478	(61,390)	(140,211)
Hotel operations	174,628	231,974	56,163	90,169
Logistics and warehouse operations				
– warehouse	358,928	399,094	82,988	162,526
– logistics	1,307,786	918,495	44,383	35,005
	1,666,714	1,317,589	127,371	197,531
Infrastructure	–	–	(614)	(300)
Project, property management and others	41,086	44,347	48,690	76,107
	4,204,466	5,156,162	436,564	678,896
Principal markets:				
PRC	1,342,449	1,127,025	409,671	422,241
Hong Kong	2,012,608	3,517,120	13,090	245,438
United Kingdom	595,608	333,410	10,275	3,508
Others	253,801	178,607	3,528	7,709
	4,204,466	5,156,162	436,564	678,896

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

#### (c) Primary reporting format – business segments

	2003							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
Revenue								
Turnover	1,241,587	1,255,079	-	1,666,714	-	41,086	-	4,204,466
Inter-segment revenue	447	-	-	-	-	306,862	(307,309)	-
Inter-segment interest income	-	-	-	-	-	266,872	(266,872)	-
	<u>1,242,034</u>	<u>1,255,079</u>	<u>-</u>	<u>1,666,714</u>	<u>-</u>	<u>614,820</u>	<u>(574,181)</u>	<u>4,204,466</u>
Results								
Segment results before provision and revaluation deficit on properties	510,919	176,636	2,106	265,962	(614)	245,211	(266,872)	933,348
Provision in respect of stock of completed properties held for sale	-	(69,346)	-	-	-	-	-	(69,346)
Revaluation deficit on properties	(40,378)	(158,375)	-	(91,483)	-	-	-	(290,236)
Segment results	<u>470,541</u>	<u>(51,085)</u>	<u>2,106</u>	<u>174,479</u>	<u>(614)</u>	<u>245,211</u>	<u>(266,872)</u>	<u>573,766</u>
Dividend income	-	8,077	3,341	-	-	-	-	11,418
Interest income	4,211	10,009	-	1,599	4,497	5,702	-	26,018
Interest expenses	(59,245)	(121,391)	-	(48,707)	(4,497)	(207,670)	266,872	(174,638)
Operating profit/(loss)	<u>415,507</u>	<u>(154,390)</u>	<u>5,447</u>	<u>127,371</u>	<u>(614)</u>	<u>43,243</u>	<u>-</u>	<u>436,564</u>
Share of results of associated companies								
- share of profits								
less losses	28,133	53,918	17,170	(2,056)	149,402	-	-	246,567
- provision for decline in carrying value	-	(110,809)	-	-	-	-	-	(110,809)
	<u>28,133</u>	<u>(56,891)</u>	<u>17,170</u>	<u>(2,056)</u>	<u>149,402</u>	<u>-</u>	<u>-</u>	<u>135,758</u>
Profit/(loss) before taxation	<u>443,640</u>	<u>(211,281)</u>	<u>22,617</u>	<u>125,315</u>	<u>148,788</u>	<u>43,243</u>	<u>-</u>	<u>572,322</u>
Taxation	(57,839)	(21,357)	3,586	(33,874)	381	(2,089)	-	(111,192)
Profit/(loss) after taxation	<u>385,801</u>	<u>(232,638)</u>	<u>26,203</u>	<u>91,441</u>	<u>149,169</u>	<u>41,154</u>	<u>-</u>	<u>461,130</u>
Minority interests	(86,140)	19,900	-	812	-	(961)	-	(66,389)
Profit/(loss) attributable to shareholders	<u>299,661</u>	<u>(212,738)</u>	<u>26,203</u>	<u>92,253</u>	<u>149,169</u>	<u>40,193</u>	<u>-</u>	<u>394,741</u>



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

#### (c) Primary reporting format – business segments (Continued)

	2003							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
Segment assets	9,588,907	10,379,353	2,787	4,240,320	196,053	17,025,395	(16,785,162)	24,647,653
Associated companies	288,682	2,640,707	821,974	15,433	855,045	-	-	4,621,841
Other non-current assets	470	877,015	594,923	2,662	-	20,693	-	1,495,763
Tax recoverable	17,967	2,457	-	-	-	28,137	-	48,561
Tax reserve certificates	-	19,926	-	-	-	-	-	19,926
Trading securities	-	3,111	141	-	-	-	-	3,252
<b>Total assets</b>	<b>9,896,026</b>	<b>13,922,569</b>	<b>1,419,825</b>	<b>4,258,415</b>	<b>1,051,098</b>	<b>17,074,225</b>	<b>(16,785,162)</b>	<b>30,836,996</b>
Segment liabilities	2,449,808	10,376,924	80,783	2,683,172	524,636	8,213,680	(16,785,162)	7,543,841
Taxation and deferred taxation	964,629	(34,272)	-	96,995	-	7,745	-	1,035,097
Minority interests and loans	2,041,305	255,528	-	74,270	-	4,396	-	2,375,499
<b>Total liabilities</b>	<b>5,455,742</b>	<b>10,598,180</b>	<b>80,783</b>	<b>2,854,437</b>	<b>524,636</b>	<b>8,225,821</b>	<b>(16,785,162)</b>	<b>10,954,437</b>
Capital expenditure	50,888	784,777	-	138,100	-	1,138	-	974,903
Depreciation	4,421	1,046	-	59,391	-	3,264	-	68,122
Amortisation of goodwill	-	-	-	2,429	-	-	-	2,429
Amortisation of negative goodwill	-	-	-	(4,465)	-	-	-	(4,465)
Provision in respect of stock of completed properties held for sale	-	69,346	-	-	-	-	-	69,346

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

#### (c) Primary reporting format – business segments (Continued)

	2002, as restated							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
<b>Revenue</b>								
Turnover	1,089,491	2,704,735	-	1,317,589	-	44,347	-	5,156,162
Inter-segment revenue	-	-	-	-	-	386,809	(386,809)	-
Inter-segment interest income	-	-	-	-	-	360,295	(360,295)	-
	<u>1,089,491</u>	<u>2,704,735</u>	<u>-</u>	<u>1,317,589</u>	<u>-</u>	<u>791,451</u>	<u>(747,104)</u>	<u>5,156,162</u>
<b>Results</b>								
Segment results	519,608	135,756	(5,795)	254,505	(300)	296,632	(360,295)	840,111
Dividend income	-	6,926	20,796	-	-	5	-	27,727
Interest income	4,357	11,191	-	1,352	4,164	7,124	-	28,188
Interest expenses	(92,277)	(180,003)	-	(58,326)	(4,164)	(242,655)	360,295	(217,130)
	<u>431,688</u>	<u>(26,130)</u>	<u>15,001</u>	<u>197,531</u>	<u>(300)</u>	<u>61,106</u>	<u>-</u>	<u>678,896</u>
Share of results of associated companies	18,970	(41,159)	25,920	(2,689)	107,796	-	-	108,838
	<u>450,658</u>	<u>(67,289)</u>	<u>40,921</u>	<u>194,842</u>	<u>107,496</u>	<u>61,106</u>	<u>-</u>	<u>787,734</u>
Profit/(loss) before taxation	450,658	(67,289)	40,921	194,842	107,496	61,106	-	787,734
Taxation	(124,115)	(13,974)	(8,981)	(25,869)	(6,012)	2,963	-	(175,988)
	<u>326,543</u>	<u>(81,263)</u>	<u>31,940</u>	<u>168,973</u>	<u>101,484</u>	<u>64,069</u>	<u>-</u>	<u>611,746</u>
Profit/(loss) after taxation	326,543	(81,263)	31,940	168,973	101,484	64,069	-	611,746
Minority interests	(89,035)	81,813	-	(10,234)	-	5,381	-	(12,075)
	<u>237,508</u>	<u>550</u>	<u>31,940</u>	<u>158,739</u>	<u>101,484</u>	<u>69,450</u>	<u>-</u>	<u>599,671</u>
Profit attributable to shareholders	237,508	550	31,940	158,739	101,484	69,450	-	599,671

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

#### (c) Primary reporting format – business segments (Continued)

	2002, as restated							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
Segment assets	9,629,416	10,757,016	11,035	4,200,388	534,467	17,913,431	(17,869,742)	25,176,011
Associated companies	278,598	3,259,567	812,252	7,529	722,878	-	-	5,080,824
Other non-current assets	470	942,060	603,832	21,209	-	22,416	-	1,589,987
Tax recoverable	-	2,457	-	-	-	28,307	-	30,764
Trading securities	-	1,895	148	-	-	-	-	2,043
<b>Total assets</b>	<b>9,908,484</b>	<b>14,962,995</b>	<b>1,427,267</b>	<b>4,229,126</b>	<b>1,257,345</b>	<b>17,964,154</b>	<b>(17,869,742)</b>	<b>31,879,629</b>
Segment liabilities	2,754,243	10,986,297	112,135	2,576,473	520,052	9,393,637	(17,869,742)	8,473,095
Taxation and deferred taxation	999,341	(11,569)	-	88,220	-	6,546	-	1,082,538
Minority interests and loans	1,989,173	275,529	-	263,414	-	(550)	-	2,527,566
<b>Total liabilities</b>	<b>5,742,757</b>	<b>11,250,257</b>	<b>112,135</b>	<b>2,928,107</b>	<b>520,052</b>	<b>9,399,633</b>	<b>(17,869,742)</b>	<b>12,083,199</b>
Capital expenditure	4,886	209,930	-	220,512	-	5,024	-	440,352
Depreciation	4,071	1,069	-	48,258	-	3,583	-	56,981
Amortisation of goodwill	-	-	-	1,754	-	-	-	1,754
Amortisation of negative goodwill	-	-	-	(21)	-	-	-	(21)
Provision in respect of stock of completed properties held for sale	-	266,000	-	-	-	-	-	266,000

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

## 2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

### (d) Secondary reporting format – geographical segments

	2003			
	Segment	Segment	Segment	Capital
	revenue	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,342,449	466,027	9,913,574	139,813
Hong Kong	2,012,608	94,656	14,284,130	808,432
United Kingdom	595,608	9,831	277,318	6,497
Others	253,801	3,252	172,631	20,161
	<u>4,204,466</u>	<u>573,766</u>	<u>24,647,653</u>	<u>974,903</u>

  

	2002			
	Segment	Segment	Segment	Capital
	revenue	results	assets	expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,127,025	509,964	9,827,743	128,636
Hong Kong	3,517,120	338,493	14,971,833	239,853
United Kingdom	333,410	3,523	227,338	39,807
Others	178,607	(11,869)	149,097	32,056
	<u>5,156,162</u>	<u>840,111</u>	<u>25,176,011</u>	<u>440,352</u>

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 3 OPERATING PROFIT BEFORE FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Operating profit before finance costs is stated after crediting and charging the following:		
<b>Crediting</b>		
Gross rental income from investment properties other than hotel properties		
– PRC	470,541	456,033
– Hong Kong	317,482	372,741
	788,023	828,774
Less: outgoings in respect of investment properties other than hotel properties		
– PRC	(55,243)	(53,179)
– Hong Kong	(35,425)	(42,436)
	(90,668)	(95,615)
Net rental income from investment properties other than hotel properties		
– PRC	415,298	402,854
– Hong Kong	282,057	330,305
	697,355	733,159
Interest income	26,118	30,849
Less: amount capitalised in properties under development	(100)	(2,661)
	26,018	28,188
Gain on sale of investment properties		
– excess of sales proceeds over book value	–	(21,657)
– Transfer from investment properties revaluation reserve	–	24,709
	–	3,052
Realised gain on disposal of trading securities	–	636
Unrealised gain on trading securities	1,209	–
Amortisation of negative goodwill	4,465	21
<b>Charging</b>		
Loss on sale of investment properties	20,926	–
Cost of sale of completed properties and sale/presale of properties under development	1,270,819	2,288,786
Auditors' remuneration	4,406	4,264
Non-audit service fees paid and payable to auditors	1,225	2,309
Depreciation of fixed assets	68,515	57,348
Less: amount capitalised in properties under development	(393)	(367)
	68,122	56,981
Amortisation of goodwill	2,429	1,754
Unrealised loss on trading securities	–	897
Operating lease charges – land and buildings	32,912	22,785
Staff costs	418,223	375,049

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 4 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Bank loans and overdrafts wholly repayable within five years	130,811	194,582
Convertible bonds	-	39,665
Interest rate swaps	121,117	65,520
Others	12,165	17,912
	264,093	317,679
Less: amount capitalised in properties under development	(89,455)	(100,549)
Total finance costs expensed during the year	174,638	217,130

The capitalisation rate applied to funds borrowed and used for the development of properties held for sale/under development is between 3% and 7% per annum.

