

ANNUAL REPORT 2003



ALLIED GROUP LIMITED

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Corporate Information

BOARD OF DIRECTORS

Gordon Macwhinnie

Non-Executive Chairman/

Independent Non-Executive Director

Lee Seng Hui

Chief Executive

Edwin Lo King Yau

Executive Director

Lee Su Hwei

Non-Executive Director

Arthur George Dew

Non-Executive Director

Wong Po Yan

Independent Non-Executive Director

David Craig Bartlett

Independent Non-Executive Director

John Douglas Mackie

Independent Non-Executive Director

EXECUTIVE COMMITTEE

Lee Seng Hui *Chairman*

Edwin Lo King Yau

REMUNERATION COMMITTEE

David Craig Bartlett *Chairman*

Gordon Macwhinnie

Arthur George Dew

Wong Po Yan

John Douglas Mackie

AUDIT COMMITTEE

Gordon Macwhinnie *Chairman*

Arthur George Dew

Wong Po Yan

David Craig Bartlett

John Douglas Mackie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

CITIC Ka Wah Bank Limited

International Bank of Asia Limited

Standard Chartered Bank

Wing Hang Bank, Limited

REGISTERED OFFICE

22nd Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor

Services Limited

Shops 1712–1716

17th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

COMPANY SECRETARY

Phoebe Lau Mei Yi

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Leland Chu & Co.

Haldanes

Kwok & Yih

P. C. Woo & Co.

I am pleased to present to you a very encouraging set of results for 2003. Although there were difficulties caused by Severe Acute Respiratory Syndrome ("SARS") in the first half, the economy of the Hong Kong Special Administrative Region ("Hong Kong") rebounded particularly during the last quarter of the year, along with the local property and financial markets. Accordingly, impairment losses and revaluation deficits in relation to the year end valuation of the Hong Kong properties of Allied Properties (H.K.) Limited ("Allied Properties") and its subsidiaries were much reduced compared to the year before.

At the same time, the Group's financial services operations also provided increased profitable contributions to the results for the year.

FINANCIAL RESULTS

For the year ended 31st December, 2003, the Group reported a profit attributable to shareholders for the year of HK\$486.5 million, a turnaround of HK\$656.1 million as compared to the corresponding loss of HK\$169.6 million in 2002.

DIVIDEND

The Directors do not recommend the payment of a final dividend (2002: Nil). It should however be noted that the Company recently completed a general offer to repurchase 750,000,000 shares, details of which are shown in the "Financial Review" later in this annual report. The share repurchase has increased the net asset value per share for the remaining shareholders and will have a pronounced effect on the earnings per share in 2004 and subsequent years.

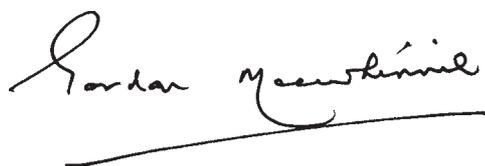
The Annual General Meeting will be held on 7th June, 2004, and there will be no closure of the Register of Members of the Company as no final dividend is being paid.

FUTURE PROSPECTS

The Review of Operations by the Chief Executive, which follows this statement includes the Group's outlook for the future.

APPRECIATION

I would like to thank my fellow Directors and the staff for their diligence, dedication and support in the past year, which has been most commendable.



Sir Gordon Macwhinnie

Chairman

Hong Kong, 15th April, 2004

Review of Operations

INTRODUCTION

The Company is primarily an investment holding company, with a stated strategy of focusing its management and financial resources on its core businesses of property investment and development together with financial services. The Company's interests in property investment and development in Hong Kong are mainly held through its 74.61% holding in Allied Properties and in respect of property investment and development in The People's Republic of China ("PRC"), through the 48.17% holding in Tian An China Investments Company Limited ("Tian An") held by Sun Hung Kai & Co. Limited ("Sun Hung Kai"). The Company's financial services business is mainly conducted through its 54.98% effective holding in United Asia Finance Limited ("UAF") as well as Allied Properties' 74.95% holding in Sun Hung Kai.

