

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the accounts

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

(c) Subsidiaries

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

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the 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 accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated profit and loss account.

Where losses attributable to the minority exceed the minority interests in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(k)), 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.

(d) Associates and jointly controlled entities

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

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.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(d) Associates and jointly controlled entities** (cont'd)

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associate or the jointly controlled entity, 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 associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or 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.

On disposal of an associate or a jointly controlled entity during the year, the attributable amount of capital reserve is included in the calculation of the profit or loss on disposal.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(k)), 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 profit and loss account as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1st July, 2001, positive goodwill is written off on acquisition; and
- for acquisitions on or after 1st July, 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(k)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(k)) is included in the carrying amount of the interests in associates or jointly controlled entities.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Goodwill (cont'd)

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1st July, 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1st July, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable or when the underlying non-monetary assets are disposed. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill or as a deduction from its underlying assets; and
- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

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

(f) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entities are as follows:—

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) All other securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (v) Profits or losses on disposal of 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 profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(g) Valuation of properties**

- (i) Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which are assessed annually by a qualified valuer of the Group and at least every three years by external qualified valuers. Surpluses arising on revaluations on a portfolio basis are credited to the investment property revaluation reserve; deficits arising on revaluations are firstly set-off against any previous revaluation surpluses and thereafter taken to the profit and loss account.
- (ii) Hotel properties are stated at their open market value based on an annual professional valuation.
- (iii) Other land and buildings are stated at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(k)).
- (iv) Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.
- (v) Completed properties remaining unsold at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.
- (vi) Properties held for and under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, and expenses relating to the marketing and sale of development properties prior to the issue of an occupation permit in Hong Kong or the issue of a completion certificate in the People's Republic of China ("PRC"), less any impairment losses (see note 1(k)).
- (vii) Leasehold land acquired by exchange of land exchange entitlements is stated at cost which represents the cost of land exchange entitlements surrendered, and the premium, if any, payable to the Government of the Hong Kong Special Administrative Region less impairment losses (see note 1(k)), where appropriate.
- (viii) Other leasehold land is stated at cost less impairment losses (see note 1(k)), where appropriate.
- (ix) 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.
- (x) 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. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(r)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(i) Amortisation and depreciation of fixed assets

(i) Investment properties

No depreciation is provided in respect of investment properties 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.

(ii) Hotel properties

No depreciation is provided on hotel properties held on lease of more than 20 years. The directors consider that the value of the hotels do not diminish, due to the fact that hotels are maintained in a continuous state of proper repair and improvements thereto from time to time.

(iii) Toll highway operation rights and bridges

Amortisation of toll highway operation rights and depreciation of bridges are provided for on the basis of calculation whereby annual amortisation and depreciation amounts compounded at a fixed rate per annum will be equal to the costs of the relevant toll highway operation rights and bridges at the expiry of the relevant operating periods.

(iv) Other land and buildings

Leasehold land is amortised, using the straight-line method, over the unexpired terms of the leases.

Buildings are depreciated on a straight-line basis over the remaining terms of the respective leases or 40 years if shorter.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(i) Amortisation and depreciation of fixed assets** (cont'd)**(v) Properties held for and under development**

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

(vi) Other fixed assets

Other fixed assets are stated at cost, less accumulated depreciation and impairment losses (see note 1(k)). Depreciation is provided on a straight-line basis over their estimated useful lives as follows: —

Leasehold improvements, furniture and fixtures	— 20%
Others	— 10% to 50%

(j) Deferred expense

Deferred expense comprises arrangement fee incurred in relation to the issue of guaranteed convertible notes and is amortised on a straight-line basis over the period from the date of issue of such convertible notes to the date of maturity. In the event that the notes are redeemed prior to the maturity date, the unamortised expenses are charged immediately to the profit and loss account.

(k) 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);
- investments in subsidiaries, associates and jointly controlled entities (except for those accounted for at fair value under notes 1(c) and (d));
- positive goodwill;
- properties held for development;
- properties under development; and
- leasehold land.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the profit and loss account whenever the carrying amount of such 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.

(ii) Reversals of impairment losses

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

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

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

(l) Construction contracts

The accounting policy for contract revenue is set out in note 1(r)(iv). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" as an asset or "Amounts due to customers for contract work" as a liability.

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(n) Guaranteed convertible notes

Guaranteed convertible notes issued are stated in the balance sheet at their principal value.

(o) 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 the defined contribution retirement scheme and the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the profit and loss account as incurred.
- (iii)** When the Group grants employees options to acquire shares of the subsidiaries at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv)** Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, 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 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 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.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(q) 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 expenditures 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.

(r) Recognition of revenue

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 profit and loss account as follows: —

(i) Sale of properties

Revenue arising from the development of properties for sale together with the interest earned on the instalment sales of properties are recognised upon the sale of properties or the issue of an occupation permit or a completion certificate by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits received.

(ii) Rental income from operating leases

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

(iii) Interest income

Interest income earned on loans and advances to customers and from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Income from construction contracts

When the outcome of the construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(v) Toll fee income

Toll fee income is recognised on a cash receipt basis.

(vi) Hotel operation

Income from hotel operation is recognised when services are provided.

1 PRINCIPAL ACCOUNTING POLICIES (cont'd)**(r) Recognition of revenue** (cont'd)**(vii) Sale of goods**

Sale of goods from department store operation is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

(s) 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. Exchange gains and losses are dealt with in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

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

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

(u) Related parties

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

(v) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

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 inventories, trade receivables and fixed assets. 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.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses, income tax and minority interests.

2 CHANGE IN ACCOUNTING POLICY

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

With effect from 1st July, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) "Income Taxes" issued by the HKICPA, the Group adopted a new policy for deferred tax as set out in note 1 (p).

The new accounting policy has been adopted retrospectively. As a result of the adoption of this accounting policy, the shareholders' funds of the Group as at 1st July, 2003 and 1st July, 2002 were restated and decreased by HK\$936,884,000, which comprised retained profits of HK\$933,571,000 and investment property revaluation reserve of HK\$3,313,000, and HK\$786,317,000, which comprised retained profits of HK\$723,802,000 and investment property revaluation reserve of HK\$62,515,000, respectively. The effect of change to income tax charged to the consolidated profit and loss account and investment property revaluation reserve, net of minority interests, for the year ended 30th June, 2004 is an increased credit of HK\$4,975,000 (2003 — an increased charge of HK\$209,769,000) and an increased credit of HK\$142,000 (2003 — HK\$59,202,000) respectively.

3 TURNOVER

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, finance, building construction, infrastructure, hotel operation, department store operation, project management, investment holding and property management.

Turnover of the Group represents proceeds from the sale of properties, rental and interest income, income from construction contracts earned from third parties, income of infrastructure business, income from hotel operation, proceeds from department store operation, and others including management and sales commission, dividends from investments in securities and property management and security services income.

The major items are analysed as follows: —

	The Group	
	2004 HK\$'000	2003 HK\$'000
Sale of properties	2,837,148	3,910,024
Rental income	2,017,239	2,011,654
Interest income	102,018	119,760
Building construction	781,457	661,300
Infrastructure	238,748	215,704
Hotel operation	116,272	104,460
Department store operation	122,904	117,924
Others	511,332	526,638
	<u>6,727,118</u>	<u>7,667,464</u>

4 OTHER REVENUE AND OTHER NET INCOME

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Other revenue: —		
Interest income	39,758	78,862
Others	39,760	197,246
	<u>79,518</u>	<u>276,108</u>
Other net income: —		
Profit on disposal of investments in securities	61,911	12,815
Profit on disposal of toll bridges (note)	104,332	—
Loss on disposal of other fixed assets	(32,774)	(5,649)
Others	23,185	21,684
	<u>156,654</u>	<u>28,850</u>

Note: On 10th March, 2004, the Group entered into two agreements with Tianjin Toll Collection Office, a department of the Tianjin municipal government, pursuant to which the Group's toll collection right of certain toll bridges were transferred to Tianjin Toll Collection Office with effective from 1st June, 2003 at a total consideration of approximately RMB283,748,000 (equivalent to approximately HK\$264,595,000) (the "Consideration").

