

Notes to the Financial Statements

for the year ended 31st December, 2003

1. GENERAL

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”). Its ultimate holding company is Allied Group Limited (“Allied Group”), a listed public limited company which is also incorporated in Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 43, 44 and 45 respectively.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice (“SSAP”) No. 12 (Revised) “Income taxes” (“SSAP 12 (Revised)”) issued by the Hong Kong Society of Accountants. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has been applied retrospectively. Comparative amounts for prior years have been restated accordingly.

The financial effect of the adoption of SSAP 12 (Revised) is summarised below:

	Negative goodwill	Interest in associates	Interest in jointly controlled entities	Deferred tax assets	Property revaluation reserve	Translation reserve	Capital (goodwill) reserve	Accumulated profits	Minority interests	Deferred tax liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2002										
- As previously stated	(213,101)	2,132,992	1,443,503	-	397,858	(222,291)	12,801	1,094,231	2,165,628	13,277
- Arising from the adoption of SSAP 12 (Revised)	43,278	(122,904)	(105,373)	11,845	(83,064)	35,276	(18,623)	(64,941)	(54,932)	13,130
- As restated	<u>(169,823)</u>	<u>2,010,088</u>	<u>1,338,130</u>	<u>11,845</u>	<u>314,794</u>	<u>(187,015)</u>	<u>(5,822)</u>	<u>1,029,290</u>	<u>2,110,696</u>	<u>26,407</u>

The adoption of SSAP 12 (Revised) has increased the loss for the year ended 31st December, 2002 by HK\$25,985,000.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Goodwill and negative goodwill (capital reserve)

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

Goodwill and capital reserve arising on acquisitions prior to 1st January, 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realised in accordance with the realisation of those underlying assets. Where it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding five years. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealised capital reserve is included in the calculation of the profit or loss on disposal.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life of five years. Goodwill arising on acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of a subsidiary is presented separately on the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1st January, 2001 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill will be released to the income statement over a period of five years.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Exchange differences arising, if any, are dealt with in reserves. On disposal of an operation outside Hong Kong, the balance of the translation reserve attributable to that operation is transferred to the income statement as part of the profit or loss on disposal of that operation.

Revenue recognition

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

Brokerage income recognised in the accounts represents brokerage income accrued on all broking transactions traded on or before 31st December each year.

Interest income receivable from customers is recognised in the income statement on an accrual basis, except in the case of receivables which are overdue or deemed to be doubtful for which no interest is accrued in the income statement.

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

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

Profits and losses on trading in foreign currencies include both realised and unrealised gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant leases.

Finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Impairment

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

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

Employee benefits

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

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

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

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

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

Fixed assets

Fixed assets, other than investment properties, are stated at cost less depreciation and impairment loss. Land and buildings are stated at cost or valuation less depreciation and impairment loss. Expenditure on major inspections and overhauls of fixed assets is capitalised as a separate component of the relevant asset.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed assets (Cont'd)

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, any surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets, other than investment properties which are held on leases with an unexpired term of more than 20 years, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land	Over the remaining terms of the leases
Buildings	2% to 3% or over the remaining terms of the leases, if less than 50 years
Leasehold improvements	20%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	16 ² / ₃ % to 20%

The profit or loss arising on the disposal or retirement of an item of fixed assets other than investment properties is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment properties

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

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets

Expenditure on computer software that is not an integral part of the related hardware is capitalised as an intangible asset and amortised using the straight-line method over its estimated useful life of five years. Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down to its recoverable amount.

Properties under development

Land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rental and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

Investments in subsidiaries

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

Interest in associates

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on the acquisition of associates prior to 1st January, 2001 is included in reserves.

When the Group transacts with an associate, unrealised profits are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated to the extent of the Group's interest in the relevant associate, except where the transaction provides evidence of an impairment of the asset transferred.

Interest in jointly controlled entities

The results and assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Unamortised goodwill or capital reserve arising on acquisition of jointly controlled entities prior to 1st January, 2001 is included in reserves.

When the Group transacts with a jointly controlled entity, unrealised profits are eliminated to the extent of the Group's interest in the relevant jointly controlled entity. Unrealised losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where the transaction provides evidence of an impairment of the asset transferred.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in securities

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

Securities held for trading, arbitrage and underwriting purposes are measured at fair value at subsequent reporting dates. Any unrealised gains and losses are included in net profit or loss for the year.

Non-trading securities are measured at fair value or estimated fair value at subsequent reporting dates. Any unrealised gains and losses are dealt with in the investment revaluation reserve until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Other investments

Other investments are stated at cost less any identified impairment loss.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost, borrowing costs and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Capitalisation of borrowing costs

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

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

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4. TURNOVER

Turnover represents the gross proceeds received and receivable derived from the sale of properties, securities trading and broking, income from property rental, hotel operations and property management services, interest and dividend income, income from corporate finance and advisory services, and income from securities margin financing and term loan financing and insurance broking services, and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

	2003 HK\$'000	2002 HK\$'000
Interest income	201,036	273,844
Property rental, hotel operations and management services	161,738	149,735
Securities broking	185,130	122,749
Sale of properties	16,000	112,883
Income from forex, bullion, commodities and futures	123,962	79,145
Securities trading	16,991	67,578
Income from corporate finance and others	116,011	58,045
Dividend income	41,915	39,650
	<u>862,783</u>	<u>903,629</u>

5. SEGMENTAL INFORMATION

The Group has the following main business segments:

- Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking service, provision of related financing and advisory product, and provision of term loan financing.
- Property rental, hotel operations and management services – property rental, hotel operations managed by third parties and provision of property management services.
- Sales of properties and property based investments – development and sale of properties and property based investments.

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

for the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (CONT'D)

Analysis of the Group's businesses segmental information is as follows:

	2003			Total HK\$'000
	Investment, broking and finance HK\$'000	Property rental, hotel operations and management services HK\$'000	Sale of properties and property based investments HK\$'000	
Turnover	694,317	166,198	16,000	876,515
Less: inter-segment turnover	(9,272)	(4,460)	–	(13,732)
	<u>685,045</u>	<u>161,738</u>	<u>16,000</u>	<u>862,783</u>
Profit (loss) from operations	147,905	52,785	(40,197)	160,493
Finance costs				(60,016)
Release of negative goodwill				140,282
Amortisation of capital reserve				17,267
Share of results of associates				135,708
Share of results of jointly controlled entities				41,941
Profit before taxation				435,675
Taxation				(71,449)
Profit after taxation				<u>364,226</u>
Segment assets	3,801,791	2,298,539	574,882	6,675,212
Interest in associates				2,201,871
Interest in jointly controlled entities				1,087,379
Deferred tax assets				9,853
Amounts due from associates				266,303
Amount due from a jointly controlled entity				2,056
Tax recoverable				5,281
Total assets				<u>10,247,955</u>
Segment liabilities	(1,607,913)	(51,086)	(56,099)	(1,715,098)
Amounts due to associates				(38,081)
Amount due to a jointly controlled entity				(171,658)
Taxation				(29,523)
Bank and other borrowings				(2,233,946)
Deferred tax liabilities				(21,406)
Total liabilities				<u>(4,209,712)</u>
Other information				
Depreciation	16,750	3,871	151	20,772
Amortisation of intangible assets	2,780	–	–	2,780
Impairment losses recognised	6,524	12,200	22,546	41,270
Deficits arising on revaluation of investment properties	–	5,645	–	5,645
Write-back of bad and doubtful debts	(19,339)	–	–	(19,339)
Capital expenditure	<u>13,047</u>	<u>14,524</u>	<u>985</u>	<u>28,556</u>

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (CONT'D)

