

Report of the Auditors

TO THE SHAREHOLDERS OF THE WHARF (HOLDINGS) LIMITED

(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

We have audited the accounts on pages 62 to 109 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, March 16, 2004

Consolidated Profit and Loss Account

For The Year Ended December 31, 2003

| | Note | 2003 HK\$ Million | 2002 HK\$ Million (Restated) |
|---|-------|----------------------|------------------------------------|
| Turnover | 2 | 11,253 | 11,333 |
| Other net profit / (losses) | 4 | 33 | (29) |
| | | 11,286 | 11,304 |
| Direct costs and operating expenses | | (3,910) | (3,781) |
| Selling and marketing expenses | | (519) | (490) |
| Administrative and corporate expenses | | (515) | (484) |
| Operating profit before depreciation, amortisation, interest and tax | | 6,342 | 6,549 |
| Depreciation and amortisation | | (1,292) | (1,208) |
| Operating profit | 2 & 3 | 5,050 | 5,341 |
| Borrowing costs | 5 | (480) | (755) |
| Net other charges | 6 | (107) | (434) |
| Share of profits less losses of associates | | 292 | (495) |
| Profit before taxation | | 4,755 | 3,657 |
| Taxation | 7(c) | (952) | (729) |
| Profit after taxation | | 3,803 | 2,928 |
| Minority interests | | (760) | (669) |
| Profit attributable to shareholders | 8 | 3,043 | 2,259 |
| Dividends attributable to the year | 9 | | |
| Interim dividend declared during the year | | 802 | 685 |
| Final dividend proposed after the balance sheet date | | 685 | 685 |
| | | 1,487 | 1,370 |
| Earnings per share | 10 | | |
| Basic | | HK\$1.24 | HK\$0.92 |
| Diluted | | HK\$1.24 | HK\$0.92 |

The notes on pages 68 to 109 form part of these accounts.

Consolidated Balance Sheet

At December 31, 2003

| | Note | 2003 HK\$ Million | 2002 HK\$ Million (Restated) |
|--|-------|----------------------|------------------------------------|
| Non-current assets | | | |
| Fixed assets | | | |
| Investment properties | | 54,580 | 52,373 |
| Other properties, plant and equipment | | 16,540 | 16,671 |
| | 12 | 71,120 | 69,044 |
| Goodwill | 14 | 347 | 397 |
| Long term deposits | 15 | 156 | 156 |
| Interest in associates | 16 | 2,075 | 3,367 |
| Long term investments | 17 | 1,392 | 1,178 |
| Deferred debtors | 18 | 439 | 459 |
| Deferred items | 19 | 432 | 468 |
| Deferred tax assets | 27(a) | 112 | 108 |
| | | 76,073 | 75,177 |
| Current assets | | | |
| Inventories | 20 | 2,695 | 2,885 |
| Trade and other receivables | 21 | 882 | 1,017 |
| Listed debt securities | | – | 525 |
| Pledged deposits | | – | 293 |
| Deposits and cash | | 1,512 | 1,225 |
| | | 5,089 | 5,945 |
| Current liabilities | | | |
| Trade and other payables | 22 | (4,193) | (4,768) |
| Short term loans and overdrafts | 23 | (6,329) | (6,272) |
| Taxation payable | 7(e) | (638) | (380) |
| | | (11,160) | (11,420) |
| Net current liabilities | | (6,071) | (5,475) |
| Total assets less current liabilities | | 70,002 | 69,702 |
| Capital and reserves | | | |
| Share capital | 24 | 2,447 | 2,447 |
| Reserves | 25 | 49,181 | 45,287 |
| Shareholders' equity | | 51,628 | 47,734 |
| Minority interests | | 4,021 | 3,681 |
| Non-current liabilities | | | |
| Long term loans | 26 | 12,345 | 16,381 |
| Deferred taxation | 27(a) | 1,748 | 1,614 |
| Other deferred liabilities | 28 | 260 | 292 |
| | | 14,353 | 18,287 |
| Total equity and non-current liabilities | | 70,002 | 69,702 |

The notes on pages 68 to 109 form part of these accounts.

Peter K C Woo
Chairman

Quinn Y K Law
Director

Company Balance Sheet

At December 31, 2003

| | Note | 2003 HK\$ Million | 2002 HK\$ Million |
|---------------------------------------|------|----------------------|----------------------|
| Non-current assets | | | |
| Investments in subsidiaries | 13 | 13,656 | 12,670 |
| Deferred debtors | 18 | 382 | 382 |
| | | 14,038 | 13,052 |
| Current assets | | | |
| Trade and other receivables | 21 | – | 104 |
| Deposits and cash | | 2 | 6 |
| | | 2 | 110 |
| Current liabilities | | | |
| Trade and other payables | 22 | (29) | (37) |
| Short term loans and overdrafts | 23 | – | (121) |
| Taxation payable | | (8) | – |
| | | (37) | (158) |
| Net current liabilities | | (35) | (48) |
| Total assets less current liabilities | | 14,003 | 13,004 |
| Capital and reserves | | | |
| Share capital | 24 | 2,447 | 2,447 |
| Reserves | 25 | 11,556 | 10,557 |
| Total equity | | 14,003 | 13,004 |

The notes on pages 68 to 109 form part of these accounts.