The Consideration will be received by instalments at RMB28,100,000 (equivalent to approximately HK\$26,203,000) per annum and RMB16,000,000 (equivalent to approximately HK\$14,920,000) per annum for the period from 1st June, 2003 to 27th October, 2010 and from 28th October, 2010 to 20th July, 2015, respectively. Accordingly, the Group calculated the discounted value of the instalments receivable in the future using the prevailing interest rate for a similar financial instrument offered by an issuer in the PRC with a similar credit rating. Total discounted value of the instalments receivable at transaction date was HK\$175,946,000.

5 OTHER OPERATING INCOME/(EXPENSES)

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Bad debts written off	(109,861)	(93,098)
Provision on property projects written back*	788,490	336,999
Provision on property projects	(27,633)	(664,706)
Others	(110,902)	(126,969)
	<u>540,094</u>	<u>(547,774)</u>

* The amount in 2003 represented the write-back of provision made in prior years mainly in respect of certain project sites for which the Group had amended their intended use from industrial/commercial to hotel development purpose during 2003.

6 NON-OPERATING (EXPENSES)/INCOME

	The Group	
	2004 HK\$'000	2003 HK\$'000
(Loss)/profit on disposal of interest in subsidiaries	(6,396)	99,530
Loss on disposal of interest in associates	—	(76,699)
Surplus on revaluation of investments in securities	48,901	63,104
Reversal of impairment loss/(impairment loss) in value of investment securities	119	(1,094)
Impairment loss on other fixed assets (note 14(b))	(53,613)	(14,318)
Impairment loss in value of associates	—	(1,364)
Impairment loss on positive goodwill	(4,000)	—
Amortisation of goodwill	(31,075)	(27,973)
Others	1,926	1,338
	<u>(44,138)</u>	<u>42,524</u>

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

The consolidated profit from ordinary activities before taxation for the year is arrived at after charging/(crediting): —

(a) Finance costs:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bank interest	194,454	256,770
Interest on loans wholly repayable within five years	54,667	90,076
Finance charges on obligations under finance leases	4	70
Other borrowing costs	<u>56,864</u>	<u>101,465</u>
	305,989	448,381
Less: Amount capitalised *		
— interest	(162,618)	(295,457)
— other borrowing costs	<u>(32,525)</u>	<u>(86,795)</u>
	<u>110,846</u>	<u>66,129</u>

* The borrowing costs have been capitalised at rates ranging from 1.68% to 1.74% (2003 - from 2.28% to 2.50%) per annum.

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (cont'd)

The consolidated profit from ordinary activities before taxation for the year is arrived at after charging/(crediting): (cont'd)

(b) Items other than those separately disclosed in notes 3 to 7(a): —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Amortisation and depreciation		
— owned assets	91,943	102,813
— assets held under finance leases	—	453
	<u>91,943</u>	<u>103,266</u>
Less: Amount capitalised	(443)	—
	<u>91,500</u>	<u>103,266</u>
Staff cost – including retirement costs of HK\$32,292,000 (2003 — HK\$30,782,000)	756,373	751,346
Less: Amount capitalised (including retirement costs of HK\$776,000 (2003 — HK\$850,000))	(20,521)	(18,981)
	<u>735,852</u>	<u>732,365</u>
Cost of sales		
— completed properties for sale	2,237,049	3,560,282
— inventories	149,616	154,681
Amortisation of deferred expense	19,845	—
Auditors' remuneration	10,494	11,190
Rentals receivable from investment properties net of outgoings of HK\$679,466,000 (2003 — HK\$647,783,000)*	(958,532)	(1,017,481)
Other rental income less outgoings	(240,662)	(204,996)
Dividends from investments in securities		
— listed	(11,032)	(53,840)
— unlisted	(39,848)	(11,160)

* Included contingent rental income of HK\$105,867,000 (2003 – HK\$94,544,000)

8 SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
Listed associates	1,545,686	1,506,941
Unlisted associates	45,664	(61,995)
	<u>1,591,350</u>	<u>1,444,946</u>

9 INCOME TAX

(a) Income tax in the consolidated profit and loss account represents: —

	The Group 2004 HK\$'000	2003 restated HK\$'000
Current tax — Provision for Hong Kong Profits Tax		
Tax for the year	193,797	148,228
Underprovision in respect of prior years	979	15,706
	<u>194,776</u>	<u>163,934</u>
Current tax — Provision for taxation outside Hong Kong		
Tax for the year	26,492	51,339
Overprovision in respect of prior years	(162)	(5,975)
	<u>26,330</u>	<u>45,364</u>
Deferred tax		
Origination and reversal of temporary differences	(7,702)	148,809
Effect of increase in tax rate on deferred tax balances at 1st July	—	26,748
	<u>(7,702)</u>	<u>175,557</u>
Share of associates' taxation	289,247	263,464
Share of jointly controlled entities' taxation	15,500	7,867
	<u>518,151</u>	<u>656,186</u>

Provision for Hong Kong Profits Tax has been made at 17.5% (2003 — 17.5%) on the estimated assessable profits for the year.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: —

	2004 HK\$'000	2003 restated HK\$'000
Profit from ordinary activities before taxation	<u>4,044,350</u>	<u>3,325,716</u>
Notional tax on profit from ordinary activities before taxation, calculated at the rates applicable to profits in the countries concerned	719,853	604,740
Tax effect of non-deductible expenses	63,113	181,539
Tax effect of non-taxable revenue	(139,949)	(288,029)
Tax effect of current year's tax losses not recognised	47,511	133,987
Tax effect of prior year's tax losses utilised	(64,527)	(8,890)
Tax effect of unused tax losses not recognised in prior years but recognised in the current year	(111,889)	(4,007)
Tax effect of temporary differences not recognised	3,222	367
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	—	26,748
Underprovision in prior years	817	9,731
Actual tax expense	<u>518,151</u>	<u>656,186</u>

9 INCOME TAX (cont'd)

(c) Deferred tax assets and liabilities recognised: —

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

Deferred tax arising from:

	Depreciation allowances in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Elimination and capitalisation of expenses HK\$'000	Fair value adjustment on business combination HK\$'000	Gain on disposal of property, plant and equipment HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st July, 2002							
— as previously reported	—	—	—	—	—	—	—
— prior period adjustment	362,417	106,767	371,281	166,800	—	(216,803)	790,462
— as restated	362,417	106,767	371,281	166,800	—	(216,803)	790,462
Charged/(credited) to profit and loss account	47,106	—	(920)	—	—	129,371	175,557
Credited to reserve	(5,059)	(74,767)	—	—	—	—	(79,826)
At 30th June, 2003 (restated)	<u>404,464</u>	<u>32,000</u>	<u>370,361</u>	<u>166,800</u>	<u>—</u>	<u>(87,432)</u>	<u>886,193</u>
At 1st July, 2003							
— as previously reported	—	—	—	—	—	—	—
— prior period adjustment	404,464	32,000	370,361	166,800	—	(87,432)	886,193
— as restated	404,464	32,000	370,361	166,800	—	(87,432)	886,193
Charged/(credited) to profit and loss account	68,314	—	(16,868)	—	15,212	(74,360)	(7,702)
Charged to reserve	776	—	—	—	—	—	776
At 30th June, 2004	<u>473,554</u>	<u>32,000</u>	<u>353,493</u>	<u>166,800</u>	<u>15,212</u>	<u>(161,792)</u>	<u>879,267</u>
						The Group	
						2004	2003
						HK\$'000	restated HK\$'000
Net deferred tax assets recognised in the consolidated balance sheet						(208,675)	(111,365)
Net deferred tax liabilities recognised in the consolidated balance sheet						1,087,942	997,558
						<u>879,267</u>	<u>886,193</u>