	2002			Total HK\$'000
	Investment, broking and finance HK\$'000	Property rental, hotel operations and management services HK\$'000	Sale of properties and property based investments HK\$'000	
Turnover	649,946	155,320	112,883	918,149
Less: inter-segment turnover	(8,935)	(5,585)	–	(14,520)
	<u>641,011</u>	<u>149,735</u>	<u>112,883</u>	<u>903,629</u>
Profit (loss) from operations	110,408	(409,618)	(123,807)	(423,017)
Finance costs				(72,183)
Release of negative goodwill				66,019
Amortisation of capital reserve				17,267
Share of results of associates				117,460
Share of results of jointly controlled entities				<u>29,527</u>
Loss before taxation				(264,927)
Taxation				<u>(53,300)</u>
Loss after taxation				<u>(318,227)</u>
Segment assets	2,606,517	2,041,358	893,202	5,541,077
Interest in associates				2,026,470
Interest in jointly controlled entities				1,216,349
Deferred tax assets				4,752
Amounts due from associates				294,787
Amount due from a jointly controlled entity				<u>1,564</u>
Total assets				<u>9,084,999</u>
Segment liabilities	(702,879)	(66,194)	(62,103)	(831,176)
Amounts due to associates				(37,544)
Amount due to a jointly controlled entity				<u>(178,041)</u>
Taxation				(6,112)
Bank and other borrowings				(1,775,873)
Deferred tax liabilities				<u>(24,624)</u>
Total liabilities				<u>(2,853,370)</u>
Other information				
Depreciation	16,697	5,210	182	22,089
Amortisation of intangible assets	1,366	–	–	1,366
Impairment losses recognised	11,686	16,320	105,400	133,406
Deficits arising on revaluation of investment properties	–	443,448	–	443,448
Bad and doubtful debts	37,276	1,383	–	38,659
Capital expenditure	<u>18,065</u>	<u>34,299</u>	<u>62,297</u>	<u>114,661</u>

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5. SEGMENTAL INFORMATION (CONT'D)

As both the turnover and operating result of hotel operating activity were below 10% of the total turnover and profit before taxation respectively, this segment was reclassified under property rental and management services and renamed as property rental, hotel operations and management services in the current year with comparative figures restated accordingly.

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the year, less than 10% of the operations of the Group in terms of turnover, results of operations and assets were carried on or were situated outside Hong Kong. Accordingly, no geographical segmental information is shown.

6. IMPAIRMENT LOSSES AND REVALUATION DEFICITS

	2003	2002
	HK\$'000	HK\$'000
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	22,546	104,000
Properties under development	12,200	17,100
Non-trading securities	6,524	12,306
	<u>41,270</u>	<u>133,406</u>
Deficits arising on revaluation of investment properties	5,645	443,448
	<u>46,915</u>	<u>576,854</u>

Notes to the Financial Statements (Cont'd)

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7. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	4,395	4,024
Overprovision in prior years	(2)	(172)
	<u>4,393</u>	<u>3,852</u>
Amortisation of intangible assets (included in other operating expenses)	2,780	1,366
Commission expenses and sales incentives to account executives and certain staff	103,754	52,277
Depreciation		
Owned assets	20,259	21,619
Assets under a finance lease	513	470
	<u>20,772</u>	<u>22,089</u>
Loss arising from default of loan agreement with Millennium Touch Limited (note 23)	–	10,110
Loss on disposal of fixed assets	432	1,047
Loss on disposal of an associate	3,088	–
Loss on disposal of a jointly controlled entity	5,549	–
Loss on disposal of subsidiaries	2,597	–
Loss on disposal of non-trading securities	753	–
Net realised loss on trading securities	–	5,361
Net unrealised loss on trading securities	–	3,336
Provision for interest and legal costs in respect of a litigation (note)	58,364	–
Retirement benefit scheme contributions, net of forfeited contributions of HK\$353,000 (2002: HK\$530,000) (note 39)	9,309	8,685
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	189,324	165,632
and after crediting:		
Dividend income from investments in listed securities	10,490	6,925
Dividend income from investments in unlisted securities	31,425	32,725
Net realised profit on trading securities	5,728	–
Net unrealised profit on trading securities	3,311	–
Net realised profit on derivatives	6,403	75
Net profit on other dealing activities	4,531	706
Profit on dealing in foreign currencies	16,938	9,110
Profit on disposal of non-trading securities	–	1,119
Profit on disposal of subsidiaries	–	1,301
Profit on disposal of associates	–	3,725
Rental income from investment properties under operating leases, net of outgoings of HK\$18,280,000 (2002: HK\$17,279,000)	47,800	41,758
Write-back of loss arising from default of loan agreement with Millennium Touch Limited (note 23)	<u>26,412</u>	<u>–</u>

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7. PROFIT (LOSS) FROM OPERATIONS (CONT'D)

Note: On 1st April, 2004, the High Court of Hong Kong awarded a judgment ("Judgment") in favour of New World Development Company Limited ("NWDC") against Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK\$80,117,653 together with interest of HK\$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs (together estimated by Sun Hung Kai to be in the region of HK\$159,000,000).

SHKS has since year 2000 booked as "Investments" an amount of approximately HK\$118,000,000 including payments already made to NWDC in a total sum of HK\$35,319,000. Additionally, a provision of approximately HK\$18,700,000 for interest was made in 2000. A further provision of HK\$58,364,000 has been made in these accounts in respect of interest and legal costs.

SHKS is currently seeking legal advice as to the Judgment and, subject to legal advice, intends to appeal against the Judgment.

Sun Hung Kai's present understanding of the Judgment is that SHKS now has an effective 12.5% interest, including its share of shareholders' loans, in a completed project in Kuala Lumpur consisting of two first class hotels with around 1,000 rooms, and a convention and retail complex presently known as "The Renaissance Kuala Lumpur Hotel".

8. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive Directors	10	10
Independent Non-Executive Directors	10	10
	20	20
Other emoluments:		
Executive Directors:		
Salaries, housing and other benefits	2,952	2,997
Performance related incentive payments	750	-
Retirement benefit scheme contributions	88	90
Independent Non-Executive Directors:		
Consultancy fees	75	75
	3,865	3,162
	3,885	3,182

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2003	2002
HK\$Nil – HK\$1,000,000	3	3
HK\$3,000,001 – HK\$3,500,000	-	1
HK\$3,500,001 – HK\$4,000,000	1	-
	4	4

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8. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(b) Employees' emoluments

The five highest paid individuals included one (2002: one) of the Directors, details of whose emoluments are set out in note 8(a) above. The emoluments of the remaining four (2002: four) individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	13,549	6,291
Performance related incentive payments	1,235	–
Retirement benefit scheme contributions	352	356
	<u>15,136</u>	<u>6,647</u>

The emoluments of the above employees, who were not Directors of the Company, were within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	–	3
HK\$2,000,001 – HK\$2,500,000	3	–
HK\$8,500,001 – HK\$9,000,000	1	–
	<u>1</u>	<u>–</u>

9. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	44,700	55,879
Bank borrowings not wholly repayable within five years	7,711	21,578
Loan notes wholly repayable within five years	7,641	–
Obligations under a finance lease	65	93
Other borrowings wholly repayable within five years	48	–
	<u>60,165</u>	<u>77,550</u>
Less: Amount capitalised in respect of properties under development and properties under development for sale	(149)	(5,367)
	<u>60,016</u>	<u>72,183</u>

for the year ended 31st December, 2003

10. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	23,960	7,800
Outside Hong Kong	418	219
	<u>24,378</u>	<u>8,019</u>
Deferred tax (note 21):		
Current year	(9,146)	9,501
Effect of change in tax rate	766	-
	<u>15,998</u>	<u>17,520</u>
Taxation attributable to the Company and subsidiaries	15,998	17,520
Share of taxation attributable to associates	38,751	22,710
Share of deferred taxation attributable to associates	6,724	9,490
Share of taxation attributable to jointly controlled entities	9,976	3,580
	<u>71,449</u>	<u>53,300</u>

Hong Kong Profits Tax is calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

for the year ended 31st December, 2003

10. TAXATION (CONT'D)

The charge for the year can be reconciled to the profit (loss) before taxation as follows:

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	435,675	(264,927)
Less: share of results of associates	(135,708)	(117,460)
share of results of jointly controlled entities	(41,941)	(29,527)
Profit (loss) before taxation, excluding share of results of associates and jointly controlled entities	<u>258,026</u>	<u>(411,914)</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	45,155	(65,906)
Tax effect of expenses that are not deductible for tax purposes	24,298	82,157
Tax effect of utilisation of tax losses not previously recognised	(16,368)	(2,991)
Increase in opening deferred taxation due to change in tax rate	766	-
Tax effect of utilisation of unrecognised deductible temporary differences	(3,976)	(3,756)
Effect of different income tax rate of overseas subsidiaries	(2,559)	1,730
Tax effect of income that is not assessable for tax purposes	(42,818)	(23,381)
Tax effect of tax losses not recognised	12,591	29,722
Others	(1,091)	(55)
Taxation attributable to the Company and subsidiaries	15,998	17,520
Share of taxation attributable to associates	38,751	22,710
Share of deferred taxation attributable to associates	6,724	9,490
Share of taxation attributable to jointly controlled entities	9,976	3,580
Taxation for the year	<u>71,449</u>	<u>53,300</u>

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

Details of deferred taxation are set out in note 21.

11. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2003 (2002: Nil).

for the year ended 31st December, 2003

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$311,020,000 (2002: loss of HK\$400,863,000 as restated) and on the weighted average number of 489,372,894 (2002: 457,329,475) shares in issue during the year, which have been adjusted for the consolidation of the Company's ordinary shares in November 2003.

The calculation of the diluted earnings per share for the current year is based on the profit attributable to shareholders of HK\$311,020,000 and on the weighted average number of 489,915,671 shares in issue during the year after adjusting for the effects of all dilutive potential ordinary shares. No diluted loss per share has been presented for 2002 as the Company had no dilutive potential ordinary shares during that year.

13. FIXED ASSETS

	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
The Group							
Cost or valuation							
At 1st January, 2003	276,579	1,733,037	66,536	33,725	93,187	22,926	2,225,990
Exchange adjustments	-	-	-	(6)	(18)	-	(24)
Acquisition of subsidiaries	-	-	32,000	137	863	-	33,000
Additions	-	-	1,207	2,600	4,867	91	8,765
Transferred from properties held for sale	-	252,102	-	-	-	-	252,102
Disposals	-	-	-	(2,976)	(2,853)	(836)	(6,665)
Surplus (deficit) arising on revaluation	1,459	(7,104)	-	-	-	-	(5,645)
At 31st December, 2003	278,038	1,978,035	99,743	33,480	96,046	22,181	2,507,523
Comprising:							
At cost	-	-	83,743	33,480	96,046	22,181	235,450
At valuation in 1985	-	-	16,000	-	-	-	16,000
At valuation in 2003	278,038	1,978,035	-	-	-	-	2,256,073
	278,038	1,978,035	99,743	33,480	96,046	22,181	2,507,523
Depreciation							
At 1st January, 2003	-	-	5,480	18,159	59,306	21,584	104,529
Exchange adjustments	-	-	-	(2)	(18)	-	(20)
Provided for the year	-	-	1,217	5,780	13,220	555	20,772
Eliminated on disposals	-	-	-	(2,589)	(2,812)	(831)	(6,232)
At 31st December, 2003	-	-	6,697	21,348	69,696	21,308	119,049
Net book values							
At 31st December, 2003	278,038	1,978,035	93,046	12,132	26,350	873	2,388,474
At 31st December, 2002	276,579	1,733,037	61,056	15,566	33,881	1,342	2,121,461

for the year ended 31st December, 2003

13. FIXED ASSETS (CONT'D)

The net book value of properties held by the Group at 31st December, 2003 and 2002 comprised:

	2003			2002		
	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000
Properties in Hong Kong:						
Long-term	278,038	1,611,000	90,579	276,579	1,434,337	59,597
Medium-term	-	367,035	-	-	298,700	-
Properties outside Hong Kong:						
Medium-term	-	-	2,467	-	-	1,459
	<u>278,038</u>	<u>1,978,035</u>	<u>93,046</u>	<u>276,579</u>	<u>1,733,037</u>	<u>61,056</u>

The Group's hotel property is managed by an independent hotel operator and other investment properties are held for rental purposes under operating leases. The Group's investment properties in Hong Kong were revalued on 31st December, 2003 by FPDSavills (Hong Kong) Limited, Chartered Surveyors, on an open market value basis, at HK\$2,256,073,000 (2002: HK\$2,009,616,000).

In preparing these accounts, the Group has placed reliance on paragraph 80 of SSAP 17, which provides exemption from the need to make regular revaluations for "Land and buildings" carried at a revalued amount prior to 30th September, 1995. Included in "Land and buildings" is a property carried at HK\$16,000,000 which was revalued in 1985 by Jones Lang Wootton, independent professional valuer, on an open market value basis. The carrying amount of the "Land and buildings", including the revalued property, would have been HK\$94,728,000 (2002: HK\$62,769,000), had the property been carried at cost less accumulated depreciation.

The deficit of HK\$5,645,000 arising on revaluation during the year has been charged to the income statement.

The net book value of furniture, fixtures and equipment of HK\$26,350,000 (2002: HK\$33,881,000) includes an amount of HK\$1,580,000 (2002: HK\$2,093,000) in respect of assets held under finance leases.

The Company did not have any fixed assets at 31st December, 2003 or 2002.

for the year ended 31st December, 2003

14. INTANGIBLE ASSETS

	The Group HK\$'000
Computer Software	
Cost	
At 1st January, 2003	5,591
Additions	5,001
Written off	(959)
	<hr/>
At 31st December, 2003	9,633
Amortisation	
At 1st January, 2003	731
Provided for the year	2,780
Eliminated on write off	(959)
	<hr/>
At 31st December, 2003	2,552
Net book values	
At 31st December, 2003	<hr/> 7,081
At 31st December, 2002	<hr/> 4,860

for the year ended 31st December, 2003

15. NEGATIVE GOODWILL

	The Group
	HK\$'000
Gross amount	
At 1st January, 2003	
– As previously stated	498,780
– Adjustment on adoption of SSAP 12 (Revised)	(61,201)
– As restated	437,579
Acquisition of a subsidiary	8,730
Acquisition of additional interest in a subsidiary	319,264
Disposal of subsidiaries	(3)
At 31st December, 2003	<u>765,570</u>
Released to the income statement	
At 1st January, 2003	
– As previously stated	112,708
– Adjustment on adoption of SSAP 12 (Revised)	(16,820)
– As restated	95,888
Released during the year	140,282
Eliminated on disposal	(3)
At 31st December, 2003	<u>236,167</u>
Net book values	
At 31st December, 2003	<u>529,403</u>
At 31st December, 2002	<u>341,691</u>

16. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2003	2002
	HK\$'000	HK\$'000
At cost, less impairment loss recognised:		
At 1st January	128,802	124,172
Exchange adjustments	(367)	–
Additions, including interest of HK\$149,000 (2002: HK\$190,000) capitalised	14,939	21,730
Impairment loss recognised	(12,200)	(17,100)
At 31st December	<u>131,174</u>	<u>128,802</u>

for the year ended 31st December, 2003

16. PROPERTIES UNDER DEVELOPMENT (CONT'D)

The carrying value of properties under development held by the Group at 31st December, 2003 and 2002 comprised:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Freehold properties outside Hong Kong	93,993	93,558
Long-term properties in Hong Kong	37,181	35,244
	<u>131,174</u>	<u>128,802</u>

At 31st December, 2003, the Group had interest capitalised of HK\$1,474,000 (2002: HK\$1,325,000) in respect of properties under development.

The impairment loss recognised was determined with reference to the open market values based on independent professional valuations at 31st December, 2003.

17. INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares at cost, less impairment loss recognised	14	14
Amounts due from subsidiaries, less allowances	2,863,339	2,834,422
	<u>2,863,353</u>	<u>2,834,436</u>

Other than the loan notes issued by Sun Hung Kai, terms of which are shown in note 31, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2003 are set out in note 43.

