Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the accounts

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

c. Basis of consolidation

i. Subsidiaries and controlled companies

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as for other investments in securities.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1 (f)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the same way as for other investments in securities.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

ii. Associates

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

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case it is stated at fair value with changes in fair value recognised in the same way as for other investments in securities. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(c)(iii).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

iii. Goodwill/negative goodwill

The Group adopted Statement of Standard Accounting Practice 30 "Business combinations" ("SSAP 30") issued by Hong Kong Society of Accountants with effect from January 1, 2001. In doing so the Group has relied upon the transitional provisions set out in SSAP 30 such that goodwill/negative goodwill arising on acquisition of a subsidiary or an associate by the Group prior to January 1, 2001, representing the excess/shortfall of the cost of investment over the appropriate share of the fair value of the identifiable assets and liabilities acquired, has been written off against/taken to capital reserves in the period in which it arose and has not been restated.

For acquisitions after January 1, 2001, goodwill is recognised as an asset and is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

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

The carrying amount of goodwill is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists an impairment loss is recognised as an expense in the consolidated profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

d. Fixed assets

i. Investment properties

Investment properties are defined as properties which are income producing and intended to be held for the long term. Such properties are included in the balance sheet at their open market value, which is assessed annually by external qualified valuers. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserves. If the total of these reserves is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the consolidated profit and loss account. When a surplus arises on subsequent revaluation on a portfolio basis, it will be credited to the consolidated profit and loss account if and to the extent that a deficit on revaluation had previously been charged to the consolidated profit and loss account. On disposal of investment properties, the revaluation surplus or deficit previously taken to the investment properties revaluation reserves is included in calculating the profit or loss on disposal. Investment properties with an unexpired lease term of 20 years or less are stated at carrying value less accumulated depreciation and provision for impairment loss.

ii. Properties under or held for redevelopment

Properties under or held for redevelopment for investment purposes are stated at cost, including borrowing costs, or carrying value, less such provisions for impairment loss. These properties are reclassified as investment properties upon issue of the occupation permit.

All development costs including borrowing costs are capitalised up to the date of practical completion.

iii. Hotel and club properties

Hotel and club properties are stated at their open market value based on an annual professional valuation. Changes in the value of hotel and club properties are dealt with as movements in the other properties revaluation reserves. When a deficit arises on revaluation, it will be charged to the consolidated profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same property. When a surplus arises on subsequent revaluation, it will be credited to the consolidated profit and loss account, if and to the extent that a deficit on revaluation in respect of that same property had previously been charged to the consolidated profit and loss account.

iv. Broadcasting and communications equipment

Broadcasting and communications equipment is stated at cost less accumulated depreciation and any provision for impairment loss. Cost includes materials, labour and an appropriate proportion of overheads and borrowing costs directly attributable to the acquisition, construction or production of such equipment which necessarily takes a substantial period of time to get ready for its intended use.

v. Other properties and fixed assets held for own use

Other properties and fixed assets held for own use are stated at cost less accumulated depreciation and provision for impairment loss.

vi. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

d. Fixed assets (continued)

vii. Gain or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of fixed assets other than investment properties, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

e. Depreciation of fixed assets

i. Investment properties

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuation takes into account the state of each building at the date of valuation. Where the Group confidently anticipates being able to renew a lease upon its expiry, the renewable period is included in the unexpired term for this purpose. The carrying amount of investment properties with an unexpired lease term of 20 years or less is depreciated on a straight line basis over the remaining term of the lease.

ii. Properties under or held for redevelopment

No depreciation is provided on properties under or held for redevelopment.

iii. Hotel and club properties

No depreciation is provided on hotel and club properties on leases with 20 years or more to run at the balance sheet date or on their integral fixed plant. It is the Group's practice to maintain these assets in a continuous state of sound repair and to make improvements thereto from time to time and, accordingly, the Directors consider that, given the estimated lives of these assets and their residual values, any depreciation would be immaterial. Where the Group confidently anticipates being able to renew a lease upon its expiry, the renewable period is included in the unexpired term for this purpose. The carrying amount of hotel and club properties with an unexpired lease term of 20 years or less is depreciated on a straight line basis over the remaining term of the lease.

iv. Broadcasting and communications equipment

Depreciation is provided on a straight line basis on the cost of the equipment at rates determined by the estimated useful lives of the assets of two to 20 years.

v. Other properties and fixed assets held for own use

Depreciation is provided on the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Construction costs of the buildings thereon are depreciated on a straight line basis at 2.5 per cent per annum.

Depreciation is provided on a straight line basis on the cost of other fixed assets held for own use at rates determined by the estimated useful lives of these assets of three to 25 years.

f. Impairment of assets

The carrying amounts of assets, other than properties carried at revalued amounts, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

f. Impairment of assets (continued)

i. Recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use.

ii. Reversals of impairment losses

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

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

g. Investments in securities

i. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the consolidated profit and loss account for each security individually.

ii. Non-trading investments, other than held-to-maturity securities, are stated in the balance sheet at fair value. Changes in fair value are recognised in the investments revaluation reserves until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investments revaluation reserves to the consolidated profit and loss account.

Transfers from the investments revaluation reserves to the consolidated profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Profits or losses on disposal of non-trading investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are recognised in the consolidated profit and loss account as they arise. On disposal of non-trading investments, the revaluation surplus or deficit previously taken to the investments revaluation reserves is also transferred to the consolidated profit and loss account for the year.

iii. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.

h. Deferred items

i. Prepaid revenue expenses

Prepaid revenue expenses represent prepaid expenditure attributable to periods after more than one year.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

h. Deferred items (continued)

ii. Programming library

Programming library consists of presentation rights for commissioned programmes and acquired programmes for showing on the television channels, and commissioned programmes for licensing purposes.

Presentation rights are stated in the balance sheet at cost less accumulated amortisation and any impairment losses. Amortisation is charged to the profit and loss account on an accelerated basis over the licence period or over the estimated number of future showings. Subsequent expenditure on programmes after initial acquisition is recognised as an expense when incurred. Costs of in-house programmes are written off in the period in which they are incurred.