#### 5 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 5 TAXATION (CONTINUED)

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	As restated 2002 HK\$'000
PRC taxation		
– Current	72,608	108,577
– Overprovision in prior years	(375)	(706)
– Deferred (note 28)	(22,140)	9,093
	50,093	116,964
Hong Kong profits tax		
– Current	39,439	68,444
– Overprovision in prior years	(3,396)	(1,434)
– Deferred (note 28)	10,909	(32,243)
	46,952	34,767
Overseas taxation		
– Current	5,442	2,173
– Overprovision in prior years	(162)	–
– Deferred (note 28)	(923)	–
	4,357	2,173
Share of taxation attributable to associated companies		
– Current	18,532	24,066
– Deferred	(8,742)	(1,982)
	9,790	22,084
	111,192	175,988

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	572,322	787,734
Calculated at Hong Kong profits tax rate of 17.5% (2002: 16%)	100,156	126,037
Tax effect of different taxation rates in other countries	63,316	77,454
Tax effect of net income/expenses that are not taxable/deductible in determining taxable profit	(57,124)	(87,862)
Tax effect on utilisation of previously unrecognised tax losses	(32,150)	(5,956)
Tax effect on unrecognised tax losses	40,927	68,455
Overprovision of taxation in prior years	(3,933)	(2,140)
Taxation charge	111,192	175,988

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the accounts of the Company is HK\$372,905,000 (2002: HK\$575,475,000).

#### 7 DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim, paid, of HK\$0.13 (2002: HK\$0.18) per ordinary share (note (a))	154,519	210,675
Final, proposed, of HK\$0.15 (2002: HK\$0.12) per ordinary share (note (b))	178,729	140,466

- (a) Amounts shown in respect of the interim dividend for the year ended 31 December 2003 reflect the cash dividend of HK\$0.13 (2002: HK\$0.18) per ordinary share. A scrip dividend alternative to the interim dividend was also offered, with the result that only approximately HK\$137,129,000 (2002: HK\$208,277,000) of the interim dividend was paid in cash.
- (b) At a meeting held on 9 March 2004, the directors proposed a final dividend of HK\$0.15 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

#### 8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$394,741,000 (2002: HK\$599,671,000) and the weighted average number of 1,180,548,013 shares (2002: 1,164,439,012 shares) in issue during the year.

There was no dilution arising from the outstanding share options granted by the Company in 1997, 1999 and 2001. The dilution from the outstanding share options granted by the Company in 2000 and 2002 were immaterial. Accordingly, diluted earnings per share had not been shown.



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 9 RETIREMENT BENEFIT COSTS

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000.

The MPF Scheme is a master trust scheme established under a trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000 if their relevant income is HK\$5,000 per month (HK\$4,000 prior to 1 February 2003) or more. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

Certain companies within the Group are also participants of the Kerry Trading Co. Limited, Provident Fund Scheme (the "Fund") which is a defined contribution scheme as defined in the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). The Fund is for certain salaried persons (the "Fund Members") under the employment of the companies participating in the Fund. The assets of the Fund are managed by the trustees of the Fund. Contributions are made to the Fund by companies participating in the Fund at 10% of the Fund Members' monthly basic salaries up to a maximum of HK\$5,000 per Fund Member per month (the "Basic Contribution") less the MPF Contribution if the Basic Contribution is higher than the MPF Contribution. Fund Members are entitled to 100% of the employers' contributions to the Fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon retirement due to ill health. Fund Members are also entitled to the employers' contributions to the Fund plus investment earnings calculated at a reduced scale of between 20% and 90% after completing a period of service of at least two but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the Fund can be utilised by the companies participating in the Fund to reduce future levels of contributions.

The Group also made defined contributions to pension plans as required by the relevant municipality or provincial governments in the PRC. The rates of contributions for the relevant periods ranged from 8% to 23% of the staff's salary. For overseas subsidiaries, the Group made contributions to defined contribution pension schemes in accordance with the schemes set up by the overseas subsidiaries and/or under statutory requirements.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 9 RETIREMENT BENEFIT COSTS (CONTINUED)

The amounts of unvested benefits utilised by the Group during the year to reduce contributions to the Fund, the amount of unvested benefits available for future reduction of employers' contributions as at 31 December 2003 and the total amount contributed by the Group to the above schemes during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Unvested benefits utilised to reduce contributions during the year	550	972
Unvested benefits available as at 31 December	88	26
Total contributions during the year	18,969	17,111

#### 10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

##### (a) Directors

The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Fees		
Independent non-executive directors	681	750
For management		
Basic salaries, housing allowances, other allowances and other benefits in kind	10,437	13,590
Discretionary bonuses	7,730	5,875
Directors' pensions	215	240
Share options exercised	5,826	-
	24,208	19,705
	24,889	20,455

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

##### (a) Directors (Continued)

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$ Nil – HK\$1,000,000		
HK\$ Nil – HK\$250,000	4	3
HK\$250,001 – HK\$1,000,000	1	1
	5	4
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	1	–
HK\$5,000,001 – HK\$5,500,000	1	1
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$7,000,001 – HK\$7,500,000	1	–
	<u>9</u>	<u>8</u>

No directors have waived emoluments in respect of the years ended 31 December 2003 and 2002.

Pursuant to the terms of the share option scheme adopted by the Company on 27 March 1997, following the adjustment events arising from the changes in the Company's issued share capital on 22 October 2002, in December 2002 and on 30 May 2003, the Company adjusted the respective exercise prices per option share of the unexercised options and the respective number of option shares comprising thereunder with effect from 30 May 2003. The respective exercise prices have been adjusted from HK\$15.30 to HK\$15.12, from HK\$9.88 to HK\$9.77, from HK\$6.87 to HK\$6.79, from HK\$11.88 to HK\$11.74 and from HK\$7.02 to HK\$6.94 in respect of the unexercised options granted on 11 April 1997, 27 November 1999, 1 June 2000, 2 March 2001 and 16 April 2002, respectively, with additional corresponding option shares of 77,612, 28,956, 37,010, 1,227 and 36,722 granted to five directors of the Company.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

##### (b) Highest paid individuals

The aggregate amounts of emoluments payable to the five highest paid individuals of the Group during the year, of whom four (2002: four) are directors of the Company were as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and other benefits in kind	12,132	15,012
Discretionary bonuses	9,120	6,770
Pensions contributions	275	300
Share options exercised	4,941	-
	<u>26,468</u>	<u>22,082</u>

The emoluments of the five highest paid individuals of the Group during the year, of whom four (2002: four) are directors of the Company, fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$3,000,001 – HK\$3,500,000	1	2
HK\$4,000,001 – HK\$4,500,000	-	1
HK\$4,500,001 – HK\$5,000,000	1	-
HK\$5,000,001 – HK\$5,500,000	1	1
HK\$5,500,001 – HK\$6,000,000	-	1
HK\$6,000,001 – HK\$6,500,000	1	-
HK\$7,000,001 – HK\$7,500,000	1	-
	<u>5</u>	<u>5</u>

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### II (NEGATIVE GOODWILL)/GOODWILL

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1 January 2002	5,698	(414)	5,284
Arising from purchase of a subsidiary	41,453	-	41,453
Amortisation	(1,754)	21	(1,733)
At 31 December 2002	45,397	(393)	45,004
At 1 January 2003	45,397	(393)	45,004
Arising from purchase of business	1,817	-	1,817
Arising from purchase of additional interest in subsidiaries	-	(91,461)	(91,461)
Amortisation	(2,429)	4,465	2,036
At 31 December 2003	44,785	(87,389)	(42,604)

	2003 HK\$'000	2002 HK\$'000
At 31 December		
Cost	(42,614)	47,030
Accumulated amortisation	10	(2,026)
Net book amount	(42,604)	45,004

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 12 FIXED ASSETS

	Group										
	Investment properties other than hotel properties	Other leasehold land and buildings				Properties held			Warehouse operating equipment	Motor vehicles, furniture, fixtures and office equipment	Total
		Hotel properties	Warehouses and logistics centre	Staff quarters	Freehold land and buildings	for/under development	Leasehold improvements				
								HK\$'000			
Cost or valuation											
At 1 January 2003	16,565,146	953,000	489,890	3,650	14,864	2,619,766	10,726	254,153	250,476	21,161,671	
Exchange adjustment	251	-	-	(17)	5,468	(2,920)	(20)	17,079	13,926	33,767	
Additions, at cost	9,993	12,337	-	-	-	906,505	8	15,366	30,694	974,903	
Adjustment on revaluation	(302,768)	(12,337)	(17,789)	-	7,494	-	-	-	-	(325,400)	
Disposals	(160,532)	-	-	(3,285)	-	-	-	(13,063)	(14,182)	(191,062)	
Reclassification	51,400	(51,400)	182,158	176	32,952	(497,364)	-	-	(176)	(282,254)	
At 31 December 2003	16,163,490	901,600	654,259	524	60,778	3,025,987	10,714	273,535	280,738	21,371,625	
At cost	-	-	-	524	-	3,025,987	10,714	273,535	280,738	3,591,498	
At professional valuation	16,163,490	901,600	654,259	-	60,778	-	-	-	-	17,780,127	
At 31 December 2003	16,163,490	901,600	654,259	524	60,778	3,025,987	10,714	273,535	280,738	21,371,625	
Aggregate depreciation and accumulated impairment losses											
At 1 January 2003	-	-	-	1,545	-	-	6,224	126,750	136,978	271,497	
Exchange adjustment	-	-	-	(7)	173	-	(7)	8,393	4,723	13,275	
Charge for the year	-	-	15,215	138	1,001	-	1,282	20,989	29,890	68,515	
Adjustment on revaluation	-	-	(15,215)	-	(1,174)	-	-	-	-	(16,389)	
Impairment loss	-	-	-	-	-	91,345	-	-	-	91,345	
Disposals	-	-	-	(1,509)	-	-	-	(7,562)	(8,039)	(17,110)	
Reclassification	-	-	-	57	-	-	-	-	(57)	-	
At 31 December 2003	-	-	-	224	-	91,345	7,499	148,570	163,495	411,133	
Net book value as at											
31 December 2003	16,163,490	901,600	654,259	300	60,778	2,934,642	3,215	124,965	117,243	20,960,492	
Net book value as at											
31 December 2002	16,565,146	953,000	489,890	2,105	14,864	2,619,766	4,502	127,403	113,498	20,890,174	

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 12 FIXED ASSETS (CONTINUED)

	Company		Total HK\$'000
	Leasehold improvements HK\$'000	Motor vehicles, furniture, fixtures and office equipment HK\$'000	
Cost			
At 1 January 2003	196	2,990	3,186
Additions, at cost	-	798	798
Disposals	-	(826)	(826)
At 31 December 2003	196	2,962	3,158
Aggregate depreciation			
At 1 January 2003	58	1,375	1,433
Charge for the year	30	430	460
Disposals	-	(199)	(199)
At 31 December 2003	88	1,606	1,694
Net book value as at 31 December 2003	108	1,356	1,464
Net book value as at 31 December 2002	138	1,615	1,753

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 12 FIXED ASSETS (CONTINUED)

- (a) The Group's interests in investment properties, freehold and other leasehold land and buildings and properties held for/under development at their net book values are analysed as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
In PRC, held on:		
Leases of between 10 to 50 years	8,179,664	8,197,623
In Hong Kong, held on:		
Leases of over 50 years	7,337,641	6,978,464
Leases of between 10 to 50 years	5,136,986	5,436,390
Overseas freehold land and buildings and properties under development	60,778	32,294
	<u>20,715,069</u>	<u>20,644,771</u>

- (b) As at 31 December 2003, properties with an aggregate net book value of HK\$1,260,150,000 (2002: HK\$4,548,431,000) were pledged as security for bank loan facilities granted to the Group (note 33).
- (c) All investment properties, warehouses and logistics centre in the PRC and Hong Kong were valued by DTZ Debenham Tie Leung Limited and Chesterton Petty Limited. Freehold land and buildings in Australia and Thailand were valued by Rushton Group and DTZ Debenham Tie Leung Limited, respectively. They are independent professional valuers and the valuation was on an open market value basis as at 31 December 2003.
- (d) The carrying amount of the warehouses and logistics centre classified as other leasehold land and buildings would have been HK\$532,588,000 (2002: HK\$355,471,000) had they been stated in the accounts at cost less aggregate depreciation and accumulated impairment loss.
- (e) The carrying amount of freehold land and buildings would have been HK\$51,312,000 (2002: HK\$11,280,000) had they been stated in the accounts at cost less aggregate depreciation and accumulated impairment loss.



