

Notes on The Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

- (a) **Statement of compliance**
These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- (b) **Basis of preparation of financial statements**
The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.
- (c) **Basis of consolidation**
The consolidated financial statements include the financial statements of China Motor Bus Company, Limited and its subsidiaries made up to 30th June each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (d) **Subsidiaries and controlled enterprises**
A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.
An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.
Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.
In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.
- (e) **Jointly controlled entities**
A jointly controlled entity is an entity which operates under a contractual arrangement between the group or company and other parties, where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity.
An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the group's share of the post-acquisition results of the jointly controlled entities for the year.
Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in securities

The group's policies for investments in securities other than investments in subsidiaries and jointly controlled entities are as follows:

- (i) Other investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated profit and loss account as they arise.
- (ii) Profits or losses on disposal of other investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated profit and loss account as they arise.

(g) Fixed assets

(i) Investment properties

Freehold investment properties and those with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value assessed annually by persons holding recognised professional qualifications and every three years by qualified external valuers. Surpluses arising on revaluations on a portfolio basis are credited to the profit and loss account to the extent of any deficits arising on revaluations previously charged to the profit and loss account and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account.

On disposal of the investment properties, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve are transferred to the profit and loss account.

(ii) Property held for redevelopment

Property held for redevelopment is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any impairment losses (see note 1(j)).

(iii) Other properties and fixed assets

Other properties are stated at valuation less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

All other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).

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

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(h) Depreciation

Depreciation is calculated to write off the cost or valuation of the company's and the group's fixed assets over their estimated useful lives as follows:-

Other properties	-	over the period of the lease
Motor buses	-	on a straight line basis, over 12 years for new buses and 7 years for converted or second hand buses, to a residual value of \$10,000 and \$7,000 respectively
Plant, fixtures and equipment	-	on a straight line basis to write off the assets over 10 or 5 years

No depreciation is provided on property held for redevelopment. Leasehold land is depreciated over its estimated useful life to the extent that the charge would be material.

No depreciation is provided in respect of freehold investment properties or those with an unexpired lease term of over 20 years since the valuation takes into account the state of each property at the date of valuation.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (i) Leased assets
Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.
Assets held for use in operating leases
Where the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies, as set out in note 1(q)(i).
- (j) Impairment of assets
Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:
- fixed assets (other than properties carried at revalued amounts); and
 - investments in subsidiaries and jointly controlled entities (except for those accounted for at fair value under notes 1(d) and (e)).
- If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.
- (i) Calculation of recoverable amount
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- (ii) Reversals of impairment losses
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.
- (k) Cash equivalents
Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.
- (l) Employee benefits
- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated profit and loss account as incurred.
- (iii) The group's net obligations in respect of defined benefit retirement schemes are calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of the scheme's assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.
When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss account.
In calculating the group's obligations in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligations and the fair value of scheme assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.
Where the calculation of the group's net obligations results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
 - in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (n) **Deferred profits**
Profits from the sale of land and buildings to jointly controlled entities for development for resale and investment are deferred to the extent of the group's attributable interest in the jointly controlled entities. The deferred profits will be recognised and taken to profit and loss account as and when the properties are sold by the jointly controlled entities.
- (o) **Provisions and contingent liabilities**
Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.
Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.
- (p) **Contingency reserves**
The company sets aside annually, after receiving independent advice from an actuary, an amount to meet possible liabilities arising from third party claims in connection with the operation of franchised motor buses.
- (q) **Revenue recognition**
Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:
- (i) **Rental income**
Rental income receivable under operating leases is recognised on a straight line basis over the term of the lease.
 - (ii) **Interest income from bank deposits** is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.
 - (iii) **Dividend income from listed investments** is recognised at the time when the right to receive payment is established.
- (r) **Translation of foreign currencies**
Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date and the exchange gains and losses arising are dealt with in the profit and loss account. Exchange gains arising on consolidation are taken directly to reserves.

Notes on The Financial Statements (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties

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

(t) Segment reporting

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

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

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

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

2. TURNOVER

The principal activities of the company and the group are property development and investment. The principal activities of the subsidiaries are set out in note 14 on the financial statements.

Turnover represents rental income from investment properties.

The analysis of geographical location of the operations of the company and its subsidiaries during the year is as follows:

	Group turnover		Operating profit	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Geographical locations of operations				
Hong Kong	42,002	42,982	46,470	70,546
United Kingdom	51,842	45,005	54,195	44,071
	<u>93,844</u>	<u>87,987</u>	<u>100,665</u>	<u>114,617</u>

The turnover of the jointly controlled entities attributable to the group for the year amounted to \$166,545,000 (2003: \$102,657,000).