FINANCIAL REVIEW

The turnover of the Group for the year 2003 was approximately HK\$1,609.5 million, a decrease of 11.2% from the previous year due primarily to the reduction in interest income and sale of properties, partially offset by an increase in income from other financial services.

The Group reported a profit attributable to shareholders for the year of approximately HK\$486.5 million (2002: loss of approximately HK\$169.6 million). The increase in profit was mainly due to the reduction in impairment losses and revaluation deficits arising from the revaluation of the Hong Kong properties held by Allied Properties, lower bad debt expenses of UAF's consumer finance business and the remarkable performance of Sun Hung Kai. All in all, a stronger performance was recorded from all the Group's core operations.

Segmental Information

Detailed segmental information in respect of the Group's turnover and contribution to profit from operations as well as other information is shown in note 5 to the financial statements.

Financial Resources, Liquidity and Capital Structure

In September 2003, the general offer of repurchase up to 750,000,000 shares of the Company was completed. As a result, the Company repurchased 750,000,000 shares, resulting in the reduction of HK\$150.0 million and HK\$225.0 million in the share capital account and the distributable reserve account respectively and the transfer of HK\$150.0 million from the distributable reserve account to the capital redemption reserve account. The consideration of the general offer totalling HK\$375.0 million was settled by HK\$112.5 million in cash and HK\$262.5 million in the form of loan notes ("Loan Notes"). The Loan Notes bear interest at 2.25% per annum and are due on 15th August, 2008.

Also during the year, loan notes with principal amount of HK\$255.2 million were issued by Sun Hung Kai as part of the consideration for repurchase of its own shares. The loan notes issued by Sun Hung Kai bear interest at 4% per annum and are due on 7th March, 2008.

Loan notes totalling HK\$123.6 million and HK\$23.6 million were purchased and cancelled by the Company and Sun Hung Kai respectively during the year.

FINANCIAL REVIEW (CONT'D)*Financial Resources, Liquidity and Capital Structure (Cont'd)*

At 31st December, 2003, the net assets of the Group amounted to HK\$4,155.9 million, representing an increase of HK\$166.6 million or approximately 4.2% from 2002. The Group maintained a strong cash and bank balance position and had cash and bank balances of approximately HK\$764.6 million as at 31st December, 2003 (2002: HK\$620.5 million). Finance costs decreased from HK\$93.3 million in 2002 to HK\$64.8 million in 2003 as a result of reduction in average bank loans being utilised during the year and decrease of interest rates when compared to the year 2002. The Group's bank loans and other borrowings, together with the abovementioned loan notes, totalled HK\$2,422.2 million (2002: HK\$1,919.0 million) of which the portion due on demand or within one year slightly increased to HK\$1,110.3 million (2002: HK\$957.0 million) and the remaining long-term portion increased to HK\$1,311.9 million (2002: HK\$962.0 million), which was mainly due to the issues of loan notes during the year. The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.79 times (2002: 2.52 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/net assets) increased to 39.9% accordingly (2002: 32.6%).

The Group's capital expenditure, investments and net repayments of bank and other borrowings and repurchases of shares and loan notes were primarily funded by net cash inflow from operating activities.

The bank borrowings of the Group were charged at floating interest rates.

Risk of Foreign Exchange Fluctuation

Other than the Group's financial services businesses (in regard to which, the foreign exchange risk will be mentioned later in this report), the Group's other operating activities are mainly denominated in Hong Kong dollars. Accordingly, the Group has no other significant exposure to foreign exchange fluctuations.

Additional Interest in Sun Hung Kai

Allied Properties' equity interest in Sun Hung Kai increased from 61.67% to 74.95% at the year end mainly resulting from the completion of the repurchase by Sun Hung Kai of its own shares as announced by Sun Hung Kai on 27th February, 2003.

Acquisition of a Subsidiary

During the year, Sun Hung Kai acquired the entire issued share capital of Shun Loong Holdings Limited ("Shun Loong") for a consideration of HK\$36.5 million subject to adjustments as detailed in an announcement of Sun Hung Kai dated 25th June, 2003. Shun Loong provides a full range of traditional and online brokerage services through its subsidiaries.

