

Particulars regarding Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

Management Discussion and Analysis

(I) REVIEW OF 2003 RESULTS AND SEGMENTAL PERFORMANCE

Group profit attributable to shareholders for the year amounted to HK\$169.4 million, compared to HK\$12.8 million for 2002. Earnings per share for 2003 were HK\$0.54 (2002 restated: HK\$0.04).

Included in the 2003 results is a provision for the impairment of investment securities of HK\$128.2 million. Despite this provision and the outbreak of the severe acute respiratory syndrome (“SARS”) in March 2003 seriously lowering the results of the Hotel Segment for the year, the Group’s profit in 2003 has been buoyed by the profit contribution from its 20% associate, the developer of the Sorrento development.

The Group’s turnover for the year under review was HK\$308.7 million, a decrease of 8% from HK\$335.2 million for 2002. Operating profit in 2003 was HK\$111.5 million against HK\$130.2 million reported last year.

Adversely impacted by the SARS outbreak, The Marco Polo Hongkong Hotel recorded lower occupancy levels and average room rates in 2003. Total revenue and operating profit of the Hotel Segment decreased by 11% and 31% respectively, though the businesses started picking up as soon as the SARS incidence stabilised from mid-2003.

Following the successful completion in mid-2003 of the upgrading project for the retail podium within The Marco Polo Hongkong Hotel, the Group’s Property Segment rental revenue and operating profit increased to HK\$40.3 million and HK\$26.8 million in 2003 from HK\$26.8 million and HK\$17.9 million in 2002 respectively.

As mentioned above, the Group made a provision for the impairment of investment securities of HK\$128.2 million, being a transfer of investment securities revaluation deficit accumulated in previous years to the profit and loss account for the year in accordance with the Group’s accounting policies, reflecting the impairment of certain of the Group’s investment securities. This does not have any effect on the net asset value of the Group.

Profit before taxation for the year under review includes deferred interest income of HK\$83.8 million, arising from a loan advanced to an associate for the Sorrento development, recognised as in previous years on the basis of the pre-sale progress of the development. It also includes a net profit of HK\$19.3 million on disposal of certain investment securities during the year and a provision of HK\$9.3 million made for impairment in value of the Group’s property under redevelopment, namely, the Victoria Road site, having due regard to the prevailing market conditions.

Share of profits of associates in 2003 amounted to HK\$124.9 million, largely contributed from sale of Sorrento units held through an associate, compared to the losses of HK\$102.2 million in 2002 comprising principally an impairment provision made for the Sorrento development.

Full year taxation charge for 2003 was HK\$32.6 million as opposed to HK\$22.4 million last year. The increase is partly due to a rise of Profits Tax rate from 16% to 17.5%.

(II) LIQUIDITY AND FINANCIAL RESOURCES

At 31st December, 2003, the Group's shareholders' funds increased to HK\$4,686.6 million, compared to the restated shareholders' funds of HK\$4,239.7 million at 31st December, 2002, primarily due to the upward revaluation of the Group's properties and investment securities. The consolidated net asset value of the Group at that date was HK\$14.88 per share, compared to that of HK\$13.46 per share at 31st December, 2002.

As at 31st December, 2003, the Group had net cash of HK\$1,277.4 million, increased from HK\$572.8 million as at 31st December, 2002. The increase was mainly attributable to the return of cash from sale of Sorrento units undertaken by an associate. Most of the cash surpluses were placed on deposit. In addition, the Group maintained a portfolio of listed investments with market value aggregating HK\$550 million at the year end. As a result of the improvement in market value of the overall portfolio coupled with the transfer of certain revaluation deficit against the 2003 results, the investment revaluation deficit decreased by HK\$232.1 million resulting in a turnaround to surplus of HK\$9.2 million at 31st December, 2003.

At the year end, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) COMMENTS ON SEGMENTAL INFORMATION

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries and associates are the operation of hotel and restaurants, investment property, property development and investments. Further information on the segmental details is provided in Note 2 to the Accounts in EWF109.pdf.

(IV) EMPLOYEES

The Group has approximately 444 employees working at the Group's hotel. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for year ended 31st December, 2003 amounted to HK\$77.8 million.

Detailed information is set out in Note 3 to the Accounts in EWF109.pdf.

Auditors' Report

TO THE SHAREHOLDERS OF HARBOUR CENTRE DEVELOPMENT LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the accounts in EWF104.pdf to EWF109.pdf 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 the Group as at 31st December, 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, 9th March, 2004

Consolidated Profit and Loss Account For the year ended 31st December, 2003

	Note	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u> Restated
Turnover	2	308.7	335.2
Direct costs and operating expenses		(162.6)	(171.9)
Selling and marketing expenses		(17.3)	(13.9)
Depreciation		(12.4)	(13.3)
Administrative and corporate expenses		(4.9)	(5.9)
Operating profit	3	111.5	130.2
Non-operating items	4	(34.4)	7.2
Share of profits less losses of associates		124.9	(102.2)
Profit before taxation		202.0	35.2
Taxation	5	(32.6)	(22.4)
Profit attributable to shareholders	6	169.4	12.8
Dividends attributable to the year	7		
Interim dividend declared during the year		15.8	15.8
Final dividend proposed after the balance sheet date		37.8	37.8
		53.6	53.6
Earnings per share	8	HK\$0.54	HK\$0.04

The notes in EWF109.pdf form part of these accounts.