Notes on The Financial Statements (Continued)

3. FINANCE INCOME

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Interest income	14,545	31,057
Dividend income from other investments	370	214
Exchange gains	4,739	4,563
Net unrealised gains/(losses) on other investments	1,192	(104)
Gain on disposal of other investments	500	60
	<u>21,346</u>	<u>35,790</u>

4. OTHER INCOME

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Management fee	496	496
Write back of provision for third party claims	4,669	24,759
Sundry income	798	1,184
	<u>5,963</u>	<u>26,439</u>

5. OPERATING PROFIT

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Operating profit is arrived at		
after charging:-		
(a) Staff costs:		
Contributions to defined contribution retirement scheme	53	50
Decrease/(increase) in asset for defined benefit retirement schemes (note 17)	465	(2,105)
Salaries, wages and other benefits	7,542	8,069
	<u>8,060</u>	<u>6,014</u>
(b) Other items:		
Auditors' remuneration	1,998	1,948
Legal and professional fees	2,409	18,624
Property expenses	2,740	2,963
	<u>7,147</u>	<u>23,535</u>
and after crediting:-		
Rental income less outgoings	91,104	85,024
which includes		
– gross rental income from investment properties	93,844	87,987
	<u>93,844</u>	<u>87,987</u>

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:-

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Fees	260	274
Bonus in accordance with article 155	937	1,761
Salaries, allowances and other benefits	4,067	4,432
	<u>5,264</u>	<u>6,467</u>

Fees and other emoluments in respect of independent non-executive directors for the year ended 30th June, 2004 amounted to \$392,402 (2003: \$747,071).

Notes on The Financial Statements (Continued)

7. TAXATION

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year ended 30th June, 2004. Taxation for overseas subsidiaries is similarly calculated at the appropriate current rates of taxation ruling in the relevant countries.

(a) Taxation in the consolidated profit and loss account represents:-

	2004	2003
	\$000's	\$000's (restated)
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	3,658	186
Underprovision/(overprovision) in respect of prior years	515	(6)
	<u>4,173</u>	<u>180</u>
Current tax – Overseas		
Tax for the year	4,661	3,593
Underprovision in respect of prior years	320	177
	<u>4,981</u>	<u>3,770</u>
Deferred tax		
Origination and reversal of temporary differences	1,552	8,440
Effect of increase in tax rate on deferred tax balances at 1st July	–	(464)
	<u>1,552</u>	<u>7,976</u>
Share of jointly controlled entities' taxation	8,330	4,259
	<u>19,036</u>	<u>16,185</u>

(b) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2004	2003
	\$000's	\$000's (restated)
Profit before taxation	259,666	117,300
Notional tax on profit before taxation calculated at applicable tax rates	39,813	17,260
Tax effect of non-deductible expenses	3,110	12,479
Tax effect of non-taxable revenue	(23,407)	(11,389)
Underprovision in respect of prior years	835	171
Tax effect of tax losses not recognised	38	315
Tax losses utilised	(1,353)	(3,553)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	902
Actual total tax charge	<u>19,036</u>	<u>16,185</u>

Notes on The Financial Statements (Continued)

8. DIVIDENDS

(a) Dividends attributable to the year:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
First interim dividend declared and paid of \$0.10 per share (2003: \$0.10)	4,559	4,561
Special dividend declared and paid of \$0.40 per share (2003: \$0.40)	18,238	18,244
Second interim dividend declared after the balance sheet date of \$0.30 per share (2003: \$0.30)	13,678	13,678
Final dividend proposed after the balance sheet date of \$0.10 per share (2003: \$0.10)	4,559	4,559
Special dividend proposed after the balance sheet date of \$1.80 per share (2003: \$1.10)	82,071	50,154
	<u>123,105</u>	<u>91,196</u>

The interim dividend, final dividend and special dividend declared or proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Second interim dividend declared in respect of previous financial year of \$0.30 per share (2003: \$Nil)	13,678	-
Second special interim dividend declared in respect of previous financial year of \$Nil per share (2003: \$18.00)	-	823,242
Final dividend approved in respect of previous financial year of \$0.10 per share (2003: \$0.10)	4,559	4,567
Special dividend approved in respect of previous financial year of \$1.10 per share (2003: \$0.90)	50,154	41,103
	<u>68,391</u>	<u>868,912</u>

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of \$17,806,000 (2003 restated: \$91,674,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's (restated)
Amount of profit attributable to shareholders dealt with in the company's financial statements	17,806	91,674
Third interim dividend from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	9,254	138,805
Company's profit for the year (note 23)	<u>27,060</u>	<u>230,479</u>

Notes on The Financial Statements (Continued)

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders of \$240,630,000 (2003 restated: \$101,115,000) and the weighted average of 45,594,656 (2003: 45,663,358) shares in issue during the year.