Contingent Liabilities

Details of contingent liabilities are set out in note 38 to the financial statements.

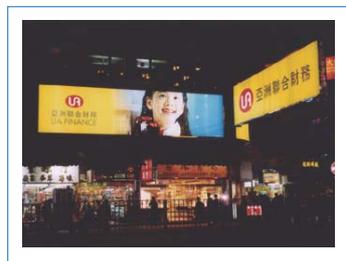
Pledge of Assets

Details regarding pledging of assets are set out in note 42 to the financial statements.

OPERATIONAL REVIEW

FINANCIAL SERVICES

Consumer finance



After the acquisition in January 2003 of the remaining 50% stake in SHK Finance Limited (“SHK Finance”), the entire SHK Finance operation, including its branch network and clientele, was merged with that of UAF to reduce costs and improve the overall operational efficiency. Although the

consumer finance market was affected by the outbreak of SARS in the first half of the year, the profit contribution from UAF increased during the year due to a lower bad debt charge as well as the implementation of cost-cutting measures. As at 31st December, 2003, UAF had 28 branches, with 7 located on Hong Kong Island, 13 in Kowloon and 8 in the New Territories.



Subsequent to the year end, UAF entered into a sales and purchase agreement with a credit card operator to acquire its credit card loan portfolio together with the related customer database. The acquisition has been completed recently. UAF believes that the acquisition will provide valuable opportunities to market and cross-sell its financial products and services to a new group of customers. In the meantime, the acquisition enabled UAF to quickly increase its income generating receivables through the acquisition of a portfolio with a customer profile compatible with the target market.

Broking and finance



Sun Hung Kai recorded profit attributable to its shareholders of approximately HK\$241.9 million, an increase of 31.5% compared to the previous year. However, having completed its own share repurchase exercise, the increase in its earnings per share was actually 53.3%. Continuing efforts to diversify its products and service range enabled Sun Hung Kai to capitalise on the market rebound. The performance of Sun Hung Kai also benefited from lower provisioning for doubtful debts, resulting from the improved capital market and stringent credit control, together with the write-back of some provisions from past years.



The market rebound in the second half of the year resulted in a satisfactory increase of Sun Hung Kai's margin loan book compared to the year of 2002. Net revenues were strongly positive through the substantial use of Sun Hung Kai's shareholders' funds in a low interest rate environment. Term lending levels trended downwards in 2003 as stronger capital markets provided potential borrowers with alternative funding opportunities. Net income levels, however, were still strongly positive.

OPERATIONAL REVIEW (CONT'D)

New technologies such as IVRs, telephone order and inquiry systems, and online trading were added to the traditional account executive network in 2003 to enhance the services provided to securities clients. SHK Online Limited maintained its growth momentum from the previous year and captured significant increases in client base, volume, market share and revenue by the end of 2003. The launch of new online trading services for HSI futures contracts and H-Share Index futures was well received by the clients.

Sun Hung Kai International Bank [Brunei] Limited, a newly incorporated wholly-owned subsidiary, was granted the first full international banking licence in Brunei under the International Banking Order, 2000 issued by the Ministry of Finance, Brunei.

The acquisition of Shun Loong by Sun Hung Kai in June 2003 was a strategic move to further enhance Sun Hung Kai's competitiveness as a dominant financial services provider in Hong Kong.

PROPERTIES

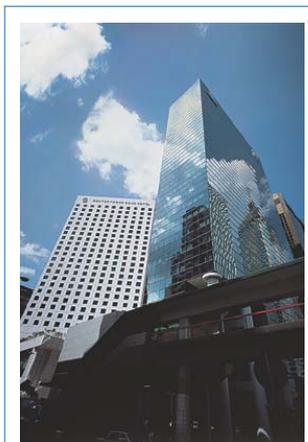


St. George Apartments

Hong Kong

Allied Properties reported a turnaround from a loss of approximately HK\$400.9 million in the year 2002 to a profit attributable to its shareholders of approximately HK\$311.0 million for the year largely due to a reduction in impairment losses and revaluation deficits relating to Hong Kong properties charged to the income statement. Continuing efforts have been made in reducing the interest expenses by cutting the interest rate margins payable.