18. INTEREST IN ASSOCIATES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Listed securities in Hong Kong (note 18(i))	1,970,437	1,826,802
Unlisted shares (note 18(ii))	231,434	199,668
	<u>2,201,871</u>	<u>2,026,470</u>

for the year ended 31st December, 2003

18. INTEREST IN ASSOCIATES (CONT'D)

Notes:

	The Group	
	2003 HK\$'000	2002 HK\$'000
(i) Listed securities in Hong Kong		
Share of net assets other than goodwill	2,058,401	1,801,236
Unamortised goodwill on acquisition of associates (iii)	112,405	143,639
Unamortised negative goodwill on acquisition of associates (iv)	(200,369)	(118,073)
	<u>1,970,437</u>	<u>1,826,802</u>
Market value of listed securities	<u>950,062</u>	<u>585,287</u>
	The Group	
	2003 HK\$'000	2002 HK\$'000
(ii) Unlisted shares		
Share of net assets other than goodwill	111,445	142,223
Unamortised goodwill on acquisition of associates (v)	5,940	–
Unamortised negative goodwill on acquisition of associates (vi)	(1,375)	(1,963)
	<u>116,010</u>	<u>140,260</u>
Less: impairment loss recognised	(21,892)	–
	<u>94,118</u>	<u>140,260</u>
Amounts due from associates	<u>137,316</u>	<u>59,408</u>
	<u>231,434</u>	<u>199,668</u>
The amounts due from associates are not repayable within twelve months.		
(iii) Unamortised goodwill on acquisition of listed associates		The Group HK\$'000
Cost		
At 1st January, 2003		228,559
– As previously stated		3,745
– Adjustment on adoption of SSAP 12 (Revised)		<u>232,304</u>
– As restated and at 31st December, 2003		<u>232,304</u>
Amortisation		
At 1st January, 2003		85,716
– As previously stated		2,949
– Adjustment on adoption of SSAP 12 (Revised)		<u>88,665</u>
– As restated		<u>88,665</u>
Provided for the year		<u>31,234</u>
At 31st December, 2003		<u>119,899</u>
Net book values		
At 31st December, 2003		<u>112,405</u>
At 31st December, 2002		<u>143,639</u>

for the year ended 31st December, 2003

18. INTEREST IN ASSOCIATES (CONT'D)

Notes (Cont'd):

(iv) Unamortised negative goodwill on acquisition of listed associates	The Group
	HK\$'000
<hr/>	
Gross amount	
At 1st January, 2003	
– As previously stated	(245,372)
– Adjustment on adoption of SSAP 12 (Revised)	28,696
	<hr/>
– As restated	(216,676)
Acquisition of associates	(122,514)
	<hr/>
At 31st December, 2003	(339,190)
	<hr/>
Released to the income statement	
At 1st January, 2003	
– As previously stated	(107,813)
– Adjustment on adoption of SSAP 12 (Revised)	9,210
	<hr/>
– As restated	(98,603)
Released during the year	(40,218)
	<hr/>
At 31st December, 2003	(138,821)
	<hr/>
Net book values	
At 31st December, 2003	(200,369)
	<hr/>
At 31st December, 2002	(118,073)
	<hr/>
(v) Unamortised goodwill on acquisition of unlisted associates	The Group
	HK\$'000
<hr/>	
Cost	
At 1st January, 2003	7,805
Acquisition of associates	6,364
	<hr/>
At 31st December, 2003	14,169
	<hr/>
Amortisation	
At 1st January, 2003	7,805
Provided for the year	424
	<hr/>
At 31st December, 2003	8,229
	<hr/>
Net book values	
At 31st December, 2003	5,940
	<hr/>
At 31st December, 2002	–
	<hr/>

for the year ended 31st December, 2003

18. INTEREST IN ASSOCIATES (CONT'D)

Notes (Cont'd):

- (vi) Unamortised negative goodwill on acquisition of unlisted associates

	The Group HK\$'000
Gross amount	
At 1st January, 2003 and 31st December, 2003	<u>(2,981)</u>
Released to income statement	
At 1st January, 2003	(1,018)
Released during the year	<u>(588)</u>
At 31st December, 2003	<u>(1,606)</u>
Net book values	
At 31st December, 2003	<u>(1,375)</u>
At 31st December, 2002	<u>(1,963)</u>

Particulars of the Company's principal associates at 31st December, 2003 are set out in note 44.

for the year ended 31st December, 2003

18. INTEREST IN ASSOCIATES (CONT'D)

Extracts from the consolidated operating results, financial position and contingent liabilities of the Group's significant associate, Tian An China Investments Company Limited ("Tian An"), which are based on its audited consolidated financial statements, are as follows:

Operating results of Tian An for the years ended 31st December, 2003 and 2002:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	1,904,212	1,080,332
Depreciation, amortisation and impairment	19,992	16,854
Profit before taxation	266,353	200,532
Profit attributable to shareholders of Tian An	<u>102,420</u>	<u>87,046</u>

Financial position of Tian An at 31st December, 2003 and 2002:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Non-current assets	5,239,776	4,176,528
Current assets	<u>3,366,063</u>	<u>3,671,335</u>
Total assets	<u>8,605,839</u>	<u>7,847,863</u>
Non-current liabilities	1,476,081	948,510
Current liabilities	<u>2,749,075</u>	<u>2,690,446</u>
Total liabilities	<u>4,225,156</u>	<u>3,638,956</u>
Minority interests	<u>433,139</u>	<u>341,440</u>
	<u>3,947,544</u>	<u>3,867,467</u>
Contingent liabilities	<u>837,876</u>	<u>603,205</u>

for the year ended 31st December, 2003

19. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares		
Share of net assets other than goodwill	1,105,001	1,135,830
Share of goodwill of a jointly controlled entity (note)	–	8,141
	<u>1,105,001</u>	<u>1,143,971</u>
Elimination of unrealised profit	(17,622)	(17,622)
	<u>1,087,379</u>	<u>1,126,349</u>
Amount due from a jointly controlled entity	–	90,000
	<u>1,087,379</u>	<u>1,216,349</u>

Note:

Share of goodwill of a jointly controlled entity

	The Group HK\$'000
Cost	
At 1st January, 2003	13,569
Disposal of a jointly controlled entity	(13,569)
At 31st December, 2003	–
Amortisation	
At 1st January, 2003	5,428
Eliminated on disposal	(5,428)
At 31st December, 2003	–
Net book values	
At 31st December, 2003	–
At 31st December, 2002	8,141

Particulars of the Company's principal jointly controlled entities at 31st December, 2003 are set out in note 45.

for the year ended 31st December, 2003

19. INTEREST IN JOINTLY CONTROLLED ENTITIES (CONT'D)

Extracts from the consolidated operating results, financial position and contingent liabilities of the Group's significant jointly controlled entity, Allied Kajima Limited ("Allied Kajima"), which are based on Allied Kajima's audited consolidated financial statements are as follows:

Operating results of Allied Kajima for the years ended 31st December, 2003 and 2002:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	274,256	292,348
Depreciation	5,799	9,365
Profit before taxation	83,880	69,394
Profit attributable to shareholders of Allied Kajima	<u>63,929</u>	<u>62,581</u>

Financial position of Allied Kajima at 31st December, 2003 and 2002:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Non-current assets	2,522,214	2,599,629
Current assets	<u>451,755</u>	<u>467,842</u>
Total assets	<u>2,973,969</u>	<u>3,067,471</u>
Non-current liabilities	679,745	683,608
Current liabilities	<u>86,094</u>	<u>103,891</u>
Total liabilities	<u>765,839</u>	<u>787,499</u>
	<u>2,208,130</u>	<u>2,279,972</u>
Contingent liabilities	<u>—</u>	<u>—</u>

for the year ended 31st December, 2003

20. INVESTMENTS

	Investments in Securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group								
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	346,734	204,041	23,189	5,104	-	-	369,923	209,145
Outside Hong Kong	2,903	1,461	4,243	1,799	-	-	7,146	3,260
issued by banks								
Hong Kong	-	-	-	1,390	-	-	-	1,390
issued by public utility entities								
Hong Kong	-	-	-	23	-	-	-	23
	349,637	205,502	27,432	8,316	-	-	377,069	213,818
Unlisted equity securities issued by corporate entities								
Hong Kong	159,417	171,388	-	335	-	-	159,417	171,723
Outside Hong Kong (note)	67,984	67,513	-	-	-	-	67,984	67,513
	227,401	238,901	-	335	-	-	227,401	239,236
Unlisted marketable debt securities issued by overseas government								
issued by banks	-	-	7,747	7,772	-	-	7,747	7,772
	-	-	-	5,424	-	-	-	5,424
	-	-	7,747	13,196	-	-	7,747	13,196
Other unlisted securities	-	-	384	-	-	-	384	-
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing companies	-	-	-	-	28,001	22,769	28,001	22,769
Amounts due from investee companies less impairment losses recognised (note)	-	-	-	-	97,314	102,926	97,314	102,926
	577,038	444,403	35,563	21,847	125,315	125,695	737,916	591,945
Carrying amount analysed for reporting purposes as:								
Non-current	577,038	444,403	-	-	125,315	125,695	702,353	570,098
Current	-	-	35,563	21,847	-	-	35,563	21,847
	577,038	444,403	35,563	21,847	125,315	125,695	737,916	591,945
The Company								
Club debentures	-	-	-	-	510	510	510	510
Carrying amount analysed for reporting purposes as:								
Non-current	-	-	-	-	510	510	510	510