9 INCOME TAX (cont'd)**(d) Deferred tax assets not recognised: —**

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

	2004		2003	
	Deductible temporary differences/ tax losses HK\$'000	Deferred tax asset HK\$'000	Deductible temporary differences/ tax losses HK\$'000	Deferred tax asset HK\$'000
Deductible temporary differences	208,498	36,487	204,233	35,741
Future benefits of tax losses				
— Hong Kong (note (a))				
— Assessed by the Inland Revenue Department	1,402,310	245,404	1,861,645	325,788
— Not yet assessed by the Inland Revenue Department	2,028,900	355,058	2,530,612	442,857
— Outside Hong Kong (note (b))	443,450	141,750	212,351	67,528
	<u>4,083,158</u>	<u>778,699</u>	<u>4,808,841</u>	<u>871,914</u>

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Notes:

- (a) The tax losses do not expire under current tax legislation.
- (b) The tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they were incurred.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK\$944,607,000 (2003 — HK\$696,440,000) which has been dealt with in the accounts of the Company.

11 DIVIDENDS**(a) Dividends attributable to the year**

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of HK\$0.35 per share (2003 — HK\$0.35 per share)	635,103	602,749
Final dividend proposed after the balance sheet date of HK\$0.55 per share (2003 — HK\$0.45 per share)	<u>998,019</u>	<u>816,561</u>
	<u><u>1,633,122</u></u>	<u><u>1,419,310</u></u>

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

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

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.45 per share (2003 — HK\$0.45 per share)	<u>816,561</u>	<u>774,963</u>

12 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$3,059,056,000 (2003(restated) — HK\$2,032,573,000) and on the weighted average number of 1,786,544,918 ordinary shares (2003 — 1,722,140,000 ordinary shares) in issue during the year. Diluted earnings per share for the year is not presented because the existence of outstanding guaranteed convertible notes during the year ended 30th June, 2004 has an anti-dilutive effect on the calculation of diluted earnings per share for the year. There was no potential dilution of earnings per share for 2003.

13 SEGMENTAL INFORMATION

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.

Business segments:

The Group comprises the following main business segments: —

Property development	—	development and sale of properties
Property leasing	—	leasing of properties
Finance	—	provision of financing
Building construction	—	construction of building works
Infrastructure	—	investment in infrastructure projects
Hotel operation	—	hotel operations and management
Department store operation	—	department store operations and management
Others	—	investment holding, project management, property management, agency services, provision of cleaning and security guard services and provision of information technology services.

13 SEGMENTAL INFORMATION (cont'd)

Business segments:

	Property develop- ment HK\$'000	Property leasing HK\$'000	Finance HK\$'000	Building con- struction HK\$'000	Infra- structure HK\$'000	Hotel operation HK\$'000	Depart- ment store operation HK\$'000	Others HK\$'000	Elimi- nations HK\$'000	Consoli- dated HK\$'000
For the year ended 30th June, 2004										
Turnover	2,837,148	2,017,239	102,018	781,457	238,748	116,272	122,904	511,332	—	6,727,118
Other revenue (excluding bank interest income)	10	3,159	5,463	1,550	3,363	24	799	52,580	—	66,948
External revenue	2,837,158	2,020,398	107,481	783,007	242,111	116,296	123,703	563,912	—	6,794,066
Inter-segment revenue	—	196,686	2,296	438,976	—	1,704	—	36,796	(676,458)	—
Total revenue	<u>2,837,158</u>	<u>2,217,084</u>	<u>109,777</u>	<u>1,221,983</u>	<u>242,111</u>	<u>118,000</u>	<u>123,703</u>	<u>600,708</u>	<u>(676,458)</u>	<u>6,794,066</u>
Segment results	917,421	1,294,692	78,432	73,901	171,676	2,607	4,611	80,632	—	2,623,972
Inter-segment transactions	38,840	(90,859)	(2,285)	(39,096)	—	42,709	17,540	25,953	—	(7,198)
Contribution from operations	956,261	1,203,833	76,147	34,805	171,676	45,316	22,151	106,585	—	2,616,774
Bank interest income	—	—	—	—	—	—	—	—	—	12,570
Unallocated operating expenses net of income	—	—	—	—	—	—	—	—	—	(165,076)
Profit from operations	—	—	—	—	—	—	—	—	—	2,464,268
Finance costs	—	—	—	—	—	—	—	—	—	(110,846)
Non-operating expenses	—	—	—	—	—	—	—	—	—	(44,138)
Share of profits less losses of associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	1,735,066
Income tax	—	—	—	—	—	—	—	—	—	(518,151)
Minority interests	—	—	—	—	—	—	—	—	—	(467,143)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	—	<u>3,059,056</u>
Depreciation and amortisation for the year	(1,212)	(5,276)	(57)	(595)	(33,899)	(3,615)	(11,839)	(35,007)	—	—
Impairment loss for the year	—	—	—	—	(53,178)	—	—	(435)	—	—
Provision on property projects	(27,633)	—	—	—	—	—	—	—	—	—
Provision on property projects written back	788,490	—	—	—	—	—	—	—	—	—
Segment assets	21,018,953	36,771,861	1,789,422	258,244	1,326,700	1,226,633	48,277	660,563	(295,138)	62,805,515
Investments in associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	26,854,167
Unallocated assets	—	—	—	—	—	—	—	—	—	4,802,817
Total assets	—	—	—	—	—	—	—	—	—	<u>94,462,499</u>
Segment liabilities	974,140	531,172	48,928	346,254	12,575	29,881	88,574	201,031	(295,138)	1,937,417
Unallocated liabilities	—	—	—	—	—	—	—	—	—	17,779,047
Total liabilities	—	—	—	—	—	—	—	—	—	<u>19,716,464</u>
Capital expenditure incurred during the year	763,998	123,009	—	40	1,223	1,143	9,818	8,159	—	—

13 SEGMENTAL INFORMATION (cont'd)

Business segments: (cont'd)