Allied Properties' rental income also increased during the year under review mainly due to the contribution from St. George Apartments. Other important contributors of rental income included China Online Centre and Century Court, which achieved rentals for the year as a whole similar to 2002, despite difficulties caused by SARS in the first half. Allied Kajima Building and China Online Centre had average occupancy rates for 2003 at 90% and 85% respectively.



Allied Kajima Building and Novotel Century Hong Kong hotel

The performance of the Novotel Century Hong Kong hotel ("Century Hong Kong") was adversely affected by SARS in the first half of 2003. Benefiting from the implementation of the Individual Visit Scheme, Hong Kong's tourism related sector, as well as the performance of Century Hong Kong, showed signs of recovery in the second half of 2003, especially in the later stages of the second half. The Westin Philippine Plaza Hotel ("Westin") became more competitive immediately after the completion of its renovation and refurbishment works. The Westin reported an increase in revenue notwithstanding the continued difficult tourism market conditions in the Philippines mainly attributable to the improvement of available rooms and effective cost control following the renovations.

Construction of the superstructure for phase two of Ibis North Point, the hotel in Java Road, has been completed. It is anticipated that this hotel extension will be operational before the end of this year.



China Online Centre



Shanghai Tian An Centre

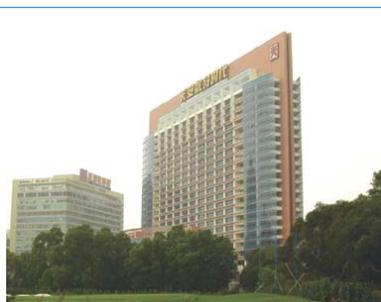
OPERATIONAL REVIEW (CONT'D)

Mainland PRC

Tian An sold properties in the PRC with a total gross floor area of about 291,000 sq. m. compared to 250,000 sq. m. in the year before. This contributed significantly to the satisfactory performance of Tian An, with an increase in its net profit of 17.7% to approximately HK\$102.4 million. During the year, Tian An has streamlined its operations and disposed of a number of non-core or non-strategic projects to concentrate its focus on the development of key projects in the major cities of the PRC. With a dynamic and proactive management team capable of taking advantage of the booming PRC economy, it is expected that Tian An's current development projects together with its significant landbank would substantially benefit the group in the years ahead.



Shanghai Tian An Villa



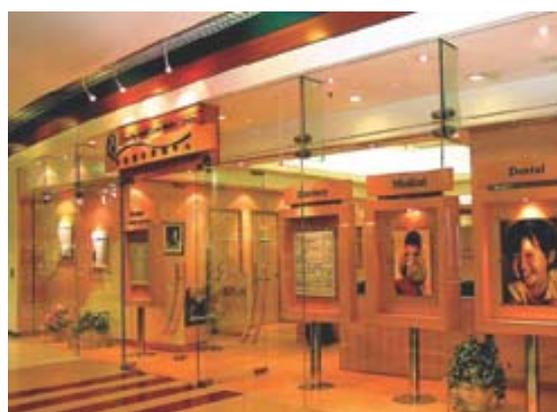
Shenzhen Cyber Times Building

INVESTMENTS

The Group has taken the opportunity during recent years to invest in several listed investments. The Group believes these acquisitions should complement its core businesses. These investments have delivered pleasing results.

Quality HealthCare Asia Limited ("QHA")

QHA, a 28.85% associate of Sun Hung Kai, concentrated in 2003 on consolidation and focused its resources to the growth and development of its core healthcare businesses and achieved a profit of HK\$24.4 million. QHA is the largest listed healthcare company in Hong Kong. The group provides care for its private and corporate contract patients through a total of approximately 600 QHA and associated western and Chinese medical centres, and 44 dental and physiotherapy centres. It also operates nine elderly care homes and Hong Kong's longest established international nursing service.