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 13 SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost (note (a))	18,643,700	18,643,700
Amounts due from subsidiaries (note (b))	9,237,790	9,587,096
	<u>27,881,490</u>	<u>28,230,796</u>

(a) Details of subsidiaries are set out in note 36 to the accounts.

(b) The amounts due from subsidiaries are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for an amount of HK\$6,588,154,000 (2002: HK\$6,914,133,000) which bears interest at prevailing market rates.

### 14 ASSOCIATED COMPANIES

	Group	
	2003 HK\$'000	As restated 2002 HK\$'000
Share of net assets other than negative goodwill (note (a))	717,997	771,648
Negative goodwill (note (b))	(22,383)	(23,924)
Amounts due from associated companies (note (c))	3,960,869	4,478,247
Amounts due to associated companies (note (d))	(34,642)	(145,147)
	<u>4,621,841</u>	<u>5,080,824</u>

(a) Details of associated companies are set out in note 37 to the accounts.

(b) Negative goodwill

	2003 HK\$'000	2002 HK\$'000
At 1 January	23,924	27,380
Amortisation	(1,541)	(3,456)
At 31 December	<u>22,383</u>	<u>23,924</u>

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 14 ASSOCIATED COMPANIES (CONTINUED)

- (c) The amounts due from associated companies are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for amounts totalling HK\$1,144,351,000 (2002: HK\$1,299,414,000) which bears interest at prevailing market rates.
- (d) The amounts due to associated companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

#### 15 OTHER NON-CURRENT ASSETS

	Group	
	2003	As restated 2002
	HK\$'000	HK\$'000
Long-term investments		
Non-trading securities:		
Unlisted investments, at fair value	1,205,099	1,321,576
Amounts due from investee companies (note (a))	2,886	2,666
	1,207,985	1,324,242
Club debentures, at cost	9,967	9,817
	1,217,952	1,334,059
Long-term receivables (note (b))	277,811	255,928
	1,495,763	1,589,987

- (a) The amounts due from investee companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date.
- (b) Amount represents non-current portion of second mortgage loans to buyers of certain properties developed by the Group.

#### 16 STOCK OF COMPLETED PROPERTIES HELD FOR SALE – GROUP

As at 31 December 2003, the carrying amount of stock of completed properties held for sale that was carried at net realisable value amounted to HK\$301,194,000 (2002: HK\$1,249,181,000).

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 17 PROPERTIES UNDER DEVELOPMENT FOR SALE

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost plus attributable profits less foreseeable losses	1,375,997	604,433
Less: sales instalments received and receivable	(376,220)	(13,160)
	<u>999,777</u>	<u>591,273</u>

As at 31 December 2003, properties under development for sale with an aggregate net book value of HK\$199,364,000 (2002: Nil) were pledged as security for bank loan facilities granted to the Group (note 33).

#### 18 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains defined credit policies and applies credit policies appropriate to the particular business circumstances concerned. The ageing analysis of the trade receivables as at 31 December 2003 was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0-1 month	137,410	132,360
2-3 months	130,200	115,376
Over 3 months	20,538	9,937
	<u>288,148</u>	<u>257,673</u>

#### 19 TRADING SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed in Hong Kong	3,111	1,895
Listed outside Hong Kong	141	148
	<u>3,252</u>	<u>2,043</u>
Market value of listed investments		

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 20 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 31 December 2003 was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0-1 month	140,587	116,008
2-3 months	33,418	13,756
Over 3 months	19,171	8,994
	<u>193,176</u>	<u>138,758</u>

#### 21 SHARE CAPITAL

	Authorised Ordinary shares of HK\$1 each	
	No. of shares	HK\$'000
At 31 December 2002 and 2003	<u>10,000,000,000</u>	<u>10,000,000</u>

	Issued and fully paid Ordinary shares of HK\$1 each			
	2003		2002	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 January	1,170,550,794	1,170,551	1,155,727,489	1,155,727
Issue of scrip dividend shares (notes (a) and (b))	15,538,757	15,539	14,941,805	14,942
Issue of new shares as a result of exercise of share options (note (c))	5,437,176	5,437	108,000	108
Purchase of shares for cancellation	-	-	(226,500)	(226)
At 31 December	<u>1,191,526,727</u>	<u>1,191,527</u>	<u>1,170,550,794</u>	<u>1,170,551</u>

- (a) On 15 April 2003, the Company approved a final dividend on its issued ordinary shares for the year ended 31 December 2002. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 13,925,576 ordinary shares of HK\$1 each were issued on 30 May 2003 under this scheme.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 21 SHARE CAPITAL (CONTINUED)

- (b) On 8 September 2003, the Company declared an interim dividend on its issued ordinary shares for the year ended 31 December 2003. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 1,613,181 ordinary shares of HK\$1 each were issued on 11 November 2003 under this scheme.
- (c) During the year, a total of 5,437,176 option shares were exercised at exercise prices of HK\$6.79, HK\$6.94 and HK\$9.77, respectively, per share. Details of movement in share options during the year are set out in note 22.
- (d) Proceeds received in respect of the shares issued were used as additional working capital for the Group.

### 22 SHARE OPTIONS

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme").

#### 1997 Share Option Scheme

Under the 1997 Share Option Scheme, the directors of the Company were authorised, at their discretion, to invite executive directors and key employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The exercise price for any particular option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

Pursuant to the terms of the 1997 Share Option Scheme, the Company adjusted the respective exercise prices per option share of the unexercised options and the respective number of option shares comprised thereunder on 30 May 2003 following the adjustment events arising from the changes in the Company's issued share capital on 22 October 2002, in December 2002 and on 30 May 2003.

The 1997 Share Option Scheme was terminated on 17 April 2002 such that no further options shall be offered but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 22 SHARE OPTIONS (CONTINUED)

##### 2002 Share Option Scheme

The 2002 Share Option Scheme was adopted by the Company on 17 April 2002. Under the 2002 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

No option has been granted under the 2002 Share Option Scheme. The 2002 Share Option Scheme will expire on 16 April 2012.

Details of the movement of the share options under the 1997 Share Option Scheme during the year were as follows:

	2003 Number	2002 Number
At 1 January	31,828,769	27,701,286
Granted during the year	-	4,760,000
Additional number of option shares granted for the adjustment during the year	371,014	413,460
Exercised during the year (note (a))	(5,437,176)	(108,000)
Lapsed during the year	(459,100)	(937,977)
At 31 December (note (b))	<u>26,303,507</u>	<u>31,828,769</u>

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 22 SHARE OPTIONS (CONTINUED)

(a) Details of share options exercised during the year were as follows:

Exercise period	2003				Market value per share at exercise date HK\$	Proceeds received HK\$
	Number of share options exercised at the following exercise price per share					
	HK\$6.79	HK\$6.94	HK\$9.77	Total		
June 2003	63,355	-	-	63,355	9.25	430,180
July 2003	68,636	15,345	-	83,981	9.05	572,533
August 2003	258,387	10,230	-	268,617	9.25 to 10.45	1,825,444
September 2003	3,500,423	295,117	-	3,795,540	10.00 to 11.40	25,815,984
October 2003	943,761	50,000	-	993,761	10.40 to 11.20	6,755,137
November 2003	-	20,461	-	20,461	10.40	141,999
December 2003	-	-	211,461	211,461	9.80	2,065,974
	<u>4,834,562</u>	<u>391,153</u>	<u>211,461</u>	<u>5,437,176</u>		<u>37,607,251</u>

  

Exercise period	2002		
	Number of share options exercised at HK\$6.96 per share	Market value per share at exercise date HK\$	Proceeds received HK\$
	June 2002	48,000	8.10 to 8.20
July 2002	<u>60,000</u>	7.90 to 8.30	<u>417,600</u>
	<u>108,000</u>		<u>751,680</u>

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 22 SHARE OPTIONS (CONTINUED)

(b) Terms of share options at balance sheet date were as follows:

Exercise period	2003		2002	
	Exercise price HK\$	Number	Exercise price HK\$	Number
11 April 1999 to 26 March 2007	15.12	11,481,428	15.30	11,460,743
27 May 2000 to 26 March 2007	9.77	2,849,446	9.88	2,984,984
27 May 2001 to 26 March 2007	9.77	2,849,415	9.88	2,985,020
1 June 2001 to 31 May 2010	6.79	706,770	6.87	2,824,000
1 June 2002 to 31 May 2010	6.79	1,238,000	6.87	2,824,000
1 June 2003 to 31 May 2010	6.79	1,712,957	6.87	2,761,148
2 March 2002 to 1 March 2011	11.74	378,000	11.88	420,000
2 March 2003 to 1 March 2011	11.74	378,000	11.88	420,000
2 March 2004 to 1 March 2011	11.74	369,058	11.88	395,340
16 April 2003 to 15 April 2012	6.94	1,992,547	7.02	2,376,750
16 April 2004 to 15 April 2012	6.94	2,347,886	7.02	2,376,784
		<u>26,303,507</u>		<u>31,828,769</u>

(c) No share options were cancelled during the year (2002: Nil).

#### 23 SHARE PREMIUM

	2003 HK\$'000	2002 HK\$'000
At 1 January	3,478,011	3,371,498
Arising from scrip dividend (notes 21(a) and (b))	118,408	106,894
Arising from exercise of share options (note 21(c))	32,172	644
Application on purchase of shares for cancellation	-	(1,025)
At 31 December	<u>3,628,591</u>	<u>3,478,011</u>



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 24 OTHER RESERVES

	Group								
	Investment properties (other than hotel properties) revaluation reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Freehold land and buildings revaluation reserve HK\$'000	Properties under development revaluation reserve HK\$'000	Share of post acquisition revaluation reserve of companies HK\$'000	Non-trading securities revaluation reserve HK\$'000	Others (note (a)) HK\$'000	Total HK\$'000
At 1 January 2002,									
as previously reported	1,661,656	76,481	550,240	-	95,619	40,543	1,360,336	7,786,976	11,571,851
Effect of adopting revised SSAP 12	(448,496)	(59,918)	(32,912)	-	-	(40,543)	(215,906)	-	(797,775)
At 1 January 2002, as restated	1,213,160	16,563	517,328	-	95,619	-	1,144,430	7,786,976	10,774,076
On revaluation of properties (note (b))	(1,079,930)	-	(45,238)	3,775	-	-	-	-	(1,121,393)
Arising from valuation of non-trading securities (note (c))	-	-	-	-	-	-	(194,863)	-	(194,863)
Transfer to profit and loss account on disposal of properties	(27,033)	-	-	-	-	-	-	-	(27,033)
Transfer from retained profits	-	-	-	-	-	-	-	3,643	3,643
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	-	-	-	-	-	-	47,684	47,684
Deferred taxation (charged)/credited directly to reserves	(106,197)	1,699	5,473	-	-	-	3,255	-	(95,770)
At 31 December 2002	-	18,262	477,563	3,775	95,619	-	952,822	7,838,303	9,386,344
Company and subsidiaries	-	18,262	477,563	3,775	95,619	-	952,822	7,824,483	9,372,524
Associated companies	-	-	-	-	-	-	-	13,820	13,820
At 31 December 2002	-	18,262	477,563	3,775	95,619	-	952,822	7,838,303	9,386,344