	Property develop- ment HK\$'000	Property leasing HK\$'000	Finance HK\$'000	Building con- struction HK\$'000	Infra- structure HK\$'000	Hotel operation HK\$'000	Depart- ment store operation HK\$'000	Others HK\$'000	Elimi- nations HK\$'000	Consoli- dated HK\$'000
For the year ended 30th June, 2003 (restated)										
Turnover	3,910,024	2,011,654	119,760	661,300	215,704	104,460	117,924	526,638	—	7,667,464
Other revenue (excluding bank interest income)	393	3,509	34,285	2,377	440	—	1,219	213,384	—	255,607
External revenue	3,910,417	2,015,163	154,045	663,677	216,144	104,460	119,143	740,022	—	7,923,071
Inter-segment revenue	—	202,398	8,132	912,490	—	1,800	—	36,178	(1,160,998)	—
Total revenue	<u>3,910,417</u>	<u>2,217,561</u>	<u>162,177</u>	<u>1,576,167</u>	<u>216,144</u>	<u>106,260</u>	<u>119,143</u>	<u>776,200</u>	<u>(1,160,998)</u>	<u>7,923,071</u>
Segment results	(252,393)	1,320,609	98,286	62,911	138,738	(9,911)	39	97,930	—	1,456,209
Inter-segment transactions	18,480	(98,132)	(8,132)	(24,971)	—	44,010	15,442	69,196	—	15,893
Contribution from operations	(233,913)	1,222,477	90,154	37,940	138,738	34,099	15,481	167,126	—	1,472,102
Bank interest income	—	—	—	—	—	—	—	—	—	20,501
Unallocated operating expenses net of income	—	—	—	—	—	—	—	—	—	(237,829)
Profit from operations	—	—	—	—	—	—	—	—	—	1,254,774
Finance costs	—	—	—	—	—	—	—	—	—	(66,129)
Non-operating income	—	—	—	—	—	—	—	—	—	42,524
Share of profits less losses of associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	2,094,547
Income tax	—	—	—	—	—	—	—	—	—	(656,186)
Minority interests	—	—	—	—	—	—	—	—	—	(636,957)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	—	<u>2,032,573</u>
Depreciation and amortisation for the year	(1,317)	(3,346)	(57)	(646)	(38,194)	(3,986)	(12,851)	(42,869)	—	—
Impairment loss for the year	—	—	—	—	—	—	—	(16,776)	—	—
Provision on property projects	(664,706)	—	—	—	—	—	—	—	—	—
Provision on property projects written back	<u>336,999</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Segment assets	22,691,886	32,536,798	2,017,791	456,175	1,294,424	1,160,558	53,310	1,368,148	(348,607)	61,230,483
Investments in associates and jointly controlled entities	—	—	—	—	—	—	—	—	—	20,601,766
Unallocated assets	—	—	—	—	—	—	—	—	—	<u>3,285,685</u>
Total assets	—	—	—	—	—	—	—	—	—	<u>85,117,934</u>
Segment liabilities	1,071,573	696,382	92,049	435,686	18,237	6,514	89,901	214,130	(348,607)	2,275,865
Unallocated liabilities	—	—	—	—	—	—	—	—	—	<u>16,685,650</u>
Total liabilities	—	—	—	—	—	—	—	—	—	<u>18,961,515</u>
Capital expenditure incurred during the year	<u>1,689,575</u>	<u>376,187</u>	<u>—</u>	<u>1,620</u>	<u>454</u>	<u>271</u>	<u>8,981</u>	<u>28,890</u>	—	—

13 SEGMENTAL INFORMATION (cont'd)

Geographical segments

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
For the year ended 30th June, 2004			
Turnover	6,364,676	362,442	6,727,118
Other revenue (excluding bank interest income)	<u>60,120</u>	<u>6,828</u>	<u>66,948</u>
External revenue	<u>6,424,796</u>	<u>369,270</u>	<u>6,794,066</u>
Segment assets	<u>50,606,458</u>	<u>12,494,195</u>	
Capital expenditure incurred during the year	<u>899,302</u>	<u>8,088</u>	
For the year ended 30th June, 2003 (restated)			
Turnover	7,278,186	389,278	7,667,464
Other revenue (excluding bank interest income)	<u>213,760</u>	<u>41,847</u>	<u>255,607</u>
External revenue	<u>7,491,946</u>	<u>431,125</u>	<u>7,923,071</u>
Segment assets	<u>49,391,198</u>	<u>12,187,892</u>	
Capital expenditure incurred during the year	<u>2,092,703</u>	<u>13,275</u>	

14 FIXED ASSETS**(a) Investment properties**

The Group:

	HK\$'000
Cost or valuation:	
At 1st July, 2003	29,312,429
Additions	41,905
Disposals	(23,858)
Surplus on revaluation	<u>3,064,202</u>
At 30th June, 2004	<u><u>32,394,678</u></u>

(b) Other fixed assets

The Group:

	Hotel properties HK\$'000	Other land and buildings HK\$'000	Properties held for/under development HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation:							
At 1st July, 2003	1,151,000	508,310	2,913,887	789,529	655,753	818,115	6,836,594
Additions	—	—	128,574	—	—	30,799	159,373
Transfer from properties held for development, and properties under development under current assets	—	—	1,062,866	—	—	—	1,062,866
Disposal of subsidiaries	—	—	—	—	—	(35,994)	(35,994)
Other disposals	—	—	—	—	(94,824)	(118,417)	(213,241)
Surplus on revaluation	<u>58,000</u>	—	—	—	—	—	<u>58,000</u>
At 30th June, 2004	<u>1,209,000</u>	<u>508,310</u>	<u>4,105,327</u>	<u>789,529</u>	<u>560,929</u>	<u>694,503</u>	<u>7,867,598</u>
Amortisation and depreciation:							
At 1st July, 2003	—	63,489	—	87,526	80,050	654,976	886,041
Charge for the year	—	7,099	—	22,472	9,878	52,494	91,943
Impairment loss (Note)	—	435	—	53,178	—	—	53,613
Written back on disposal of subsidiaries	—	—	—	—	—	(31,290)	(31,290)
Written back on other disposals	—	—	—	—	(27,579)	(85,137)	(112,716)
At 30th June, 2004	<u>—</u>	<u>71,023</u>	<u>—</u>	<u>163,176</u>	<u>62,349</u>	<u>591,043</u>	<u>887,591</u>
Net book value:							
At 30th June, 2004	<u>1,209,000</u>	<u>437,287</u>	<u>4,105,327</u>	<u>626,353</u>	<u>498,580</u>	<u>103,460</u>	<u>6,980,007</u>
At 30th June, 2003	<u>1,151,000</u>	<u>444,821</u>	<u>2,913,887</u>	<u>702,003</u>	<u>575,703</u>	<u>163,139</u>	<u>5,950,553</u>

14 FIXED ASSETS (cont'd)**(b) Other fixed assets** (cont'd)

	Hotel properties HK\$'000	Other land and buildings HK\$'000	Properties held for/under development HK\$'000	Toll highway operation rights HK\$'000	Bridges HK\$'000	Others HK\$'000	Total HK\$'000
Cost or valuation at 30th June, 2004 representing:							
Cost	—	442,230	3,957,327	789,529	560,929	694,503	6,444,518
Valuation							
— 30th June, 1992	—	20,110	—	—	—	—	20,110
— 30th June, 1994	—	45,970	—	—	—	—	45,970
— 30th June, 1997	—	—	148,000	—	—	—	148,000
— 30th June, 2004	<u>1,209,000</u>	—	—	—	—	—	<u>1,209,000</u>
	<u>1,209,000</u>	<u>508,310</u>	<u>4,105,327</u>	<u>789,529</u>	<u>560,929</u>	<u>694,503</u>	<u>7,867,598</u>

Note: During the year, based on the Group's assessment of the recoverable amount for one of the toll roads at Fenghua, Zhejiang Province, the PRC, by considering the decreasing turnover since recent years, impairment loss of HK\$53,178,000 is recognised in the profit and loss account.