Commissioned programmes for licensing purposes comprise direct production costs and production overheads, and are stated at the lower of amortised cost or net realisable value. Costs are amortised on an individual programme basis in the ratio of the current year's gross revenues to management's forecast of the total ultimate gross revenues from all sources.

i. Inventories

i. Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is determined by the Directors, based on prevailing market conditions.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

ii. Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes the aggregate costs of development, borrowing costs capitalised and other direct expenses plus attributable profit, less pre-sales proceeds. Net realisable value is determined by the Directors, based on prevailing market conditions.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

Pre-sale proceeds received and receivable from the purchasers of the properties under development for sale are set off against inventories in the balance sheet. Profit on pre-sale of properties under development for sale is recognised over the course of the development and is calculated each year as a proportion of the total estimated profit to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total estimated sales.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

i. Inventories (continued)

ii. Properties under development for sale (continued)

Borrowing costs relating to properties under development for sale are capitalised up to the date of practical completion.

iii. Spare parts and consumables

Spare parts and consumables are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location. Net realisable value is determined by the Directors, based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j. Cash and cash equivalents

The Group defines cash and cash equivalents as cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

k. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at weighted average exchange rates for the year. Differences arising from the translation of the accounts of overseas subsidiaries are dealt with in capital reserves and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated profit and loss account. On disposal of an overseas subsidiary, the cumulative amount of the exchange differences which relate to that overseas subsidiary is included in the calculation of the profit or loss on disposal.

Forward foreign exchange contracts and swaps entered into as hedges against foreign currency assets and liabilities are revalued at the balance sheet date at the exchange rates ruling at that date. Realised gains and losses on currency hedging transactions are offset against gains and losses resulting from currency fluctuations inherent in the underlying foreign currency assets and liabilities. Unrealised gains and losses on foreign exchange rate contracts and swaps designated as hedges are included under the same classification as the assets and liabilities which they hedge. Gains and losses on foreign exchange contracts and swaps not entered into for hedging purposes are dealt with in the consolidated profit and loss account.

l. Assets held for use in operating leases

Where the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(e) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m) (i) below.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

m. Recognition of revenue

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

ii. Income from sale of completed property is recognised upon completion of the sales agreements.

iii. Income from pre-sale of properties under development is recognised by reference to the stage of completion over the course of development (see note 1 (i) (ii)).

iv. Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.

v. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi. Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

vii. Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

viii. Deferred revenue

Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

n. Borrowing costs

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

o. Income tax

i. Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

ii. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

iii. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

iv. Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or

1. PRINCIPAL ACCOUNTING POLICIES (continued)

o. Income tax (continued)

iv. (continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p. Related parties

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

q. Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

r. Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), or in providing products, or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

s. Employee benefits

i. The Group operates the following principal pension schemes:–

Defined contribution pension schemes

Contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Mandatory provident funds

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the consolidated profit and loss account when incurred.

Defined benefit pension schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by an independent qualified actuary using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

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

ii. Equity compensation benefits

When the Group grants employees options to acquire shares of the Company, the option exercise price must be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, shareholders' equity is increased by the amount of the proceeds received.

iii. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. SEGMENT INFORMATION

a. Business segments

i. Revenue and results	Segment revenue 2003 HK$ Million	Segment revenue 2002 HK$ Million	Segment results 2003 HK$ Million	Segment results 2002 HK$ Million
Property investment	**4,275**	4,442	**2,901**	3,125
Hong Kong	**3,552**	3,674	**2,745**	2,874
China	**190**	152	**51**	28
Hotels	**533**	616	**105**	223
Communication, media and entertainment ("CME")	**3,578**	3,435	**432**	429
Pay television	**1,734**	1,711	**444**	332
Internet and multimedia	**409**	450	**(85)**	9
i-CABLE	**2,143**	2,161	**359**	341
Telecommunications	**1,253**	1,117	**35**	53
Others	**182**	157	**38**	35
Logistics	**3,221**	3,203	**1,827**	1,838
Terminals	**2,868**	2,785	**1,735**	1,691
Other logistics business	**353**	418	**92**	147
	11,074	11,080	**5,160**	5,392
Property development	**189**	214	**(17)**	(9)
Investment and others	**251**	308	**163**	202
Inter-segment revenue (Note)	**(261)**	(269)	**–**	–
	11,253	11,333	**5,306**	5,585
Unallocated income and expenses			**(256)**	(244)
Operating profit			**5,050**	5,341
Borrowing costs			**(480)**	(755)
Net other charges				
Telecommunications			**(85)**	–
Property development			**(276)**	(285)
Investment and others			**254**	(149)
Associates				
Property development			**255**	(505)
Investment and others			**37**	10
Profit before taxation			**4,755**	3,657

Property investment includes gross rental income from investment properties of HK$2,836 million (2002: HK$2,901 million).

2. SEGMENT INFORMATION (continued)

a. Business segments (continued)

Note: Inter-segment revenue eliminated on consolidation includes:

	2003 HK$ Million	2002 HK$ Million
Property investment	91	101
CME	161	119
Pay television	37	37
Internet and multimedia	4	4
i-CABLE	41	41
Telecommunications	61	43
Others	59	35
Logistics	7	16
Investment and others	2	33
	261	269

ii. Assets and liabilities

	Assets		Liabilities	
	2003 HK$ Million	2002 HK$ Million (Restated)	2003 HK$ Million	2002 HK$ Million (Restated)
Property investment	61,104	59,276	2,833	7,556
Hong Kong	52,552	50,935	1,654	6,257
China	4,997	4,883	1,067	1,174
Hotels	3,555	3,458	112	125
CME	5,909	5,996	1,218	1,616
Pay television	1,617	1,620	539	786
Internet and multimedia	881	948	182	265
i-CABLE	2,498	2,568	721	1,051
Telecommunications	3,340	3,363	465	530
Others	71	65	32	35
Logistics	6,002	5,633	1,962	1,503
Terminals	5,813	5,415	1,927	1,458
Other logistics business	189	218	35	45
	73,015	70,905	6,013	10,675
Property development	4,499	6,108	183	92
Unallocated	3,648	4,409	19,317	19,240
Inter-group transactions	–	(300)	–	(300)
Total assets/liabilities	81,162	81,122	25,513	29,707

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

Included in the property development segment is the Group's share of properties under development and for sale undertaken by associates of HK$1,815 million (2002: HK$3,241 million).