11. CHANGES IN ACCOUNTING POLICIES

SSAP 12 (Revised) "Income taxes"

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

With effect from 1st July, 2003, in order to comply with SSAP 12 (revised) "Income taxes" issued by the Hong Kong Institute of Certified Public Accountants, the group adopted a new accounting policy for deferred tax. A balance sheet method was used to recognise deferred tax in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

As a result of the adoption of this accounting policy, the group's profit for the year has been reduced by \$3,778,000 (2003: \$9,696,000) and the net assets as at year end have been reduced by \$24,874,000 (2003: \$21,096,000).

The effect of adopting the new accounting policy has been applied retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

Notes on The Financial Statements (Continued)

12. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

(a) Business segments

The group comprises the following main business segments:

	Property investment and development		Treasury management		Unallocated		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$000's	\$000's (restated)	\$000's	\$000's	\$000's	\$000's (restated)	\$000's	\$000's (restated)
Turnover	93,844	87,987	-	-	-	-	93,844	87,987
Finance income	-	-	21,346	35,790	-	-	21,346	35,790
Other income	-	-	-	-	5,963	26,439	5,963	26,439
Total revenue	93,844	87,987	21,346	35,790	5,963	26,439	121,153	150,216
Segment results	90,793	84,586	21,346	35,790	-	-	112,139	120,376
Unallocated expenses	-	-	-	-	-	-	(11,474)	(5,759)
Operating profit	-	-	-	-	-	-	100,665	114,617
Share of results of jointly controlled entities	54,039	59,547	-	-	-	-	54,039	59,547
Surplus/(deficit) on revaluation of investment properties	104,962	(56,864)	-	-	-	-	104,962	(56,864)
Taxation	-	-	-	-	-	-	(19,036)	(16,185)
Profit attributable to shareholders	-	-	-	-	-	-	240,630	101,115
Depreciation for the year	(69)	(78)	-	-	(967)	(1,017)	(1,036)	(1,095)
Fixed assets	1,475,823	1,280,144	-	-	27,400	30,448	1,503,223	1,310,592
Other investments	-	-	10,801	3,512	-	-	10,801	3,512
Defined benefit asset	-	-	-	-	1,640	2,105	1,640	2,105
Debtors, deposits and prepayments	910	1,213	906	1,023	605	432	2,421	2,668
Cash balances	-	-	1,737,399	1,634,510	-	-	1,737,399	1,634,510
Segment assets	1,476,733	1,281,357	1,749,106	1,639,045	29,645	32,985	3,255,484	2,953,387
Interest in jointly controlled entities	618,834	696,375	-	-	-	-	618,834	696,375
Total assets	-	-	-	-	-	-	3,874,318	3,649,762
Segment liabilities	494,855	484,354	-	-	14,187	21,673	509,042	506,027
Capital expenditure incurred during the year	27,455	210,488	-	-	3,043	12	30,498	210,500

(b) Geographical segments

The group participates in two principal economic environments. Hong Kong is a major market for all of the group's business. In the United Kingdom, the major business is property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong		United Kingdom	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Turnover	42,002	42,982	51,842	45,005
Segment assets	2,345,802	2,189,903	909,682	763,484
Capital expenditure incurred during the year	30,498	109,344	-	101,156

Notes on The Financial Statements (Continued)