Peter K C Woo
Chairman

Quinn Y K Law
Director

Consolidated Statement of Changes in Equity

For The Year Ended December 31, 2003

| | Note | 2003 HK\$ Million | 2002 HK\$ Million (Restated) |
|---|-----------|----------------------|------------------------------------|
| Total equity as at January 1 | | | |
| As previously reported | | 48,713 | 54,645 |
| Prior year adjustment arising from changes in accounting policy for deferred tax | 11 | (979) | (886) |
| As restated | | 47,734 | 53,759 |
| Surplus/(deficits) on revaluation of investment properties | | | |
| Deficit as previously reported | | | (5,858) |
| Deferred tax arising from changes in accounting policy | 11 | | (49) |
| As restated | 25 | 2,100 | (5,907) |
| Surplus/(deficits) on revaluation of hotel and club properties | 25 | 68 | (219) |
| Impairment of properties under or held for redevelopment | 25 | (315) | – |
| Surplus/(deficits) on revaluation of non-trading investments | | | |
| – by Company/subsidiaries | 25 | 412 | (284) |
| – by associates | 25 | 1 | (10) |
| Others | 25 | 25 | (28) |
| Net gains/(losses) not recognised in the consolidated profit and loss account | | 2,291 | (6,448) |
| Profit attributable to shareholders | | | |
| As previously reported | | | 2,303 |
| Prior year adjustments arising from change in accounting policy for deferred tax | 11 | | (44) |
| As restated | | 3,043 | 2,259 |
| Investments revaluation reserves transferred to the profit and loss account on impairment in value of non-trading investments | | | |
| – by Company/subsidiaries | 6 & 25 | 33 | 58 |
| Investments revaluation reserves transferred to the profit and loss account on disposal of non-trading investments | | | |
| – by Company/subsidiaries | 25 | 13 | 7 |
| – by associates | 25 | 1 | – |
| Final dividend approved in respect of the previous year | 9(a) & 25 | (685) | (1,223) |
| Interim dividend approved in respect of the current year | 9(a) & 25 | (802) | (685) |
| Exercise of share options | | – | 7 |
| | | 1,603 | 423 |
| Total equity as at December 31 | | 51,628 | 47,734 |

The notes on pages 68 to 109 form part of these accounts.

Consolidated Cash Flow Statement

For The Year Ended December 31, 2003

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|--|-----------------------------|-----------------------------|
| Cash generated from operations (Note a) | 6,219 | 5,557 |
| Interest paid | (574) | (782) |
| Interest received | 161 | 225 |
| Dividends received from associates | 12 | 3 |
| Dividends received from listed and unlisted investments | 123 | 155 |
| Hong Kong profits tax paid | (579) | (451) |
| Overseas tax paid | (4) | (19) |
| Net cash inflow from operating activities | 5,358 | 4,688 |
| Investing activities | | |
| Purchase of fixed assets | (1,564) | (2,028) |
| Additions to programming library | (82) | (91) |
| Purchase of a subsidiary (Note b) | (6) | – |
| Net (increase)/decrease in investment in associates | (124) | 129 |
| Purchase of non-trading investments | (54) | (1,524) |
| Proceeds from sale of fixed assets | 19 | 8 |
| Uplift of long term deposits | – | 312 |
| Uplift/(placement) of short term deposits | 468 | (468) |
| Uplift/(placement) of pledged deposits | 293 | (5) |
| Net repayment from/(advance to) associates | 1,756 | (570) |
| Proceeds from sale of non-trading investments | 333 | 1,069 |
| Repayment from deferred debtors | 14 | 24 |
| Net cash inflow/(outflow) from investing activities | 1,053 | (3,144) |
| Financing activities | | |
| Proceeds from issue of ordinary share capital | – | 7 |
| Net drawdown /(repayment) of long term loans | 382 | (638) |
| Net repayment of short term loans and overdrafts | (4,361) | (602) |
| Advances (to)/from minority interests | (10) | 145 |
| Dividends paid | (979) | (1,908) |
| Dividends paid to minority shareholders | (688) | (643) |
| Net cash outflow from financing activities | (5,656) | (3,639) |
| Increase/(decrease) in cash and cash equivalents | 755 | (2,095) |
| Cash and cash equivalents at January 1 | 757 | 2,852 |
| Cash and cash equivalents at December 31 | 1,512 | 757 |
| Analysis of the balance of cash and cash equivalents | | |
| Deposits and cash | 1,512 | 757 |
| Reconciliation of cash and cash equivalents to deposits and cash | | |
| Cash and cash equivalents per above | 1,512 | 757 |
| Long term deposits maturing in 2003 | – | 468 |
| Total deposits and cash | 1,512 | 1,225 |

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of operating profit to cash generated from operations

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|--|-----------------------------|-----------------------------|
| Operating profit | 5,050 | 5,341 |
| Interest income | (131) | (166) |
| Dividends receivable from listed and unlisted investments | (123) | (155) |
| Depreciation | 1,117 | 1,015 |
| Amortisation | 175 | 193 |
| Loss on sale of fixed assets | 12 | 6 |
| Other net (profit)/loss | (33) | 29 |
| Exchange adjustments | – | (24) |
| Decrease in properties held for sale | 50 | 86 |
| Decrease/(increase) in properties under development for sale | 78 | (202) |
| Decrease in spare parts and consumables | 3 | 30 |
| Decrease/(increase) in investments in listed debt securities | 525 | (33) |
| Decrease in trade and other receivables | 131 | 67 |
| Decrease in trade and other payables | (633) | (555) |
| Increase in deferred items | (1) | (15) |
| Decrease in other deferred liabilities | (1) | (60) |
| Cash generated from operations | 6,219 | 5,557 |

b. Purchase of a subsidiary

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|--|-----------------------------|-----------------------------|
| Net assets acquired | | |
| Trade and other payables | (16) | – |
| Minority interests | 22 | – |
| | 6 | – |
| Satisfied by: | | |
| Cash consideration | 6 | – |
| Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary | | |
| Cash consideration | 6 | – |
| Deposits and cash acquired | – | – |
| Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary | 6 | – |

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation of the accounts

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

c. Basis of consolidation

i. *Subsidiaries and controlled companies*

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

ii. Associates

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

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

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

iii. Goodwill/negative goodwill

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

d. Fixed assets

i. *Investment properties*

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

ii. *Properties under or held for redevelopment*

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

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

iii. *Hotel and club properties*

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

iv. *Broadcasting and communications equipment*

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

v. *Other properties and fixed assets held for own use*

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

vi. *Subsequent expenditure relating to a fixed asset that has already been recognised*

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

d. Fixed assets (continued)

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

e. Depreciation of fixed assets

i. Investment properties

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

ii. Properties under or held for redevelopment

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

iii. Hotel and club properties

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

iv. Broadcasting and communications equipment

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

v. Other properties and fixed assets held for own use

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

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

f. Impairment of assets

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

f. Impairment of assets (continued)

i. Recoverable amount

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

ii. Reversals of impairment losses

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

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

g. Investments in securities

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

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

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

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

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

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

h. Deferred items

i. Prepaid revenue expenses

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

h. Deferred items (continued)

ii. Programming library

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

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

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

i. Inventories

i. Properties held for sale

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

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

ii. Properties under development for sale

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

i. Inventories (continued)

ii. Properties under development for sale (continued)