(c) The analysis of net book value of properties is as follows: —

	The Group	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong		
— under long leases	<u>3,965,087</u>	3,740,877
— under medium-term leases	<u>30,949,708</u>	26,846,327
	<u>34,914,795</u>	<u>30,587,204</u>
Outside Hong Kong		
— under long leases	436	915
— under medium-term leases	<u>4,355,994</u>	4,511,736
	<u>4,356,430</u>	<u>4,512,651</u>
	<u>39,271,225</u>	<u>35,099,855</u>

The Group's investment and hotel properties were revalued as at 30th June, 2004 by Mr. Augustine Wong, the Group's professional valuer who is a Fellow Member of The Hong Kong Institute of Surveyors, on an open market value basis in their existing state by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential.

In the opinion of the directors, any capital gains arising on disposal of the revalued leasehold properties in Hong Kong at their carrying value will not be subject to any tax liability. The contingent liabilities of the Company in respect of Land Appreciation Tax ("LAT") and PRC Income Tax arising on disposal of certain revalued properties in other areas of the PRC are disclosed in note 44(f) on the accounts.

The gross carrying amounts of investment and hotel properties of the Group held for use in operating leases were HK\$32,394,678,000 (2003 — HK\$29,312,429,000) and HK\$1,209,000,000 (2003 — HK\$1,151,000,000) respectively.

14 FIXED ASSETS (cont'd)

The Group leases assets under finance leases expiring within one year. At the end of the lease terms, the Group has the option to purchase the assets at a price deemed to be a bargain purchase option. At 30th June, 2003 the net book value of assets held under finance leases of the Group was HK\$634,000. There were no assets held under finance leases at 30th June, 2004.

The Group's toll highway operation rights are pledged as securities for certain bank loans.

Included in the Group's others of HK\$694,503,000 (2003 — HK\$818,115,000) was HK\$Nil (2003 — HK\$12,000) relating to construction in progress of bridges.

15 INTEREST IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	2,355,074	2,315,451
Amounts due from subsidiaries	39,400,186	39,960,690
	41,755,260	42,276,141
Less: Impairment loss	(83,000)	(83,000)
	41,672,260	42,193,141
Amounts due to subsidiaries	(1,856,310)	(5,003,507)
	39,815,950	37,189,634

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into these accounts.

Details of principal subsidiaries are shown on pages 136 to 145.

16 INTEREST IN ASSOCIATES

	The Group		The Company	
	2004	2003 restated	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted				
Shares, at cost	—	—	168,367	262,991
Share of net assets	128,143	108,976	—	—
Amounts due from associates	1,929,636	2,505,021	750,305	943,953
	2,057,779	2,613,997	918,672	1,206,944
Less: Impairment loss	—	—	(49,038)	(128,849)
	2,057,779	2,613,997	869,634	1,078,095
Amounts due to associates	(19,105)	(21,253)	(62,241)	(62,568)
	2,038,674	2,592,744	807,393	1,015,527
Listed in Hong Kong				
Share of net assets	11,546,035	10,907,596	—	—
Goodwill	904,525	955,080	—	—
Amounts due from associates	145,924	185,173	—	—
	12,596,484	12,047,849	—	—
Amounts due to associates	(19,047)	(106,778)	—	—
	12,577,437	11,941,071	—	—
	14,616,111	14,533,815	807,393	1,015,527
Market value of listed shares	29,372,248	22,578,027	—	—

Details of principal associates are shown on page 146.

17 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group		The Company	
	2004	2003 restated	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	10	10
Share of net assets	2,293,469	1,333,113	—	—
Amounts due from jointly controlled entities	9,973,414	4,754,313	114,253	114,621
	12,266,883	6,087,426	114,263	114,631
Amounts due to jointly controlled entities	(28,827)	(19,475)	(6,121)	(5,879)
	12,238,056	6,067,951	108,142	108,752

Details of principal jointly controlled entities are shown on page 147.

18 INVESTMENTS IN SECURITIES

The Group:

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities								
Listed in Hong Kong	—	—	—	—	167,304	641,275	167,304	641,275
Listed outside								
Hong Kong	—	—	20,314	20,314	—	—	20,314	20,314
Unlisted	—	—	96,655	140,658	30,181	41,218	126,836	181,876
	—	—	116,969	160,972	197,485	682,493	314,454	843,465
Debt securities								
Listed outside								
Hong Kong	11,699	11,699	—	—	—	—	11,699	11,699
Unlisted	41,096	173,092	—	—	—	—	41,096	173,092
	52,795	184,791	—	—	—	—	52,795	184,791
	52,795	184,791	116,969	160,972	197,485	682,493	367,249	1,028,256
Market value of listed securities	11,936	11,443	28,966	20,331	167,304	641,275	208,206	673,049
Carrying amount analysed for reporting purposes as:								
Non-current	11,699	54,402	116,969	160,972	197,485	601,613	326,153	816,987
Current	41,096	130,389	—	—	—	80,880	41,096	211,269
	52,795	184,791	116,969	160,972	197,485	682,493	367,249	1,028,256

19 PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2004	2003 restated
	HK\$'000	HK\$'000
In Hong Kong	898,179	1,450,980
In other areas of the PRC	3,466,778	3,068,444
	4,364,957	4,519,424

20 INSTALMENTS RECEIVABLE

- (a) This represents the principal content of instalments receivable from the sale of flats after twelve months from the balance sheet date. The amounts receivable within twelve months from the balance sheet date are included under current assets.
- (b) The ageing analysis of instalments receivable within twelve months from the balance sheet date (net of provision for bad debts) is as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Under 1 month overdue	228,492	399,306
More than 1 month overdue but less than 3 months overdue	4,225	3,967
More than 3 months overdue but less than 6 months overdue	3,190	3,642
More than 6 months overdue	21,973	23,194
	<u>257,880</u>	<u>430,109</u>

21 DEFERRED EXPENSE

This represents arrangement fee incurred in connection with the issuance of the guaranteed convertible notes and is amortised on a straight-line basis over the term of the notes.

22 LONG TERM RECEIVABLE

The amount represents the non-current portion of the discounted value of the instalments receivable in the future arising from the disposal of toll collection right of certain toll bridges during the year as further detailed in note 4. The portion of HK\$38,110,000 expected to be received within one year is classified under "Debtors, prepayments and deposits".

23 PROPERTIES UNDER DEVELOPMENT

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
In Hong Kong	4,976,535	6,249,853
In other areas of the PRC	1,223,785	1,100,509
	<u>6,200,320</u>	<u>7,350,362</u>

The amount of properties under development expected to be completed after more than one year is HK\$5,369,371,000 (2003 (restated) — HK\$5,896,431,000).

24 COMPLETED PROPERTIES FOR SALE

The completed properties for sale of the Group include properties of HK\$1,528,643,000 (2003 — HK\$3,754,228,000) carried at net realisable value.

The amount of reversal of a write-down of completed properties for sale to estimated net realisable value, recognised in the consolidated profit and loss account during the year, is HK\$425,884,000 (2003 — HK\$23,897,000).

25 INVENTORIES

The Group's inventories of HK\$1,093,000 (2003 — HK\$1,512,000) are carried at net realisable value.

26 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less anticipated losses	647,138	480,550
Progress billings	<u>(655,787)</u>	<u>(314,010)</u>
Net contract work	<u>(8,649)</u>	<u>166,540</u>
Represented by:		
Amounts due from customers for contract work	25,684	166,540
Amounts due to customers for contract work	<u>(34,333)</u>	<u>—</u>
	<u>(8,649)</u>	<u>166,540</u>

The amounts due from customers for contract work expected to be recovered after more than one year is HK\$4,100,000 (2003 — HK\$52,971,000).

27 DEPOSITS FOR ACQUISITION OF PROPERTIES

The deposits for acquisition of properties include HK\$1,177,406,000 (2003 — HK\$300,251,000) paid for the acquisition of a property located in the PRC.