13. FIXED ASSETS

	Investment properties	Other properties	Property held for redevelopment	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
(a) The group						
Cost or valuation:						
At 1st July, 2003	1,196,554	27,600	83,454	8,565	6,896	1,323,069
Exchange adjustment	71,407	–	–	–	–	71,407
Additions	–	3,038	27,428	–	32	30,498
Transfer in/(out)	5,124	(5,124)	–	–	–	–
Revaluation surplus	91,762	–	–	–	–	91,762
At 30th June, 2004	<u>1,364,847</u>	<u>25,514</u>	<u>110,882</u>	<u>8,565</u>	<u>6,928</u>	<u>1,516,736</u>
Representing:						
Cost	–	3,038	110,882	8,565	6,928	129,413
2002 valuation	–	22,476	–	–	–	22,476
2004 valuation	<u>1,364,847</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,364,847</u>
	<u>1,364,847</u>	<u>25,514</u>	<u>110,882</u>	<u>8,565</u>	<u>6,928</u>	<u>1,516,736</u>
Accumulated depreciation:						
At 1st July, 2003	–	118	–	5,956	6,403	12,477
Charge for the year	–	106	–	758	172	1,036
At 30th June, 2004	<u>–</u>	<u>224</u>	<u>–</u>	<u>6,714</u>	<u>6,575</u>	<u>13,513</u>
Net book value:						
At 30th June, 2004	<u>1,364,847</u>	<u>25,290</u>	<u>110,882</u>	<u>1,851</u>	<u>353</u>	<u>1,503,223</u>
At 30th June, 2003	<u>1,196,554</u>	<u>27,482</u>	<u>83,454</u>	<u>2,609</u>	<u>493</u>	<u>1,310,592</u>
Tenure of title to properties:						
2004						
Held in Hong Kong						
– Long leases	280,000	25,290	110,882	–	–	416,172
– Medium term leases	<u>266,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>266,124</u>
	<u>546,124</u>	<u>25,290</u>	<u>110,882</u>	<u>–</u>	<u>–</u>	<u>682,296</u>
Held outside Hong Kong						
– Freehold	<u>818,723</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>818,723</u>
	<u>1,364,847</u>	<u>25,290</u>	<u>110,882</u>	<u>–</u>	<u>–</u>	<u>1,501,019</u>
2003						
Held in Hong Kong						
– Long leases	244,000	22,324	83,454	–	–	349,778
– Medium term leases	<u>225,000</u>	<u>5,158</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>230,158</u>
	<u>469,000</u>	<u>27,482</u>	<u>83,454</u>	<u>–</u>	<u>–</u>	<u>579,936</u>
Held outside Hong Kong						
– Freehold	<u>727,554</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>727,554</u>
	<u>1,196,554</u>	<u>27,482</u>	<u>83,454</u>	<u>–</u>	<u>–</u>	<u>1,307,490</u>

Notes on The Financial Statements (Continued)

13. FIXED ASSETS (Continued)

	Investment properties	Other properties	Motor buses	Plant, fixtures and equipment	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
(b) The company					
Cost or valuation:					
At 1st July, 2003	244,000	27,600	8,565	6,508	286,673
Additions	–	3,038	–	5	3,043
Transfer in/(out)	5,124	(5,124)	–	–	–
Revaluation surplus	36,000	–	–	–	36,000
At 30th June, 2004	<u>285,124</u>	<u>25,514</u>	<u>8,565</u>	<u>6,513</u>	<u>325,716</u>
Representing:					
Cost	–	3,038	8,565	6,513	18,116
2002 valuation	–	22,476	–	–	22,476
2004 valuation	<u>285,124</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>285,124</u>
	<u>285,124</u>	<u>25,514</u>	<u>8,565</u>	<u>6,513</u>	<u>325,716</u>
Accumulated depreciation:					
At 1st July, 2003	–	118	5,956	6,151	12,225
Charge for the year	–	106	758	103	967
At 30th June, 2004	<u>–</u>	<u>224</u>	<u>6,714</u>	<u>6,254</u>	<u>13,192</u>
Net book value:					
At 30th June, 2004	<u>285,124</u>	<u>25,290</u>	<u>1,851</u>	<u>259</u>	<u>312,524</u>
At 30th June, 2003	<u>244,000</u>	<u>27,482</u>	<u>2,609</u>	<u>357</u>	<u>274,448</u>
Tenure of title to properties:					
2004					
Held in Hong Kong					
– Long leases	280,000	25,290	–	–	305,290
– Medium term leases	5,124	–	–	–	5,124
	<u>285,124</u>	<u>25,290</u>	<u>–</u>	<u>–</u>	<u>310,414</u>
2003					
Held in Hong Kong					
– Long leases	244,000	22,324	–	–	266,324
– Medium term leases	–	5,158	–	–	5,158
	<u>244,000</u>	<u>27,482</u>	<u>–</u>	<u>–</u>	<u>271,482</u>

Notes on The Financial Statements (Continued)

13. FIXED ASSETS (Continued)

- (i) The group's investment properties which are situated in Hong Kong and held under long and medium term leases, have been revalued at 30th June, 2004 by Professional Property Services Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for development potential or reversionary potential as appropriate.
- (ii) The group's investment properties which are situated in the United Kingdom and are freehold properties, have been revalued at 30th June, 2004 by FPDSAVILLS Commercial Limited, an independent firm of professional surveyors, on an open market value basis, after taking into consideration the net income and allowing for reversionary potential.
- (iii) The gross carrying amounts of investment properties of the group held for use in operating leases were \$1,364,847,000 (2003: \$1,196,554,000). Further details of the leasing arrangements are contained in note 28(a).
- (iv) The carrying amount of other properties of the group at 30th June, 2004 would have been \$13,926,000 (2003: \$21,472,000) had they been carried at cost less accumulated depreciation.