for the year ended 31st December, 2003

20. INVESTMENTS (CONT'D)

Note: A sum totalling HK\$115,437,000 is included in "Unlisted non-trading securities" and "Amounts due from investee companies" being the amount, (excluding interest, which has been expensed or provided for in prior years, or is accounted for as described in note 7) which represents the carrying value of the effective 12.5% interest in the completed project in Kuala Lumpur, Malaysia presently known as "The Renaissance Kuala Lumpur Hotel", the circumstances surrounding which are further described in note 7. Sun Hung Kai is not in possession of any information that would in the opinion of the management render it appropriate to make any present provision against the carrying value. The matter will continue to be reviewed in the light of both probable ongoing litigation and the commercial prospects of the project.

21. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years.

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	General provision HK\$'000	Unrealised profit HK\$'000	Undistributed earnings HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2002							
- As previously stated	4,605	9,788	66	-	-	(1,182)	13,277
- Adjustment on adoption of SSAP 12 (Revised)	23,615	7,331	(66)	1,252	3,283	(34,132)	1,283
- As restated	28,220	17,119	-	1,252	3,283	(35,314)	14,560
Exchange adjustments	-	-	-	(37)	-	-	(37)
Charged (credited) to income statement	8,360	(108)	-	503	1,091	(345)	9,501
Credited to equity	-	(2,269)	-	-	-	-	(2,269)
Transferred from tax reserve certificate	-	(1,883)	-	-	-	-	(1,883)
At 31st December, 2002	36,580	12,859	-	1,718	4,374	(35,659)	19,872
Exchange adjustments	-	-	-	(75)	-	-	(75)
Acquisition of subsidiaries	-	-	-	-	-	136	136
Charged (credited) to income statement	10,577	(255)	(5,431)	(249)	(2,669)	(11,119)	(9,146)
Effect of change in tax rate charged (credited) to income statement	3,430	678	-	(1)	3	(3,344)	766
At 31st December, 2003	50,587	13,282	(5,431)	1,393	1,708	(49,986)	11,553

for the year ended 31st December, 2003

21. DEFERRED TAXATION (CONT'D)

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities	21,406	24,624
Deferred tax assets	(9,853)	(4,752)
	11,553	19,872

At 31st December, 2003, the Group had unrecognised deductible temporary difference of HK\$5,809,000 (2002: HK\$31,338,000) and unused tax losses of HK\$2,010,043,000 (2002: HK\$1,998,799,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$285,616,000 (2002: HK\$222,865,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,724,427,000 (2002: HK\$1,775,934,000) due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

Included in unrecognised tax losses are losses of HK\$3,155,000, HK\$16,720,000 and HK\$3,598,000 that will expire in 2004, 2005 and 2006 respectively. Other losses may be carried forward indefinitely.

At 31st December, 2003, the Company had unused tax losses of HK\$29,195,000 (2002: HK\$19,549,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

22. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Properties held for sales, at net realisable value:		
Long-term properties in Hong Kong	442,500	709,825
Medium-term properties in Hong Kong	5,281	31,816
	447,781	741,641
Other inventories, at cost	109	117
	447,890	741,758

Certain of the Group's properties previously held for sale with a net realisable value of HK\$252,102,000 (2002: HK\$50,130,000) were rented out under operating leases during the year and were therefore classified as investment properties.

The cost of properties held for sale recognised as an expense during the year was HK\$19,212,000 (2002: HK\$118,386,000).

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23. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The average credit terms of other trade receivables range from 30 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,764,499,000 (2002: HK\$1,883,640,000), the aged analysis of which is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	2,718,315	1,748,929
31 to 180 days	12,755	11,335
181 to 365 days	3,427	12,573
Over 365 days	432,513	509,550
	3,167,010	2,282,387
Allowance for doubtful debts	(402,511)	(398,747)
	2,764,499	1,883,640

The above balance of HK\$3,167,010,000 (2002: HK\$2,282,387,000) includes term loans totalling HK\$535,358,000 (2002: HK\$687,547,000), the maturity profile of which is shown in note 42.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 31st December, 2003 was HK\$5,118,827,000 (2002: HK\$3,531,596,000).

On 24th November, 1999, Sun Hung Kai, a subsidiary of the Company since May 2001, entered into an agreement for the sale of 770,000,000 shares in Tian An to Millennium Touch Limited ("MT"). These 770,000,000 Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.82% of the issued share capital of Tian An at 31st December, 2003 (2002: 9.07%). MT paid 5% of the purchase price and entered into a loan agreement with Sun Hung Kai group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with Sun Hung Kai group. The share mortgage provided that if there was default under the loan agreement, then Sun Hung Kai group may enforce its security by, inter alia, selling the 770,000,000 Tian An shares to discharge the indebtedness owed by MT to Sun Hung Kai group or foreclosing on the shares. However, Sun Hung Kai did not exercise, and forwent any entitlement to exercise, any voting rights on those 770,000,000 Tian An shares.

MT was in default under the loan agreement since 24th November, 2000. There was an unrealised loss of HK\$134,124,000 to Sun Hung Kai group up to 31st December, 2000 by marking to market those 770,000,000 Tian An shares at a closing market price of HK\$0.134 on 31st December, 2000. A further unrealised loss of HK\$10,110,000 was accounted for in 2002.

for the year ended 31st December, 2003

23. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS (CONT'D)

In August 2003, 650,000,000 Tian An shares were tendered for the share repurchase offer by Tian An and were accepted in full. Sun Hung Kai group was entitled to receive the consideration of the share repurchase of HK\$97,402,500 (as to HK\$19,402,500 in cash and HK\$78,000,000 in the form of 5 year loan notes at an interest rate of 2.5% per annum issued by Tian An) on 2nd September, 2003. The remaining 120,000,000 Tian An shares were sold to Sun Hung Kai on 9th December, 2003 at a consideration of HK\$22,080,000. All consideration received was used to reduce the loan due from MT.

As a result of the above repurchase and the sale of Tian An shares to Sun Hung Kai, unrealised loss adjustment of HK\$26,412,000 was written back to the income statement. The net amount due from MT after providing for unrealised losses at 31st December, 2003 was nil (2002: HK\$93,070,000). The amount in 2002 had been included as a term loan under the Group's balance of accounts receivable, deposits and prepayments.

The granting of credit in respect of trade receivables of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective credit committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

24. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$1,298,768,000 (2002: HK\$580,214,000), the aged analysis of which is stated as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
0 to 30 days	1,212,112	480,174
31 to 180 days	12,041	11,917
181 to 365 days	1,733	47,464
Over 365 days	72,882	40,659
	1,298,768	580,214

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25. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.20 each at 1st January, 2002 and 31st December, 2002	30,000,000,000	6,000,000
Consolidation of shares	(27,000,000,000)	–
Ordinary shares of HK\$2.0 each at 31st December, 2003	<u>3,000,000,000</u>	<u>6,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.20 each at 1st January, 2002	4,350,809,620	870,162
Exercise of warrant subscription rights	<u>542,916,539</u>	<u>108,583</u>
Ordinary shares of HK\$0.20 each at 31st December, 2002	4,893,726,159	978,745
Consolidation of shares	(4,404,353,544)	–
Exercise of warrant subscription rights	<u>11,602</u>	<u>23</u>
Ordinary shares of HK\$2.00 each at 31st December, 2003	<u>489,384,217</u>	<u>978,768</u>

Consolidation of shares

On 24th November, 2003, an ordinary resolution was passed at an Extraordinary General Meeting of the Company pursuant to which every ten shares of HK\$0.20 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$2.00 each with effect from 25th November, 2003.