Consolidated Balance Sheet

As at 31st December, 2003

	Note	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u> Restated
ASSETS			
Non-current assets			
Fixed assets	10	2,541.8	2,404.6
Interest in associates	12	387.9	884.2
Investment securities	13	550.0	523.0
Employee benefits	14	8.6	9.3
		<u>3,488.3</u>	<u>3,821.1</u>
Current assets			
Inventories		3.5	3.7
Debtors	15	32.1	24.8
Cash and cash equivalents		<u>1,277.4</u>	<u>572.8</u>
		<u>1,313.0</u>	<u>601.3</u>
Current liabilities			
Creditors	16	67.6	72.4
Taxation		8.9	5.2
		<u>76.5</u>	<u>77.6</u>
Net current assets		<u>1,236.5</u>	<u>523.7</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>4,724.8</u>	<u>4,344.8</u>
EQUITY AND NON-CURRENT LIABILITIES			
Capital and reserves			
Share capital	17	157.5	157.5
Reserves	18	4,529.1	4,082.2
		<u>4,686.6</u>	<u>4,239.7</u>
Non-current liabilities			
Deferred income	19	25.3	95.8
Deferred tax liabilities	20	12.9	9.3
		<u>38.2</u>	<u>105.1</u>
TOTAL EQUITY AND			
NON-CURRENT LIABILITIES		<u>4,724.8</u>	<u>4,344.8</u>

The notes in EWF109.pdf form part of these accounts.

Gonzaga W.J. Li
Chairman

Paul Y.C. Tsui
Director

Company Balance Sheet

As at 31st December, 2003

	Note	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u>
ASSETS			
Non-current asset			
Interest in associates	12	<u>366.4</u>	<u>863.3</u>
Current assets			
Amounts due from subsidiaries	11	46.9	80.7
Debtors	15	0.3	0.3
Cash and cash equivalents		<u>1,275.8</u>	<u>570.0</u>
		<u>1,323.0</u>	<u>651.0</u>
Current liabilities			
Amounts due to subsidiaries	11	757.8	621.0
Creditors	16	1.1	2.0
Taxation		<u>5.3</u>	<u>1.9</u>
		<u>764.2</u>	<u>624.9</u>
Net current assets		<u>558.8</u>	26.1
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>925.2</u>	<u>889.4</u>
EQUITY AND NON-CURRENT LIABILITIES			
Capital and reserves			
Share capital	17	157.5	157.5
Reserves	18	<u>742.4</u>	<u>636.1</u>
		<u>899.9</u>	793.6
Non-current liabilities			
Deferred income	19	<u>25.3</u>	<u>95.8</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES		<u>925.2</u>	<u>889.4</u>

The notes in EWF109.pdf form part of these accounts.

Gonzaga W.J. Li
Chairman

Paul Y.C. Tsui
Director

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u>
Operating activities		
Operating profit	111.5	130.2
Depreciation	12.4	13.3
Dividend income from investment securities	(22.8)	(29.9)
Interest income	(6.8)	(9.0)
Operating profit before changes in working capital	<u>94.3</u>	104.6
Increase in deferred income	13.3	30.8
Decrease in employee benefits	0.7	0.4
Decrease in inventories	0.2	0.2
(Increase)/decrease in debtors	(1.5)	1.4
Decrease in creditors	(5.7)	(5.6)
(Decrease)/increase in amounts due to fellow subsidiaries (net)	<u>(4.9)</u>	6.5
Cash generated from operations	96.4	138.3
Interest received	6.8	9.1
Dividend received from associates	1.8	0.4
Dividend income from investment securities	22.8	29.9
Hong Kong profits tax paid	<u>(18.9)</u>	<u>(21.7)</u>
Net cash inflow from operating activities	108.9	156.0
Investing activities		
Payments for the purchase of fixed assets	(59.9)	(67.5)
Net advances from/(to) associates	614.4	(96.4)
Payments for the purchase of investment securities	(54.3)	(305.6)
Proceeds from the sale of investment securities	<u>149.1</u>	<u>472.5</u>
Net cash inflow from investing activities	649.3	3.0

Consolidated Cash Flow Statement
(Continued)
For the year ended 31st December, 2003

	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u>
Financing activities		
Repayment of short term bank loans	-	(400.9)
Dividends paid	<u>(53.6)</u>	<u>(53.6)</u>
Net cash outflow from financing activities	(53.6)	(454.5)
Net increase/(decrease) in cash and cash equivalents	<u>704.6</u>	<u>(295.5)</u>
Cash and cash equivalents at 1st January	572.8	868.3
Cash and cash equivalents at 31st December	<u>1,277.4</u>	<u>572.8</u>
Analysis of the balance of cash and cash equivalents		
Deposits and cash	<u>1,277.4</u>	<u>572.8</u>

Consolidated Statement of Changes in Equity For the year ended 31st December, 2003