14. INTEREST IN SUBSIDIARIES

	The company	
	2004	2003
	\$'000's	\$'000's
Unlisted shares, at cost	1,018,356	1,018,356

Details of the subsidiaries are as follows:-

Name of company	Place of incorporation	Place of operation	Issued ordinary share capital	Percentage directly held	Percentage indirectly held	Principal activity
Island Communication Enterprises Limited	Hong Kong	Hong Kong	185,073,024 HK\$1 shares	100%	-	Investment holding
Heartwell Limited	Hong Kong	Hong Kong	9,000,002 HK\$10 shares	100%	-	Investment holding
Communication Holdings Limited	British Virgin Islands	Hong Kong	35,900,010 HK\$10 shares	100%	-	Investment holding
Affluent Dragon Island Limited	Hong Kong	Hong Kong	2 HK\$10 shares	100%	-	Dormant
Island Communication Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	-	100%	Investment property holding
Grand Island Place Investments Limited	British Virgin Islands	Hong Kong	2 HK\$1 shares	-	100%	Investment property holding
Nottingham Developments Limited	British Virgin Islands	Hong Kong	1 US\$1 share	-	100%	Investment holding
Oxney Investments Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Communication Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Eaglefield Properties Limited	British Virgin Islands	United Kingdom	1 US\$1 share	-	100%	Investment property holding
Prosperous Orient Limited	Hong Kong	Hong Kong	2 HK\$10 shares	-	100%	Property holding for redevelopment

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The group	
	2004	2003
	\$000's	\$000's (restated)
Share of net liabilities	(152,073)	(89,781)
Loans to jointly controlled entities	770,907	786,156
	<u>618,834</u>	<u>696,375</u>

Details of the group's interest in the jointly controlled entities are as follows:-

Name of jointly controlled entity	Form of business structure	Place of incorporation	Place of operation	Particulars of issued share capital	Proportion of ownership interest		Financial year end
					Group's effective interest or held by subsidiary company	Principal activity	
Swire and Island Communication Developments Limited	Incorporated	British Virgin Islands	Hong Kong	60 'A' shares of HK\$10 40 'B' shares of HK\$10 1 non-voting dividend share of HK\$10	- 100% 100%	Property development for resale and investment	31st December
Island Land Development Limited	Incorporated	British Virgin Islands	Hong Kong	100 shares of HK\$10	50%	Property development for investment	31st December
Hareton Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	50%	Property development for resale and investment	31st December
Ultoxeter Limited	Incorporated	Hong Kong	Hong Kong	100 shares of HK\$10	20%	Property development for resale	31st December

The loans to the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

The following supplementary financial information is disclosed relating to the three principal jointly controlled entities based on the management accounts of the respective jointly controlled entities at 30th June:

(i) Swire and Island Communication Developments Limited

	2004	2003
	\$000's	\$000's (restated)
(a) Profit and loss account		
Turnover	<u>57,284</u>	<u>63,068</u>
Profit/(loss) before taxation	13,525	(2,026)
Taxation	<u>(5,979)</u>	<u>(5,089)</u>
Profit/(loss) after taxation	<u>7,546</u>	<u>(7,115)</u>
(b) Balance sheet		
Fixed assets	613,000	630,002
Current assets	95,233	110,979
Current liabilities	(18,913)	(19,347)
Deferred taxation	<u>(17,409)</u>	<u>(14,268)</u>
Net assets	<u>671,911</u>	<u>707,366</u>

(ii) Island Land Development Limited

	2004	2003
	\$000's	\$000's (restated)
(a) Profit and loss account		
Turnover	<u>43,046</u>	<u>50,220</u>
Loss before taxation	(7,941)	(104,684)
Taxation	<u>(1,940)</u>	<u>(2,388)</u>
Loss after taxation	<u>(9,881)</u>	<u>(107,072)</u>
(b) Balance sheet		
Fixed assets	600,000	634,000
Deferred expenditure	706	1,723
Retirement benefit assets	52	-
Current assets	8,891	11,002
Current liabilities	(13,889)	(13,023)
Shareholders' loans	(1,125,700)	(1,155,700)
Deferred taxation	<u>(23,102)</u>	<u>(21,163)</u>
Net liabilities	<u>(553,042)</u>	<u>(543,161)</u>

Notes on The Financial Statements (Continued)

15. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

(iii) Uttoxeter Limited

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
(a) Profit and loss account		
Turnover	<u>608,744</u>	<u>260,806</u>
Profit before taxation	142,772	34,474
Taxation	<u>(24,844)</u>	<u>(5,144)</u>
Profit after taxation	<u>117,928</u>	<u>29,330</u>
(b) Balance sheet		
Current assets	108,471	561,686
Current liabilities	<u>(40,368)</u>	<u>(91,512)</u>
Net assets	<u>68,103</u>	<u>470,174</u>

16. OTHER INVESTMENTS

	<u>The group</u>	
	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Equity securities listed in Hong Kong, at fair value	<u>10,801</u>	<u>3,512</u>