Exercise of warrants

Details of the exercise of warrants are set out in note 26.

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26. WARRANTS

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 24th November, 2003, a bonus issue of warrants in the proportion of one warrant for every ten shares of HK\$2.00 each held was approved. A total number of 48,937,261 units of warrants were issued on 3rd December, 2003. Warrant holders were entitled to subscribe in cash for one fully paid share at an initial subscription price of HK\$2.50 per share, subject to adjustment, at any time during the period from 5th December, 2003 to 6th December, 2004 (both days inclusive). During the year ended 31st December, 2003, 11,602 warrants were converted into 11,602 ordinary shares at a subscription price of HK\$2.50 per share. Accordingly 48,925,659 warrants were outstanding at 31st December, 2003. Exercise in full of the outstanding warrants would result in the issue of 48,925,659 additional shares with an aggregate subscription value of HK\$122,314,148.

The net proceeds from the bonus issue of warrants was used to finance the general working capital of the Group.

27. SHARE OPTION SCHEME

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed by the Company's shareholders on 30th June, 1993 for the primary purpose of providing incentives to any directors or full time employees of the Company or any of its subsidiaries ("Eligible Employees") and expired on 29th June, 2003. Under the Scheme, the Board of Directors of the Company was authorised to grant options at a consideration of HK\$1.00 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which might be issuable under the Scheme could not exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted or might be granted to any Eligible Employees were not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

An option might be exercised at any time during a period not exceeding five years commencing one month after the date the option was accepted and expired on the last day of such period or ten years from 30th June, 1993, whichever was the earlier. The exercise price was determined by the Directors of the Company, and would not be less than the higher of: (i) 80% of the average closing prices of the Company's shares on the five trading days immediately preceding the offer of the options; and (ii) the nominal value per share of the Company.

No options were granted under the Scheme during the current year before the Scheme expired on 29th June, 2003 and there were no options outstanding at 31st December, 2003 and 2002.

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28. RESERVES

	2003 HK\$'000	2002 HK\$'000
The Group		
Share premium	492,784	492,778
Property revaluation reserve	245,739	241,113
Investment revaluation reserve	69,379	(35,943)
Special capital reserve (note 28 (a))	2,320,430	2,320,430
Capital redemption reserve	72,044	72,044
Translation reserve	(205,761)	(194,580)
Capital (goodwill) reserve (note 28 (b))	(24,027)	(7,082)
Accumulated profits (note 28 (c))	939,958	629,580
	<u>3,910,546</u>	<u>3,518,340</u>

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company					
At 1st January, 2002	454,812	2,320,430	72,044	(590,819)	2,256,467
Premium on issue of shares	38,004	-	-	-	38,004
Share issue expenses	(38)	-	-	-	(38)
Loss attributable to shareholders	-	-	-	(902,198)	(902,198)
At 31st December, 2002	492,778	2,320,430	72,044	(1,493,017)	1,392,235
Premium on issue of shares	6	-	-	-	6
Profit attributable to shareholders	-	-	-	7,613	7,613
At 31st December, 2003	<u>492,784</u>	<u>2,320,430</u>	<u>72,044</u>	<u>(1,485,404)</u>	<u>1,399,854</u>

The Company did not have any reserve available for distribution to shareholders at 31st December, 2003 and 2002.

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28. RESERVES (CONT'D)

Notes:

- (a) When sanctioning a reduction in nominal value of the Company's shares in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributable until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. At 31st December, 2003, liabilities of the Company included HK\$629,000 (2002: HK\$3,516,000) in respect of liabilities in existence at 14th July, 1998. Accordingly, the special capital reserve was not distributable at 31st December, 2003.

(b)

	Goodwill HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Total HK\$'000
The Group				
At 1st January, 2002				
– As previously stated	(91,005)	101,578	2,228	12,801
– Adjustment on adoption of SSAP 12 (Revised)	(6,043)	(12,580)	–	(18,623)
– As restated	(97,048)	88,998	2,228	(5,822)
Released on disposal of associates	17,160	–	–	17,160
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred to accumulated profits	–	–	(1,153)	(1,153)
At 31st December, 2002	(79,888)	71,731	1,075	(7,082)
Released on disposal of associates	–	–	(320)	(320)
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred from accumulated profits	–	–	642	642
At 31st December, 2003	(79,888)	54,464	1,397	(24,027)

Statutory reserves represent reserves required under relevant rules and regulations of Mainland China.

- (c) The accumulated profits of the Group include HK\$124,446,000 (2002: HK\$108,957,000) retained by associates and HK\$1,167,879,000 (2002: HK\$1,162,392,000) retained by jointly controlled entities of the Group.

29. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured. An amount of HK\$300,135,000 (2002: HK\$316,085,000) bears interest at 2.5% per annum and the remaining balances are non-interest bearing. The amounts due to subsidiaries are not repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

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30. BANK BORROWINGS

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank borrowings comprise:				
Bank loans	1,851,470	1,771,202	–	–
Bank overdrafts	149,873	2,855	22,484	–
	2,001,343	1,774,057	22,484	–
Analysed as:				
Secured	1,929,562	1,774,034	–	–
Unsecured	71,781	23	22,484	–
	2,001,343	1,774,057	22,484	–
Bank loans and overdrafts are repayable as follows:				
Within one year or on demand	1,059,908	812,018	22,484	–
More than one year but not exceeding two years	70,760	259,669	–	–
More than two years but not exceeding five years	759,110	555,060	–	–
More than five years	111,565	147,310	–	–
	2,001,343	1,774,057	22,484	–
Less: Amount repayable within one year and shown under current liabilities	(1,059,908)	(812,018)	(22,484)	–
Amount due after one year	941,435	962,039	–	–

Details of the assets of the Group pledged to secure bank borrowings are set out in note 40.

31. LOAN NOTES

The amount represents the loan notes issued in part consideration of the repurchase of shares by a listed subsidiary. The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

	The Group	
	2003 HK\$'000	2002 HK\$'000
Loan notes issued	255,234	–
Repurchased and cancelled	(23,597)	–
	231,637	–

Notes to the Financial Statements (Cont'd)

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32. OTHER LIABILITIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Obligations under a finance lease (note)	966	1,816
Other employee benefits	5,215	6,353
	6,181	8,169
Less: Amount repayable within one year shown under current liabilities	(1,273)	(1,070)
Amount due after one year	4,908	7,099

Note:

At 31st December, 2003, the obligations under a finance lease were repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
Within one year	916	915	890	850
More than one year but not exceeding two years	76	916	76	890
More than two years but not exceeding five years	–	76	–	76
	992	1,907	966	1,816
Less: Future finance charge	(26)	(91)		
Present value of obligations under a finance lease	966	1,816		
Less: Amount repayable within one year shown under current liabilities			(890)	(850)
Amount due after one year			76	966

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33. ACQUISITION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	33,000	22,000
Investments	5,091	–
Accounts receivable, deposits and prepayments	127,368	34
Bank deposits, bank balances and cash	30,266	197
Accounts payable and accrued charges	(90,242)	(231)
Taxation	(27)	–
Bank overdrafts	(43,018)	–
Deferred tax liabilities	(136)	–
	<u>62,302</u>	<u>22,000</u>
Negative goodwill on acquisition	(8,730)	–
	<u>53,572</u>	<u>22,000</u>
Total consideration	<u>53,572</u>	<u>22,000</u>
Satisfied by:		
Cash	36,827	22,000
Accounts payable	16,745	–
	<u>53,572</u>	<u>22,000</u>
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:		
Cash consideration paid	(36,827)	(22,000)
Bank deposits, bank balances and cash acquired	30,266	197
Bank overdrafts acquired	(43,018)	–
	<u>(49,579)</u>	<u>(21,803)</u>

The subsidiaries acquired contributed HK\$29,140,000 (2002: HK\$14,000) to the Group's turnover, and loss of HK\$20,217,000 (2002: HK\$2,244,000) to the Group's profit before taxation.