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 24 OTHER RESERVES (CONTINUED)

	Group								
	Investment properties (other than hotel properties) revaluation reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Freehold land and buildings revaluation reserve HK\$'000	Properties under development revaluation reserve HK\$'000	Share of post acquisition revaluation reserve of associated companies HK\$'000	Non-trading securities revaluation reserve HK\$'000	Others (note (a)) HK\$'000	Total HK\$'000
At 1 January 2003, as previously reported	554,693	76,481	505,002	3,775	95,619	7,043	1,165,473	7,838,303	10,246,389
Effect of adopting revised SSAP 12	(554,693)	(58,219)	(27,439)	-	-	(7,043)	(212,651)	-	(860,045)
At 1 January 2003, as restated	-	18,262	477,563	3,775	95,619	-	952,822	7,838,303	9,386,344
On revaluation of properties (note (b))	-	(8,790)	(14,414)	6,922	-	-	-	-	(16,282)
Impairment loss (note 1(h)(vii))	-	-	-	-	(91,345)	-	-	-	(91,345)
Arising from valuation of non-trading securities (note (c))	-	-	-	-	-	-	(112,296)	-	(112,296)
Transfer from retained profits	-	-	-	-	-	-	-	8,783	8,783
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	-	-	-	-	-	-	26,418	26,418
Deferred taxation (charged)/credited directly to reserves	-	(9,472)	3,271	-	-	-	14,523	-	8,322
At 31 December 2003	-	-	466,420	10,697	4,274	-	855,049	7,873,504	9,209,944
Company and subsidiaries	-	-	466,420	10,697	4,274	-	855,049	7,850,899	9,187,339
Associated companies	-	-	-	-	-	-	-	22,605	22,605
At 31 December 2003	-	-	466,420	10,697	4,274	-	855,049	7,873,504	9,209,944

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 24 OTHER RESERVES (CONTINUED)

#### (a) Others

	Group				
	Capital reserve (note (d)) HK\$'000	Exchange fluctuation reserve HK\$'000	Enterprise expansion and general reserve funds (note (e)) HK\$'000	Capital redemption reserve (note (g)) HK\$'000	Total HK\$'000
At 1 January 2002	7,975,089	(210,722)	14,967	7,642	7,786,976
Transfer from retained profits	-	-	3,417	226	3,643
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	47,168	516	-	47,684
At 31 December 2002	7,975,089	(163,554)	18,900	7,868	7,838,303
Company and subsidiaries	7,975,089	(163,836)	5,362	7,868	7,824,483
Associated companies	-	282	13,538	-	13,820
At 31 December 2002	7,975,089	(163,554)	18,900	7,868	7,838,303
At 1 January 2003	7,975,089	(163,554)	18,900	7,868	7,838,303
Transfer from retained profits	-	-	8,783	-	8,783
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	26,318	100	-	26,418
At 31 December 2003	7,975,089	(137,236)	27,783	7,868	7,873,504
Company and subsidiaries	7,975,089	(137,481)	5,423	7,868	7,850,899
Associated companies	-	245	22,360	-	22,605
At 31 December 2003	7,975,089	(137,236)	27,783	7,868	7,873,504

(b) These represent surplus/(deficit) arising from revaluation of properties at the balance sheet date. The accounting policies in respect of revaluation of properties are set out in note 1(h)(i) to (ii) to the accounts.

(c) This represents the deficit arising from valuation of the Group's non-trading securities at the balance sheet date. The accounting policy in respect of valuation of non-trading securities is set out in note 1(g)(i) to the accounts.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 24 OTHER RESERVES (CONTINUED)

- (d) Capital reserve of the Group arose from the Group's reorganisation in preparation for its listing on the Stock Exchange of Hong Kong in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associated companies subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001 (note 1(f)).
- (e) Enterprise expansion and general reserve funds represent funds set up by a subsidiary and associated companies established and operating in the PRC. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.
- (f) Other reserves

	Company		Total HK\$'000
	Contributed surplus HK\$'000	Capital redemption reserves (note (g)) HK\$'000	
At 1 January 2002	17,793,308	7,642	17,800,950
Transfer from retained profits	–	226	226
At 31 December 2002	17,793,308	7,868	17,801,176
At 1 January 2003 and 31 December 2003	17,793,308	7,868	17,801,176

- (i) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (ii) As at 31 December 2003, the reserves of the Company available for distribution amounted to approximately HK\$18,469,928,000 (2002: HK\$18,392,008,000).
- (g) The capital redemption reserve arose from the purchase of the Company's shares for cancellation during 1998 and 2002 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 25 RETAINED PROFITS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January, as previously reported	6,105,619	5,798,314	590,832	364,945
Effect of adopting revised SSAP 12	(344,095)	(283,456)	–	–
At 1 January, as restated	5,761,524	5,514,858	590,832	364,945
Transfer to other reserves	(8,783)	(3,643)	–	(226)
Profit for the year	394,741	599,671	372,905	575,475
2002/2001 final dividend paid	(140,466)	(138,687)	(140,466)	(138,687)
2003/2002 interim dividend paid	(154,519)	(210,675)	(154,519)	(210,675)
At 31 December	5,852,497	5,761,524	668,752	590,832
2003/2002 final dividend proposed	(178,729)	(140,466)	(178,729)	(140,466)
	<u>5,673,768</u>	<u>5,621,058</u>	<u>490,023</u>	<u>450,366</u>
Company and subsidiaries	5,675,894	5,588,209	490,023	450,366
Associated companies	(2,126)	32,849	–	–
	<u>5,673,768</u>	<u>5,621,058</u>	<u>490,023</u>	<u>450,366</u>

#### 26 MINORITY INTERESTS AND LOANS

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of equity	419,609	323,811
Loans from minority shareholders	1,955,890	2,203,755
	<u>2,375,499</u>	<u>2,527,566</u>

The loans from minority shareholders represent proportionate funding from the minority shareholders of joint venture projects, including an amount of approximately HK\$610,296,000 (2002: HK\$654,042,000) received from a subsidiary of Shangri-La Asia Limited, a related company whose shares are listed on the Stock Exchange of Hong Kong. These loans are unsecured, subordinated to the bank loans of the relevant subsidiaries, have no fixed terms of repayment, and interest-free except for an amount of HK\$264,103,000 (2002: HK\$298,681,000) which bears interest at prevailing market rates.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 27 LONG-TERM LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans – unsecured	6,033,808	6,407,773	5,072,222	5,850,000
Bank loans – secured (note 33)	174,156	646,799	–	–
Total bank loans (note (a))	6,207,964	7,054,572	5,072,222	5,850,000
Short-term bank loans and current portion of long-term liabilities (note (a))	(804,751)	(1,335,481)	(472,222)	(650,000)
	5,403,213	5,719,091	4,600,000	5,200,000

(a) At 31 December 2003, the Group's bank loans were repayable as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	804,751	1,335,481	472,222	650,000
In the second to fifth year				
In the second year	315,822	870,279	–	450,000
In the third year	650,244	26,178	450,000	–
In the fourth year	4,208,933	270,634	4,150,000	250,000
In the fifth year	224,292	4,552,000	–	4,500,000
	5,399,291	5,719,091	4,600,000	5,200,000
Over five years	3,922	–	–	–
	6,207,964	7,054,572	5,072,222	5,850,000

(b) As at 31 December 2003, the Group had total available cash resources of approximately HK\$8.2 billion (2002: HK\$7.6 billion) comprising net cash and bank balances (including pledged bank deposits) of approximately HK\$1.6 billion (2002: HK\$1.4 billion) and undrawn bank loan facilities of approximately HK\$6.6 billion (2002: HK\$6.2 billion).

(c) Convertible bonds

During the year ended 31 December 2002, bondholders holding guaranteed redeemable convertible bonds issued by Kerry Properties Capital Limited ("KPCL"), a wholly owned subsidiary of the Company, with a principal amount of US\$196,780,000 exercised their option to require KPCL to redeem the bonds and the Group redeemed these bonds on 25 March 2002 at a redemption price of 129.712%. KPCL also exercised its option to redeem the remaining bonds with a principal amount of US\$400,000 on 27 June 2002 at a redemption price of 100%. All the bonds had been duly redeemed as at 31 December 2002.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 28 DEFERRED TAXATION

	Group	
	2003 HK\$'000	As restated 2002 HK\$'000
At 1 January	973,005	840,087
Purchase of a subsidiary (note 29(c))	–	2,156
Deferred taxation credited to profit and loss account (note 5)	(12,154)	(23,150)
Deferred taxation charged directly to reserves	6,201	99,025
Deferred taxation charged directly to minority interests	7,895	54,887
At 31 December	<u>974,947</u>	<u>973,005</u>

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$1,521,909,000 (2002: HK\$1,391,100,000) to be carried forward for offset against future taxable income.

The movement in deferred tax assets and liabilities during the year was as follows:

	Group				
	Revaluation HK\$'000	Accelerated depreciation allowances HK\$'000	Presale of properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2002, as previously stated	–	–	51,119	–	51,119
Effect of adopting revised SSAP 12	821,181	142,670	–	(174,883)	788,968
At 1 January 2002, as restated	821,181	142,670	51,119	(174,883)	840,087
Purchase of a subsidiary	–	2,156	–	–	2,156
Deferred taxation charged/(credited) to profit and loss account	53,098	(38,124)	(50,522)	12,398	(23,150)
Deferred taxation charged directly to reserves	63,133	35,892	–	–	99,025
Deferred taxation charged directly to minority interests	54,887	–	–	–	54,887
At 31 December 2002	<u>992,299</u>	<u>142,594</u>	<u>597</u>	<u>(162,485)</u>	<u>973,005</u>

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 28 DEFERRED TAXATION (CONTINUED)

	Group				
	Revaluation	Accelerated depreciation allowances	Presale of properties	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003, as previously stated	-	2,156	597	-	2,753
Effect of adopting revised SSAP 12	992,299	140,438	-	(162,485)	970,252
At 1 January 2003, as restated	992,299	142,594	597	(162,485)	973,005
Deferred taxation charged/(credited) to profit and loss account	6,869	(8,989)	(597)	(9,437)	(12,154)
Deferred taxation charged directly to reserves	6,201	-	-	-	6,201
Deferred taxation charged directly to minority interests	7,895	-	-	-	7,895
At 31 December 2003	1,013,264	133,605	-	(171,922)	974,947

#### 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

##### (a) Reconciliation of profit before taxation to net cash generated from operations

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	572,322	787,734
Amortisation of goodwill	2,429	1,754
Amortisation of negative goodwill	(4,465)	(21)
Depreciation	68,122	56,981
Dividend income from listed and unlisted investments	(11,418)	(27,727)
Finance costs	174,638	217,130
Interest income	(26,018)	(28,188)
Loss on sale of fixed assets	24,345	1,366
Gain on sale of trading securities	-	(636)
Unrealised (gain)/loss on valuation of trading securities	(1,209)	897
Provision in respect of stock of completed properties held for sale	69,346	266,000
Revaluation deficit on investment properties and other leasehold land and buildings	290,236	13,941
Share of results of associated companies	(135,758)	(108,838)
Operating profit before working capital changes	1,022,570	1,180,393
Decrease in stock of completed properties held for sale, properties under development for sale and accounts receivable, prepayments and deposits	918,681	1,606,786
Decrease in accounts payable, deposits received and accrued charges	(47,421)	(68,538)
Net cash generated from operations	1,893,830	2,718,641