Notes on The Financial Statements (Continued)

17. DEFINED BENEFIT RETIREMENT SCHEMES

During the year, the company operated two separate non-contributory defined benefit retirement schemes, namely, "China Motor Bus General Monthly Rated Staff Retirement Scheme" and "China Motor Bus Senior Executive Retirement Scheme" for its monthly rated and daily rated staff and senior executives respectively. Both schemes are formally established under trust and registered with the Registrar of Occupational Retirement Schemes. The assets of the schemes are held by an independent trustee, HSBC International Trustee Limited. The members' benefits are determined based on their final remuneration and length of service. The company's contributions to the schemes are made in accordance with the recommendations of independent actuaries who carry out actuarial valuations of the schemes at regular intervals, currently annually. The actuary of these schemes is Watson Wyatt Hong Kong Limited.

(a) The amounts recognised in the balance sheets are as follows:

	2004	2003
	\$000's	\$000's
Present value of the funded obligations	10,374	10,394
Fair value of scheme assets	(12,485)	(12,810)
Net unrecognised actuarial gains	471	311
	<u>(1,640)</u>	<u>(2,105)</u>

(b) Movements in net asset recognised in the balance sheets are as follows:

	2004	2003
	\$000's	\$000's
Balance brought forward	(2,105)	–
Transitional assets recognised upon adoption of SSAP 34	–	(2,717)
	<u>(2,105)</u>	<u>(2,717)</u>
Expenses for the year recognised in the profit and loss account	465	612
	<u>(1,640)</u>	<u>(2,105)</u>

(c) Expenses for the year recognised in the consolidated profit and loss account are as follows:

	2004	2003
	\$000's	\$000's
Current service cost	345	348
Interest cost	312	456
Expected return on scheme assets	(192)	(192)
	<u>465</u>	<u>612</u>

The expenses for the year and transitional assets are recognised in the line of staff costs in the consolidated profit and loss account.

	2004	2003
	\$000's	\$000's
Actual return on scheme assets	(123)	77

(d) The principal actuarial assumptions used as at 30th June are as follows:

	2004	2003
Discount rate	3.5% p.a.	3.0% p.a.
Expected rate of return on scheme assets	1.5% p.a.	1.5% p.a.
Future salary increases	2.5% p.a.	2.5% p.a.

Notes on The Financial Statements (Continued)

18. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors with the following ageing analysis:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Current	180	335
1 - 3 months	<u>6</u>	<u>36</u>
Total trade debtors	<u><u>186</u></u>	<u><u>371</u></u>

A defined credit policy is maintained within the Group.

The following amounts are expected to be recovered after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$000's	\$000's	\$000's	\$000's
Debtors, deposits and prepayments	<u><u>1,109</u></u>	<u><u>903</u></u>	<u><u>157</u></u>	<u><u>76</u></u>

19. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors with the following ageing analysis:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Due after 3 months	<u>201</u>	<u>201</u>

The following amounts are expected to be settled after more than one year:

	<u>The group</u>		<u>The company</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	\$000's	\$000's	\$000's	\$000's
Creditors and accruals	<u><u>1,510</u></u>	<u><u>2,654</u></u>	<u><u>36</u></u>	<u><u>-</u></u>

20. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Notes on The Financial Statements (Continued)

21. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The group		The company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Provision for Hong Kong Profits Tax for the year	3,658	186	3,600	–
Balance of profits tax payable/(recoverable) relating to prior years	328	(32)	378	–
	3,986	154	3,978	–
Overseas taxation	3,930	3,188	–	–
	7,916	3,342	3,978	–

(b) Deferred tax (assets)/liabilities recognised in the consolidated balance sheet:

	The group		The company	
	2004	2003	2004	2003
	\$000's	\$000's (restated)	\$000's	\$000's (restated)
Deferred tax assets	(14)	(37)	–	–
Deferred tax liabilities	6,373	4,844	1,801	1,658
	6,359	4,807	1,801	1,658

(i) The group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Contingency reserves and other provisions	Prepayments	Future benefit of tax losses	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
Balance at 1st July, 2002					
– as previously reported	–	–	–	–	–
– prior period adjustment in respect of deferred tax	4,847	(6,848)	20	(1,188)	(3,169)
– as restated	4,847	(6,848)	20	(1,188)	(3,169)
Charged to the consolidated profit and loss account	1,831	4,938	19	1,188	7,976
Balance at 30th June, 2003	6,678	(1,910)	39	–	4,807
Balance at 1st July, 2003					
– as previously reported	–	–	–	–	–
– prior period adjustment in respect of deferred tax	6,678	(1,910)	39	–	4,807
– as restated	6,678	(1,910)	39	–	4,807
Charged/(credited) to the consolidated profit and loss account	1,289	916	(39)	(614)	1,552
Balance at 30th June, 2004	7,967	(994)	–	(614)	6,359