2. SEGMENT INFORMATION (continued)

a. Business segments (continued)

iii. Other information	Capital expenditure 2003 HK$ Million	Capital expenditure 2002 HK$ Million	Depreciation and amortisation 2003 HK$ Million	Depreciation and amortisation 2002 HK$ Million
Property investment	176	336	99	87
Hong Kong	131	181	53	36
China	31	120	15	20
Hotels	14	35	31	31
CME	1,054	1,326	973	929
Pay television	333	443	384	450
Internet and multimedia	174	201	244	202
i-CABLE	507	644	628	652
Telecommunications	517	678	338	277
Others	30	4	7	–
Logistics	446	512	220	192
Terminals	441	502	201	172
Other logistics business	5	10	19	20
Total capital expenditure/ depreciation and amortisation	1,676	2,174	1,292	1,208

The Group has no significant non-cash expenses other than depreciation and amortisation.

b. Geographical segment

During the year, more than 90 per cent of the operations and assets and liabilities of the Group in terms of the above items was in Hong Kong.

3. OPERATING PROFIT

a. Operating profit is arrived at after charging:

	2003 *HK$ Million*	2002 *HK$ Million*
Depreciation		
– assets held for use under operating leases	85	74
– other assets	1,032	941
Amortisation of prepaid expenses and programming library	125	171
Amortisation of goodwill	50	22
Staff costs	1,999	1,983
including:		
Contributions to defined contribution pension schemes including MPF schemes	68	77
Increase in liability for defined benefit pension schemes (Note 29)	36	–
Auditors' remuneration		
Audit services	9	9
Other services	1	1
Cost of properties sold during the year	176	204
and crediting:		
Rental income less direct outgoings, including contingent rentals HK$104 million (2002: HK$58 million)	2,930	3,050
Interest income	131	166
Dividend income from listed investments	47	46
Dividend income from unlisted investments	76	109

b. Directors' emoluments

	2003 *HK$ Million*	2002 *HK$ Million*
Fees	1	1
Basic salaries, housing and other allowances, and benefits in kind	28	21
Deemed profit on share option exercise	–	3
Contributions to pension schemes	1	–
Discretionary bonuses and/or performance related bonuses	16	13
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
Total	46	38

For the year under review, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK$35,000 (2002: HK$35,000) per annum to each Independent Non-executive Director of the Company.

3. OPERATING PROFIT (continued)

b. Directors' emoluments (continued)

The emoluments in respect of the year ended December 31, 2003 of all the Directors of the Company in office during the year were in the following ranges:–

Bands (in HK$)	2003 Number	2002 Number
Not more than $1,000,000	9	12
$2,000,001 – $2,500,000	1	2
$2,500,001 – $3,000,000	2	1
$3,000,001 – $3,500,000	–	1
$5,000,001 – $5,500,000	1	–
$5,500,001 – $6,000,000	1	–
$6,000,001 – $6,500,000	–	1
$6,500,001 – $7,000,000	1	–
$7,500,001 – $8,000,000	–	1
$8,000,001 – $8,500,000	1	–
$11,000,001 – $11,500,000	1	–
$12,500,001 – $13,000,000	–	1*
	17	19

Note: The emoluments of Directors in the band marked * above in 2002 include deemed profit on share option exercise totalling HK$2.6 million.

c. Emoluments of the highest paid employees

For the year ended December 31, 2003, the top five highest paid individuals are also Directors of the Group and the analyses of their emoluments have been set out in Note 3b above. For the year ended December 31, 2002, analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) of two employees of the Group who, not being a Director of the Company, were among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group, are set out below.

Aggregate emoluments	2003 HK$ Million	2002 HK$ Million
Basic salaries, housing and other allowances, and benefits in kind	–	5
Contributions to pension schemes	–	–
Discretionary bonuses and/or performance related bonuses	–	2
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
Total	–	7

Bands (in HK$)	2003 Number	2002 Number
$3,000,001 – $3,500,000	–	1
$3,500,001 – $4,000,000	–	1
	–	2

4. OTHER NET PROFIT/(LOSSES)

Other net profit/(losses) represents a net profit/(loss) on disposal of investments and includes a revaluation deficit of HK$13 million (2002: deficit of HK$7 million) transferred from the investments revaluation reserves.

5. BORROWING COSTS

	2003 *HK$ Million*	2002 *HK$ Million*
Interest on:–		
Bank loans and overdrafts	233	362
Other loans repayable within five years	202	390
Other borrowing costs	99	97
	534	849
Less: Amount capitalised*	(54)	(94)
Net borrowing costs for the year	480	755

* The borrowing costs have been capitalised at annual rates of between 1.7% to 3.5% (2002: 3.1% to 5.1%).

6. NET OTHER CHARGES

	2003 *HK$ Million*	2002 *HK$ Million*
Provisions for diminution in value of properties held for development and for sale	(276)	(285)
Net provisions for impairment in value of non-trading investments (Note 6a)	(58)	(73)
Provision for diminution in value of listed debt securities	–	(19)
Write off of fixed assets/others	(85)	(57)
Deemed profit on distribution of i-CABLE shares (Note 6b)	312	–
	(107)	(434)

a. Net provisions for impairment in value of non-trading investments include a deficit of HK$33 million (2002: HK$58 million) transferred from the investments revaluation reserves in accordance with the Group's accounting policy on accounting for investments in securities.

b. Deemed profit on partial disposal of a subsidiary of HK$312 million arose from the distribution in specie of i-CABLE shares to the Company's shareholders as part of the 2003 interim dividend declared in August 2003.

The 244.7 million i-CABLE shares distributed represented 12.12% of i-CABLE's share capital, with a value of HK$508 million, calculated on the basis of the closing price on August 19, 2003. The net book value of the 244.7 million i-CABLE shares is HK$196 million, which resulted in a deemed profit on partial disposal of a subsidiary of HK$312 million.