	Note	2003 HK\$ <u>Million</u>	2002 HK\$ <u>Million</u> Restated
Total equity as at 1st January			
As previously reported		4,249.0	4,814.1
Prior year adjustment arising from a change in accounting policy for deferred tax	9	<u>(9.3)</u>	<u>(5.9)</u>
As restated		4,239.7	4,808.2
Surplus/(deficit) on revaluation of investment properties	18	58.0	(160.4)
Surplus/(deficit) on revaluation of hotel properties	18	41.0	(220.0)
Surplus/(deficit) on revaluation of investment securities	18	100.0	(155.6)
Deficit on revaluation of investment securities transferred to the profit and loss account on impairment	18	128.2	-
Share of surplus/(deficit) on revaluation of investment securities of associates	18	0.8	(6.1)
Net gains/(losses) not recognised in the consolidated profit and loss account		<u>328.0</u>	<u>(542.1)</u>
Net profit for the year (2002: previously reported HK\$16.2 million now restated) (note 9)		169.4	12.8
Final dividend approved in respect of the previous year	7(b)	(37.8)	(37.8)
Interim dividend approved in respect of the current year	7(a)	(15.8)	(15.8)
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of investment securities	18	2.5	14.4
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of investment securities of associates	18	0.6	-
Total equity as at 31st December		<u>4,686.6</u>	<u>4,239.7</u>

The notes in EWF109.pdf form part of these accounts.

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 includes 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 properties, and the marking to market of investments 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 of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same way as for investment securities (see note 1(h)).

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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation (Cont'd)

(i) Subsidiaries and controlled companies (Cont'd)

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 investment securities (see note 1(h)).

The consolidated accounts include the accounts of the Company and all its subsidiaries ("the Group") which are made up to 31st December each year.

(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 investment securities (see note 1(h)). 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.

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

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation (Cont'd)

(iii) Goodwill/negative goodwill

Goodwill represents the excess/shortfall of the cost of investment over the appropriate share of the fair value of the identifiable assets and liabilities of a controlled subsidiary or associate acquired. 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 is included in the calculation of the profit or 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.

(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 reserve. If the total of this reserve 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 reserve is included in calculating the profit or loss on disposal.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets (Cont'd)

(ii) Property held for redevelopment

Property held for redevelopment is stated at cost, including borrowing costs, less such provisions for impairment losses (see note 1(f)) considered necessary by the Directors.

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

(iii) Hotel properties

Hotel properties are stated at their open market existing use value based on an annual professional valuation. Changes in the value of the hotel properties are dealt with as movements in the hotel properties revaluation reserve. 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) Other fixed assets

Other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(e) (iv)) and impairment losses (see note 1(f)).

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.

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.

(ii) Property held for redevelopment

No depreciation is provided on property held for redevelopment.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Depreciation of fixed assets (Cont'd)

(iii) Hotel properties

No depreciation is provided on hotel 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.

(iv) Other fixed assets

Leasehold improvements are depreciated over the unexpired terms of the leases.

Other assets comprising plant, machinery, furniture, fixtures and equipment are depreciated at annual rates of 10% to 20% on a straight line basis on cost.

(f) Impairment of assets

The carrying amounts of the Group's assets 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. The recoverable amount of an asset is the greater of its net selling price and value in use. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and such reversal 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.

(g) Leased assets

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

- Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(1)(ii).

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Leased assets (Cont'd)

- Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to 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 received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

(h) Investment securities

- (i)** Investment securities, which are not held for trading purposes, are classified as non-current assets in the balance sheet and stated at fair value. Changes in fair value of individual securities are recognised in the investment securities revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment securities revaluation reserve to the consolidated profit and loss account. Transfers from the investment securities revaluation reserve 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 new circumstances and events will persist for the foreseeable future.

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

- (ii)** 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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Inventories

Inventories comprise hotel consumables and are stated at the lower of cost, calculated on weighted average basis, and net realisable value. Net realisable value represents the estimated selling price less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the 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 accounts of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange differences arising from the above are dealt with in the consolidated profit and loss account.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Recognition of income

- (i)** Income from hotel operations is recognised when the services are rendered.
- (ii)** Rentals receivable from investment properties held for use under operating leases are accounted for on a straight line basis over the respective periods of the lease. 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.
- (iii)** Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.
- (iv)** Interest on a loan advanced to an associate involved in a property development project is deferred and is recognised from when the associate starts to generate profit from the property development project based on the percentage of total area sold to the total area available for sale.
- (v)** Investment income is recognised when the right to receive the income is established.

(m) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the 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 expenditures 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 (Cont'd)

(n) Income tax

- (i)** Income tax for the year comprises current 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 respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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 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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Income tax (Cont'd)

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

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits

(i) Defined contribution pension scheme

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

(ii) Defined benefit pension schemes

The Group's net obligation in respect of the defined benefit 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 the balance sheet date of high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the 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 defined benefit 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 profit and loss account over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

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

(iii) Mandatory Provident Fund

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits (Cont'd)

- (iv) 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.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing 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 determined that business segments be presented as the primary reporting format and geographical segments 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 enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

(q) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(r) 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.