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

#### (b) Analysis of changes in financing during the year

	Share capital (including share premium)		Long-term borrowings (including current portion)		Minority interests and loans	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	4,648,562	4,527,225	7,054,572	9,607,071	2,527,566	2,488,235
Non-cash movement:						
Issue of scrip dividend	133,947	121,836	-	-	-	-
Share of profit	-	-	-	-	66,389	12,075
Share of revaluation reserves	-	-	-	-	21,264	37,733
Release of revaluation reserve on disposal of properties	-	-	-	-	-	2,324
Share of deferred taxation	-	-	-	-	(7,895)	(54,887)
Exchange adjustment	-	-	9,981	3,469	3,079	(667)
Loans of subsidiaries acquired	-	-	-	2,363	-	-
Purchase of subsidiaries	-	-	-	-	-	4,329
Purchase of additional interest in subsidiaries	-	-	-	-	(201,496)	-
Provision of premium and amortisation of issue cost of convertible bonds	-	-	-	32,475	-	-
	133,947	121,836	9,981	38,307	(118,659)	907
Purchase of shares for cancellation	-	(1,251)	-	-	-	-
Proceeds from issue of shares	37,609	752	-	-	-	-
Repayment of bank loans	-	-	(2,402,270)	(7,281,010)	-	-
Redemption of convertible bonds	-	-	-	(1,993,282)	-	-
Drawdown of bank loans	-	-	1,545,681	6,683,486	-	-
Capital injection from minority shareholders	-	-	-	-	474	45,124
Decrease in loans from minority shareholders	-	-	-	-	(29,865)	(6,500)
Dividends paid to minority shareholders in subsidiaries	-	-	-	-	(4,017)	(200)
At 31 December	4,820,118	4,648,562	6,207,964	7,054,572	2,375,499	2,527,566

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

##### (c) Purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	-	33,631
Other investments	-	1
Accounts and other receivables	-	82,573
Cash and bank balances	-	10,772
Accounts and other payables	-	(72,444)
Taxation	-	(1,969)
Bank loans	-	(2,363)
Deferred taxation	-	(2,156)
	-	48,045
Less: Minority interests	-	(4,329)
	-	43,716
Goodwill	-	41,453
	-	85,169
Satisfied by:		
Cash	-	85,169

##### (d) Analysis of the net outflow in respect of the purchase of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Cash consideration	-	85,169
Cash and bank balances acquired	-	(10,772)
Net cash outflow in respect of the purchase of a subsidiary	-	74,397

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 30 RELATED PARTY TRANSACTIONS

Significant related party transactions, in addition to those connected transactions (where applicable) disclosed in the Report of the Directors, which were carried out in the normal course of the Group's business during the year were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
(Income)/expenses		
Rental and storage income (note (a))	(5,278)	(4,149)
Project management and consultancy fees income (note (b))	(592)	(2,307)
Administration and management service fees		
– income (note (c))	(910)	(793)
– expense (note (d))	485	259
Rent and related service charges (note (d))	344	315
Marketing, consultancy and administrative management fees expense (note (e))	9,753	10,240
Insurance premiums expense (note (f))	11,285	18,524

- (a) This represents rental and storage income arising from the leasing of commercial, residential, carparks and warehouse storage space to various subsidiaries and associated companies of Kerry Group Limited, the ultimate holding company of the Company, and other related parties at market rates.
- (b) The Group provided project management, project consultancy, leasing, renovation, refurbishment and maintenance services to various subsidiaries of Kerry Group Limited and other related parties. The fees are determined on a cost reimbursement basis or with reference to relevant industry practice.
- (c) The Group provided management services to certain subsidiaries and associated companies of Kerry Group Limited. In consideration for these services, the Group received fees, which have been determined on a cost reimbursement basis.
- (d) Kerry Trading Co. Limited ("Kerry Trading"), a fellow subsidiary of the Company, provided administration and management services to certain members of the Group. In consideration for these services, members of the Group paid Kerry Trading a fee, which has been determined on a cost reimbursement basis. In addition, the Company reimbursed rent and related service charges to Kerry Trading for the use of office space, which has been determined on a cost reimbursement basis. Such fees are subject to review on an annual basis.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 30 RELATED PARTY TRANSACTIONS (CONTINUED)

- (e) This represents payment of services fee to Shangri-La International Hotel Management Limited, a subsidiary of Shangri-La Asia Limited, a related company of the Group, which provided marketing, consultancy and administrative management services to a member of the Group. The service fees payable during the year were determined at either a fixed amount or a certain percentage of the gross operating revenue of the relevant company in accordance with the agreement for the provision of the above services.
- (f) This represents payment of insurance premiums at market rates to Jerneh Insurance (HK) Limited and Taishan Insurance Brokers Limited, related companies of the Group.

#### 31 COMMITMENTS

- (a) At 31 December 2003, the Group had capital commitments in respect of committed investments and construction in progress not provided for in these accounts as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	688,596	1,137,474
Authorised but not contracted for	83,760	1,275
	772,356	1,138,749

- (b) At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	36,782	29,076
In the second to fifth year, inclusive	81,283	84,780
Over five years	88,279	100,880
	206,344	214,736

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 31 COMMITMENTS (CONTINUED)

(c) At 31 December 2003, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	702,816	728,958
In the second to fifth year, inclusive	502,452	616,931
Over five years	566,185	610,817
	<u>1,771,453</u>	<u>1,956,706</u>

(d) As at 31 December 2003, the Group had interest rate swap contracts with principal sums of HK\$3,760,000,000 (2002: HK\$3,760,000,000). The remaining life of these contracts was within 1-2 years (2002: 2-3 years) at fixed rates of 3.620% to 5.510% (2002: 3.620% to 5.510%).

#### 32 CONTINGENT LIABILITIES

##### (a) Banking facilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for banking and other facilities of certain subsidiaries, associated companies and investee companies (notes (i) and (ii))	789,061	912,431	1,355,659	1,674,063
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (iii))	210,041	83,569	10,380	34,944
	<u>999,102</u>	<u>996,000</u>	<u>1,366,039</u>	<u>1,709,007</u>

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 32 CONTINGENT LIABILITIES (CONTINUED)

##### (a) Banking facilities (Continued)

- (i) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK\$789,061,000 (2002: HK\$912,431,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK\$1,406,842,000 (2002: HK\$1,609,938,000).
- (ii) The Company has executed guarantees to banks for facilities granted to certain subsidiaries, associated companies and investee companies. The utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company at the balance sheet date amounted to approximately HK\$1,355,659,000 (2002: HK\$1,674,063,000). The total amount of such facilities covered by the Company's guarantees amounted to approximately HK\$2,203,428,000 (2002: HK\$2,437,299,000).
- (iii) The Group and the Company have executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's and the Company's guarantees which also represented the financial exposure of the Group and the Company at the balance sheet date amounted to approximately HK\$210,041,000 (2002: HK\$83,569,000) and HK\$10,380,000 (2002: HK\$34,944,000), respectively. The total amount of such facilities covered by the Group's and the Company's guarantees amounted to approximately HK\$1,416,925,000 (2002: HK\$384,246,000) and HK\$62,737,000 (2002: HK\$275,780,000), respectively.

##### (b) Guarantees and undertakings

- (i) A wholly owned subsidiary of the Company, through its associated company, has a 20% interest in a company which is engaged in the development of a site in the Olympic Mass Transit Railway Station Development. Another wholly owned subsidiary of the Company, through its associated company, has a 32.5% interest in another company which is engaged in the development of an adjacent site. The companies developing the sites (the "Developers") were each granted exclusive rights to develop the relevant sites pursuant to separate development agreements (the "Development Agreements") entered into by each of the Developers and MTR Corporation Limited ("MTRC").

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 32 CONTINGENT LIABILITIES (CONTINUED)

##### (b) Guarantees and undertakings (Continued)

Pursuant to two deeds of guarantee in relation to each of the above developments, the Company has provided several guarantees in favour of MTRC for the due and punctual performance and observance by each of the Developers of 20% and 32.5%, respectively, of the Developer's obligations, liabilities, stipulations, acts and duties under or in connection with the respective Development Agreements and the due and punctual payment of 20% and 32.5%, respectively, of all monies and liabilities due, owing or payable to MTRC from or by each of the Developers under or in connection with the respective Development Agreements.

In consideration of MTRC entering into and agreeing to the terms of the sale and purchase agreement (the "S & P Agreement") and certain trust arrangements (the "Trust Arrangements") in relation to the sale of an office development developed by the Developer in which the Group has a 20% interest, the Company has agreed to provide several guarantees and indemnities to indemnify MTRC against 20% of all claims, demands, cost, damages, losses, expenses and/or liabilities which the MTRC may incur or suffer and which are in any way connected with or result from the entering into and/or the observance and/or performance of the S & P Agreement and/or the carrying out by MTRC of the Trust Arrangements. The Company has also guaranteed the payment on demand of 20% of the full amount of such costs, losses, expenses or liabilities.

- (ii) The Group has a 15% effective interest in Western Harbour Tunnel Company Limited ("WHTCL") which acquired a 30-year franchise from the Government of the Hong Kong Special Administrative Region (the "Government") to build and operate the Western Harbour Crossing (the "Crossing"). Pursuant to a deed of guarantee dated 2 September 1993 as amended by a deed of novation dated 27 June 1995, a second deed of novation dated 12 October 1998 and a third deed of novation dated 30 May 2000 (the "Guarantee"), the Company together with the other beneficial shareholders of WHTCL have jointly and severally undertaken to the Government that if the aggregate of all costs incurred by WHTCL up to the operating date of the Crossing and all maintenance and repair costs incurred by WHTCL after the operating date of the Crossing but before the issuance of the maintenance certificate exceeds HK\$7,534,000,000 then they will pay to WHTCL such excess amount.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 32 CONTINGENT LIABILITIES (CONTINUED)

##### (b) Guarantees and undertakings (Continued)

Pursuant to a shareholders agreement dated 30 December 1992 as amended by a cross-indemnity deed dated 20 December 1993, a supplemental deed dated 8 September 1994, a second supplemental deed dated 12 October 1998 and a third supplemental deed dated 23 May 2000 in respect of WHTCL, the Company together with the other beneficial shareholders have agreed that in relation to any claim made or asserted under the Guarantee, as between themselves, the total of all liabilities in respect of such claim and of all costs, charges and expenses suffered or incurred by any of them resulting therefrom or attributable thereto shall be shared by them in proportion to their respective ultimate ownership of the issued capital of WHTCL.

- (iii) A wholly owned subsidiary of the Company, through its associated company, has a 40% interest in a company (the "Hang Hau Developer") which is engaged in the development of a site at the Hang Hau Mass Transit Railway Station Development. The Hang Hau Developer was granted exclusive rights to develop the site pursuant to a development agreement (the "Hang Hau Development Agreement") entered into by the Hang Hau Developer with, amongst others, MTRC.

Pursuant to a deed of guarantee in relation to the above development, the Company has provided several guarantees in favour of MTRC for the due and punctual performance and observance by the Hang Hau Developer of 40% of its obligations, liabilities, stipulations, acts and duties under or in connection with the Hang Hau Development Agreement and the due and punctual payment of 40% of all monies and liabilities due, owing or payable to MTRC from the Hang Hau Developer under or in connection with the Hang Hau Development Agreement.

- (iv) The Group has 38.2% interest in a company (the "Seller") which, pursuant to a sale and purchase agreement (the "Mortgage S&P Agreement"), has sold certain loans (the "Loans") to The Hong Kong Mortgage Corporation Limited (the "HKMC"). Pursuant to a support agreement (the "Support Agreement") entered into by the Company with, amongst others, the HKMC, the Company has severally undertaken (i) if the Seller fails to repurchase any Loans in accordance with the Mortgage S&P Agreement, to, or to procure a third party approved by the HKMC to, complete repurchase of such Loans; and (ii) if the Seller fails to pay when due any amount in full in respect of the Loans required to be paid by it to the HKMC, to pay on behalf of the Seller on a several basis an amount equal to 38.2% of the amount that the Seller has failed to pay to the HKMC.



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 32 CONTINGENT LIABILITIES (CONTINUED)

#### (b) Guarantees and undertakings (Continued)

The Company has also severally undertaken with the HKMC that it shall indemnify and keep indemnified the HKMC, its directors, officers and employees and its successors and assignees from and against 38.2% of all liabilities, losses, damages, actions, proceedings, demands, claims, costs and expenses which may be brought against, suffered or incurred by such indemnified person by reason of any breach of the Seller's undertakings, representations and warranties in the Mortgage S&P Agreement and the Support Agreement or of any breach of the Company's representations, warranties and undertakings in the Support Agreement.