Notes on The Financial Statements (Continued)

21. INCOME TAX IN THE BALANCE SHEET (Continued)

(ii) The company

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Contingency reserves and other provisions	Prepayments	Future benefit of tax losses	Total
	\$000's	\$000's	\$000's	\$000's	\$000's
Balance at 1st July, 2002					
– as previously reported	–	–	–	–	–
– prior period adjustment in respect of deferred tax	3,048	(6,784)	20	(1,188)	(4,904)
– as restated	3,048	(6,784)	20	(1,188)	(4,904)
Charged to the profit and loss account	443	4,912	19	1,188	6,562
Balance at 30th June, 2003	<u>3,491</u>	<u>(1,872)</u>	<u>39</u>	<u>–</u>	<u>1,658</u>
Balance at 1st July, 2003					
– as previously reported	–	–	–	–	–
– prior period adjustment in respect of deferred tax	3,491	(1,872)	39	–	1,658
– as restated	3,491	(1,872)	39	–	1,658
(Credited)/charged to the profit and loss account	(710)	892	(39)	–	143
Balance at 30th June, 2004	<u>2,781</u>	<u>(980)</u>	<u>–</u>	<u>–</u>	<u>1,801</u>

(c) Deferred tax assets not recognised

The group has not recognised deferred tax assets in respect of tax losses of \$5,989,000 (2003: \$6,804,000). The tax losses do not expire under current tax legislation.

22. SHARE CAPITAL

	2004		2003	
	No. of shares	Amount \$000's	No. of shares	Amount \$000's
Authorised:				
Ordinary shares of \$2 each	<u>50,000,000</u>	<u>100,000</u>	<u>50,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1st July	45,594,656	91,189	45,740,856	91,482
Shares repurchased	–	–	(146,200)	(293)
At 30th June	<u>45,594,656</u>	<u>91,189</u>	<u>45,594,656</u>	<u>91,189</u>

Notes on The Financial Statements (Continued)

23. RESERVES

	Capital redemption reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
The group						
At 1st July, 2002						
– as previously reported	1,055	–	6,019	250,000	3,558,917	3,815,991
– prior period adjustment in respect of deferred tax	–	–	–	–	(11,400)	(11,400)
– as restated	1,055	–	6,019	250,000	3,547,517	3,804,591
Dividends declared/approved in respect of the previous year (note 8(b))	–	–	–	–	(868,912)	(868,912)
Realisation of other properties revaluation reserve	–	–	(9)	–	9	–
Profit for the year	–	–	–	–	101,115	101,115
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	620	620
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(7,112)	(7,112)
– transfer between reserves	293	–	–	–	(293)	–
Exchange differences arising on consolidation	–	–	–	–	45,049	45,049
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	(22,805)	(22,805)
At 30th June, 2003	1,348	–	6,010	260,000	2,785,188	3,052,546
At 1st July, 2003						
– as previously reported	1,348	–	6,010	260,000	2,806,284	3,073,642
– prior period adjustment in respect of deferred tax	–	–	–	–	(21,096)	(21,096)
– as restated	1,348	–	6,010	260,000	2,785,188	3,052,546
Dividends declared/approved in respect of the previous year (note 8(b))	–	–	–	–	(68,391)	(68,391)
Realisation of other properties revaluation reserve	–	–	(12)	–	12	–
Profit for the year	–	–	–	–	240,630	240,630
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	692	692
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Exchange differences arising on consolidation	–	–	–	–	71,407	71,407
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	(22,797)	(22,797)
At 30th June, 2004	1,348	–	5,998	270,000	2,996,741	3,274,087

Notes on The Financial Statements (Continued)