7. TAXATION

a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5 per cent (2002: 16 per cent).

b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.

c. Taxation in the consolidated profit and loss account represents:–

	2003 HK$ Million	2002 HK$ Million (Restated)
Current tax		
Hong Kong profits tax	760	556
Underprovision in respect of prior years	64	108
	824	664
Overseas taxation	17	4
	841	668
Deferred tax		
Origination and reversal of temporary differences	(6)	59
Effect of increase in tax rate on deferred tax	99	–
	93	59
	934	727
Share of associates' Hong Kong profits tax	18	2
	952	729

d. **Reconciliation between the actual total tax charge and accounting profit at applicable tax rates**

	2003 HK$ Million	2002 HK$ Million
Profit before taxation	4,755	3,657
Notional tax on accounting profit calculated at applicable tax rates	829	578
Tax effect of non-deductible expenses	129	60
Tax effect of non-taxable revenue	(117)	(78)
Underprovision in respect of prior years	64	108
Tax effect of tax losses not recognised	114	224
Tax losses utilised	(166)	(163)
Effect of change in tax rate on deferred tax balances	99	–
Actual total tax charge	952	729

e. None of the taxation payable in the balance sheet is expected to be settled after more than one year.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of HK$2,486 million (2002: HK$1,372 million).

9. DIVIDENDS

a. Dividends attributable to the year

	2003 *HK$ Million*	2002 *HK$ Million*
Interim dividend declared and paid of 12 cents (2002: 28 cents) per share	**294**	685
Distribution in specie in the form of shares in i-CABLE Communications Limited ("i-CABLE Shares") equivalent to 20.75 cents per share	**508**	–
Total interim dividend	**802**	685
Final dividend of 28 cents proposed after the balance sheet date (2002: 28 cents) per share	**685**	685
	1,487	1,370

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

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

	2003 *HK$ Million*	2002 *HK$ Million*
Final dividend in respect of the previous financial year, approved and paid during the year, of 28 cents (2002: 50 cents) per share	**685**	1,223

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the year of HK$3,043 million (2002: HK$2,259 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 million ordinary shares) in issue during the year.

The calculation of diluted earnings per share is based on earnings for the year of HK$3,043 million (2002: HK$2,259 million as restated) and the weighted average of 2,447 million ordinary shares (2002: 2,447 million ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

The existence of unexercised options during the year ended December 31, 2003 (see Note 24) has no dilutive effect on the calculation of diluted earnings per share for the year ended December 31, 2003.

11. CHANGES IN ACCOUNTING POLICIES

SSAP 12 (Revised) "Income taxes"

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from January 1, 2003, in order to comply with Statement of Standard Accounting Practice 12 (Revised) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions as set out in note 1(o)(iii) on the accounts. The effect of adopting of the new accounting policy has been applied retrospectively. Shareholders' funds as at January 1, 2003 and January, 1, 2002 were restated and decreased by HK$979 million, which comprised revenue reserves of HK$690 million and investment properties revaluation reserves of HK$289 million, and HK$886 million, which comprised revenue reserves of HK$646 million and investment properties revaluation reserves of HK$240 million, respectively. The adjustments represented the deferred tax liability recognised in respect of temporary differences arising from fixed assets net of deferred tax assets in respect of tax losses recognised to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The effect of change to income tax charged to the consolidated profit and loss account and investment properties revaluation reserves, net of minority interest, for the year ended December 31, 2003 is an increased charge of HK$153 million and HK$33 million respectively (2002: HK$44 million and HK$49 million respectively).

12. FIXED ASSETS

	Group					
	Investment properties HK$Million	Properties under or held for redevelopment HK$Million	Hotel and club properties HK$Million	Broadcasting & communications equipment HK$Million	Other properties and fixed assets HK$Million	Total HK$Million
a. Cost or valuation						
Balance at January 1, 2003	52,373	3,574	3,339	8,316	9,061	76,663
Additions	51	286	–	758	499	1,594
Disposals	(4)	–	–	(205)	(71)	(280)
Reclassification	–	(525)	–	–	525	–
Written off	–	–	–	(85)	(150)	(235)
Impairment	–	(523)	–	–	(6)	(529)
Revaluation surplus	2,160	–	70	–	–	2,230
Balance at December 31, 2003	54,580	2,812	3,409	8,784	9,858	79,443
Accumulated depreciation						
Balance at January 1, 2003	–	–	–	3,523	4,096	7,619
Charge for the year	–	–	12	728	377	1,117
Written back on disposals	–	–	–	(185)	(64)	(249)
Reclassification	–	–	–	(2)	–	(2)
Written off	–	–	–	–	(150)	(150)
Revaluation adjustments	–	–	(12)	–	–	(12)
Balance at December 31, 2003	–	–	–	4,064	4,259	8,323
Net book value						
at December 31, 2003	54,580	2,812	3,409	4,720	5,599	71,120
at December 31, 2002	52,373	3,574	3,339	4,793	4,965	69,044

b. The analysis of cost or valuation of the above assets is as follows:–

2003 valuation	54,580	–	3,409	–	–	57,989
Cost less provisions	–	2,812	–	8,784	9,858	21,454
	54,580	2,812	3,409	8,784	9,858	79,443

If the hotel and club properties had not been revalued, the carrying value of these assets on the basis of cost less accumulated depreciation would be HK$342 million (2002: HK$354 million).

12. FIXED ASSETS (continued)

	Group					
	Investment properties *HK$Million*	Properties under or held for redeve-lopment *HK$Million*	Hotel and club properties *HK$Million*	Broad-casting & commun-ications equipment *HK$Million*	Other properties and fixed assets *HK$Million*	Total *HK$Million*
c. Tenure of title to properties (at cost or valuation):–						
Held in Hong Kong						
Long lease	41,695	28	3,376	–	3	45,102
Medium lease	7,124	1,626	–	–	5,035	13,785
Short lease	2,010	–	33	–	1	2,044
	50,829	1,654	3,409	–	5,039	60,931
Held outside Hong Kong						
Freehold	19	–	–	–	–	19
Long lease	–	–	–	–	5	5
Medium lease	3,732	1,158	–	–	–	4,890
	54,580	2,812	3,409	–	5,044	65,845

d. Properties revaluation

The Group's investment properties together with its hotel and club properties have been revalued as at December 31, 2003 by Chesterton Petty Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

The surplus or deficit arising on revaluation less minority interests is dealt with in capital reserves.

e. Impairment of fixed assets

The value of properties, other than investment properties and hotel and club properties which are revalued annually, is assessed at each balance sheet date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. As a consequence of this exercise, at December 31, 2003 impairment losses of HK$523 million were made, of which HK$208 million was recognised in the consolidated profit and loss account and HK$315 million was deducted from other properties revaluation reserves, principally to reflect the current prevailing property market conditions (2002: impairment loss of HK$230 million recognised in the consolidated profit and loss account).

f. The gross amounts of fixed assets of the Group held for use in operating leases were HK$55,727 million (2002: HK$53,234 million).