- (v) The Group has a 50% interest in a company ("Party 1") which owns a piece of land in Cheung Sha Wan while another company ("Party 2") owns an adjacent piece of land. Party 1 and Party 2 are negotiating the joint redevelopment of the two pieces of land. Prior to the joint redevelopment, the parties need to surrender the existing two pieces of land to the Government in exchange for the grant of a new lot for commercial/residential development with public car park facilities (the "Proposed Land Exchange"). The Proposed Land Exchange involves the grant of a street and its associated footpaths as part of the new lot and requires the permanent closure of the above-mentioned street and its associated footpaths.

Pursuant to an undertaking (the "Undertaking") dated 24 May 2002, in consideration of the Government entering into and continuing the negotiations with Party 1 and Party 2 on the Proposed Land Exchange, the Company and other parties, including the holding companies of the shareholders of Party 1 and Party 2, have jointly and severally undertaken, covenanted and agreed that they shall indemnify and keep indemnified the Government and any of its officers from and against all and any actions (including judicial reviews), liabilities, demands, claims, expenses, costs and losses arising directly or indirectly out of or in connection with the gazetting of the permanent closure of the above-mentioned street and its associated footpaths under the Roads (Works, Use and Compensation) Ordinance and the authorisation of such closure.

Pursuant to a deed of cross indemnity and a collateral deed of cross indemnity, both dated 24 May 2002, the Group's liabilities under the Undertaking shall be several and shall be determined based on its share of interest in the joint redevelopment.

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 33 PLEDGE OF ASSETS – GROUP

At 31 December 2003, the Group's total bank loans of HK\$6,207,964,000 (2002: HK\$7,054,572,000) included an aggregate amount of HK\$6,033,808,000 (2002: HK\$6,407,773,000) which is unsecured and an aggregate amount of HK\$174,156,000 (2002: HK\$646,799,000) which is secured by the following:

- (i) legal charges over certain fixed assets (note 12(b)) and properties under development for sale (note 17);
- (ii) charges on all assets, including bank balances amounting to HK\$74,003,000 (2002: HK\$70,450,000), of certain subsidiaries. Such bank balances can be used for payment of construction and other operating costs or for repayment of outstanding bank loans of the respective subsidiaries; and
- (iii) assignments of insurance proceeds of certain properties.

#### 34 ULTIMATE HOLDING COMPANY

The directors regard Kerry Group Limited, a company incorporated in the Cook Islands, as being the ultimate holding company.

#### 35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 9 March 2004.

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES

At 31 December 2003, the Company held interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Aberporth Resources Limited	British Virgin Islands	Dormant	US\$1	100%
Able Plus Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
* Amble Aim Sdn. Bhd.	Malaysia	Investment holding	RM2	100%
Ansellman Limited	British Virgin Islands	Investment holding	US\$1	100%
Architectural Design and Management Services Limited	Hong Kong	Provision of architectural services	HK\$2	100%
Auto Plaza Limited	Hong Kong	Investment holding, property investment and carpark operation	Ordinary HK\$4,998 Non-voting deferred HK\$2	100%
Balkis Limited	British Virgin Islands	Investment holding	US\$10,000	100%
Baron Development Limited	British Virgin Islands	Investment holding	US\$1	100%
Barriedale Limited	British Virgin Islands	Investment holding	US\$10,000	100%
Barrowdale Limited	British Virgin Islands	Investment holding	US\$1,000	100%
Beaverton Limited	British Virgin Islands	Investment holding	US\$1	100%
<sup>λ*</sup> Beihai Kerry Property Development Ltd.	The People's Republic of China	Property ownership	RMB1,708,616	100%
<sup>μ^</sup> Beijing Jia Ao Real Estate Development Co., Ltd.	The People's Republic of China	Property investment	US\$77,967,600	71.25%
<sup>μ^</sup> Beijing Kerry Centre Hotel Co., Ltd.	The People's Republic of China	Hotel ownership	US\$33,000,000	71.25%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
<sup>λ*</sup> Beijing Kerry Datalinks Limited	The People's Republic of China	Operation of internet data centre	US\$2,100,000	100%
Belminton Inc.	British Virgin Islands	Investment holding	US\$1,000	100%
Bestford Resources Limited	British Virgin Islands	Investment holding	HK\$1	100%
Bethan Company Limited	Hong Kong	Dormant	HK\$2	100%
Betterise Limited (formerly known as Kerry Warehouse (Yuen Long 2) Limited)	Hong Kong	Dormant	HK\$2	100%
Big Sky Resources Limited	British Virgin Islands	Investment holding	US\$100	100%
Burgo Inc	British Virgin Islands	Dormant	US\$1,000	100%
Busyhigh Limited	Samoa	Investment holding	HK\$1	100%
Calistock Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1	100%
Capabletech Limited	British Virgin Islands	Investment holding	US\$1	100%
Cashel Assets Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1	100%
Catren Company Limited	Hong Kong	Carpark ownership	Voting class "A" HK\$9,998 Non-voting class "B" HK\$2	100%
Chance Brilliant Limited	British Virgin Islands	Investment holding	US\$1	100%
Charlicks New Guinea Ltd.	Papua New Guinea	Dormant	PGK54,000	99.99%
Chipelli Investments Limited	Hong Kong	Property investment	HK\$100,000	80%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Clavering Services Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1,000	100%
Close Encounters Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Comphor Company Limited	British Virgin Islands	Investment holding	US\$10	100%
Cremorne Investments Limited	British Virgin Islands	Investment holding	US\$100	100%
Darcey Investments Limited	British Virgin Islands	Investment holding	US\$100	100%
Dec Limited	British Virgin Islands	Investment holding	US\$10,000	100%
Denleigh Limited	British Virgin Islands	Investment holding	US\$1	100%
Denver Rose Investments Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1	100%
Errol Company Ltd.	British Virgin Islands	Investment holding	US\$1	100%
Ever Asset Group Limited	British Virgin Islands	Investment holding	US\$1	100%
Fair Page Limited	Hong Kong	Property investment	HK\$2	100%
Garden Streams Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1	100%
Goldash Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Golden Explorer Group Limited	British Virgin Islands	Investment holding	US\$1	100%
Harvard Developments Limited	British Virgin Islands	Dormant	US\$12	75%
Hong Kong Shanghai Development Co Ltd.	Samoa	Investment holding	HK\$8,000,000	55%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
ibe-Datalinks (Beijing) Limited	Samoa	Investment holding	HK\$1	100%
ibe-Tech Investments Limited	British Virgin Islands	Investment holding	US\$1	100% <sup>Δ</sup>
ibe-Tech Limited	Hong Kong	Dormant	HK\$2	100%
ISA Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Insightful Investments Limited	British Virgin Islands	Dormant	US\$1	100%
Intelligain Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Intelliocean Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
International Enterprise Co. Limited	Hong Kong	Investment holding	Ordinary HK\$10 Non-voting deferred HK\$10,000	100%
Interseed Company Limited	Hong Kong	Property trading	HK\$2	100%
Irrewarra Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Julian Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
KLN Container Line Limited	British Virgin Islands	Freight forwarding business	HK\$1,200,000	100%
<sup>Δ*</sup> KLN Siam Holdings Limited	Thailand	Investment holding	Common Baht49,000 Preference Baht51,000	49% <sup>#</sup>
Kanya Corp.	British Virgin Islands	Investment holding	US\$1,000	100%
Kerry Beijing (Guang Hua) Ltd	Samoa	Investment holding	HK\$1,000,000	75%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Beijing (Shibalidian) Development Ltd.	Samoa	Investment holding	HK\$1	100%
Kerry Beijing (Shibalidian) Housing Ltd.	Samoa	Investment holding	US\$1	100%
<sup>λ</sup> Kerry Cao Jia Yan Properties (Shanghai) Co., Ltd.	The People's Republic of China	Property development	US\$13,400,000	100%
Kerry Cargo Centre Limited	Hong Kong	Warehouse ownership	HK\$2	100%
<sup>λ</sup> * Kerry Centre Real Estate (Shenzhen) Co. Ltd.	The People's Republic of China	Property investment	HK\$142,000,000	100%
Kerry Chemquest Investments Ltd.	British Virgin Islands	Investment holding	US\$1,000	100%
Kerry Cold Store (Hong Kong) Limited (formerly known as Kerry BCI Warehouse Limited)	Hong Kong	Warehouse operation	HK\$20	100%
Kerry D.G. Warehouse (Kowloon Bay) Limited	Hong Kong	Warehouse ownership	HK\$20,000,000	100%
<sup>λ</sup> Kerry Development (Shanghai) Co., Ltd.	The People's Republic of China	Property trading	US\$40,000,000	100%
<sup>λ</sup> * Kerry Development (Shenzhen) Co., Ltd.	The People's Republic of China	Property ownership	HK\$40,000,000	100%
Kerry Distribution (Hong Kong) Limited	Hong Kong	Provision of distribution services	HK\$500,000	100%
<sup>Δ</sup> * Kerry Distribution (Thailand) Limited	Thailand	Provision of distribution services	Baht20,000,000	60% #

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## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>^</sup>
Kerry Estate Management Limited	British Virgin Islands	Investment holding	HK\$10,000	100% <sup>^</sup>
Kerry Facilities Management (Hong Kong) Limited	Hong Kong	Building management	HK\$2	100%
* Kerry Freight (Australia) Pty Ltd	Australia	Freight forwarding	A\$2	100%
Kerry Freight (Hong Kong) Limited	Hong Kong	Freight forwarding business	Ordinary HK\$10,000 Non-voting deferred HK\$2,750,000	100%
<sup>^</sup> Kerry Freight (Korea) Inc.	Korea	Freight forwarding	Won500,000,000	50.999%
<sup>^*</sup> Kerry Freight (Thailand) Limited	Thailand	Freight forwarding	Baht11,500,000	49% <sup>#</sup>
* Kerry Freight (USA) Inc.	Delaware, U.S.A.	Freight forwarding	US\$1	100%
Kerry Freight International (Taiwan) Limited (formerly known as Siemens Holdings Limited)	British Virgin Islands	Dormant	US\$1	100%
Kerry Freight International Limited	Hong Kong	Freight forwarding	HK\$2	100%
Kerry Freight Services (China) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Freight Services (Europe) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Freight Services (HKSAR) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Freight Services (Korea) Limited	British Virgin Islands	Investment holding	HK\$1	100%



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Freight Services (Philippines) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Freight Services (Taiwan) Limited (formerly known as Sedan Chair Limited)	British Virgin Islands	Investment holding	HK\$10,000	100%
Kerry Freight Services (Thailand) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Freight Services (U.K.) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Freight Services (USA) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Freight Services Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Fuzhou (Gutian) Ltd.	Samoa	Investment holding	HK\$6,000,000	100%
Kerry Global Freight Limited	British Virgin Islands	Freight forwarding and agency business and customs brokerage	HK\$100,000	70%
Kerry Guangxi (Beihai) Ltd	Samoa	Investment holding	HK\$1,500,000	100%
Kerry Infrastructure (China) Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Kerry Infrastructure Limited	British Virgin Islands	Investment holding	HK\$595,026,381	100% <sup>Δ</sup>
* Kerry Logistics (Australia) Pty Ltd	Australia	Operation of logistics services, rail terminal and container depot	A\$2,000,000	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Logistics (Beijing) Ltd.	Samoa	Investment holding	US\$1	100%
Kerry Logistics (China) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Logistics (Futian FTZ) Investments Ltd. (formerly known as Kerry Warehouse (Shanghai) Ltd.)	Samoa	Dormant	HK\$1	100%
Kerry Logistics (HKSAR) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Logistics (Hong Kong) Limited	Hong Kong	Operation of logistics business	HK\$10,000,000	100%
<sup>Δ*</sup> Kerry Logistics (Korea) Inc.	Korea	Dormant	Won100,000,000	100%
<sup>Δ*</sup> Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.	The People's Republic of China	Operation of logistics business	HK\$32,000,000	100%
Kerry Logistics (Shenzhen Futian) Investments Ltd.	Samoa	Investment holding	HK\$1	100%
Kerry Logistics (Shenzhen Yantian) Ltd.	Samoa	Investment holding	HK\$1	100%
<sup>Δ*</sup> Kerry Logistics (Shenzhen) Co., Ltd.	The People's Republic of China	Operation of logistics business	–	100%
<sup>Δ*</sup> Kerry Logistics (Thailand) Limited	Thailand	Operation of logistics business	Baht135,000,000	60% #
<sup>Δ*</sup> Kerry Logistics (Tianjin) Co., Ltd.	The People's Republic of China	Operation of logistics business	HK\$1,600,000	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Logistics (Tianjin) Investments Ltd.	Samoa	Investment holding	HK\$10,000	100%
Kerry Logistics (UK) Limited (formerly known as Trident International Limited)	United Kingdom	Sea and air freight forwarding	£20,000	91%
Kerry Logistics (Waigaoqiao) Ltd.	Samoa	Investment holding	HK\$1	100%
* Kerry Logistics Holdings (Australia) Pty Ltd	Australia	Investment holding	A\$100	100%
Kerry Logistics Limited	British Virgin Islands	Investment holding	HK\$42,430,000	100%
Kerry Logistics Network Limited	Bermuda	Investment holding in Hong Kong	HK\$500,000	100% <sup>Δ</sup>
Kerry Logistics Services (Australia) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Logistics Services (Korea) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Logistics Services (Thailand) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Logistics Services Limited	British Virgin Islands	Investment holding	US\$2	100%
Kerry Logistics Shanghai Corporation	Samoa	Investment holding	HK\$1	100%
Kerry Overseas Project Management Limited (Jia Li Hai Wai Xiang Mu Guan Li Limited)	Liberia	Project management in Asia	US\$100	100%