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

iii. Spare parts and consumables

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

j. Cash and cash equivalents

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

k. Foreign currencies

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

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

l. Assets held for use in operating leases

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

m. Recognition of revenue

- i.* Rental income under operating leases is recognised in the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- ii.* Income from sale of completed property is recognised upon completion of the sales agreements.
- iii.* Income from pre-sale of properties under development is recognised by reference to the stage of completion over the course of development (see note 1 (i) (ii)).
- iv.* Income from communications, media and entertainment operations, logistics operations and hotels operations is recognised at the time when the services are provided.
- v.* Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

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

- vi.* Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- vii.* Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

viii. Deferred revenue

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

n. Borrowing costs

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

o. Income tax

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

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

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

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

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

- iv.* Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
 - in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or

1. PRINCIPAL ACCOUNTING POLICIES (continued)

o. Income tax (continued)

iv. (continued)

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

p. Related parties

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

q. Provisions

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

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

r. Segment reporting

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

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

s. Employee benefits

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

Defined contribution pension schemes

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

Mandatory provident funds

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

Defined benefit pension schemes

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

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

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

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

ii. *Equity compensation benefits*

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

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

2. SEGMENT INFORMATION

a. Business segments

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

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

2. SEGMENT INFORMATION (continued)

a. Business segments (continued)

Note: Inter-segment revenue eliminated on consolidation includes:

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

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

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

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

2. SEGMENT INFORMATION (continued)

a. Business segments (continued)

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

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

b. Geographical segment

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

3. OPERATING PROFIT

a. Operating profit is arrived at after charging:

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

b. Directors' emoluments

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

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

3. OPERATING PROFIT (continued)

b. Directors' emoluments (continued)

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

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

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

c. Emoluments of the highest paid employees

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

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

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

4. OTHER NET PROFIT/(LOSSES)

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

5. BORROWING COSTS

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

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

6. NET OTHER CHARGES

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

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

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

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

7. TAXATION

- a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5 per cent (2002: 16 per cent).
- b. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessed for tax.
- c. Taxation in the consolidated profit and loss account represents:–

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

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

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

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

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

9. DIVIDENDS**a. Dividends attributable to the year**

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

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

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

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|--|-----------------------------|-----------------------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 28 cents (2002: 50 cents) per share | 685 | 1,223 |

10. EARNINGS PER SHARE

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

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

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

11. CHANGES IN ACCOUNTING POLICIES

SSAP 12 (Revised) "Income taxes"

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

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

12. FIXED ASSETS

| | Group | | | | | Total HK\$Million |
|--|---|---|--|--|--|----------------------|
| | Investment properties HK\$Million | Properties under or held for redevelop- ment HK\$Million | Hotel and club properties HK\$Million | Broad- casting & communi- cations equipment HK\$Million | Other properties and fixed assets HK\$Million | |
| a. Cost or valuation | | | | | | |
| Balance at January 1, 2003 | 52,373 | 3,574 | 3,339 | 8,316 | 9,061 | 76,663 |
| Additions | 51 | 286 | – | 758 | 499 | 1,594 |
| Disposals | (4) | – | – | (205) | (71) | (280) |
| Reclassification | – | (525) | – | – | 525 | – |
| Written off | – | – | – | (85) | (150) | (235) |
| Impairment | – | (523) | – | – | (6) | (529) |
| Revaluation surplus | 2,160 | – | 70 | – | – | 2,230 |
| Balance at December 31, 2003 | 54,580 | 2,812 | 3,409 | 8,784 | 9,858 | 79,443 |
| Accumulated depreciation | | | | | | |
| Balance at January 1, 2003 | – | – | – | 3,523 | 4,096 | 7,619 |
| Charge for the year | – | – | 12 | 728 | 377 | 1,117 |
| Written back on disposals | – | – | – | (185) | (64) | (249) |
| Reclassification | – | – | – | (2) | – | (2) |
| Written off | – | – | – | – | (150) | (150) |
| Revaluation adjustments | – | – | (12) | – | – | (12) |
| Balance at December 31, 2003 | – | – | – | 4,064 | 4,259 | 8,323 |
| Net book value | | | | | | |
| at December 31, 2003 | 54,580 | 2,812 | 3,409 | 4,720 | 5,599 | 71,120 |
| at December 31, 2002 | 52,373 | 3,574 | 3,339 | 4,793 | 4,965 | 69,044 |
| b. The analysis of cost or valuation of the above assets is as follows:– | | | | | | |
| 2003 valuation | 54,580 | – | 3,409 | – | – | 57,989 |
| Cost less provisions | – | 2,812 | – | 8,784 | 9,858 | 21,454 |
| | 54,580 | 2,812 | 3,409 | 8,784 | 9,858 | 79,443 |

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

12. FIXED ASSETS (continued)

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

d. Properties revaluation

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

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

e. Impairment of fixed assets

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

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

12. FIXED ASSETS (continued)

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

| | Group | |
|---------------------------------|-----------------------------|-----------------------------|
| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
| Within 1 year | 2,878 | 2,914 |
| After 1 year but within 5 years | 2,994 | 3,099 |
| After 5 years | 135 | 124 |
| | 6,007 | 6,137 |

13. INVESTMENTS IN SUBSIDIARIES

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

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

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

14. GOODWILL

| | Group | |
|--------------------------------------|-----------------------------|-----------------------------|
| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
| Cost | | |
| Balance at January 1 and December 31 | 441 | 441 |
| Accumulated amortisation | | |
| Balance at January 1 | (44) | (22) |
| Charge for the year | (50) | (22) |
| Balance at December 31 | (94) | (44) |
| Carrying amount | | |
| Balance at December 31 | 347 | 397 |

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

15. LONG TERM DEPOSITS

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

16. INTEREST IN ASSOCIATES

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

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

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

16. INTEREST IN ASSOCIATES (continued)

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

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

17. LONG TERM INVESTMENTS

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

18. DEFERRED DEBTORS

Deferred debtors represent receivables due after more than one year.