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34. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Accounts receivable and prepayments	21	12
Bank balances	1,093	537
Accounts payable and accrued charges	(157)	(33)
Taxation	–	(3)
	<u>957</u>	<u>513</u>
Translation reserve released upon disposal	2,572	(1,311)
(Loss) profit on disposal of subsidiaries	<u>(2,597)</u>	<u>1,301</u>
Proceeds on disposal	<u>932</u>	<u>503</u>
Satisfied by:		
Cash	932	25
Other receivables	–	478
	<u>932</u>	<u>503</u>
Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	932	25
Bank balances disposed of	<u>(1,093)</u>	<u>(537)</u>
	<u>(161)</u>	<u>(512)</u>

The subsidiaries disposed of during both years did not have any significant impact on the Group's turnover and profit (loss) before taxation.

35. MAJOR NON-CASH TRANSACTION

Pursuant to a circular dated 16th January, 2003 issued by a listed subsidiary, an unconditional offer was made by such listed subsidiary for the repurchase up to 325,600,000 shares at HK\$1.30 per share, as to HK\$0.30 in cash and HK\$1.00 in the form of loan note. As announced by the listed subsidiary on 27th February, 2003, 255,234,309 shares had been repurchased by the listed subsidiary and accordingly, loan notes to the value of HK\$255,234,309 were subsequently issued.

The principal terms of the loan notes issued by the listed subsidiary is shown in note 31.

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36. CONTINGENT LIABILITIES

(a) At 31st December, 2003, the Group had guarantees as follows:

	2003 HK\$'000	2002 HK\$'000
Guarantees for banking and loan facilities granted to a subsidiary of a jointly controlled entity	–	100,000
Guarantees for banking and loan facilities granted to an investee company	6,989	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540
Indemnities on letter of credit issued by a bank for a loan to a client	67,556	–
Other guarantees	913	1,734
	79,998	113,294

- (b) On 9th September, 2002, Sun Hung Kai Investment Services Limited (“SHKIS”), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen PRC registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth HK\$40,567,000 at 31st December, 2003) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with. The plaintiffs have taken very few actions to progress their writ.
- (c) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”), also an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS were served with a writ attaching a statement of claim by Shanghai Finance Holdings Limited, claiming, inter alia, an Order that the sale of the shares in Shun Loong Holdings Limited (“Shun Loong Shares”) by STCC as assignee to SHKIS (at a consideration of HK\$36,500,000 subject to additional amounts in a sum of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, as against STCC, damages and an account as to the money obtained by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and firmly believe there is no basis to the claim. Legal costs will be recorded in the income statement as incurred.

At 31st December, 2003, the Company had guarantees of HK\$1,656,218,000 (2002: HK\$1,728,733,000) given to banks in respect of credit facilities utilised by its subsidiaries.

Notes to the Financial Statements (Cont'd)

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37. CAPITAL COMMITMENTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	13,350	26,700
Others	2,520	4,339
	15,870	31,039
Capital expenditure authorised but not contracted for:		
Others	16,205	47,175

The Company did not have any significant capital commitments at 31st December, 2003 and 2002.

38. OPERATING LEASE ARRANGEMENTS**The Group as Lessee**

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments under operating leases recognised in the income statement for the year:		
Land and buildings	22,845	21,861
Others	2,429	640
	25,274	22,501

At 31st December, 2003, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group			
	2003		2002	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	25,258	927	23,512	77
In the second to fifth year inclusive	7,657	38	26,875	-
	32,915	965	50,387	77

Operating leases are negotiated for terms ranging from one to five years.

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38. OPERATING LEASE ARRANGEMENTS (CONT'D)

The Group as Lessor

Property rental income earned during the year was HK\$66,080,000 (2002: HK\$59,037,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next two years.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	42,398	39,729
In the second to fifth year inclusive	9,154	14,881
	<u>51,552</u>	<u>54,610</u>

The Company did not have any significant lease commitments as lessee or lessor under non-cancellable operating leases at 31st December, 2003 and 2002.

39. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2003 and 2002, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The schemes have now been closed to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

From 1st December, 2000 onwards, the new staff in Hong Kong joining the Group are required to join the Mandatory Provident Fund Scheme ("MPF Scheme"). The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the MPF Scheme.

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40. PLEDGE OF ASSETS

At 31st December, 2003, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,856,218,000 (2002: HK\$2,852,371,000), certain securities in respect of a listed subsidiary with a cost of HK\$1,740,628,000 (2002: HK\$1,607,866,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$792,489,000 (2002: HK\$761,412,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,627,516,000 (2002: HK\$3,876,202,000) granted to the Group. Facilities amounting to HK\$1,929,562,000 (2002: HK\$1,774,034,000) were utilised at 31st December, 2003.

At 31st December, 2003, a bank deposit of HK\$1,487,000 (2002: HK\$1,000,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (2002: HK\$1,000,000).

At 31st December, 2003 and 2002, the Company had not pledged any assets.

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41. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of income and expense items

	(Income)/Expenses	
	2003	2002
	HK\$'000	HK\$'000
Corporate management services, calculated at 0.5% of the Group's net assets to the ultimate holding company	23,246	24,992
Advertising income from the ultimate holding company	(800)	(1,600)
Rent, property management and air-conditioning fees from the ultimate holding company	(3,412)	(3,568)
Advertising income from a fellow subsidiary	(400)	(800)
Dividend income from a fellow subsidiary	(22,880)	(16,570)
Service fees paid to a fellow subsidiary	5,000	6,200
Administration, management and consultancy fees from a jointly controlled entity	(2,360)	(5,860)
Dividend income from a jointly controlled entity	(30,000)	(60,000)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(15,071)	(14,639)
Dividend income from associates	(18,912)	(7,504)
Interest income from an associate	(16,786)	(15,867)
Insurance premium from an associate	(2,917)	(1,149)
Rent, property management, air-conditioning fees and other related service fees from an associate	(1,345)	(2,050)

- (b) During the year, the Group disposed of its 50% interest in a jointly controlled entity to a non-wholly owned subsidiary of the ultimate holding company for an aggregate consideration of HK\$87,500,000. A loss of HK\$5,549,000 arose on disposal of the jointly controlled entity.
- (c) A promissory note of HK\$21,900,000 issued by a listed associate with accrued interest of HK\$438,900 was repaid during the year.
- (d) A promissory note of HK\$40,419,000 was issued by a listed associate for the purpose of repaying the outstanding principal and interest under a 4% convertible loan note dated 2nd June, 1998 due on 2nd June, 2002. The promissory note bore interest at 7% per annum and matured on 2nd June, 2003. The principal of the promissory note and the outstanding interest were repaid by the listed associate on 28th January, 2004.
- (e) On 28th January, 2004, a new promissory note of HK\$87,000,000 due on 30th December, 2004 was issued by a listed associate bearing interest at 5% per annum. The new promissory note was made for repayment in part of a promissory note of HK\$145,000,000 and its outstanding interest due on 30th December, 2003. The remaining outstanding balance was repaid by cash.

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41. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

- (f) On 2nd September, 2003, 5 year 2½% loan notes of HK\$78,000,000 were issued by a listed associate as part of the consideration for the repurchase of shares by the listed associate as detailed in note 23.

Apart from a tenancy agreement between the ultimate holding company and a subsidiary of the Company, none of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The net balances due from (to) related parties at 31st December, 2003 and 2002 are summarised as follows:

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	(29,865)	(8,462)	(29,813)	(8,210)
A fellow subsidiary	11,000	800	–	–
Associates	373,107	322,293	2,418	2,404
Jointly controlled entities	(169,602)	(86,359)	–	–
	<u>184,640</u>	<u>228,272</u>	<u>(27,395)</u>	<u>(5,806)</u>

The above amounts are included in the balance sheet of the Group and the Company in the following ways:

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest in associates	137,316	59,408	–	–
Interest in jointly controlled entities	–	90,000	–	–
Accounts receivable, deposits and prepayments	18,569	7,335	2,418	2,404
Amounts due from associates	266,303	294,787	–	–
Amount due from a jointly controlled entity	2,056	1,564	–	–
Accounts payable and accrued charges	(52)	(1,027)	–	–
Amount due to Allied Group Limited	(29,813)	(8,210)	(29,813)	(8,210)
Amounts due to associates	(38,081)	(37,544)	–	–
Amount due to a jointly controlled entity	(171,658)	(178,041)	–	–
	<u>184,640</u>	<u>228,272</u>	<u>(27,395)</u>	<u>(5,806)</u>

The above transactions have been entered into on terms agreed by the parties concerned.