(s) Deferred income

Deferred income is interest income less directly attributable interest expenses arising from a loan advanced to an associate, which has been deferred and is recognised in the consolidated profit and loss account from when the associate starts to generate profit from a property development project, undertaken by the associate, based on the percentage of total area sold to the total area available for sale.

2. SEGMENT REPORTING

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

(a) Business segments

	Hotel and restaurants		Property		Investments		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million	Million	Million	Million	Million
		Restated		Restated		Restated		Restated
Segment revenue	238.8	269.5	40.3	26.8	29.6	38.9	308.7	335.2
Segment result	46.2	67.1	26.8	17.9	38.5	45.2	111.5	130.2
Non-operating items	-	-	(9.3)	(43.3)	(25.1)	50.5	(34.4)	7.2
Share of profits less losses of associates	-	-	124.2	(103.3)	0.7	1.1	124.9	(102.2)
Profit before taxation							202.0	35.2
Taxation							(32.6)	(22.4)
Profit attributable to shareholders							169.4	12.8
Segment assets	1,734.5	1,698.0	851.2	744.0	550.3	523.4	3,136.0	2,965.4
Interest in associates	-	-	385.3	863.5	2.6	20.7	387.9	884.2
Unallocated assets							1,277.4	572.8
Cash and cash equivalents							4,801.3	4,422.4
Total assets							4,801.3	4,422.4
Segment liabilities	(48.3)	(49.8)	(39.3)	(102.3)	(5.3)	(16.1)	(92.9)	(168.2)
Unallocated liabilities							(21.8)	(14.5)
Total liabilities							(114.7)	(182.7)
Depreciation for the year	12.4	13.3	-	-	-	-	12.4	13.3
Capital expenditure incurred during the year	5.3	22.6	54.6	44.9	-	-	59.9	67.5

(b) Geographical segments

	Segment revenue		Segment result	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million
Hong Kong	292.1	310.3	94.9	105.3
Singapore	16.6	24.9	16.6	24.9
	308.7	335.2	111.5	130.2

No inter-segment revenue was recorded during the years.

3. OPERATING PROFIT

(a) Operating profit is arrived at after charging:

	2003 HK\$ Million	2002 HK\$ Million
Cost of inventories sold	22.9	21.7
Depreciation	12.4	13.3
Staff costs including:	77.8	85.3
Contributions to defined contribution pension schemes (After deducting forfeiture of Group's contribution of HK\$0.5 million (2002: HK\$0.5 million))	2.6	2.6
Increase in liability for defined benefit pension schemes	2.2	2.2
Total pension cost	4.8	4.8
Auditors' remuneration	0.5	0.5
and after crediting:		
Gross rental income from investment properties	40.3	26.8
Less: direct outgoings	(11.8)	(7.7)
	28.5	19.1
Interest on bank deposits	6.8	9.0
Dividend income from listed securities	22.8	29.9

(b) Directors' emoluments

	2003 HK\$ Million	2002 HK\$ Million
Fees	0.1	0.1
Basic salaries, housing allowance, and other allowances and benefits in kind	0.8	0.8
Retirement scheme contributions	-	-
Discretionary bonuses and/or performance-related bonuses	-	-
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	0.9	0.9

For the year under review, total emoluments (including any reimbursement), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$20,000 (2002: HK\$20,000) per annum to each Independent Non-executive Director of the Company.

3. OPERATING PROFIT (Cont'd)
(b) Directors' emoluments (Cont'd)

The remuneration of the Directors is within the following bands:

	2003	2002
Bands (in HK\$)	Number of Directors	Number of Directors
Nil - \$500,000	6	6
\$500,001 - \$1,000,000	1	1

(c) Highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31st December, 2003 of the five highest paid employees of the Group, none of whom is a Director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

	2003	2002
	HK\$ Million	HK\$ Million
Basic salaries, housing allowances, and other allowances and benefits in kind	4.4	5.1
Retirement scheme contributions	0.4	0.4
Discretionary bonuses and/or performance-related bonuses	0.5	0.2
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	5.3	5.7

The emoluments of the five highest individuals are within the following bands:

	2003	2002
Bands (in HK\$)	Number of Individuals	Number of Individuals
Not more than \$1,000,000	3	2
\$1,000,001 - \$1,500,000	1	2
\$1,500,001 - \$2,000,000	1	1

4. NON-OPERATING ITEMS

	2003 HK\$ Million	2002 HK\$ Million
Release of deferred income	83.8	70.9
Profit/(loss) on disposal of investment securities (note a)	19.3	(20.4)
Provision for impairment in value of investment securities (note b)	(128.2)	-
Provision for impairment in value of property held for redevelopment	(9.3)	(43.3)
	<u>(34.4)</u>	<u>7.2</u>

(a) Profit/(loss) on disposal of investment securities includes a revaluation deficit of HK\$2.5 million (2002: HK\$14.4 million) transferred from the investment securities revaluation reserve to the profit and loss account upon disposal of the related investment securities.

(b) The fair value of certain of the Group's investment securities has been persistently below cost for a period of three years and, therefore, management consider these investment securities are impaired in value. Accordingly, to comply with the Group's accounting policies, a provision for the impairment of investment securities of HK\$128.2 million has been made in 2003. The provision includes the cumulative deficit reflected in the investment securities revaluation reserve in previous years which has been transferred to the profit and loss account. The treatment has no effect on the net asset value of the Group.

5. TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16.0%) on the estimated assessable profit for the year.

	Group 2003 HK\$ Million	2002 HK\$ Million Restated
Current tax – provision for Hong Kong profits tax		
Tax for the year	21.8	18.5
Underprovision in respect of prior years	0.8	-
	<u>22.6</u>	<u>18.5</u>
Deferred tax		
Origination and reversal of temporary difference	2.8	3.4
Effect of increase in tax rate on deferred tax balances at 1st January	0.8	-
	<u>3.6</u>	<u>3.4</u>
Share of associates' Hong Kong profits tax for the year	6.4	0.5
Total tax charge	<u>32.6</u>	<u>22.4</u>

5. TAXATION (Cont'd)

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

	Group	
	2003	2002
	HK\$	HK\$
	Million	Million
Profit before taxation	202.0	35.2
Notional tax on accounting profit calculated at applicable tax rates	35.4	5.6
Tax effect of non-deductible expenses	25.0	6.7
Tax effect of non-taxable revenue	(14.1)	(6.8)
Underprovision in prior years	0.8	-
Tax effect of unused tax losses not recognised	-	17.0
Tax loss utilised	(15.3)	(0.1)
Effect of change in tax rate on deferred tax balances	0.8	-
Actual total tax charge	32.6	22.4

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$159.9 million (2002: HK\$59.4 million).

The Group's profit attributable to shareholders for the year is retained by:

	Group	
	2003	2002
	HK\$	HK\$
	Million	Million
The Company and its subsidiaries	50.9	115.5
Associates	118.5	(102.7)
	169.4	12.8

7. DIVIDENDS

(a) Dividends attributable to the year

	2003 HK\$ Million	2002 HK\$ Million
Interim dividend of 5.0 cents (2002: 5.0 cents) per share	15.8	15.8
Final dividend of 12.0 cents (2002: 12.0 cents) per share	37.8	37.8
	53.6	53.6

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

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

	2003 HK\$ Million	2002 HK\$ Million
Final dividend in respect of the previous financial year, approved and paid during the year, of 12.0 cents per share (2002: 12.0 cents per share)	37.8	37.8

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$169.4 million (2002: restated HK\$12.8 million) and on 315.0 million (2002: 315.0 million) ordinary shares in issue throughout the year ended 31st December, 2003.

9. 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 1st January, 2003, in order to comply with SSAP 12 (revised) “Income taxes” 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. The effect of adopting the new accounting policy has been applied retrospectively. Revenue reserves as at 1st January, 2003 and 1st January, 2002 were restated and decreased by HK\$9.3 million and HK\$5.9 million respectively representing the deferred tax liability recognised in respect of temporary difference arising from fixed assets and retirement scheme assets. The effect of change to income tax for the year ended 31st December, 2003 is an increased charge of HK\$3.6 million (2002: HK\$3.4 million).

10. FIXED ASSETS

	Group				
	Investment properties HK\$ Million	Property held for redeve- lopment HK\$ Million	Hotel properties HK\$ Million	Other fixed assets HK\$ Million	Total HK\$ Million
(a) Cost or valuation					
Balance at 1st January, 2003	705.0	37.0	1,620.0	180.8	2,542.8
Additions	54.0	0.6	-	5.3	59.9
Disposals	-	-	-	(21.2)	(21.2)
Provision for impairment	-	(9.3)	-	-	(9.3)
Revaluation surplus	58.0	-	41.0	-	99.0
Balance at 31st December, 2003	817.0	28.3	1,661.0	164.9	2,671.2
Accumulated depreciation					
Balance at 1st January, 2003	-	-	-	138.2	138.2
Charge for the year	-	-	-	12.4	12.4
Written back on disposals	-	-	-	(21.2)	(21.2)
Balance at 31st December, 2003	-	-	-	129.4	129.4
Net book value					
at 31st December, 2003	817.0	28.3	1,661.0	35.5	2,541.8
at 31st December, 2002	705.0	37.0	1,620.0	42.6	2,404.6

(b) The analysis of cost or valuation of the above assets is as follows:

2003 valuation	817.0	-	1,661.0	-	2,478.0
Cost less provisions	-	28.3	-	164.9	193.2
	817.0	28.3	1,661.0	164.9	2,671.2

The carrying value of the hotel properties would have been HK\$71.1 million (2002: HK\$71.1 million) had they been stated at cost.

(c) Tenure of title to properties:

Long term lease held in Hong Kong					
Over 50 years	817.0	28.3	1,661.0	-	2,506.3

(d) Properties valuation

The Group's investment properties in Hong Kong and The Marco Polo Hongkong Hotel have been revalued as at 31st December, 2003 on an open market existing use value basis by Chesterton Petty Limited, a company engaged in professional property valuation. The surplus arising from the revaluations has been dealt with in the relevant revaluation reserves.