19. DEFERRED ITEMS

| | Group | |
|---|-----------------------------|-----------------------------|
| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
| Prepaid revenue expenses | 275 | 305 |
| Defined benefit pension scheme assets (Note 29) | 15 | 14 |
| Programming library | 142 | 149 |
| | 432 | 468 |

20. INVENTORIES

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

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

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

21. TRADE AND OTHER RECEIVABLES

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

| | Group | | Company | |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
| 0 – 30 days | 355 | 398 | – | – |
| 31 – 60 days | 154 | 164 | – | – |
| 61 – 90 days | 60 | 34 | – | – |
| Over 90 days | 64 | 43 | – | – |
| | 633 | 639 | – | – |

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

22. TRADE AND OTHER PAYABLES

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

| | Group | | Company | |
|--------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
| 0 – 30 days | 284 | 218 | – | – |
| 31 – 60 days | 66 | 100 | – | – |
| 61 – 90 days | 54 | 64 | – | – |
| Over 90 days | 198 | 153 | – | – |
| | 602 | 535 | – | – |

23. SHORT TERM LOANS AND OVERDRAFTS

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

24. SHARE CAPITAL

| | 2003 | 2002 | 2003 | 2002 |
|-------------------------------|----------------------------------|----------------------------------|---------------------|---------------------|
| | <i>No. of shares Million</i> | <i>No. of shares Million</i> | <i>HK\$ Million</i> | <i>HK\$ Million</i> |
| Authorised | | | | |
| Ordinary shares of HK\$1 each | 3,600 | 3,600 | 3,600 | 3,600 |
| Issued and fully paid | | | | |
| Balance at January 1 | 2,447 | 2,447 | 2,447 | 2,447 |
| Exercise of share options | – | – | – | – |
| Balance at December 31 | 2,447 | 2,447 | 2,447 | 2,447 |

Executive share incentive scheme

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

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

25. RESERVES

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

25. RESERVES (continued)

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

(Note)

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

25. RESERVES (continued)

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

25. RESERVES (continued)

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

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

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

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

26. LONG TERM LOANS

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

26. LONG TERM LOANS (continued)

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

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

- b. As the Group's borrowings are primarily denominated in Hong Kong and US dollars and the US dollar loans have almost fully been effectively swapped into Hong Kong dollar loans by forward exchange contracts, there is no significant exposure to foreign exchange rate fluctuations.
- c. Over 90% of the bonds and notes either bear interest at floating rates or have been swapped to floating rates determined by reference to the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate.
- d. Included in the Group's total loans is a bank loan totalling HK\$1,300 million borrowed by a non-wholly owned subsidiary, Modern Terminals Limited (2002: HK\$1,327 million borrowed by Modern Terminals Limited and i-CABLE). This loan is without recourse to the Company and other subsidiaries.
- e. The banking facilities of the Group are secured by mortgages over certain investment properties with carrying value of HK\$3,732 million as at December 31, 2003 (2002: HK\$17,923 million).

27. DEFERRED TAXATION

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

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|--------------------------|-----------------------------|-----------------------------|
| Deferred tax assets | (112) | (108) |
| Deferred tax liabilities | 1,748 | 1,614 |
| | 1,636 | 1,506 |

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

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

b. Deferred tax assets unrecognised

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

| | 2003 <i>HK\$ Million</i> | 2002 <i>HK\$ Million</i> |
|----------------------------------|-----------------------------|-----------------------------|
| Deductible temporary differences | 1 | 2 |
| Future benefit of tax losses | (1,512) | (1,418) |
| | (1,511) | (1,416) |

28. OTHER DEFERRED LIABILITIES

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

29. DEFINED BENEFIT PENSION SCHEMES

| | 2003 | 2002 |
|---|---------------------|---------------------|
| | <i>HK\$ Million</i> | <i>HK\$ Million</i> |
| Defined benefit pension scheme assets (Note 19) | 15 | 14 |

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

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

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

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

| | 2003 | 2002 |
|--|---------------------|---------------------|
| | <i>HK\$ Million</i> | <i>HK\$ Million</i> |
| At January 1 | 14 | (22) |
| Contributions paid | 37 | 36 |
| Expense recognised in the consolidated profit and loss account | (36) | – |
| At December 31 | 15 | 14 |

29. DEFINED BENEFIT PENSION SCHEMES (continued)

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

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

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

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

30. EQUITY COMPENSATION BENEFITS

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

a. Movement in share options

| | 2003 <i>Number</i> | 2002 <i>Number</i> |
|-------------------------------|-----------------------|-----------------------|
| At January 1 | 2,551,000 | 3,273,000 |
| Exercised | – | (722,000) |
| Lapsed | (2,151,000) | – |
| At December 31 | 400,000 | 2,551,000 |
| Options vested at December 31 | – | 2,111,000 |

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

c. Terms of share options at the balance sheet date

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

30. EQUITY COMPENSATION BENEFITS (continued)

d. Details of share options exercised

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

31. MATERIAL RELATED PARTY TRANSACTIONS

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

- a. As disclosed in Note 16, loans totalling HK\$2,588 million (2002: HK\$4,332 million) advanced by the Group to certain associates involved in the Sorrento and Bellagio property developments projects are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 and 1994 from complying with the relevant connected transaction requirements. The net interest earned by the Group from these loans during the year is not material in the context of these accounts.
- b. As disclosed in Note 32(b), the Company and a subsidiary, together with its principal shareholder and two of its subsidiaries, have jointly and severally guaranteed the performance and observance of the terms by a subsidiary of the associate under an agreement to develop the Sorrento property development project.

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

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

32. CONTINGENT LIABILITIES

As at December 31, 2003:–

- a. There were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK\$28,562 million (2002: HK\$26,256 million).
- b. The Company and a subsidiary together with its principal shareholder and two of its subsidiaries thereof, have jointly and severally guaranteed the performance and observance of the terms under an agreement for the Sorrento property development project by the subsidiary of an associate.
- c. Forward exchange contracts amounting to HK\$5,616 million (2002: HK\$5,616 million) will mature in 2004.