In 2003, a master sale and purchase agreement was signed by the Group and a shareholder of a former associate of the Group in connection with the purchase of a property located in the PRC at a cash consideration of US\$124,000,000. In accordance with the formal property acquisition agreements and loan assignment agreements signed during the year, part of the loans advanced to the former associate in previous years of HK\$332,849,000 was accounted for as part of the consideration for the acquisition of the property (note 28).

28 LOANS RECEIVABLE

Included in loans receivable at 30th June, 2003 of HK\$695,849,000 were loans advanced by the Group to a former associate of the Group. During the year, HK\$363,000,000 was received and the remaining balance was accounted for as part of the consideration for the acquisition of a property as set out in note 27.

29 DEBTORS, PREPAYMENTS AND DEPOSITS

The Group maintains a defined credit policy. Consideration in respect of sold properties are payable by the purchaser pursuant to the terms of the sale and purchase agreement. Monthly rent in respect of leasing properties are payable in advance by tenants. Housing instalment and other trade debtors settle their accounts according to the payment terms as stated in the contracts. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

The ageing analysis of trade debtors (net of provision for bad debts) is as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Under 1 month overdue	120,413	158,004	—	—
More than 1 month overdue but less than 3 months overdue	29,149	45,884	—	—
More than 3 months overdue but less than 6 months overdue	14,716	21,149	—	—
More than 6 months overdue	115,651	207,094	—	—
	<u>279,929</u>	<u>432,131</u>	<u>—</u>	<u>—</u>
Prepayments, deposits and other receivables	817,119	630,228	24,928	24,935
	<u>1,097,048</u>	<u>1,062,359</u>	<u>24,928</u>	<u>24,935</u>

The debtors, prepayments and deposits of the Group include HK\$543,010,000 (2003 — HK\$398,637,000) which is expected to be recovered after more than one year. Apart from the above, all of the balances are expected to be recovered within one year.

30 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deposits with banks and other financial institutions	3,481,601	1,694,232	—	—
Cash at bank and in hand	301,249	668,357	291	375
Cash and cash equivalents in the balance sheets	3,782,850	2,362,589	291	375
Investments in securities	—	656	—	—
Bank overdrafts	(229,135)	(152,769)	—	—
Cash and cash equivalents in the cash flow statement	<u>3,553,715</u>	<u>2,210,476</u>	<u>—</u>	<u>—</u>

31 BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans and overdrafts (note a)		
— Secured	237,664	259,485
— Unsecured	4,972,867	11,134,284
	<u>5,210,531</u>	<u>11,393,769</u>
Unsecured other loans (note b)	38,647	26,320
	<u>5,249,178</u>	<u>11,420,089</u>

	The Group	
	2004 HK\$'000	2003 HK\$'000
(a) Bank loans and overdrafts are repayable as follows: —		
Within 1 year and included in current liabilities	<u>1,222,733</u>	<u>1,545,095</u>
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	2,808,744	5,348,420
After 2 years but within 5 years	1,179,054	4,434,979
After 5 years	—	65,275
	<u>3,987,798</u>	<u>9,848,674</u>
	<u>5,210,531</u>	<u>11,393,769</u>

	The Group	
	2004 HK\$'000	2003 HK\$'000
(b) Unsecured other loans are repayable as follows: —		
Within 1 year and included in current liabilities	<u>26,320</u>	<u>—</u>
After 1 year and included in non-current liabilities		
After 1 year but within 2 years	—	26,320
After 2 years but within 5 years	12,327	—
	<u>12,327</u>	<u>26,320</u>
	<u>38,647</u>	<u>26,320</u>

32 OBLIGATIONS UNDER FINANCE LEASES

At 30th June 2004, the Group had obligations under finance leases repayable as follows: —

	Present value of the minimum lease payments HK\$'000	2004 Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	2003 Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year and included in current liabilities	—	—	—	47	4	51

33 RENTAL AND OTHER DEPOSITS

The rental and other deposits of the Group include HK\$182,343,000 (2003 — HK\$186,894,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

34 CREDITORS AND ACCRUED EXPENSES

The creditors and accrued expenses of the Group include HK\$212,866,000 (2003 — HK\$208,164,000) which is expected to be settled after more than one year. Apart from the above, all of the balances are expected to be settled within one year.

The ageing analysis of trade creditors is as follows: —

	The Group		The Company	
	2004 HK'000	2003 restated HK'000	2004 HK\$'000	2003 HK\$'000
Due within 1 month and on demand	453,807	318,726	—	—
Due after 1 month but within 3 months	139,579	166,549	—	—
Due after 3 months but within 6 months	37,539	173,351	—	—
Due after 6 months	<u>441,568</u>	<u>479,231</u>	<u>—</u>	<u>—</u>
	1,072,493	1,137,857	—	—
Other payables and accrued expenses	<u>574,278</u>	<u>296,715</u>	<u>90,169</u>	<u>120,042</u>
	<u>1,646,771</u>	<u>1,434,572</u>	<u>90,169</u>	<u>120,042</u>

35 GUARANTEED CONVERTIBLE NOTES

- (i) On 9th February, 2004, a subsidiary of the Group issued guaranteed convertible notes (the "Notes") with an aggregate principal amount of HK\$5,750,000,000 at an issue price equal to 100% of the principal amount of the Notes. The Notes bear interest at the rate of 1% per annum, payable semi-annually in arrears on 9th August and 9th February of each year commencing 9th August, 2004. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 82% of the principal amount plus any accrued interest on 9th February, 2006, or at the option of the holder at 92% of the principal amount plus any accrued interest on 8th February, 2005. The Notes are guaranteed by the Company.
- (ii) The Notes are convertible after 9th March, 2004 up to and including 10th January, 2006 into fully paid ordinary shares with a par value of HK\$2 each of the Company at an initial conversion price, subject to certain events, of HK\$48.96 per share.
- (iii) During the year, no Notes were converted into any ordinary shares of the Company.

36 SHARE CAPITAL

	The Group and the Company			
	No. of shares		Nominal value	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Authorised				
Ordinary shares of HK\$2.00 each	<u>2,000,000</u>	<u>1,800,000</u>	<u>4,000,000</u>	<u>3,600,000</u>
Issued and fully paid				
Ordinary shares of HK\$2.00 each				
At 1st July	1,722,140	1,722,140	3,444,280	3,444,280
Issue of shares	<u>92,440</u>	<u>—</u>	<u>184,880</u>	<u>—</u>
At 30th June	<u>1,814,580</u>	<u>1,722,140</u>	<u>3,629,160</u>	<u>3,444,280</u>

At the board meeting of the Company held on 20th October, 2003, the directors approved the following matters under the general mandate granted to the directors at the Annual General Meeting of the Company held on 18th December, 2002:

- (i) the authorised share capital of the Company was increased to HK\$4,000,000,000 by the creation of 200,000,000 additional ordinary shares of HK\$2.00 each ranking for dividend and in all other respects pari passu with the existing shares of the Company; and
- (ii) an additional 92,440,000 ordinary shares of HK\$2.00 each in the capital of the Company were issued for cash at a price of HK\$31.961 each. (Note)

Note: During the year, 92,440,000 ordinary shares in the Company were placed at a price of HK\$32.45 per share (the "Placing Price") through a share placement arrangement. Subsequently, the Company issued 92,440,000 new ordinary shares for cash at a subscription price of HK\$31.961 per share to increase the capital base of the Company. The subscription price is equivalent to the Placing Price less expenses borne by the Company of approximately HK\$45,203,000 which included commissions, professional fees and other ancillary expenses in relation to the placement arrangement.