Quality HealthCare Medical Centre

Yu Ming Investments Limited ("Yu Ming")

Yu Ming, a 21.53% associate of Sun Hung Kai, recorded a profit in 2003 of HK\$143.4 million. Yu Ming's major investments were in Hong Kong equities, international debt instruments and the Argyle Centre, a fully leased shopping mall in a prime location in Mongkok. In August 2003, Yu Ming joined a private sector consortium to invest with the Hong Kong Government and the Airport Authority to develop and operate the Hong Kong International Exhibition Centre at the Hong Kong International Airport.

OPERATIONAL REVIEW (CONT'D)

Shanghai Allied Cement Limited ("SAC")

For the year ended 31st December, 2003, the SAC group, a 54.77% subsidiary of Tian An, reported a net profit of HK\$50.0 million. The principal activities of the SAC group are manufacturing and distribution of clinker, high-grade cement and natural stones, ceramic tiles, provision of engineering design and installation, and the distribution of other construction materials.



MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest and top suppliers contributed 92.7% and 87.4% respectively of the total purchases in the year under review. The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the total turnover. No Directors, their associates, or shareholders of the Company who to the knowledge of the Directors own more than 5% of the Company's share capital, have an interest in any of the five largest suppliers or customers.

EMPLOYEES

At 31st December, 2003, the total number of staff of the Group was 2,150 (2002: 2,002). Total staff costs, including Directors' emoluments, amounted to HK\$299.8 million (2002: HK\$285.3 million).

The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S CONSUMER FINANCE BUSINESS

Credit Risk

Credit risk is the risk that a customer of the Group will be unable or unwilling to meet a commitment when it falls due. It arises from any lending activities undertaken or credit facilities provided. The management implements lending guidelines and credit policies to keep credit exposure in check. In view of a difficult operating environment, the management has implemented stricter lending guidelines and more credit reference checking procedures. Control systems including internal audit functions are in place to check and ensure compliance with such guidelines and policies. The executives review credit exposure reports and bad debt and doubtful debt provision policies periodically and adjustments to credit policies and guidelines are made where appropriate.

Foreign Exchange Risk

The management adopts a conservative policy to limit its foreign exchange exposure to a certain percentage of its total assets. The Group also assesses the risk of exposure according to the fluctuation in foreign exchange rate of the currency concerned. When circumstances justify, the Group will hedge its exposure as appropriate.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S CONSUMER FINANCE BUSINESS (CONT'D)*Market Risk*

Market risk is the risk that interest rates, commodity or equity prices will move in a direction adversely affecting the Group's financial position. The Group will take positions on market risk related financial instruments as circumstances justify. However, the Group adopts a conservative view on exposure to market risk related financial instruments and it monitors its exposure to the market risk on a regular basis.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES

The management of risks in respect of the Group's broking and finance businesses (other than the consumer finance business) is primarily conducted by Sun Hung Kai and described as follows:

Credit Risk

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, derivatives, proprietary trading and other activities undertaken by the Group.

The Group's credit manual sets out in detail the credit approval and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances and where applicable, the codes or guidelines issued by the Securities and Futures Commission of Hong Kong.

Day-to-day credit management is performed by the credit department with reference to the criteria including creditworthiness, collateral pledged and risk concentration of the counter-parties. Decisions made by the credit department are reviewed daily by the management and by the credit and risks management committee ("CRM") at its regular meetings.

Liquidity Risk

The Group manages its liquidity position to ensure it maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various registered subsidiaries. The monitoring process and its results are reported to the CRM, the management and the various committees at their regular meetings.

Capital Risk

The Group maintains a strong capital base to support the development of its finance business and to comply, where necessary, with at least the minimum statutory ratios.