33. COMMITMENTS

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

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

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

34. POST BALANCE SHEET EVENTS

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

35. COMPARATIVE FIGURES

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

36. APPROVAL OF ACCOUNTS

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

Principal Subsidiaries and Associates

At December 31, 2003

| Subsidiaries | Place of incorporation/operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid in capital | Percentage of equity attributable to the Group | Principal activities |
|--|----------------------------------|--|---|-----------------------------|
| # Wharf Estates Limited | Hong Kong | 2 HK\$1 shares | 100 | Holding company |
| Harbour City | | | | |
| Harbour City Estates Limited | Hong Kong | 2 HK\$1 shares | 100 | Property |
| Wharf Realty Limited | Hong Kong | 2 HK\$1 shares | 100 | Property |
| * Harbour Centre Development Limited | Hong Kong | 315,000,000 HK\$0.5 shares | 67 | Holding company |
| Times Square | | | | |
| Times Square Limited | Hong Kong | 2 HK\$10 shares | 100 | Property |
| Plaza Hollywood | | | | |
| Charris Company Limited | Hong Kong | 10,000 HK\$1 shares | 100 | Property |
| Plaza Hollywood Management Limited | Hong Kong | 2 HK\$1 shares | 100 | Property management |
| # Wharf Estates Development Limited | Hong Kong | 2 HK\$1 shares | 100 | Holding company |
| Delta Realty Limited | Hong Kong | 2 HK\$1 shares | 100 | Property |
| Feckenham Limited | Hong Kong | 2 HK\$10 shares | 100 | Property |
| Framenti Company Limited | Hong Kong | 2 HK\$1 shares | 100 | Property |
| HKRT Peak Properties Limited | Hong Kong | 3,000,000 HK\$10 shares | 100 | Property |
| Hong Tai Yuen Limited | Hong Kong | 500,000 HK\$1 shares | 100 | Property |
| New Tech Centre Limited | Hong Kong | 10,000 HK\$1 shares | 100 | Property |
| Olinda Limited | Hong Kong | 2 HK\$10 shares | 100 | Property |
| Roville Company Limited | Hong Kong | 2 HK\$1 shares | 100 | Property |
| Spring Wealth Investments Limited | British Virgin Islands | 500 US\$1 shares | 100 | Holding company |
| # Wharf China Limited | Cayman Islands | 500,000,000 US\$1 shares | 100 | Holding company |
| Wharf Estates China Limited | | | | |
| Beijing Capital Times Square Development Company Limited | The People's Republic of China | 500 US\$1 shares US\$59,000,000 | 100 88 | Holding company Property |
| Beijing Times Establishment Property Management Company Limited | The People's Republic of China | US\$200,000 | 75 | Property management |
| Shanghai Long Xing Property Development Company Limited | The People's Republic of China | US\$45,000,000 | 100 | Property |
| Shanghai Times Square Property Management (Shanghai) Company Limited | The People's Republic of China | US\$500,000 | 100 | Property management |

PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

| Subsidiaries | Place of incorporation/operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid in capital | Percentage of equity attributable to the Group | Principal activities |
|---|----------------------------------|--|--|--|
| Dalian Times Square Development Company, Limited | The People's Republic of China | RMB200,000,000 | 60 | Property |
| Han Long Development (Wuhan) Company Limited | The People's Republic of China | US\$5,000,000 | 100 | Property |
| Long Qing Property Development (Chongqing) Company Limited | The People's Republic of China | RMB167,000,000 | 100 | Property |
| Shanghai Jiu Zhou Property Development Company Limited | The People's Republic of China | US\$20,000,000 | 85 | Property |
| Shanghai Long Shen Real Estate Development Company Limited | The People's Republic of China | US\$22,330,000 | 55 | Property |
| Shanghai Wellington Garden Estate Development Company Limited | The People's Republic of China | US\$16,666,666 | 59 | Property |
| Shanghai Wheelock Square Development Limited | The People's Republic of China | US\$80,000,000 | 98 | Property |
| Logistics | | | | |
| Wharf Transport Investments Limited | Hong Kong | 2 HK\$1 shares | 100 | Holding company |
| The "Star" Ferry Company, Limited | Hong Kong | 1,440,000 HK\$5 shares | 100 | Public transport |
| Hong Kong Tramways, Limited | Hong Kong | 21,937,500 HK\$5 shares | 100 | Public transport |
| Modern Terminals Limited | Hong Kong | 76,891 HK\$1,000 shares | 55 | Container terminal |
| Hotels | | | | |
| Wharf Hotel Investments Limited | Cayman Islands | 500,000,000 US\$1 shares | 100 | Holding company |
| Marco Polo Hotels Management Limited | Hong Kong | 2 HK\$10 shares | 100 | Hotel management |
| The Hongkong Hotel Limited | Hong Kong | 100,000 HK\$1 shares | 67 | Hotel and property |
| The Marco Polo Hotel (Hong Kong) Limited | Hong Kong | 1,000 HK\$1 shares | 100 | Hotel operation |
| The Prince Hotel Limited | Hong Kong | 2 HK\$1 shares | 100 | Hotel operation |
| # Wharf Communications Limited | | | | |
| COL Limited | Hong Kong | 1,000,000 HK\$10 shares | 100 | Holding company |
| Hong Kong Cable Enterprises Limited | Hong Kong | 40,000 HK\$500 shares | 100 | Computer services |
| | | 2 HK\$1 shares | 67 | Advertising airtime, programming licensing and channel carriage services |
| Hong Kong Cable Television Limited | Hong Kong | 1,000,000,000 HK\$1 shares | 67 | Pay television services |
| * i-CABLE Communications Limited | Hong Kong | 2,019,234,400 HK\$1 shares | 67 | Holding company |
| i-CABLE Network Limited | Hong Kong | 100 HK\$1 shares | 67 | Network operation |
| | | 2 HK\$1 non-voting deferred shares | | services |
| i-CABLE Satellite Television Limited | Hong Kong | 2 HK\$1 shares | 67 | Non-domestic television services and programming licencing |
| i-CABLE WebServe Limited | Hong Kong | 2 HK\$1 shares | 67 | Internet and multimedia services |

| Subsidiaries | Place of incorporation/operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid in capital | Percentage of equity attributable to the Group | Principal activities |
|--|---|---|---|-------------------------------|
| Rediffusion Satellite Services Limited | Hong Kong | 1,000 HK\$10 shares | 67 | Satellite television services |
| EC Telecom Limited | Hong Kong | 2 HK\$1 shares | 100 | Telecommunication |
| Wharf T&T Limited | Hong Kong | 100,000,000 HK\$1 shares | 100 | Telecommunication |