37 SHARE PREMIUM

	The Group and the Company	
	2004 HK\$'000	2003 HK\$'000
At 1st July	8,387,915	8,387,915
Premium on issue of shares	2,769,595	—
Expenses on issue of shares	<u>(64)</u>	<u>—</u>
At 30th June	<u>11,157,446</u>	<u>8,387,915</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

38 CAPITAL RESERVES

The Group:

	Other properties revaluation reserve HK\$'000	Reserve on consolidation HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2002	181,236	1,446,702	20,200	(2,595)	2,441	1,647,984
Deficits on revaluation of other properties	(176)	—	—	—	—	(176)
Realisation upon disposal of other properties in associates	(29,006)	—	—	—	—	(29,006)
Exchange difference arising from investment in a foreign entity	—	—	—	(1,220)	—	(1,220)
Transfer from profit and loss account (note 40)	—	—	—	—	15	15
At 30th June, 2003	<u>152,054</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(3,815)</u>	<u>2,456</u>	<u>1,617,597</u>
Dealt with by:						
Company and subsidiaries	181,187	1,446,702	20,200	—	2,456	1,650,545
Associates and jointly controlled entities	<u>(29,133)</u>	<u>—</u>	<u>—</u>	<u>(3,815)</u>	<u>—</u>	<u>(32,948)</u>
	<u>152,054</u>	<u>1,446,702</u>	<u>20,200</u>	<u>(3,815)</u>	<u>2,456</u>	<u>1,617,597</u>

38 CAPITAL RESERVES (cont'd)

The Group:

	Other properties revaluation reserve HK\$'000	Reserve on consolidation HK\$'000	Capital redemption reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st July, 2003	152,054	1,446,702	20,200	(3,815)	2,456	1,617,597
Surplus on revaluation of other properties	54,288	—	—	—	—	54,288
Share of surplus on revaluation of other properties in associates	44,887	—	—	—	—	44,887
Impairment loss on positive goodwill	—	2,613	—	—	—	2,613
Exchange difference arising from investment in a foreign entity	—	—	—	(110)	—	(110)
Transfer from profit and loss account (note 40)	—	—	—	—	1,430	1,430
At 30th June, 2004	<u>251,229</u>	<u>1,449,315</u>	<u>20,200</u>	<u>(3,925)</u>	<u>3,886</u>	<u>1,720,705</u>
Dealt with by:						
Company and subsidiaries	235,475	1,449,315	20,200	—	3,886	1,708,876
Associates and jointly controlled entities	<u>15,754</u>	—	—	<u>(3,925)</u>	—	<u>11,829</u>
	<u>251,229</u>	<u>1,449,315</u>	<u>20,200</u>	<u>(3,925)</u>	<u>3,886</u>	<u>1,720,705</u>

The Company:

	Capital redemption reserve 2004 HK\$'000	2003 HK\$'000
At 1st July and 30th June	<u>20,200</u>	<u>20,200</u>

The application of capital redemption reserve is governed by Section 49H of the Hong Kong Companies Ordinance.

The other properties revaluation reserve, reserve on consolidation and exchange reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the goodwill arising on acquisition of subsidiaries, associates and jointly controlled entities, the valuation of properties and foreign currency translation (note 1).

Other reserve represents statutory reserve set up for enterprises established in the PRC. According to the relevant PRC rules and regulations applicable to wholly foreign-owned enterprises, wholly foreign-owned enterprises are required to transfer at least 10% of their profits after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprises' registered capital.

39 INVESTMENT PROPERTY REVALUATION RESERVE

	The Group	
	2004	2003
	HK\$'000	restated HK\$'000
At 1st July		
— as previously reported	8,547,702	12,311,082
— prior year adjustment arising from change in accounting policy for deferred tax (note 2)		
— subsidiaries	4,785	(54,910)
— associates	<u>(8,098)</u>	<u>(7,605)</u>
— as restated	8,544,389	12,248,567
Revaluation surpluses/(deficits), net of deferred tax	2,915,712	(2,942,802)
Share of revaluation surpluses/(deficits) in associates, net of deferred tax	145,024	(694,070)
Share of revaluation surpluses/(deficits) in jointly controlled entities	582,395	(60,277)
Realised upon disposal of properties of subsidiaries	2,255	(7,029)
Realised upon disposal of properties of associates	<u>(1,430)</u>	<u>—</u>
At 30th June	<u>12,188,345</u>	<u>8,544,389</u>
Dealt with by:		
Company and subsidiaries	11,416,243	8,498,276
Associates	338,158	194,564
Jointly controlled entities	<u>433,944</u>	<u>(148,451)</u>
	<u>12,188,345</u>	<u>8,544,389</u>

The investment property revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for investment properties (note 1).

40 RETAINED PROFITS

	The Group		The Company	
	2004	2003 restated	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July				
— as previously reported	31,868,409	31,003,794	26,366,786	27,048,058
— prior year adjustment arising from change in accounting policy for deferred tax (note 2)				
— subsidiaries	(644,663)	(476,891)	—	—
— associates	(248,783)	(207,138)	—	—
— jointly controlled entities	(40,125)	(39,773)	—	—
— as restated	30,934,838	30,279,992	26,366,786	27,048,058
Dividends approved in respect of the previous year (note 11(b))	(816,561)	(774,963)	(816,561)	(774,963)
Profit for the year	3,059,056	2,032,573	944,607	696,440
Transfer to capital reserve (note 38)	(1,430)	(15)	—	—
Dividends declared and paid in respect of the current year (note 11(a))	(635,103)	(602,749)	(635,103)	(602,749)
At 30th June	32,540,800	30,934,838	25,859,729	26,366,786
Retained by:				
Company and subsidiaries	28,970,072	27,774,509		
Associates	3,355,583	3,043,939		
Jointly controlled entities	215,145	116,390		
	32,540,800	30,934,838		

41 DISTRIBUTABLE RESERVES

The distributable reserves of the Company at 30th June, 2004 amounted to HK\$25,859,729,000 (2003 — HK\$26,366,786,000).

42 COMMITMENTS

At 30th June, 2004, the Group had commitments not provided for in these accounts as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
(i) Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	92,058	334,197
(ii) Contracted obligations to fund the subsidiaries and associates established outside Hong Kong	1,764,234	2,327,265
(iii) Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	<u>5,705,485</u>	<u>4,945,939</u>
	<u><u>7,561,777</u></u>	<u><u>7,607,401</u></u>

Based on information available at the balance sheet date, the directors estimate that the Group's commitments disclosed above are payable as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within 1 year	2,669,710	2,929,952
After 1 year but within 2 years	2,090,280	1,745,394
After 2 years	<u>2,801,787</u>	<u>2,932,055</u>
	<u><u>7,561,777</u></u>	<u><u>7,607,401</u></u>

43 SIGNIFICANT LEASING ARRANGEMENTS

At 30th June, 2004, the Group is both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows: —

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease after that date at which time all terms are renegotiated. Further details of the carrying value of the properties are contained in note 14.

During the current year, HK\$2,017,239,000 (2003 — HK\$2,011,654,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Within 1 year	1,402,478	1,385,883
After 1 year but within 5 years	1,086,502	903,049
After 5 years	135,342	83,971
	<u>2,624,322</u>	<u>2,372,903</u>

(b) Lessee

(i) The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

During the current year, HK\$26,971,000 (2003 — HK\$27,698,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of building facilities.