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42. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 31st December, 2003					
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Fixed deposits						
with banks	-	251,080	-	-	-	251,080
Promissory notes						
of a listed						
associate	202,144	-	40,419	-	-	242,563
Loan notes of a						
listed associate	-	-	-	78,000	-	78,000
Term loans	175,405	278,486	81,467	-	-	535,358
Marketable debt						
securities	-	7,747	-	-	-	7,747
Liabilities						
Bank loans and						
overdrafts	-	575,503	484,405	829,870	111,565	2,001,343
Loan notes	-	-	-	231,637	-	231,637
Obligations under						
a finance lease	-	219	671	76	-	966
At 31st December, 2002						
	On	Within	3 months	1 year to	After	Total
	demand	3 months	to 1 year	5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Fixed deposits						
with banks	-	157,060	-	-	-	157,060
Promissory notes						
of a listed						
associate	-	-	264,463	-	-	264,463
Term loans	248,241	127,339	309,500	2,467	-	687,547
Marketable debt						
securities	-	13,196	-	-	-	13,196
Liabilities						
Bank loans and						
overdrafts	-	473,189	338,829	814,729	147,310	1,774,057
Obligations under						
a finance lease	-	209	641	966	-	1,816

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2003 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
Alaston Development Limited	US\$1	100	100	Property trading
Allied Real Estate Agency Limited	2	100	100	Real estate agency
AP Administration Limited	2	100	100	Provision of management and consultancy services
AP Corporate Services Limited	2	100	100	Provision of corporate services
AP Development Limited	2	100*	100	Investment holding
AP Diamond Limited	US\$1	100	100	Property trading and holding
AP Emerald Limited	US\$1	100	100	Investment holding
AP Finance Limited	2	100	100	Money lending
AP Property Management Limited	2	100	100	Building management
Bali International Finance Limited	137,500,000	100	75	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	75	Securities dealer
Best Melody Development Limited	5,000	100	100	Property holding
Cheeroll Limited	2	100	75	Share trading
China Direction Investments Limited	4,500,000	67	50	Share trading and investment holding
Cowslip Company Limited	2	100	75	Investment holding
Fame Arrow Company Limited	100,000	95	95	Loan financing
Florich Development Limited	10,000	100	100	Investment holding
Front Sail Limited	5,000	100	100	Property holding
Gloria (Nominees) Limited	200	100	75	Investment holding
Gloxin Limited	2	100	75	Investment holding
Grand Securities Company Limited	20,000,000	100	75	Securities broking
Hilarious (Nominees) Limited	10,000	100	75	Investment holding
Hillcrest Development Limited	20	100	100	Property holding
Hi-Link Limited	200	100	100	Investment holding
Integrated Custodian Limited	2	100	100	Property holding
Itso Limited	2	100	75	Share trading
Jaffe Development Limited	US\$1	100	100	Property holding
Kalix Investment Limited	2	100	100	Property holding
King Policy Development Limited	2	100	100	Property holding



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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
Lexshan Nominees Limited	2	100	75	Nominee service
Macdonnell (Nominees) Limited	10,000	100	75	Investment holding
Maxplan Investment Limited	2	100	100	Securities trading
Mightyton Limited	10,000	100	100	Property holding
Oakfame Investment Limited	2	100	75	Investment holding
Ontone Limited	2	100	100	Hotel operations, property development and property holding
Pioneer Score Development Limited	2	100	75	Investment holding
Plentiwind Limited	2	100	75	Futures trading
Polyking Services Limited	2	100	65	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	65	Building management
Quick Art Limited	3,540,000	100	75	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	75	Money lending
San Pack Properties Limited	10	100	100	Property holding
Scienter Investments Limited	20	100	75	Share trading
SHK Financial Data Limited	100	51	38	Provision of financial information service
SHK Fund Management Limited	5,000,000	100	75	Fund management and securities business development
SHK Online (Securities) Limited	30,000,000	100	75	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	75	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	75	Investing holding
Shun Loong Bullion Limited	6,000,000	100	75	Bullion dealing
Shun Loong Capital Limited	6,500,000	100	75	Investment holding
Shun Loong Finance Limited	1,000,000	100	75	Money lending

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
Shun Loong Forex Company Limited	32,000,000	100	75	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	75	Futures and option broking
Shun Loong Holdings Limited	200,000,000	100	75	Investment holding
Shun Loong Nominees Limited	100,000	100	75	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	75	Computer and marketing advisory services and securities trading
Shun Loong Securities Company Limited	50,000,000	100	75	Securities broking and share margin financing
Sierra Joy Limited	2	100	100	Property holding
Splendid Gain Limited	2	100	75	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	75	Bullion trading
Sun Hung Kai & Co. Limited**	249,140,631	75	75	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	75	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	75	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	75	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	75	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	75	Insurance broking
Sun Hung Kai International Limited	10,000,000	100	75	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	75	Commodities dealer

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
Sun Hung Kai Investment Services Limited	290,000,000	100	75	Share broking and margin financing
Sun Hung Kai Research Limited	100,000	100	75	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	75	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	75	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	75	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	75	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	75	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	75	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	75	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	75	Financial service
Texgulf Limited	20	100	75	Property holding
To Wan Development Company Limited	10,000	100	75	Investment holding
Tung Wo Investment Company, Limited	10,000	100	75	Investment holding
Wah Cheong Development Company, Limited	25,100,000	100	75	Investment holding
Wineur Secretaries Limited	2	100	75	Secretarial service
Yee Li Ko Investment Limited	3,000,000	100	75	Property holding

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Particulars of the Company's principal subsidiaries at 31st December, 2003 which were incorporated and have their principal place of operations outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by the Company*/ subsidiaries %	attributable to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100*	100	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	75	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	75	Investment holding
Constable Development S.A.	Panama	US\$5	100	75	Investment holding
Elecrent Consultants Limited	British Virgin Islands	US\$1	100	100	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	75	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	100	Investment holding
Lakewood Development Corporation	United States of America	US\$1,000	100	100	Property development and management
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	75	Money lending
Shipsape Investments Limited	British Virgin Islands	US\$1	100	75	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	75	Fund management
SL Meridian Holdings Limited	British Virgin Islands	HK\$1,000,000	100	75	Investment holding
Sun Hung Kai Capital Markets (Cayman) Limited	Cayman Islands	US\$1	100	75	Financial product origination
Sun Hung Kai Holdings, Inc.	The Philippines	Peso250,000,000 ordinary shares Peso50,000,000 preferred shares	100	75	Investment holding
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SGD10,000,000	100	75	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	75	Investment holding



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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by the Company*/ subsidiaries %	attributable to the Group %	
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	75	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	75	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	75	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso273,600,000	100	75	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	75	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	75	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	75	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	75	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	75	Investment holding
Zeal Goal International Limited	British Virgin Islands	US\$1	100	75	Investment holding

** This subsidiary is listed in Hong Kong and further details about this subsidiary are available in its published accounts.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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44. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2003 are set out below:

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital		Principal activity
		held by subsidiaries %	attributable to the Group %	
Chronicle Gain Limited	Hong Kong	45	34	Property holding
Drinkwater Investment Limited	Hong Kong	22	16	Property holding
Omicron International Limited	British Virgin Islands	44	33	Investment holding
Quality HealthCare Asia Limited**	Bermuda	28	21	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	30	Property development
Silver York Development Limited	Hong Kong	40	30	Property development
Start Hold Limited	Hong Kong	33	25	Investment holding
Tian An China Investments Company Limited**	Hong Kong	48	36	Investment holding
Yu Ming Investments Limited**	Hong Kong	22	16	Investment holding

** These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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45. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December, 2003 are set out below:

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by		Principal activity
		subsidiaries	attributable to the Group	
		%	%	
Allied Kajima Limited	Hong Kong	50	50	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	25	Corporate finance advisory

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.