Investment and others

| | | | | |
|---------------------------------------|------------------------|--------------------------|-----|---------------------|
| Wharf Limited | Hong Kong | 2 HK\$10 shares | 100 | Management services |
| # Fast Lane Investments Limited | British Virgin Islands | 500 US\$1 shares | 100 | Finance |
| Fortune Growth Investments Limited | Hong Kong | 2 HK\$1 shares | 100 | Finance |
| Wharf Finance (BVI) Limited | British Virgin Islands | 500 US\$1 shares | 100 | Finance |
| # Wharf International Finance Limited | Cayman Islands | 500 US\$1 shares | 100 | Finance |
| # Wharf Hong Kong Limited | Cayman Islands | 500,000,000 US\$1 shares | 100 | Holding company |

| Associates | Place of incorporation/operation | Class of shares | Percentage of equity attributable to the Group | Principal activities |
|---|---|------------------------|---|-----------------------------|
| Diamond Hill Development Holdings Limited | British Virgin Islands | Ordinary | 33 | Holding company |
| Harriman Leasing Limited | Hong Kong | Ordinary | 50 | Leasing agent |
| Hopfield Holdings Limited | British Virgin Islands | Ordinary | 33 | Holding company |
| Salisbury Company Limited | Hong Kong | Ordinary | 33 | Property |
| Kowloon Properties Company Limited | Hong Kong | Ordinary | 33 | Property |
| City Super Limited | Hong Kong | Ordinary | 39 | Retailing |

All the subsidiaries listed above were, as at December 31, 2003, indirect subsidiaries of the Company except where marked #.

The above list gives the principal subsidiaries and associates of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

Subsidiaries held directly

* Listed companies

Schedule of Principal Properties

At December 31, 2003

| ADDRESS | LOT NUMBER | YEAR OF COMPLETION | EXPECTED YEAR OF COMPLETION | LEASE EXPIRY |
|---|--|--------------------|-----------------------------|--------------|
| Wharf Estates Limited | | | | |
| Harbour City | | | | |
| <u>Investment properties</u> | | | | |
| Ocean Terminal, Harbour City, Tsimshatsui | KPP 83 | 1966 | | 2012 |
| Ocean Centre, Harbour City, Tsimshatsui | KML 11 S.A. | 1977 | | 2880 |
| Wharf T & T Centre, Harbour City, Tsimshatsui | KML 11 S.B. | 1981 | | 2880 |
| World Commerce Centre, Harbour City, Tsimshatsui | KML 11 S.B. | 1981 | | 2880 |
| World Finance Centre, Harbour City, Tsimshatsui | KML 11 S.D. | 1983 | | 2880 |
| Ocean Galleries, Harbour City, Tsimshatsui | KML 11 S.B. & D. | 1981/83 | | 2880 |
| Gateway I, Harbour City, Tsimshatsui | KML 11 R.P. | 1994 | | 2880 |
| Gateway II, Harbour City, Tsimshatsui | KML 11 S.B. & D. | 1998/ 99 | | 2880 |
| The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui (Commercial Section) | KML 91 S.A. & KML 10 S.B. | 1969 | | 2863 |
| <u>Hotels and clubs</u> | | | | |
| The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui | KML 91 S.A. & KML 10 S.B. | 1969 | | 2863 |
| The Marco Polo Gateway, Harbour City, Tsimshatsui | KML 11 S.B. | 1981 | | 2880 |
| The Marco Polo Prince, Harbour City, Tsimshatsui | KML 11 S.D. | 1981 | | 2880 |
| Pacific Club Kowloon, Harbour City, Tsimshatsui | KPP 6 | 1990 | | 2006 |
| Times Square | | | | |
| <u>Investment property</u> | | | | |
| Times Square, Sharp Street East, Causeway Bay | IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A., B & R.P., IL 722 & IL 718 | 1993 | | 2850/60/80 |
| Plaza Hollywood | | | | |
| <u>Investment property</u> | | | | |
| Plaza Hollywood, 3 Lung Poon Street, Diamond Hill | NKIL 6160 | 1997 | | 2047 |
| Wharf Estates Development Limited | | | | |
| <u>Investment properties</u> | | | | |
| World Trade Square, Hoi Bun Road, Kwun Tong | KTIL 713 | 1991 | | 2047 |
| 26-27/F, World-Wide House, Central | IL 8432 | 1979 | | 2053 |
| Various Units of Cable TV Tower, Hoi Shing Road, Tsuen Wan | TWTL 218 | 1992 | | 2047 |
| Various Units of Grandtech Centre, On Sum Street, Shatin | STTL 375 | 1996 | | 2047 |
| Various Units of Strawberry Hill, 8 Plunkett's Road, The Peak | RBL 512 & 1004 | 1974/77 | | 2027/28 |
| 77 Peak Road, The Peak | RBL 836 | 1951 | | 2029 |
| Chelsea Court 63 Mount Kellett Road, The Peak | RBL 556 R.P.S.A. & S.B. | 2001 | | 2035 |
| Mountain Court 11-13 Plantation Road, The Peak | RBL 522, 639, 661 | 2001 | | 2027 |
| 1 Plantation Road, The Peak | RBL 534 S.E. & F. | 2002 | | 2028 |
| <u>Other property</u> | | | | |
| Delta House, 3 On Yiu Street, Shatin | STTL 422 | 1999 | | 2047 |
| <u>Properties under redevelopment</u> | | | | |
| 3-5 Gough Hill Path, The Peak | RBL 1169 | | 2006 | 2031/50 |
| 60 Victoria Road, Kennedy Town, Hong Kong | IL 8079 | | N/A | 2064 |
| Cable TV Tower South Chai Wan Kok Street, Tsuen Wan | TWIL 36 | | N/A | 2047 |
| Kowloon Godown, 1-3 Kai Hing Road, Kowloon Bay | NKIL 5805, 5806 & 5982 | | N/A | 2047 |
| <u>Properties under development/completed properties undertaken by associates</u> | | | | |
| Various units of Sorrento, MTRC Kowloon Station Package Two Bellagio, Sham Tseng | KIL11080 | 2002/03 | | 2047 |
| Phase I & II | Lot 269 R.P. in DD 390 | 2002 | | 2051 |
| Phase III & IV | | | 2005 | 2051 |
| Various Lots at Yau Tong Bay, Yau Tong, Kowloon | R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay | | N/A | 2047 |