12. FIXED ASSETS (continued)

g. The Group leases out properties under operating leases, which generally run for an initial period of two to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

h. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:–

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
Within 1 year	**2,878**	2,914
After 1 year but within 5 years	**2,994**	3,099
After 5 years	**135**	124
	6,007	6,137

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$ Million	*HK$ Million*
Unlisted shares, at cost less provision	**6,458**	7,376
Amounts due from subsidiaries	**31,236**	36,819
	37,694	44,195
Amounts due to subsidiaries	**(24,038)**	(31,525)
	13,656	12,670

Details of principal subsidiaries at December 31, 2003 are shown on pages 107 to 109.

Amounts due from and to subsidiaries are unsecured, non-interest bearing and classified as non-current as these are not expected to be recoverable/payable within the next twelve months.

14. GOODWILL

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
Cost		
Balance at January 1 and December 31	441	441
Accumulated amortisation		
Balance at January 1	(44)	(22)
Charge for the year	(50)	(22)
Balance at December 31	(94)	(44)
Carrying amount		
Balance at December 31	347	397

Following a review undertaken by the management during the year, the estimated useful life of goodwill was revised from 20 years to 10 years with effect from January 1, 2003. The change resulted in an increase in the Group's amortisation charge for goodwill of approximately HK$28 million for 2003. The revised estimated useful life of goodwill is considered to better reflect the period during which the asset will generate economic benefits for the Group.

15. LONG TERM DEPOSITS

The Group has placed deposits with a financial institution maturing in 2006 at a margin above market rates. The deposits are credit-linked to investment grade debt securities, either issued by the Group or other corporations.

16. INTEREST IN ASSOCIATES

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
Share of net tangible assets/(liabilities)	(583)	(1,047)
Amounts due from associates	2,720	4,451
Amounts due to associates	(62)	(37)
	2,075	3,367

Details of principal associates at December 31, 2003 are shown on page 109.

Amounts due from and to associates are classified as non-current as these are not expected to be recoverable/ payable within the next twelve months.

16. INTEREST IN ASSOCIATES (continued)

Included in the amounts due from associates are loans totalling HK$2,588 million (2002: HK$4,332 million) advanced to certain associates involved in the Sorrento and Bellagio property developments projects, of which HK$733 million (2002: HK$1,925 million) is interest bearing and HK$1,855 million (2002: HK$2,407 million) is interest-free. The annual interest rates are determined by the shareholders of the associate with reference to prevailing market rates which were between 0.8% and 2.5% for the current year (2002: 2.8% to 4.0%). The loans are unsecured and are repayable as may from time to time be agreed among the shareholders.

During the year ended December 31, 2003, a subsidiary of the Group contributed capital of HK$111 million in respect of the acquisition of a 19.33% interest in an associate engaged in logistics operations.

17. LONG TERM INVESTMENTS

	Group	
	2003 *HK$ Million*	2002 *HK$ Million*
Non-trading investments		
Equity securities		
Listed in Hong Kong	761	701
Listed outside Hong Kong	548	445
	1,309	1,146
Unlisted	83	32
	1,392	1,178
Market value of listed securities	1,309	1,146

18. DEFERRED DEBTORS

Deferred debtors represent receivables due after more than one year.

19. DEFERRED ITEMS

	Group	
	2003 *HK$ Million*	2002 *HK$ Million*
Prepaid revenue expenses	275	305
Defined benefit pension scheme assets (Note 29)	15	14
Programming library	142	149
	432	468

20. INVENTORIES

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
Properties under development for sale, less pre-sale proceeds received and receivable	2,075	2,144
Properties held for sale	514	632
Spare parts and consumables	106	109
	2,695	2,885

The properties under development for sale are expected to be completed and recovered after more than one year.

The amount of properties held for sale/under development for sale carried at net realisable value is HK$831 million (2002: HK$995 million).

21. TRADE AND OTHER RECEIVABLES

Included in this item are trade debtors (net of provision for bad and doubtful debts) with an ageing analysis as at December 31, 2003 as follows:–

	Group		Company	
	2003	2002	2003	2002
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*
0 – 30 days	355	398	–	–
31 – 60 days	154	164	–	–
61 – 90 days	60	34	–	–
Over 90 days	64	43	–	–
	633	639	–	–

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days, except for pre-sale proceeds of properties under development, which are receivable upon completion of the properties under development.

22. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at December 31, 2003 as follows:–

	Group		Company	
	2003	2002	2003	2002
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*
0 – 30 days	284	218	–	–
31 – 60 days	66	100	–	–
61 – 90 days	54	64	–	–
Over 90 days	198	153	–	–
	602	535	–	–

23. SHORT TERM LOANS AND OVERDRAFTS

	Group		Company	
	2003 *HK$ Million*	2002 *HK$ Million*	2003 *HK$ Million*	2002 *HK$ Million*
US dollar floating rate notes	–	2,743	–	–
HK dollar floating rate notes	–	1,049	–	–
HK dollar fixed rate notes	800	665	–	–
US dollar fixed rate notes	1,468	–	–	–
Medium term note programme	180	–	–	–
Secured bank loans	–	37	–	–
Unsecured bank loans and overdrafts	3,881	1,778	–	121
	6,329	6,272	–	121

24. SHARE CAPITAL

	2003 *No. of shares* *Million*	2002 *No. of shares* *Million*	2003 *HK$ Million*	2002 *HK$ Million*
Authorised				
Ordinary shares of HK$1 each	3,600	3,600	3,600	3,600
Issued and fully paid				
Balance at January 1	2,447	2,447	2,447	2,447
Exercise of share options	–	–	–	–
Balance at December 31	2,447	2,447	2,447	2,447

Executive share incentive scheme

As at December 31, 2003, options to subscribe for 0.4 million (2002: 2.6 million) ordinary shares of the Company at a price of HK$25.0 (2002: HK$19.0 to HK$25.0) per share granted to a number of executives under the Company's executive share incentive scheme were unexercised. These options are exercisable before July 31, 2006.