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## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Project Management (H.K.) Limited	Hong Kong	Project management	HK\$300,000	100%
Kerry Project Services Limited	Hong Kong	Project management	HK\$2	100%
Kerry Properties (Australia) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Properties (China) Limited	British Virgin Islands	Investment holding	HK\$4,554,642,958	100% <sup>Δ</sup>
Kerry Properties (H.K.) Limited	Hong Kong	Investment holding	Ordinary HK\$1,000 Non-voting deferred HK\$200,000,000	100%
Kerry Properties (Hong Kong) Limited	British Virgin Islands	Investment holding	HK\$413,179	100% <sup>Δ</sup>
Kerry Properties (Philippines) Limited	British Virgin Islands	Investment holding	US\$1	100%
Kerry Properties (Shenzhen Central District) Ltd.	Samoa	Investment holding	HK\$1	100%
<sup>λ^*</sup> Kerry Properties (Shenzhen) Co., Ltd.	The People's Republic of China	Property trading and development	HK\$112,082,975	100%
Kerry Properties (Sydney) Pty Ltd	Australia	Investment holding	A\$1	100%
Kerry Properties Beijing (Shibalidian) Holdings Company Limited (formerly known as Sophonica International Corp.)	British Virgin Islands	Investment holding	US\$1	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry Properties Beijing Kerry Centre Ltd.	Samoa	Dormant	HK\$1	100%
Kerry Properties Capital Limited	British Virgin Islands	Dormant	US\$10,000	100%
<sup>λ</sup> Kerry Properties Development Management (Shanghai) Co., Ltd.	The People's Republic of China	Real estate management	US\$350,000	100%
Kerry Properties Finance Limited	British Virgin Islands	Dormant	US\$10,000	100%
Kerry Properties International Limited	British Virgin Islands	Investment holding	HK\$1	100% <sup>Δ</sup>
Kerry Properties Nominees Limited	British Virgin Islands	Provision of nominee services	HK\$1,000	100%
Kerry Properties Shenzhen Kerry Centre Limited	Hong Kong	Investment holding	HK\$5,000,000	100%
Kerry Properties Treasury Limited	British Virgin Islands	Group financing	HK\$4,670,665,187	100% <sup>Δ</sup>
Kerry Property Management Services Limited	Hong Kong	Property management	HK\$20	100%
Kerry Real Estate Agency Limited	Hong Kong	Estate agency	HK\$2	100%
<sup>λ</sup> * Kerry Real Estate Management (Shenzhen) Ltd.	The People's Republic of China	Real estate management	HK\$3,000,000	100%
Kerry Real Estate Services (Beijing) Ltd.	Samoa	Dormant	HK\$1	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>A</sup>
Kerry Real Estate Services (Fuzhou) Ltd.	Samoa	Investment holding	HK\$1	100%
Kerry Real Estate Services (Shanghai) Ltd.	Samoa	Investment holding	HK\$1	100%
Kerry Real Estate Services (Shenzhen) Ltd.	Samoa	Investment holding	HK\$1	100%
Kerry Records Management Services Limited (formerly known as iBe-Datalinks (H.K.) Limited)	Hong Kong	Documents storage	HK\$2	100%
Kerry Residences Limited (formerly known as Rhosilli Company Limited)	Hong Kong	Dormant	HK\$2	100%
Kerry Shanghai (Cao Jia Yan) Ltd.	Samoa	Investment holding	US\$2	100%
Kerry Shanghai (Caohejing) Ltd.	Samoa	Dormant	HK\$1	100%
Kerry Shanghai (Heng Shan) Ltd.	Samoa	Dormant	HK\$1	100%
Kerry Shanghai (Hongkou) Ltd.	Samoa	Investment holding	HK\$6,000,000	60%
Kerry Shanghai (Jingan Beili) Ltd	Samoa	Investment holding	HK\$1,000,000	75%
Kerry Shanghai Development Ltd	Samoa	Investment holding	HK\$1,000,000	100%
Kerry Suzhou (Gucheng) Ltd	Samoa	Investment holding	HK\$1,000,000	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Kerry TC Warehouse 1 (Block A) Limited (formerly known as Kerry BCI Warehouse (Tsuen Wan) Limited)	British Virgin Islands	Warehouse ownership in Hong Kong	US\$1	100%
Kerry TC Warehouse 1 (Block B) Limited (formerly known as Kerry BCI Cold Store (Tsuen Wan) Limited)	British Virgin Islands	Warehouse ownership in Hong Kong	US\$1	100%
Kerry TC Warehouse 2 Limited (formerly known as Kerry BCI Cold Store (Kwai Chung) Limited)	Hong Kong	Warehouse ownership	HK\$10,000	100%
Kerry TC Warehouse Holdings Limited (formerly known as Kerry BCI Warehouse Holdings Limited)	British Virgin Islands	Investment holding	HK\$10,000,000	100%
Kerry Warehouse (Chai Wan) Limited	Hong Kong	Warehouse ownership	HK\$10,000,000	100%
Kerry Warehouse (Fanling 1) Limited	Hong Kong	Warehouse ownership	HK\$2	100%
Kerry Warehouse (Fanling 2) Limited	Hong Kong	Warehouse ownership	HK\$2	100%
Kerry Warehouse (HKSAR) Limited	British Virgin Islands	Investment holding	HK\$1	100%
Kerry Warehouse (Hong Kong) Limited	Hong Kong	Warehouse operation	HK\$25,000,000	100%
Kerry Warehouse (Kwai Chung) Limited	Hong Kong	Warehouse ownership	HK\$30,000	100%

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### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>^</sup>
Kerry Warehouse (Shatin) Limited	Hong Kong	Warehouse ownership	HK\$10,000,000	100%
Kerry Warehouse (Sheung Shui) Limited	Hong Kong	Warehouse ownership	HK\$5,000,000	100%
Kerry Warehouse (Tsuen Wan) Limited	Hong Kong	Warehouse ownership	HK\$2	100%
Kerry Warehouse (Yuen Long 1) Limited	Hong Kong	Warehouse ownership	HK\$2	100%
Kerry Warehouse Limited	British Virgin Islands	Investment holding	US\$1	100%
KerryFlex Supply Chain Solutions Limited (formerly known as LINC Group Holdings Limited)	Hong Kong	Provision of agency and distribution services	HK\$5,000,000	100%
Kildare Limited	Hong Kong	Property trading	HK\$2	100%
Kimberley Inc.	British Virgin Islands	Investment holding	US\$1,000	100%
La Corte Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Licotar Company Limited	Hong Kong	Dormant	HK\$2	100%
<sup>^*</sup> Logistics (Thailand) Limited	Thailand	Investment holding	Common Baht49,000 Preference Baht51,000	49% <sup>#</sup>
Longstone Holdings Limited	British Virgin Islands	Investment holding	US\$100	100%
Lynart Group Limited	British Virgin Islands	Dormant	HK\$10,000	100%



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Mable Road Company Limited	Hong Kong	Property investment	Ordinary HK\$10 Non-voting deferred HK\$10,000	100%
Madigan Company Limited	Hong Kong	Property trading	HK\$2	100%
Magnifair Company Limited	Hong Kong	Dormant	HK\$10,000	100%
Mainco Management Limited	Hong Kong	Building management	HK\$10,000	100%
Maple Crest Development Limited	British Virgin Islands	Investment holding and properly trading in Hong Kong	US\$120	75%
Marrakesh Limited	British Virgin Islands	Investment holding	US\$1	100%
Mazlo Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Merlin Limited	Samoa	Investment holding in the People's Republic of China	HK\$1,000,000	100%
Mid-Levels Portfolio (Aigburth) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (Aigburth) Limited	Cook Islands	Property investment in Hong Kong	US\$9	100%
Mid-Levels Portfolio (Branksome) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (Branksome) Limited	Hong Kong	Property investment and development	HK\$1,000	100%
Mid-Levels Portfolio (Century Tower II) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>A</sup>
Mid-Levels Portfolio (Gladdon) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (Gladdon) Limited	Hong Kong	Property investment	HK\$1,000	100%
Mid-Levels Portfolio (May Tower I) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (May Tower I) Limited	Hong Kong	Dormant	HK\$100	100%
Mid-Levels Portfolio (Tavistock) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (Tavistock) Limited	Hong Kong	Property investment	HK\$1,000	100%
Mid-Levels Portfolio (Tregunter Towers 1 & 2) Holdings Limited	British Virgin Islands	Investment holding	US\$100	100%
Mid-Levels Portfolio (Tregunter Towers 1 & 2) Limited	British Virgin Islands	Property investment in Hong Kong	US\$1	100%
Mid-Levels Portfolio (Valverde) Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Mid-Levels Portfolio (Valverde) Limited	Hong Kong	Property investment and trading	HK\$1,000	100%
Mid-Levels Portfolio Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Mighty Gold Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Muman Holdings Limited	British Virgin Islands	Dormant	US\$1	100%
NMC 6 Limited	British Virgin Islands	Property investment in Hong Kong	Ordinary US\$1	100%
NMC 7 Limited	British Virgin Islands	Property investment in Hong Kong	Ordinary US\$1	100%
NMC 8 Limited	British Virgin Islands	Property investment in Hong Kong	Ordinary US\$1	100%
NMC 9 Limited	British Virgin Islands	Property investment in Hong Kong	Ordinary US\$1	100%
Nettlefold Limited	British Virgin Islands	Investment holding	US\$10,000	100%
Newtonmore Investments Limited	British Virgin Islands	Investment holding	HK\$1	100%
Nite Lites Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Norbiton Group Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Norminster Limited	Hong Kong	Investment holding	HK\$1,000	100%
Norwarth Investments Limited	British Virgin Islands	Provision of management services	US\$1	100%
Ocean City Investments Limited	British Virgin Islands	Investment holding	US\$1	75%
Olsen Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Omisoka Holdings Limited	British Virgin Islands	Investment holding	US\$1	100%
Pacific Worth Group Limited	British Virgin Islands	Investment holding	US\$1	100%

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## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Pembroke Development Investments Limited	British Virgin Islands	Investment holding in Hong Kong	HK\$10,000	100%
Pettico Limited	Hong Kong	Provision of finance services	HK\$20	100%
Pirton Resources Limited	British Virgin Islands	Investment holding	US\$1	100%
Pola Company Limited	British Virgin Islands	Investment holding	US\$1,000	100%
Ponnelle Limited	British Virgin Islands	Investment holding	US\$1	100%
Port Destiny Limited	Hong Kong	Property trading	HK\$2	100%
Princeton Investment Company Limited	Hong Kong	Property development	HK\$2	100%
Prismatic Limited	Hong Kong	Property development	HK\$20	100%
Quintoll Limited	British Virgin Islands	Investment holding	US\$1	100%
Rayhay Company Limited	Hong Kong	Provision of finance services	HK\$2	100%
Renmark Limited	British Virgin Islands	Investment holding	US\$1	100%
Rightful Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
<sup>λ^*</sup> Risenland Development (Fuzhou) Co., Ltd.	The People's Republic of China	Property development	HK\$44,000,000	100%
Rodder Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	US\$1	100%
Roving Spirit Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Sageman Limited	British Virgin Islands	Investment holding	US\$1	100%
Scene View Limited	British Virgin Islands	Investment holding	US\$1	100%
Senworld Investment Limited	Hong Kong	Property investment	HK\$2	100%