10. FIXED ASSETS (Cont'd)

(e) Properties schedule at 31st December, 2003

Address	Lot number	Year of completion	Stage of completion	Lease expiry	Site area (sq.ft.)	Approximate gross floor areas			Hotel (rooms)	Attributable interest
						Office (sq.ft.)	Retail (sq.ft.)	Residential (sq.ft.)		
Investment property										
The Marco Polo Hongkong Hotel (Commercial Section) Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	(Note)	34,000	137,000	-	-	100%
Property held for Redevelopment										
60 Victoria Road Kennedy Town	IL 8079	N/A	Planning Stage	2064	6,100	-	-	48,800	-	100%
Hotel property										
The Marco Polo Hongkong Hotel Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	58,814	-	-	-	665	100%

Note: Part of The Marco Polo Hongkong Hotel building.

- (f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease upon expiry at which time all terms are renegotiated.

Contingent rental income derived from the Group for the year amounted to HK\$0.5 million (2002: HK\$1.1 million).

The gross carrying amounts of investment properties of the Group held for use in operating leases were HK\$817.0 million (2002: HK\$705.0 million).

- (g) The Group's total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2003 HK\$ Million	2002 HK\$ Million
Within 1 year	53.3	22.4
After 1 year but within 5 years	168.9	36.8
After 5 years	9.8	0.8
	<u>232.0</u>	<u>60.0</u>

11. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due from/(to) subsidiaries are unsecured, repayable on demand and interest free.

Details of principal subsidiaries at 31st December, 2003 are shown on page 34.

12. INTEREST IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million
Share of net tangible assets	51.0	(67.1)	-	-
Loan due from an associate	366.4	962.3	366.4	863.3
Amount due to an associate	(29.5)	(11.0)	-	-
	<u>387.9</u>	<u>884.2</u>	<u>366.4</u>	<u>863.3</u>

Details of principal associates at 31st December, 2003 are shown on page 34.

- (a) The loan advanced to an associate involved in a property development project bears interest at rates as determined by the shareholders of the associate with reference to the prevailing market rates.
- (b) The following supplementary financial information is disclosed relating to a significant associate of the Group, Hopfield Holdings Limited:

	2003	2002
	HK\$	HK\$
	Million	Million
Consolidated balance sheet		
Non-current assets	139.4	-
Current assets	2,379.0	5,780.7
Current liabilities	(591.8)	(1,463.3)
Non-current liabilities	(1,831.9)	(4,811.7)
Consolidated profit and loss account		
Turnover	4,136.4	3,185.1
Operating profit/(loss)	620.9	(516.7)
Taxation	(31.8)	(2.3)

13. INVESTMENT SECURITIES

	Group	
	2003	2002
	HK\$	HK\$
	Million	Million
Equity securities		
Listed in Hong Kong, at market value	23.9	140.6
Listed outside Hong Kong, at market value	471.0	382.4
	494.9	523.0
Unlisted	55.1	-
	550.0	523.0

14. EMPLOYEE BENEFITS

(a) Defined benefit pension schemes

	2003	2002
	HK\$	HK\$
	Million	Million
Defined benefit pension schemes	8.6	9.3

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contribution from employers, which are in accordance with recommendations made by actuaries based on their valuation. The latest valuations as at 31st December, 2003 were performed by HSBC Life and Watson Wyatt Hong Kong Limited, using the projected unit credit method with funding ratio 91.7% and 139.8% respectively.

(i) The amount recognised in the consolidated balance sheet is as follows:

	2003	2002
	HK\$	HK\$
	Million	Million
Present value of funded obligations	51.6	52.4
Fair value of scheme assets	(63.5)	(56.8)
Net unrecognised actuarial gain/(losses)	3.3	(4.9)
Balance at 31st December	(8.6)	(9.3)

14. EMPLOYEE BENEFITS (Cont'd)

(a) Defined benefit pension schemes

(ii) Movements in the net assets recognised in the consolidated balance sheet are as follows:

	2003 HK\$ Million	2002 HK\$ Million
Balance at 1st January	(9.3)	(9.7)
Contributions paid	(1.5)	(1.8)
Expense recognised in the consolidated profit and loss account	2.2	2.2
Balance at 31st December	(8.6)	(9.3)

(iii) Expense recognised in the consolidated profit and loss account is as follows:

	2003 HK\$ Million	2002 HK\$ Million
Current service cost	3.6	3.5
Interest cost	2.5	3.4
Expected return on scheme assets	(3.9)	(4.7)
	2.2	2.2

The expense is recognised in the following line items in the consolidated profit and loss account:

	2003 HK\$ Million	2002 HK\$ Million
Direct costs and operating expenses	2.1	2.2
Selling and marketing expenses	0.1	-
	2.2	2.2
Actual return on scheme assets	8.2	(0.6)

14. EMPLOYEE BENEFITS (Cont'd)

(a) Defined benefit pension schemes

(iv) The principal actuarial assumptions used as at 31st December 2003 (expressed as a range) are as follows:

		<u>2003</u>	<u>2002</u>
Discount rate at 31st December		5%	5%
Expected rate of return on scheme assets		5-8%	5-8%
Future salary increases	2003	N/A	0-2%
	2004	0-2%	2%
	2005	2%	2-4%
	2006	2-4%	4%
	2007 onwards	4%	4%

(b) Defined contribution pension schemes

A number of defined contribution pension schemes (including Mandatory Provident Fund) are available to the employees of the Group. For defined contribution pension schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds. The contributions are expenses as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