Capital is allocated to the various activities of the Group depending on requirements and the degree of risk appropriate to various activities. Cost of capital, as determined from time to time, is allocated against its users.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES (CONT'D)*Interest Rate Risk*

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its margin loans to an appropriate level. Its interest-sensitive positions can readily be identified. Interest rates paid by the Group are managed with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its leveraged foreign exchange business or purchases of foreign securities on behalf of clients. Foreign exchange risk is managed and monitored by the relevant department under the limits approved by the management. In relation to our leveraged foreign exchange activity, our position is that of a market-maker, and accordingly our risk is our open currency positions which are subject to management approved limits and are monitored and reported daily. The other possible risk is primarily a derivative foreign exchange risk for a client who does not or cannot meet margin calls following any period of substantial currency turbulence. The Group's principal lending operations are primarily carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

Market Risk

Market risk is the risk arising from changes in interest rates, foreign exchange rates, equity, real property or commodity prices. It may affect the prices of financial instruments or other assets held by the Group. Financial instruments taken or held by the Group include foreign exchange contracts, futures contracts, equity, derivative and fixed income securities.

Market risk limits are approved by the management and the various committees. Actual positions are compared with approved limits and monitored regularly by the relevant divisional head, the credit department and by the senior management. Exposures are measured and monitored on a "mark-to-market" basis with stop-loss limits. Market risk trading positions are subject to daily mark-to-market valuation, which is also reported daily to the senior management for their review. The internal audit and compliance department also performs regular audits to supplement the above controls to ensure compliance with the established market risk limits and guidelines.

MANAGEMENT OF RISKS IN RESPECT OF THE GROUP'S BROKING AND FINANCE BUSINESSES (CONT'D)*Calamity Risk*

In common with all companies and particularly financial services groups, the Group is exposed to the potential impact of natural and man-made disasters. In our case, being heavily dependent on information technology and its associated infrastructure requirements, we need to be particularly vigilant in this regard, especially with the prevalence world-wide of "hacking", and "virus-attacks".

In the aftermath of the various disasters impacting on the insurance industry during the past years, appropriate insurance cover has been more difficult and more expensive than normal to obtain. However, working with our insurance broking division, we have managed to obtain what we believe is adequate cover for the potential risks of this type to which we may be exposed.

In the case of our IT infrastructure, we also maintain stringent security procedures, as well as off-site back-up and recovery programmes which we continually review and refine.

Reputational Risk

A key factor for businesses in the financial services sector is their reputation for financial probity and prudence. Recent examples of "rogue traders" impacting on such reputations elsewhere in the world have drawn attention to such risks. In our case with our important and valuable "brand", we manage these risks through our strong internal controls and risk management regime, by comprehensive employee and operational manuals in key areas, and by the strength and independence of our internal audit and compliance department.

BUSINESS OUTLOOK

The management believes that, benefiting from the robust economic growth of Mainland China and better global economic prospects, the local economy should continue its current upswing. CEPA, the Individual Visit Scheme and commencement of restricted Renminbi banking services in Hong Kong all provide important impetus to our economic growth in the coming years. However, the fiscal budget deficit, the high unemployment rate and the potential for a rise in interest rates are factors which should also be closely observed. The management will continue to monitor these and other relevant factors as well as the market situation with a view to maintaining a stable and satisfactory return for the Group. We have no reasons to expect that all the core operations of the Group will not continue to perform within our expectations and contribute to a stronger performance for 2004.

**Lee Seng Hui***Chief Executive*

Hong Kong, 15th April, 2004

SIR GORDON MACWHINNIE

Sir Gordon Macwhinnie, C.B.E., J.P., aged 81, Non-Executive Chairman and Independent Non-Executive Director of the Company since December 1997 and March 1993 respectively, is a chartered accountant and has had a distinguished career in both the public and private sectors in the more than fifty years that he has been in Hong Kong. He was the first president of the Hong Kong Society of Accountants and served on the Standing Commission on Civil Service Salaries and Conditions of Service. His past appointments include a member of the Operations Review Committee of the Independent Commission Against Corruption, the deputy chairman and member of the Council of the Hong Kong Polytechnic, a director of the Mass Transit Railway Corporation, the chairman of the Ocean Park Corporation and The Royal Hong Kong Jockey Club, and a member of the Council of the University of Science and Technology of Hong Kong for ten years. He is currently the non-executive chairman and an independent non-executive director of Allied Properties. He is also a non-executive director of Sun Hung Kai.