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## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Shabu Inc.	British Virgin Islands	Investment holding	US\$1	100%
μ <sup>Δ</sup> Shanghai Gang Hu Properties Co., Ltd.	The People's Republic of China	Property investment and development	US\$155,300,000	54.45%
μ <sup>Δ</sup> Shanghai Kerry Real Estate Development Co., Ltd.	The People's Republic of China	Property investment	US\$12,000,000	55.20%
μ <sup>Δ</sup> Shanghai Xin Ci Hou Properties Co., Ltd.	The People's Republic of China	Property investment	US\$60,000,000	74.25%
μ <sup>Δ*</sup> Shenzhen Kerry Yantian Port Logistics Company Limited	The People's Republic of China	Operation of logistics business	RMB88,000,000	55%
Shine Concept Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Silverstone Assets Limited	British Virgin Islands	Investment holding in Hong Kong	US\$100,000	100%
Sky Wealth Investments Limited	British Virgin Islands	Investment holding	US\$1	100%
Southwark Profits Limited	British Virgin Islands	Investment holding	US\$100	100%
Spring Champion Limited	British Virgin Islands	Investment holding	US\$1	100%
Taskan Limited	Hong Kong	Property development	HK\$2	100%
Tellico Investment Limited	Liberia	Investment holding	US\$1	100%
Tellson International Limited	British Virgin Islands	Investment holding	US\$1	100%
Templepatrick Limited	Hong Kong	Financing	HK\$100	100%
Terowie Holdings Limited	British Virgin Islands	Investment holding	HK\$10,000	100%

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### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Toccate Company Limited	Hong Kong	Financing	Ordinary HK\$10 Non-voting deferred HK\$1,000,000	100%
Torres Investments Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Travel Aim Investment B.V.	Netherlands	Investment holding	NLG40,000	100%
Trebanos Investment Company Limited	Hong Kong	Dormant	HK\$2	100%
* Trident International Limited	United Kingdom	Dormant	£1	91%
Twindale Limited	British Virgin Islands	Investment holding	US\$1	100%
Ubagan Limited	Hong Kong	Dormant	HK\$10,000	100%
Upsmart Investments Limited	Hong Kong	Lease holding	HK\$2	100%
Viola Developments Limited	British Virgin Islands	Investment holding	US\$1	100%
Washers Limited	British Virgin Islands	Investment holding	HK\$10,000	100%
Win House Industries Limited	Hong Kong	Investment holding and provision of construction work	HK\$1,000,000	100%
Win House/Kai Tai (Joint Venture) Company Limited	Hong Kong	Provision of construction work	HK\$100	75%
Wing Tak Cheung Limited	Hong Kong	Property development	HK\$10,000	100%
Wing Tsing Financial Services Limited	British Virgin Islands	Group financing in Hong Kong	US\$1	100%
Wirabay Limited	British Virgin Islands	Provision of trustee services	US\$1	100% #

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 36 GROUP STRUCTURE – SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued capital/ registered capital	Indirect interest held unless denoted with <sup>Δ</sup>
Wiseside Investment Company Limited	Hong Kong	Property investment	HK\$2	75%
Woody Company Limited	Hong Kong	Property investment	HK\$2	100%
Wymer Limited	British Virgin Islands	Investment holding	US\$5,000	100%
Yanawa Limited	British Virgin Islands	Investment holding	US\$1	100%
Ying He Company Limited	Hong Kong	Investment holding	Ordinary HK\$10 Non-voting deferred HK\$21,000,000	100%
<sup>λ</sup> <sup>Δ</sup> Yu Quan Property Management (Fuzhou) Ltd.	The People's Republic of China	Real estate management	HK\$500,000	100%
Zinnerman Limited	British Virgin Islands	Investment holding	US\$1	100%

\* companies not audited by PricewaterhouseCoopers

<sup>^</sup> English translation of name only

# deemed subsidiary

<sup>Δ</sup> direct interest

<sup>λ</sup> wholly foreign-owned enterprise

<sup>μ</sup> sino-foreign equity joint venture enterprise

## NOTES TO THE ACCOUNTS

### 31 DECEMBER 2003

#### 37 GROUP STRUCTURE – ASSOCIATED COMPANIES

At 31 December 2003, the Company held interests in the following associated companies:

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of class of issued shares/ registered capital	Interest held indirectly
Adwood Company Limited	Hong Kong	Investment holding	10 shares of HK\$10 each	30%
*± Ariel Investments Limited	Hong Kong	Investment holding	1,000,000 shares of HK\$1 each	45%
± Asia Airfreight Services Limited	Hong Kong	Provision of air cargo services	10,000 shares of HK\$1 each	15% <sup>B</sup>
± Asia Airfreight Terminal Company Limited	Hong Kong	Air cargo handling terminal operation	360,000,000 shares of HK\$1 each	15% <sup>B</sup>
Bay Tower Properties Limited	British Virgin Islands	Investment holding	1,000 shares of US\$1 each	33.33%
μ^* Beijing BHL Logistics Limited	The People's Republic of China	Land resettlement	US\$20,000,000	20%
* Benefit Bright (B.V.I.) Limited	British Virgin Islands	Investment holding in Hong Kong	1,000 shares of US\$1 each	32.50%
* Benefit Bright Limited	Hong Kong	Property investment and trading	2 shares of HK\$1 each	32.50%
Brisbane Trading Company Limited	Hong Kong	Property development and trading	100,000 ordinary shares of HK\$10 each 108,376,196 non-voting deferred shares of HK\$1 each	50%
* Capital Fun Limited	Hong Kong	Provision of nominee services	2 shares of HK\$1 each	20%
* Cardiff Investments Limited	Hong Kong	Investment holding	100,000 shares of HK\$1 each	30%



# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 37 GROUP STRUCTURE – ASSOCIATED COMPANIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/establishment)	Particulars of class of issued shares/ registered capital	Interest held indirectly
* Cavalcade Holdings Limited	British Virgin Islands	Investment holding	100 shares of US\$1 each	45%
Cheerjoy Development Limited	Hong Kong	Property development	2 shares of HK\$1 each	35%
μ <sup>^</sup> Chiwan Container Terminal Co., Ltd.	The People's Republic of China	Port terminal operation	US\$44,000,000	25%
Cushion Company Limited	Hong Kong	Dormant	10,000 shares of HK\$1 each	33.33%
EDSA Parking Services, Inc.	Philippines	Carpark operations	2,500 shares of Pesos 100 each	39.12%
EDSA Properties Holdings Inc.	Philippines	Property development, investment holding and real estate management	4,215,222,612 shares of Peso 1 each	39.12%
EPHI Logistics Holdings, Inc.	Philippines	Investment holding	15,000 shares of Pesos 100 each	40% <sup>Δ</sup>
* Enterprico Investment Limited	Hong Kong	Loan financing	100,000 ordinary shares of HK\$1 each	45%
*± Grand Creator Investment (BVI) Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	40%
*± Grand Creator Investment Limited	Hong Kong	Property development and trading	2 shares of HK\$1 each	40%
*± Hang Hau Station (Project Management) Limited	Hong Kong	Project management	2 shares of HK\$1 each	40%
*± Hang Hau Station Construction Limited	Hong Kong	Dormant	2 shares of HK\$1 each	40%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 37 GROUP STRUCTURE – ASSOCIATED COMPANIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of class of issued shares/ registered capital	Interest held indirectly
* Harvest Sun (B.V.I.) Limited	British Virgin Islands	Investment holding in Hong Kong	100 shares of US\$1 each	20%
* Harvest Sun Limited	Hong Kong	Property investment and trading	2 shares of HK\$1 each	20%
Hilaire Inc.	British Virgin Islands	Investment holding	900 shares of US\$1 each	33.33%
± Hong Kong Tunnels and Highways Management Company Limited	Hong Kong	Tunnel management	1,000,000 shares of HK\$1 each	15% <sup>B</sup>
*± Jacksons Landing Development Pty. Limited	Australia	Property development	400 ordinary shares of A\$1 each	25%
*± Jacksons Landing Estate Management Pty Limited	Australia	Property management	10 ordinary shares of A\$1 each	25%
μ^* Kerry BHL Logistics Limited	The People's Republic of China	Provision of logistics services	US\$2,650,000	50%
Kerry Freight Philippines, Inc.	Philippines	Freight forwarding business	20,000 shares of Pesos 100 each	20.40%
* Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited	Hong Kong	Warehouse operation	5,000,000 shares of HK\$1 each	50%
Kerry Rhenus Logistics (Far East) Limited	British Virgin Islands	Operation of logistics business	100,000 shares of HK\$1 each	50%
* Kosco Limited	British Virgin Islands	Provision of nominee services	1 share of US\$1	32.50%
* KUMM International Co., Ltd.	Samoa	Investment holding	7,000,000 shares of US\$1 each	25%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 37 GROUP STRUCTURE – ASSOCIATED COMPANIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of class of issued shares/ registered capital	Interest held indirectly
* Olympian City 1 (Project Management) Limited	Hong Kong	Project management	2 shares of HK\$1 each	20%
* Olympian City 1 Management Company Limited	Hong Kong	Leasing and estate management	2 shares of HK\$1 each	20%
* Olympian City 2 (Project Management) Limited	Hong Kong	Project management	2 shares of HK\$1 each	32.50%
* Olympian City 2 Finance Company Limited	Hong Kong	Provision of finance services	1,000 shares of HK\$1 each	38.20%
* Olympian City 2 Management Company Limited	Hong Kong	Leasing and estate management	1,000 shares of HK\$1 each	32.50%
Point Perfect Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	35%
Portstewart Limited	Hong Kong	Provision of finance services	2 shares of HK\$1 each	50%
*± Reca Limited	British Virgin Islands	Provision of nominee services	1 share of US\$1	40%
*± Residence Oasis Finance Company Limited	Hong Kong	Provision of finance services	2 shares of HK\$1 each	40%
μ^* Shanghai Kerry CHJ Logistics Limited	The People's Republic of China	Operation of logistics business	HK\$14,040,000	50%
Shangri-La Plaza Corporation	Philippines	Operation of shopping mall and other related activities	1,229,500,000 preferred shares of Peso 1 each 235,000,000 common shares of Peso 1 each	30.80%

# NOTES TO THE ACCOUNTS

## 31 DECEMBER 2003

### 37 GROUP STRUCTURE – ASSOCIATED COMPANIES (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of class of issued shares/ registered capital	Interest held indirectly
λ* Tianjin Jialing Union Industries Co., Ltd.	The People's Republic of China	Property holding	US\$6,900,000	25%
± Time Rank Limited	Hong Kong	Property trading	2 shares of HK\$1 each	50%
* Top Spring Development (Beijing) Limited	Hong Kong	Investment holding	22,000,000 shares of HK\$1 each	25%
* Twin Luck Worldwide Ltd.	British Virgin Islands	Investment holding	2 shares of US\$1 each	50%
± Western Harbour Tunnel Company Limited	Hong Kong	Tunnel operation and management	40,000,000 shares of HK\$10 each	15% <sup>β</sup>
* Win Chanford Enterprises Limited	Hong Kong	Property investment	1,000,000 ordinary shares of HK\$1 each	45%
* Wolver Hollow Company Limited	Hong Kong	Warehouse ownership	10,000 shares of HK\$1 each	50%
*± Wu Wing International Company, Limited	Hong Kong	Property trading and investment	30,000,000 shares of HK\$1 each	45%

\* companies not audited by PricewaterhouseCoopers

^ English translation of name only

β deemed associated company

λ wholly foreign-owned enterprise

μ sino-foreign equity joint venture enterprise

± companies having a financial accounting period which is not coterminous with the Group

Δ being the interest fully controlled by the Group