During the year, options to subscribe for 2,151,000 ordinary shares of HK$1.00 each at a consideration of between HK$19.0 and HK$25.0 per share were lapsed (2002: options of 722,000 ordinary shares of HK$1.00 each were exercised at a consideration of between HK$12.0 and HK$19.0).

25. RESERVES

	Share premium HK$Million	Capital redemption reserve HK$Million	Investment properties revaluation reserves HK$Million	Investments revaluation reserves HK$Million	Other capital reserves HK$Million	Revenue reserves HK$Million	Total HK$Million
a. The Group							
i. Company and subsidiaries							
Balance at January 1, 2002							
– as previously reported	7,735	7	36,156	(10)	(235)	9,003	52,656
– prior year adjustment in respect of deferred tax (Note 11)	–	–	(240)	–	–	(646)	(886)
As restated	7,735	7	35,916	(10)	(235)	8,357	51,770
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	(1,223)	(1,223)
Exercise of share options	7	–	–	–	–	–	7
Transferred to the profit and loss account on disposal of non-trading investments	–	–	–	7	–	–	7
Transferred to the profit and loss account on impairment of non-trading investments	–	–	–	58	–	–	58
Revaluation deficit							
– investment properties	–	–	(5,858)	–	–	–	(5,858)
– other properties	–	–	–	–	(219)	–	(219)
– non-trading investments	–	–	–	(284)	–	–	(284)
Deferred tax liability							
– investment properties	–	–	(49)	–	–	–	(49)
Others	–	–	–	–	(28)	–	(28)
Profit for the year	–	–	–	–	–	2,756	2,756
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	(685)	(685)
Balance at December 31, 2002 and January 1, 2003 (Restated)	7,742	7	30,009	(229)	(482)	9,205	46,252

25. RESERVES (continued)

	Share premium *HK$Million*	Capital redemption reserve *HK$Million*	Investment properties revaluation reserves *HK$Million*	Investments revaluation reserves *HK$Million*	Other capital reserves *HK$Million*	Revenue reserves *HK$Million*	Total *HK$Million*
a. The Group (continued)							
i. Company and subsidiaries (continued)							
Balance at December 31, 2002 and January 1, 2003	7,742	7	30,009	(229)	(482)	9,205	46,252
Dividends approved in respect of the previous year (Note 9b)	–	–	–	–	–	(685)	(685)
Transferred to the profit and loss account on disposal of non-trading investments	–	–	–	13	–	–	13
Transferred to the profit and loss account on impairment of non-trading investments	–	–	–	33	–	–	33
Revaluation surplus							
– investment properties	–	–	2,133	–	–	–	2,133
– other properties	–	–	–	–	68	–	68
– non-trading investments	–	–	–	412	–	–	412
Deferred tax liability							
– investment properties	–	–	(33)	–	–	–	(33)
Impairment of properties under or held for redevelopment	–	–	–	–	(315)	–	(315)
Others	–	–	–	–	43	(18)	25
Profit for the year	–	–	–	–	–	2,769	2,769
Dividends declared in respect of the current year (Note 9a)	–	–	–	–	–	(802)	(802)
Balance at December 31, 2003	7,742	7	32,109	229	(686)	10,469	49,870
					(Note)		

Note: Included in other capital reserves of the Group are other properties revaluation reserves totalling HK$2,267 million (2002: HK$2,514 million).

25. RESERVES (continued)

	Share premium HK$Million	Capital redemption reserve HK$Million	Investment properties revaluation reserves HK$Million	Investments revaluation reserves HK$Million	Other capital reserves HK$Million	Revenue reserves HK$Million	Total HK$Million
a. The Group (continued)							
ii. Associates							
Balance at January 1, 2002	–	–	–	9	–	(467)	(458)
Revaluation deficit							
– non-trading investments	–	–	–	(10)	–	–	(10)
Loss absorbed for the year	–	–	–	–	–	(497)	(497)
Balance at December 31, 2002							
and January 1, 2003	–	–	–	**(1)**	–	**(964)**	**(965)**
Transferred to the profit and loss							
account on disposal of							
non-trading Investments	–	–	–	**1**	–	–	**1**
Revaluation deficit							
– non-trading investments	–	–	–	**1**	–	–	**1**
Profit for the year	–	–	–	–	–	**274**	**274**
Balance at December 31, 2003	–	–	–	**1**	–	**(690)**	**(689)**
Total reserves							
At December 31, 2003	**7,742**	**7**	**32,109**	**230**	**(686)**	**9,779**	**49,181**
At December 31, 2002							
(Restated)	7,742	7	30,009	(230)	(482)	8,241	45,287

25. RESERVES (continued)

	Share premium *HK$Million*	Capital redemption reserve *HK$Million*	Other capital reserves *HK$Million*	Revenue reserves *HK$Million*	Total *HK$Million*
b. The Company					
Balance at January 1, 2002	7,735	7	306	3,038	11,086
Exercise of share options	7	–	–	–	7
Dividends approved in respect of the previous year (Note 9b)	–	–	–	(1,223)	(1,223)
Profit for the year	–	–	–	1,372	1,372
Dividends declared in respect of the current year (Note 9a)	–	–	–	(685)	(685)
Balance at December 31, 2002 and January 1, 2003	**7,742**	**7**	**306**	**2,502**	**10,557**
Dividend approved in respect of the previous year (Note 9b)	–	–	–	**(685)**	**(685)**
Profit for the year	–	–	–	**2,486**	**2,486**
Dividend declared in respect of the current year (Note 9a)	–	–	–	**(802)**	**(802)**
Balance at December 31, 2003	**7,742**	**7**	**306**	**3,501**	**11,556**

Reserves of the Company available for distribution to shareholders at December 31, 2003 amounted to HK$3,501 million (2002: HK$2,502 million).