15. DEBTORS

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million
Trade debtors				
Due within 30 days	14.4	13.3	-	-
Due after 30 days but within 60 days	2.9	3.8	-	-
Due after 60 days but within 90 days	1.1	1.9	-	-
Over 90 days	0.1	1.1	-	-
	18.5	20.1	-	-
Other debtors	5.6	2.5	0.3	0.3
Amounts due by fellow subsidiaries	8.0	2.2	-	-
	32.1	24.8	0.3	0.3

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days. The amounts due by fellow subsidiaries are unsecured, interest free and repayable on demand. The above includes deposits paid amounting to HK\$0.3 million (2002: HK\$0.1 million) which are expected to be recovered after one year.

16. CREDITORS

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million
Trade creditors				
Due within 30 days	10.8	8.1	-	-
Due after 30 days but within 60 days	6.9	4.3	-	-
Due after 60 days but within 90 days	0.3	0.3	-	-
Over 90 days	0.2	0.1	-	-
	18.2	12.8	-	-
Other creditors and provisions	41.6	52.7	0.8	1.6
Amounts due to fellow subsidiaries	7.8	6.9	0.3	0.4
	67.6	72.4	1.1	2.0

The amounts due to fellow subsidiaries are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK\$12.8 million (2002: HK\$3.1 million) which are expected to be settled after one year.

17. SHARE CAPITAL

	2003		2002	
	No. of shares Million	HK\$ Million	No. of Shares Million	HK\$ Million
Authorised				
Ordinary shares of HK\$0.50 each	380.0	190.0	380.0	190.0
Issued and fully paid				
Ordinary shares of HK\$0.50 each	315.0	157.5	315.0	157.5

18. RESERVES

	Share premium HK\$ Million	Investment properties revaluation reserve HK\$ Million	Hotel properties revaluation reserve HK\$ Million	Investment securities revaluation reserve HK\$ Million	Revenue reserve HK\$ Million	Total HK\$ Million
(a) The Group						
(i) Company and subsidiaries						
Balance at 1st January, 2002						
- as previously reported	542.0	777.0	1,768.9	(81.1)	1,618.2	4,625.0
- prior year adjustment						
- deferred tax	-	-	-	-	(5.9)	(5.9)
- as restated	542.0	777.0	1,768.9	(81.1)	1,612.3	4,619.1
Dividend approved in respect of the previous year	-	-	-	-	(37.8)	(37.8)
Transferred to the profit and loss account on disposal of investment securities	-	-	-	14.4	-	14.4
Revaluation deficit						
Investment properties	-	(160.4)	-	-	-	(160.4)
Hotel properties	-	-	(220.0)	-	-	(220.0)
Investment securities	-	-	-	(155.6)	-	(155.6)
Retained profit for the year (as restated) (note 6)	-	-	-	-	115.5	115.5
Dividend declared in respect of the current year	-	-	-	-	(15.8)	(15.8)
Balance at 31st December, 2002	542.0	616.6	1,548.9	(222.3)	1,674.2	4,159.4
Balance at 1st January, 2003						
- as previously reported	542.0	616.6	1,548.9	(222.3)	1,683.5	4,168.7
- prior year adjustment						
- deferred tax	-	-	-	-	(9.3)	(9.3)
- as restated	542.0	616.6	1,548.9	(222.3)	1,674.2	4,159.4
Dividend approved in respect of the previous year	-	-	-	-	(37.8)	(37.8)
Transferred to the profit and loss account on disposal of investment securities	-	-	-	2.5	-	2.5
Revaluation surplus						
Investment properties	-	58.0	-	-	-	58.0
Hotel properties	-	-	41.0	-	-	41.0
Investment securities	-	-	-	100.0	-	100.0
Transferred to the profit and loss account on impairment of investment securities	-	-	-	128.2	-	128.2
Retained profit for the year (note 6)	-	-	-	-	50.9	50.9
Dividend declared in respect of the current year	-	-	-	-	(15.8)	(15.8)
Balance at 31st December, 2003	542.0	674.6	1,589.9	8.4	1,671.5	4,486.4

18. RESERVES (Cont'd)

	Share premium HK\$ Million	Investment properties revaluation reserve HK\$ Million	Hotel properties revaluation reserve HK\$ Million	Investment securities revaluation reserve HK\$ Million	Revenue reserve HK\$ Million	Total HK\$ Million
(a) The Group (Cont'd)						
(ii) Associates						
Balance at 1st January, 2002	-	-	-	5.5	26.1	31.6
Revaluation deficit						
Investment securities	-	-	-	(6.1)	-	(6.1)
Retained profit for the year (note 6)	-	-	-	-	(102.7)	(102.7)
Balance at 31st December, 2002 and 1st January, 2003	-	-	-	(0.6)	(76.6)	(77.2)
Revaluation surplus						
Investment securities	-	-	-	0.8	-	0.8
Transferred to the profit and loss account on disposal of investment securities	-	-	-	0.6	-	0.6
Retained profit for the year (note 6)	-	-	-	-	118.5	118.5
Balance at 31st December, 2003	-	-	-	0.8	41.9	42.7
Total reserves						
At 31st December, 2003	542.0	674.6	1,589.9	9.2	1,713.4	4,529.1
At 31st December, 2002 (Restated)	542.0	616.6	1,548.9	(222.9)	1,597.6	4,082.2

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of investment and hotel properties and investment securities.