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

	The Group	
	2004 HK\$'000	2003 HK\$'000
Within 1 year	33,548	16,303
After 1 year but within 5 years	72,874	37,009
After 5 years	19,575	152,082
	<u>125,997</u>	<u>205,394</u>

43 SIGNIFICANT LEASING ARRANGEMENTS (cont'd)**(b) Lessee** (cont'd)

- (ii) The Group also leases telecommunications network facilities under operating leases. Some of the leases are with no specific terms while the remaining leases typically run for an initial period of three month to four years, with an option to renew the lease upon the expiry of the initial lease term. None of the leases includes contingent rentals.

During the current year, HK\$5,237,000 (2003 — HK\$8,731,000) was recognised as an expense in the consolidated profit and loss account in respect of leasing of telecommunications network facilities.

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

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within 1 year	2,476	3,502
After 1 year but within 5 years	252	155
	<u>2,728</u>	<u>3,657</u>

44 CONTINGENT LIABILITIES

At 30th June, 2004, contingent liabilities of the Group and of the Company were as follows: —

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Guarantees given by the Company and its subsidiaries to financial institutions on behalf of purchasers of flats	215,576	232,647	2,020	3,327
(b) Guarantees given by the Company to banks to secure banking facilities of subsidiaries	—	—	4,499,475	9,618,615
(c) Guarantees given by the Company to banks to secure banking facilities of an associate and jointly controlled entities	2,322,385	3,526,014	2,322,385	3,526,014
(d) Guarantees given by the Company to holders of guaranteed convertible notes issued by a subsidiary	—	—	5,772,681	—
	<u>2,537,961</u>	<u>3,758,661</u>	<u>12,596,561</u>	<u>13,147,956</u>

- (e) The Company has given guarantees to third parties in respect of contracted commitments of its subsidiaries to provide attributable portion of capital to joint property development project and funding of property development project. At 30th June, 2004, the Company had no contingent liabilities in relation to the said guarantees (2003 — HK\$294 million).
- (f) Pursuant to an indemnity deed dated 15th March, 1996 signed between the Company and a subsidiary, the Company, under certain conditions, has undertaken to indemnify the subsidiary in respect of any PRC Income Tax and LAT payable in consequence of the disposal by the subsidiary of its property interests owned as at 31st December, 1995. At 30th June, 2004, the Company had contingent PRC Income Tax and LAT liabilities of HK\$110 million (2003 (restated) — HK\$110 million) and HK\$38 million (2003 (restated) — HK\$38 million) respectively in relation to certain investment properties of the subsidiary upon a revaluation of these properties at 30th June, 2004.

45 MATERIAL RELATED PARTY TRANSACTIONS**(a) Transactions with fellow subsidiaries**

Details of material related party transactions between the Group and its fellow subsidiaries are as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Loan arrangement fee (note i)	14,217	69,387
Building construction income (note ii)	593	415
Building management service income (note iii)	32,070	32,409
Rental commission income (note iii)	16,150	13,501
Other interest expense (note i)	18,643	65,130

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions between the Group and its associates and jointly controlled entities are as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Other interest income (note i)	33,482	36,427
Building construction income (note ii)	748,062	477,666
Management fee income (note iii)	30,010	20,318
Professional fee income (note iii)	10,384	54,974
Payment for acquisition of property development rights (note iv)	—	380,529
Sale of goods (note iii)	1,297	1,915

(c) Transactions with related companies

Details of material related party transactions between the Group and its related companies which represented a trust fund managed by the directors of the Group are as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Building construction income (note ii)	29,394	11,958
Sales commission income (note iii)	8,787	3,309
Rental commission income (note iii)	7,282	5,036

In addition, the Group and one of its related companies entered into a rental agreement dated 30th March, 2004 for leasing certain units of the Group's investment properties with a monthly rental charged at 8% of the tenant's monthly turnover. According to the rental agreement, the related company is entitled to a rent free period from 1st April, 2004 to 30th September, 2004 and accordingly no rental income was derived from the related company for the year ended 30th June, 2004 (note iii).

45 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)*Notes:*

- (i) Loan arrangement fee, interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Inter-Bank Offer Rate or prime rate.
- (ii) Building construction income represents cost reimbursements plus certain percentage thereon as service fees.
- (iii) These transactions were carried out on normal commercial terms and in the ordinary course of business.
- (iv) The consideration was paid by the Group pursuant to the terms of agreement signed between the Group and the associate for entitlement to 27% of the future net sales proceeds of the residential portion of the property development project.
- (v) The amounts due to fellow subsidiaries at 30th June, 2004 are shown in the balance sheet. The amounts due to/from associates and jointly controlled entities at 30th June, 2004 are set out in note 16 and 17 respectively.

(d) Transactions with companies controlled by a director of the Company

Mr Lee Ka Kit, a director of the Company, through companies controlled or owned by him has separate interests in certain subsidiaries and associates of the Company or the Group and through which the Group holds its interest in certain development projects in the PRC. Mr Lee through companies controlled or owned by him had provided finance in the form of advances to these subsidiaries and associates in accordance with the percentage of his equity interest in these companies. At 30th June, 2004, the advances made to these subsidiaries and associates through companies controlled or owned by Mr Lee amounting to HK\$470,464,000 (2003 — HK\$414,438,000) and HK\$586,821,000 (2003 — HK\$664,322,000) respectively are unsecured. Interest payable by these subsidiaries and associates to companies controlled or owned by Mr Lee under such arrangements during the year ended 30th June, 2004 are HK\$Nil (2003 — HK\$ Nil) and HK\$ Nil (2003 — HK\$17,943,000) respectively.

46 DIRECTORS' REMUNERATION

- (a) Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows: —

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Executive directors		
Fees	1,110	1,110
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	41,019	36,010
Pension scheme contributions	1,558	1,572
Discretionary bonuses	20,730	17,920
	<u>64,417</u>	<u>56,612</u>
Non-executive directors		
Fees	140	140
Other emoluments:		
Basic salaries, housing and other allowances and benefits in kind	1,000	2,000
	<u>1,140</u>	<u>2,140</u>
Independent non-executive directors		
Fees	260	240
Others	330	250
	<u>590</u>	<u>490</u>

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior years.

46 DIRECTORS' REMUNERATION (cont'd)

(b) The number of directors whose remuneration fell within designated bands are as follows: —

Remuneration bands:	The Group	
	2004 Number of directors	2003 Number of directors
HK\$		
Nil — 1,000,000	8	8
1,000,001 — 1,500,000	1	—
2,000,001 — 2,500,000	—	2
2,500,001 — 3,000,000	3	3
3,000,001 — 3,500,000	2	1
3,500,001 — 4,000,000	—	1
4,000,001 — 4,500,000	3	2
4,500,001 — 5,000,000	—	1
7,500,001 — 8,000,000	1	1
8,000,001 — 8,500,000	1	1
8,500,001 — 9,000,000	—	1
9,500,001 — 10,000,000	1	—
10,000,001 — 10,500,000	1	—

47 SENIOR MANAGEMENT REMUNERATION

Of the five individuals with the highest emoluments, four (2003 - four) of them are directors whose emoluments are disclosed in note 46. The aggregate of the emoluments in respect of the other one (2003 - one) individual are as follows: —

	The Group	
	2004 HK\$'000	2003 HK\$'000
Salaries and other emoluments	3,243	3,982
Discretionary bonuses	2,000	440
Retirement scheme contributions	180	238
	<u>5,423</u>	<u>4,660</u>

48 ULTIMATE HOLDING COMPANY

The directors consider that the ultimate holding company at 30th June, 2004 to be Henderson Development Limited, incorporated in Hong Kong.

49 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 2. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.