23. RESERVES (Continued)

	Capital redemption reserve	Investment properties revaluation reserve	Other properties revaluation reserve	General reserve	Retained profits	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
The company						
At 1st July, 2002						
– as previously reported	1,055	238,933	6,019	250,000	1,505,621	2,001,628
– prior period adjustment in respect of deferred tax	–	–	–	–	4,904	4,904
– as restated	1,055	238,933	6,019	250,000	1,510,525	2,006,532
Dividends declared/approved in respect of the previous year (note 8(b))	–	–	–	–	(868,912)	(868,912)
Realisation of other properties revaluation reserve	–	–	(9)	–	9	–
Revaluation deficits	–	(12,000)	–	–	–	(12,000)
Profit for the year	–	–	–	–	230,479	230,479
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	620	620
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Purchase of own shares						
– premium paid	–	–	–	–	(7,112)	(7,112)
– transfer between reserves	293	–	–	–	(293)	–
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	(22,805)	(22,805)
At 30th June, 2003	<u>1,348</u>	<u>226,933</u>	<u>6,010</u>	<u>260,000</u>	<u>832,511</u>	<u>1,326,802</u>
At 1st July, 2003						
– as previously reported	1,348	226,933	6,010	260,000	834,169	1,328,460
– prior period adjustment in respect of deferred tax	–	–	–	–	(1,658)	(1,658)
– as restated	1,348	226,933	6,010	260,000	832,511	1,326,802
Dividends declared/approved in respect of the previous year (note 8(b))	–	–	–	–	(68,391)	(68,391)
Realisation of other properties revaluation reserve	–	–	(12)	–	12	–
Revaluation surplus	–	36,000	–	–	–	36,000
Profit for the year	–	–	–	–	27,060	27,060
Unclaimed dividends forfeited in accordance with article 166	–	–	–	–	692	692
Transfer to general reserve	–	–	–	10,000	(10,000)	–
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	(22,797)	(22,797)
At 30th June, 2004	<u>1,348</u>	<u>262,933</u>	<u>5,998</u>	<u>270,000</u>	<u>759,087</u>	<u>1,299,366</u>

Notes on The Financial Statements (Continued)

23. RESERVES (Continued)

Included in the figure for the group's retained profits at 30th June, 2004 is the amount of \$42,003,000 (2003 restated: \$104,294,000) being the retained profits attributable to the jointly controlled entities.

The directors consider that \$43,785,000 (2003: \$43,785,000) of the company's retained profits are not distributable since such profits arose from an intra group sale of property which was disposed of to a wholly-owned subsidiary during the year ended 30th June, 1994 and which was subsequently sold during the year ended 30th June, 1995 to a jointly controlled entity in which the group has a 50% shareholding.

The directors consider that all of the general reserve and \$715,302,000 (2003 restated: \$788,726,000) of the retained profits of the company, totalling \$985,302,000 (2003 restated: \$1,048,726,000), are distributable.

The application of the capital redemption reserve is governed by section 49 of the Hong Kong Companies Ordinance. The investment properties and other properties revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

The group treats its investment properties on a portfolio basis.

24. DEFERRED PROFITS

	The group		The company	
	2004	2003	2004	2003
	\$000's	\$000's	\$000's	\$000's
Balance brought forward and carried forward	451,198	451,198	237,225	237,225

25. CONTINGENCY RESERVES

	Group and company	
	2004	2003
	\$000's	\$000's
Third party claims		
At 1st July	10,700	42,400
Payments during the year	(431)	(6,941)
Provision written back for the year	(4,669)	(24,759)
At 30th June	5,600	10,700

26. CONTINGENT LIABILITIES

At 30th June, 2004, there were potential contingent liabilities in respect of third party claims for which provision of \$5,600,000 (2003: \$10,700,000) has been included in contingency reserves. In the opinion of the directors, having received independent advice from an actuary, the amount provided is sufficient to cover any liabilities which may subsequently arise in respect of these claims.

Notes on The Financial Statements (Continued)

27. CAPITAL COMMITMENTS

The company has capital commitments outstanding at 30th June, 2004 amounting to \$669,300 (2003: \$Nil).

A subsidiary has capital commitments outstanding at 30th June, 2004 contracted for amounting to \$7,030,000 (2003: \$34,874,000).

In addition, the Board has given formal in principle approval to develop the site at the Chai Wan Bus Depot by means of a 50:50 joint venture. An amount of \$1,065,000,000 (2003: \$1,065,000,000), representing 50% of the total estimated development costs, has been authorised for the purpose of the development of the site.

28. OPERATING LEASES

(a) Significant leasing arrangements

The group leases out investment properties in Hong Kong and United Kingdom under operating leases. The leases for investment properties in Hong Kong typically run for an initial period of two to three years. The leases for investment properties in United Kingdom run for an initial period of fourteen to twenty-five years. Lease payments are subject to upward only rent review for every 5 years for investment properties in United Kingdom. One of the leases in United Kingdom is subject to upward only rent review in 2006 and 2011. None of the leases includes contingent rentals. Further details of the carrying value of the investment properties are contained in note 13.

\$93,844,000 (2003: \$87,987,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

(b) Future operating lease income

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<u>2004</u>	<u>2003</u>
	\$000's	\$000's
Within one year	61,995	90,015
After one but within five years	221,615	201,572
After five years	<u>643,207</u>	<u>635,051</u>
	<u>926,817</u>	<u>926,638</u>

29. MATERIAL RELATED PARTY TRANSACTIONS

Loans to the jointly controlled entities at 30th June, 2004 are disclosed in note 15. The loans are unsecured, interest-free and have no fixed terms of repayment.

30. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred tax, details of which are set out in note 11.