The application of the share premium account and capital redemption reserves are governed by Section 48B and Section 49 of the Hong Kong Companies Ordinance respectively. The revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of investment properties, hotel and club properties and non-trading investments.

After the balance sheet date the Directors proposed a final dividend of 28 cents per share (2002: 28 cents per share) amounting to HK$685 million (2002: HK$685 million). This dividend has not been recognised as a liability at the balance sheet date.

26. LONG TERM LOANS

	Group		Company	
	2003 HK$ Million	2002 HK$ Million	2003 HK$ Million	2002 HK$ Million
Bonds and notes				
(secured and due May 15, 2003)				
US dollar floating rate notes	–	2,743	–	–
HK dollar floating rate notes	–	1,049	–	–
HK dollar fixed rate notes	–	665	–	–
	–	4,457	–	–
Bonds and notes (unsecured)				
HK dollar fixed rate notes due March 15, 2004	500	500	–	–
HK dollar fixed rate notes due June 7, 2004	300	300	–	–
HK dollar fixed rate notes due June 7, 2005	300	300	–	–
US dollar fixed rate notes due November 1, 2004	1,468	1,560	–	–
US dollar fixed rate notes due March 13, 2007	2,412	2,730	–	–
	4,980	5,390	–	–
Medium term note programme (unsecured)				
HK dollar fixed rate notes due November 5, 2004	100	–	–	–
HK dollar fixed rate notes due November 18, 2004	80	–	–	–
HK dollar fixed rate notes due October 23, 2006	500	–	–	–
HK dollar fixed rate notes due October 30, 2006	100	–	–	–
HK dollar floating rate notes due November 4, 2008	100	–	–	–
	880	–	–	–
Bank loans (secured)				
Due within 1 year	–	37	–	–
Due after more than 1 year but not exceeding 2 years	377	28	–	–
Due after more than 2 years but not exceeding 5 years	37	508	–	–
	414	573	–	–
Bank loans (unsecured)				
Due within 1 year	3,881	1,778	–	121
Due after more than 1 year but not exceeding 2 years	1,000	5,253	–	–
Due after more than 2 years but not exceeding 5 years	7,519	5,202	–	–
	12,400	12,233	–	121
Total loans	18,674	22,653	–	121
Less: Amounts due within 1 year (Note 23)	(6,329)	(6,272)	–	(121)
Total long term loans	12,345	16,381	–	–

26. LONG TERM LOANS (continued)

a. As at December 31, 2003, the Group's net debts, representing the total loans less deposits, listed debt securities and cash, are analysed as follows:–

	2003 HK$ Million	2002 HK$ Million
Secured	414	5,030
Bonds and notes	–	4,457
Bank loans	414	573
Unsecured	18,260	17,623
Bonds and notes	4,980	5,390
Medium term note programme	880	–
Bank loans and other loans	12,400	12,233
Total loans	18,674	22,653
Long term deposits	(156)	(156)
Listed debt securities	–	(525)
Pledged deposits	–	(293)
Deposits and cash	(1,512)	(1,225)
	17,006	20,454

b. As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have almost fully been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.

c. Over 90% of the bonds and notes either bear interest at floating rates or have been swapped to floating rates determined by reference to the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate.

d. Included in the Group's total loans is a bank loan totalling HK$1,300 million borrowed by a non-wholly owned subsidiary, Modern Terminals Limited (2002: HK$1,327 million borrowed by Modern Terminals Limited and i-CABLE). This loan is without recourse to the Company and other subsidiaries.

e. The banking facilities of the Group are secured by mortgages over certain investment properties with carrying value of HK$3,732 million as at December 31, 2003 (2002: HK$17,923 million).

27. DEFERRED TAXATION

a. Net deferred tax (assets)/liabilities recognised in the consolidated balance sheet:–

	2003 *HK$ Million*	2002 *HK$ Million*
Deferred tax assets	**(112)**	(108)
Deferred tax liabilities	**1,748**	1,614
	1,636	1,506

The components of deferred tax assets and liabilities and the movements during the year are as follows:–

	Depreciation allowances in excess of the related depreciation ***HK$Million***	**Revaluation of properties** ***HK$Million***	**Others** ***HK$Million***	**Future benefit of tax losses** ***HK$Million***	**Total** ***HK$Million***
Balance at January 1, 2002					
– as previously reported	467	–	–	–	467
– prior year adjustment in respect of deferred tax	917	270	32	(296)	923
As restated	1,384	270	32	(296)	1,390
Charged/(credited) to the consolidated profit and loss account	344	–	(141)	(144)	59
Charged to reserves	–	57	–	–	57
Balance at December 31, 2002 and January 1, 2003 (Restated)	**1,728**	**327**	**(109)**	**(440)**	**1,506**
Charged/(credited) to the consolidated profit and loss account	**(12)**	**–**	**121**	**(115)**	**(6)**
Charged to reserves	**–**	**37**	**–**	**–**	**37**
Effect of change in tax rate charged to the consolidated profit and loss account	**150**	**–**	**(10)**	**(41)**	**99**
Balance at December 31, 2003	**1,866**	**364**	**2**	**(596)**	**1,636**

b. Deferred tax assets unrecognised

Deferred tax assets have not been recognised in respect of the following items:–

	2003 *HK$ Million*	2002 *HK$ Million*
Deductible temporary differences	**1**	2
Future benefit of tax losses	**(1,512)**	(1,418)
	(1,511)	(1,416)

28. OTHER DEFERRED LIABILITIES

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
Club debentures (non-interest bearing) due after more than 5 years	224	220
Deferred revenue (Note 1 (m) (viii))	22	22
Others	14	50
	260	292

29. DEFINED BENEFIT PENSION SCHEMES

	2003	2002
	HK$ Million	*HK$ Million*
Defined benefit pension scheme assets (Note 19)	15	14

The Group makes contributions to six defined benefit pension schemes that provide pension benefits for employees upon retirement.