| SITE AREA (SQ.FT.) | APPROXIMATE GROSS FLOOR AREAS (SQ.FT.) | | | | | HOTEL (NO. OF ROOMS) | STAGE OF COMPLETION | ATTRIBUTABLE INTEREST |
|-----------------------|--|---------|-------------|---------------------------------------|---------------|-------------------------|----------------------------|--------------------------|
| | OFFICE | RETAIL | RESIDENTIAL | INDUSTRIAL – OFFICE/ INDUSTRIAL | CLUB HOUSE | | | |
| 346,719 | 10,000 | 648,000 | | | | | | 100% |
| 126,488 | 677,000 | 224,000 | | | | | | 100% |
| (a) | 257,000 | | | | | | | 100% |
| (a) | 257,000 | | | | | | | 100% |
| (a) | 512,000 | | | | | | | 100% |
| (a) | | 386,000 | | | | | | 100% |
| (a) | 1,128,000 | 108,000 | | | | | | 100% |
| (a) | 1,570,000 | 400,000 | 670,000 | | | | | 100% |
| (b) | 34,000 | 137,000 | | | | | | 67% |
| 58,814 | | | | | | 665 | | 67% |
| (a) | | | | | | 431 | | 100% |
| (a) | | | | | | 393 | | 100% |
| 48,309 | | | | | 139,000 | | | 100% |
| 112,441 | 1,033,000 | 936,000 | | | | | | 100% |
| 280,510 | | 562,000 | | | | | | 100% |
| 48,438 | 330,000 | 65,000 | | | | | | 100% |
| N/A | 21,000 | | | | | | | 100% |
| N/A | | | | 523,000 | | | | 100% |
| N/A | | | | 413,000 | | | | 100% |
| N/A | | | 37,000 | | | | | 100% |
| 76,728 | | | 32,000 | | | | | 100% |
| 29,640 | | | 43,000 | | | | | 100% |
| 32,145 | | | 49,900 | | | | | 100% |
| 97,670 | | | 97,000 | | | | | 100% |
| 70,127 | | | | 349,000 | | | | 100% |
| 49,321 | | | 24,700 | | | | Foundation in progress | 100% |
| 6,100 | | | 48,800 | | | | Planning stage | 67% |
| 66,005 | | 120,000 | | | | 1,032 | Planning stage | 100% |
| 165,809 | | | 995,100 | | | 200 | Planning stage | 100% |
| 184,926 | | | 225,800 | | | | Completed | 33% |
| 566,090 | | | 115,400 | | | | Completed | 33 1/3% |
| 2,185,000 | | 301,000 | 1,571,400 | | | | Superstructure in progress | 33 1/3% |
| | | | 8,740,000 | | | | Planning stage | 15.6% |

SCHEDULE OF PRINCIPAL PROPERTIES (continued)

| ADDRESS | YEAR OF COMPLETION | EXPECTED YEAR OF COMPLETION | LEASE EXPIRY |
|---|--------------------|-----------------------------|--------------|
| Wharf Estates China Limited | | | |
| <u>Investment properties</u> | | | |
| Beijing Capital Times Square 88 West Changan Avenue, Beijing | 1999 | | 2044 |
| Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai | 1999 | | 2043 |
| <u>Properties under development</u> | | | |
| Chongqing Times Square Zou Rong Road/Min Zu Road, Yuzhong District, Chongqing | | 2004 | 2050 |
| Shanghai Wellington Garden Area 8 of 148, Huai Hai Xi Road, Xuhui District, Shanghai | | 2006 | 2045 |
| Shanghai Wheelock Square 1717, Nan Jing Xi Road, Jingan District, Shanghai | | 2007 | 2046 |
| Shanghai Jingan Garden 398, Wanhangu Road, Jingan District, Shanghai | | 2007 | 2043/63 |
| Dalian Times Square Ren Min Road, Zhongshan District, Dalian | | 2007 | 2044 |
| Wuhan Times Square Yan Jiang Da Dao & Nanling Road, Jiangan District, Wuhan | | 2007 | 2043/63 |
| Shanghai Parc Royal 176, Huai Hai Xi Road, Changning District, Shanghai | | 2008 | 2044 |

Including basement carpark area

Notes:

- (a) Total site area is 428,719 sq.ft.; as part of Harbour City.
- (b) Part of The Marco Polo Hongkong Hotel building.

| SITE AREA (SQ.FT.) | APPROXIMATE GROSS FLOOR AREAS (SQ.FT.) | | | | | HOTEL (NO. OF ROOMS) | STAGE OF COMPLETION | ATTRIBUTABLE INTEREST |
|-----------------------|--|----------|-------------------------------|---------------------------------------|---------------|----------------------------|------------------------|--------------------------|
| | OFFICE | RETAIL | RESIDENTIAL | INDUSTRIAL – OFFICE/ INDUSTRIAL | CLUB HOUSE | | | |
| 141,007 | 625,000 | 670,000# | | | | | | 88% |
| 148,703 | 331,000 | 685,000# | 195,000 | | | | | 100% |
| 95,799 | 13,900 | 724,000 | 428,000 (pre-sold 310,000 sf) | | | Superstructure in progress | | 100% |
| 80,482 | | | 562,000# | | | Foundation work commenced | | 59% |
| 136,432 | 1,464,000# | 25,300 | | | | Planning stage | | 98% |
| 170,825 | | | 970,000# | | | Planning stage | | 55% |
| 187,670 | | 165,000 | 1,628,000# | | | Planning stage | | 60% |
| 187,649 | | 131,000 | 2,275,000# | | | Planning stage | | 100% |
| 118,220 | | | 802,000# | | | Planning stage | | 85% |