(b) The Company						
Balance at 1st January, 2002	542.0	-	-	-	88.3	630.3
Dividend approved in respect of the previous year	-	-	-	-	(37.8)	(37.8)
Retained profit for the year	-	-	-	-	59.4	59.4
Dividend declared in respect of the current year	-	-	-	-	(15.8)	(15.8)
Balance at 31st December, 2002	542.0	-	-	-	94.1	636.1
Balance at 1st January, 2003	542.0	-	-	-	94.1	636.1
Dividend approved in respect of the previous year	-	-	-	-	(37.8)	(37.8)
Retained profit for the year	-	-	-	-	159.9	159.9
Dividend declared in respect of the current year	-	-	-	-	(15.8)	(15.8)
Balance at 31st December, 2003	542.0	-	-	-	200.4	742.4

Reserves of the Company available for distribution to shareholders at 31st December, 2003 amounted to HK\$200.4 million (2002: HK\$94.1 million)

19. DEFERRED INCOME

Details of accounting policies adopted for deferred income are set out in note 1 (s). The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2003	2002
	HK\$	HK\$
	Million	Million
Balance at 1st January	95.8	135.9
Additions	13.3	30.8
Release of deferred income	(83.8)	(70.9)
Balance at 31st December	25.3	95.8

20. DEFERRED TAXATION

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

	Depreciation allowances in excess of the related depreciation HK\$ Million	Retirement scheme assets HK\$ Million	Total HK\$ Million
Deferred tax arising from			
At 1st January, 2002			
- as previously reported	-	-	-
- prior year adjustments	4.3	1.6	5.9
- as restated	4.3	1.6	5.9
Charged/(credited) to the consolidated profit and loss account	3.5	(0.1)	3.4
At 31st December, 2002	7.8	1.5	9.3
At 1st January, 2003			
- as previously reported	-	-	-
- prior year adjustments	7.8	1.5	9.3
- as restated	7.8	1.5	9.3
Charged to the consolidated profit and loss account	3.6	-	3.6
At 31st December, 2003	11.4	1.5	12.9
		2003 HK\$ Million	2002 HK\$ Million
Net deferred tax liabilities recognised on the consolidated balance sheet		12.9	9.3

20. DEFERRED TAXATION (Cont'd)

- (b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31st December, 2003.

21. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK\$13.0 million (2002: HK\$16.9 million) which included management fees of HK\$9.8 million (2002: HK\$13.2 million) and marketing fees of HK\$3.2 million (2002: HK\$3.7 million). The management fee included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such transactions also constitute connected transactions as defined under the Listing Rules, but are exempted under the provisions of the applicable Listing Rules (i.e. the relevant Listing Rules which were in force during the financial year ended 31st December, 2003) from the requirements relating to connected transactions.
- (b) As stated in note 12 to the accounts, loans totalling HK\$366.4 million (2002: HK\$962.3 million) due from an associate involved in the Sorrento project 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 from complying with the relevant connected transaction requirements. The net interest earned by the Group from the above loan during the current year amounted to HK\$13.3 million (2002: HK\$30.8 million) which has been deferred and is recognised in the consolidated profit and loss account in accordance with the basis as set out in note 1(s) above.
- (c) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited in respect of the leasing of shops at G/F, 1/F & 2/F at The Marco Polo Hongkong Hotel. The duration of tenancy is from 11th April, 2003 to 10th April, 2009. The rental income earned by the Group from the above agreement during the year amounted to HK\$14.3 million. Such a transaction does not constitute a connected transaction under the Listing Rules.

22. COMMITMENTS

Capital commitments for property, plant and equipment

	Group	
	2003	2002
	HK\$	HK\$
	Million	Million
Contracted but not provided for	28.8	67.8
Authorised but not contracted for	16.1	38.6
	44.9	106.4

23. ULTIMATE HOLDING COMPANY

The ultimate holding company is The Wharf (Holdings) Limited, a company incorporated and listed in Hong Kong.

24. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 7.

25. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies for income taxes in order to comply with SSAP12 (revised) as set out in note 9 above.

26. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Directors on 9th March, 2004.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

As at 31st December, 2003

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)	Percentage of equity attributable to the Group	Principal activities
#Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
#Ocean New Investments Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Algebra Assets Limited	British Virgin Islands	500 US\$1 shares	100	Investment
Mandelson Investments Limited	British Virgin Islands	500 US\$1 shares	100	Investment
Manniworth Company Limited	Hong Kong	10,000 HK\$1 shares	100	Property development
The Hongkong Hotel Limited	Hong Kong	100,000 HK\$1 shares	100	Hotel operation
Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to the Group	Principal activities
Hopfield Holdings Limited	British Virgin Islands	Ordinary	20	Holding company
Kowloon Properties Company Limited	Hong Kong	Ordinary	20	Property development

All the subsidiaries listed above were, as at 31st December, 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