a. The amount recognised in the consolidated balance sheet is as follows:–

	2003	2002
	HK$ Million	*HK$ Million*
Present value of funded obligations	(664)	(664)
Fair value of plan assets	709	585
Net unrecognised actuarial (gains)/losses	(52)	63
Unrecognised transitional liability	22	30
	15	14

b. Movements in the net (liability)/asset in the consolidated balance sheet are as follows:–

	2003	2002
	HK$ Million	*HK$ Million*
At January 1	14	(22)
Contributions paid	37	36
Expense recognised in the consolidated profit and loss account	(36)	–
At December 31	15	14

29. DEFINED BENEFIT PENSION SCHEMES (continued)

c. Expenses recognised in the consolidated profit and loss account is as follows:–

	2003 *HK$ Million*	2002 *HK$ Million*
Current service cost	34	33
Interest cost	34	41
Expected return on scheme assets	(40)	(43)
Net transitional asset recognised	8	(31)
	36	–
The (income)/expense is recognised in the following line items in the consolidated profit and loss account:–		
Direct costs and operating expenses	34	(2)
Administrative and corporate expenses	2	2
	36	–
Actual (gains)/losses on scheme assets	(126)	38

d. The principal actuarial assumptions used as at December 31, 2003 (expressed as a range) are as follows:–

	2003	2002
Discount rate at December 31	5.0% – 5.5%	5.0% – 5.5%
Expected rate of return on scheme assets	5.0% – 7.0%	5.0% – 8.0%
Future salary increases – 2003	N/A	0% – 3.5%
– 2004 – 2005	2.0% – 3.5%	2.0% – 3.5%
– thereafter	3.5% – 4.0%	3.5% – 4.0%

30. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on June 30, 1998, to replace a former scheme previously adopted on September 29, 1988, whereby the Directors of the Company are authorised, at their discretion, to invite employees, including directors, of the Company and/or any of its subsidiaries to take up options to subscribe for shares of the Company (the "Shares"). The exercise price of the options must be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. Options under the share option scheme are exercisable during such period as determined by the Directors prior to the grant of the option provided that no option may be granted which is exercisable earlier than 1 year from the date of grant or later than 10 years after such date.

a. Movement in share options

	2003 *Number*	2002 *Number*
At January 1	2,551,000	3,273,000
Exercised	–	(722,000)
Lapsed	(2,151,000)	–
At December 31	400,000	2,551,000
Options vested at December 31	–	2,111,000

b. During the years ended December 31, 2003 and 2002, no options were granted to subscribe for ordinary shares of the Company under the Company's Executive Share Incentive Scheme.

c. Terms of share options at the balance sheet date

Exercise period	**Exercise price**	2003 *Number*	2002 *Number*
17/6/1996 – 16/6/2003	HK$19.00	–	1,781,000
1/8/2002 – 31/7/2003	HK$25.00	–	330,000
1/8/2005 – 31/7/2006	HK$25.00	400,000	440,000
		400,000	2,551,000

30. EQUITY COMPENSATION BENEFITS (continued)

d. Details of share options exercised

Exercise date	Exercise Price *HK$*	Market value per share at exercise date *HK$*	Proceeds received *HK$*	2003 No. of shares	2002 No. of shares
January 15, 2002	12.00	17.10	720,000	–	60,000
March 8, 2002	12.00	18.25	240,000	–	20,000
April 8, 2002	12.00	17.10	3,600,000	–	300,000
April 8, 2002	12.00	17.10	600,000	–	50,000
April 10, 2002	12.00	17.10	600,000	–	50,000
April 12, 2002	12.00	17.15	2,400,000	–	200,000
May 6, 2002	19.00	21.00	570,000	–	30,000
June 12, 2002	19.00	18.80	228,000	–	12,000
				–	722,000

31. MATERIAL RELATED PARTY TRANSACTIONS

Except for the transactions noted below, the Group and the Company have not been a party to any material related party transaction during the year ended December 31, 2003:–

a. As disclosed in Note 16, loans totalling HK$2,588 million (2002: HK$4,332 million) advanced by the Group to certain associates involved in the Sorrento and Bellagio property developments projects are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loans during the year is not material in the context of these accounts.

b. As disclosed in Note 32(b), the Company and a subsidiary, together with its principal shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of the associate under an agreement to develop the Sorrento property development project.

   Such guarantees given by the Company constitute connected transactions as defined under the Listing Rules, but a waiver from complying with the relevant connected transaction requirements was granted by the Stock Exchange in 1997.

c. In respect of the year ended December 31, 2003, the Group earned rental income totalling HK$105 million (2002 : HK$93 million) from various tenants which are wholly owned by, or are non-wholly owned subsidiaries of, companies which in turn are wholly owned by the family interests of, or by a trust the settlor of which is, the Chairman of the Company. Such transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules.

32. CONTINGENT LIABILITIES

As at December 31, 2003:–

a. There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK$28,562 million (2002: HK$26,256 million).

b. The Company and a subsidiary together with its principal shareholder and two of its subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for the Sorrento property development project by the subsidiary of an associate.

c. Forward exchange contracts amounting to HK$5,616 million (2002: HK$5,616 million) will mature in 2004.

33. COMMITMENTS

	Group	
	2003	2002
	HK$ Million	*HK$ Million*
a. **Capital commitments**		
No provision has been made in the accounts for planned capital expenditure of	**4,973**	4,408
In respect of which contracts have been entered into for	**1,161**	1,763

b. The Company's subsidiary, Modern Terminals Limited ("MTL"), had entered into a Joint Development Agreement ("JDA") with Hong Kong International Terminals Limited ("HIT") and Asia Container Terminals Limited ("ACT") in 1998 to jointly procure the construction of Container Terminal 9. The total cost of construction for the whole Container Terminal 9 is estimated by the Directors to be HK$4.8 billion with a target completion date in 2005. MTL, ACT and HIT have agreed to share the construction cost at an agreed ratio as stipulated in the JDA.

Furthermore, under a Berth Swap Agreement with ACT, upon the completion of the whole of Container Terminal 9, MTL will transfer to ACT all of its rights, title and interest in Container Terminal 8 West and ACT will transfer to MTL all of its rights, title and interest in Container Terminal 9.

34. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 9.

35. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for income tax in order to comply with SSAP 12 (revised), details of which are set out in Note 11.

36. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Directors on March 16, 2004.