Ten-Year Financial Summary

| | 1994 HK\$Million | 1995 HK\$Million | 1996 HK\$Million | Restated 1997 HK\$Million | Restated 1998 HK\$Million |
|--|---------------------|---------------------|---------------------|---------------------------------|---------------------------------|
| Summary of Profit and Loss Account | | | | | |
| Turnover (Note 1) | 8,144 | 6,770 | 8,405 | 10,980 | 10,840 |
| Group profit attributable to shareholders | 3,101 | 3,605 | 2,239 | 1,882 | 1,922 |
| Prior year adjustment (Note 2, 4 to 6) | – | – | – | (960) | (51) |
| Restated amount | 3,101 | 3,605 | 2,239 | 922 | 1,871 |
| Dividends | 2,060 | 2,278 | 2,593 | 1,793 | 1,790 |
| Summary of Balance Sheet | | | | | |
| Fixed assets (Note 5) | 93,378 | 85,215 | 98,326 | 93,434 | 71,651 |
| Goodwill | – | – | – | – | – |
| Long term deposits | – | – | – | – | – |
| Associates (Note 4) | 7,048 | 4,181 | 2,769 | 4,463 | 3,842 |
| Long term investments (Note 4) | 1,698 | 2,328 | 4,324 | 7,824 | 7,107 |
| Deferred debtors | 483 | 97 | 104 | 238 | 349 |
| Deferred items (Note 5) | 1,731 | 2,128 | 2,391 | 2,432 | 653 |
| Deferred tax assets (Note 6) | – | – | – | – | – |
| Current assets | 12,778 | 10,118 | 8,337 | 8,777 | 8,529 |
| Current liabilities (Note 3) | (7,548) | (5,807) | (9,589) | (8,457) | (13,469) |
| | 109,568 | 98,260 | 106,662 | 108,711 | 78,662 |
| Representing: | | | | | |
| Share capital | 2,168 | 2,169 | 2,300 | 2,295 | 2,295 |
| Reserves (Note 2 to 6) | 80,761 | 71,729 | 83,527 | 75,638 | 49,624 |
| Shareholders' funds | 82,929 | 73,898 | 85,827 | 77,933 | 51,919 |
| Convertible subordinated bonds | 3,054 | 3,054 | – | – | – |
| Long term loan / deferred liabilities (Note 2) | 20,363 | 18,570 | 15,983 | 25,997 | 22,322 |
| Minority interests (Note 2, 4 to 6) | 3,082 | 2,556 | 4,382 | 4,264 | 3,903 |
| Deferred taxation (Note 6) | 140 | 182 | 470 | 517 | 518 |
| | 109,568 | 98,260 | 106,662 | 108,711 | 78,662 |

Note:

Pursuant to the adoption of the following new or revised Statement of Standard Accounting Practices ("SSAP") and Interpretation,

- SSAP 1 (revised) : Presentation of financial statements
- SSAP 9 (revised) : Events after the balance sheet date
- SSAP 11 (revised) : Foreign currency translation
- SSAP 12 (revised) : Income taxes
- SSAP 15 (revised) : Cash flow statement
- SSAP 24 : Accounting for investments in securities
- SSAP 28 : Provisions, contingent liabilities and contingent assets
- SSAP 34 : Employee benefits
- Interpretation 9 : Accounting for pre-operating costs

| | Restated 1999 HK\$Million | Restated 2000 HK\$Million | 2001 HK\$Million | Restated 2002 HK\$Million | 2003 HK\$Million |
|--|---------------------------------|---------------------------------|---------------------|---------------------------------|---------------------|
| Summary of Profit and Loss Account | | | | | |
| Turnover (Note 1) | 10,521 | 12,023 | 11,725 | 11,333 | 11,253 |
| Group profit attributable to shareholders | 3,217 | 2,480 | 2,519 | 2,303 | 3,043 |
| Prior year adjustment (Note 2, 4 to 6) | 294 | 14 | – | (44) | – |
| Restated amount | 3,511 | 2,494 | 2,519 | 2,259 | 3,043 |
| Dividends | 1,881 | 1,908 | 1,908 | 1,370 | 1,487 |
| Summary of Balance Sheet | | | | | |
| Fixed assets (Note 5) | 73,362 | 77,237 | 74,445 | 69,044 | 71,120 |
| Goodwill | – | – | 419 | 397 | 347 |
| Long term deposits | – | – | 468 | 156 | 156 |
| Associates (Note 4) | 5,197 | 4,972 | 3,389 | 3,367 | 2,075 |
| Long term investments (Note 4) | 5,258 | 1,901 | 1,088 | 1,178 | 1,392 |
| Deferred debtors | 506 | 433 | 485 | 459 | 439 |
| Deferred items (Note 5) | 575 | 570 | 533 | 468 | 432 |
| Deferred tax assets (Note 6) | – | – | – | 108 | 112 |
| Current assets | 12,536 | 7,390 | 7,637 | 5,945 | 5,089 |
| Current liabilities (Note 3) | (10,345) | (12,893) | (12,181) | (11,420) | (11,160) |
| | 87,089 | 79,610 | 76,283 | 69,702 | 70,002 |
| Representing: | | | | | |
| Share capital | 2,446 | 2,446 | 2,447 | 2,447 | 2,447 |
| Reserves (Note 2 to 6) | 51,966 | 55,504 | 52,198 | 45,287 | 49,181 |
| Shareholders' funds | 54,412 | 57,950 | 54,645 | 47,734 | 51,628 |
| Convertible subordinated bonds | – | – | – | – | – |
| Long term loan / deferred liabilities (Note 2) | 26,802 | 17,156 | 17,441 | 16,673 | 12,605 |
| Minority interests (Note 2, 4 to 6) | 5,368 | 4,026 | 3,730 | 3,681 | 4,021 |
| Deferred taxation (Note 6) | 507 | 478 | 467 | 1,614 | 1,748 |
| | 87,089 | 79,610 | 76,283 | 69,702 | 70,002 |

Certain figures have been reclassified or restated as set out below:

1. Turnover figures for the years ended December 31, 1997 and onwards are presented in accordance with the requirements of SSAP 1 (revised).
2. These figures have been restated pursuant to the adoption of SSAP 28 as explained in Note 11b to the accounts of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
3. These figures have been restated pursuant to the adoption of SSAP 9 (revised) as explained in Note 11c to the accounts of 2001. Figures for 1999 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
4. These figures have been restated pursuant to the adoption of SSAP 24 as explained in Note 10 to the 1999 accounts. Figures for 1996 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
5. These figures have been restated pursuant to the adoption of Interpretation 9 "Accounting for pre-operating costs" as explained in Note 8 to 2000 accounts. Figures for 1997 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.
6. These figures have been restated pursuant to the adoption of SSAP 12 (revised) as explained in Note 11 to the accounts of 2003. Figures for 2001 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.