LEE SENG HUI

Mr. Lee Seng Hui, aged 35, Chief Executive of the Company since January 1998, graduated from the Law School of the University of Sydney with Honours. Previously, he worked with Baker & McKenzie and N M Rothschild & Sons (Hong Kong) Limited. He was appointed a Non-Executive Director of the Company in July 1992 and became an Executive Director of the Company in December 1993. He is also a non-executive director of Yu Ming.

EDWIN LO KING YAU

Mr. Edwin Lo King Yau, aged 43, a chartered company secretary and holder of a Master's Degree in Applied Finance from Macquarie University, Australia, was appointed an Executive Director of the Company in May 2000. He had served various executive roles in several companies in Hong Kong including as company secretary for public listed companies. He is also an executive director of Tian An.

LEE SU HWEI

Ms. Lee Su Hwei, aged 33, was appointed a Non-Executive Director of the Company in May 2000. She holds a Bachelor of Economics Degree from the University of Sydney and has experience as an investment analyst and in the securities industry generally in Hong Kong and the region.

ARTHUR GEORGE DEW

Mr. Arthur George Dew, aged 62, was appointed an Independent Non-Executive Director of the Company since December 1995 and re-designated as a Non-Executive Director of the Company in July 2002, graduated from the Law School of the University of Sydney, Australia, and was admitted as a solicitor and later as a barrister of the Supreme Court of New South Wales, Australia. He is currently a non-practising barrister. He has a broad range of corporate and business experience and has served as a director, and in some instances chairman of the board of directors, of a number of public companies listed in Australia, Hong Kong and elsewhere. He is the chairman of Sun Hung Kai and also the executive chairman of QHA.

WONG PO YAN

Mr. Wong Po Yan, C.B.E., G.B.M., J.P., aged 80 and an Independent Non-Executive Director of the Company since March 1993, is one of Hong Kong's leading residents with an outstanding record of business and public service. He is the chairman and managing director of United Oversea Enterprises Ltd., vice chairman of The Committee for the Basic Law of the HKSAR under the Standing Committee of the National People's Congress and chairman of the board of Asia Television Ltd.

DAVID CRAIG BARTLETT

Mr. David Craig Bartlett, aged 38, was appointed an Independent Non-Executive Director of the Company in December 1999. He graduated with honours in law from the University of Exeter in England before qualifying as a solicitor in England and Hong Kong and becoming a partner in the international law firm of Clyde & Co. He regularly acted for the Company and its subsidiaries before leaving private practice for a career in industry. Now based in Ireland, he is also an independent non-executive director of Sun Hung Kai.

JOHN DOUGLAS MACKIE

Mr. John Douglas Mackie, aged 75, was appointed an Independent Non-Executive Director of the Company in February 2004. He is the founder and chairman of JDM Associates Limited, and was a major shareholder of a group of companies which is a leading distributor of sports and leisure merchandise in Hong Kong. Graduated from the University of Western Australia and Harvard Business School, Mr. Mackie has over fifty years of performance orientated experience as chief executive officer and lately sole proprietor serving in general, marketing consultancy and representation, and has had extensive experience and successes in agency distribution, manufacturing – proprietary, franchised retailing – supermarket, drugstore specialised products and sourcing. He is also an independent non-executive director of Allied Properties.

AKIHIRO NAGAHARA

Mr. Akihiro Nagahara, aged 63, is the managing director of UAF, a subsidiary of the Company. He holds a law degree from the National Taiwan University and a master degree from the Graduate School in Law of the National Hitotsubashi University of Japan, where he also completed his doctorate courses. He is an acknowledged expert in the consumer finance business in Hong Kong and is credited with the successful establishment of JCG Finance Company, Limited.

KENNETH LI CHI KONG

Mr. Kenneth Li Chi Kong, aged 50, a member of the Institute of Chartered Accountants of Scotland and a fellow of the Hong Kong Society of Accountants, joined the Company in January 1996 and is the Group Financial Controller of the Company. He has broad experience in the finance and accounting field, having worked in two major audit firms and as group financial controller for several sizeable companies listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). He is currently an executive director of Allied Properties, Tian An and SAC.

PHOEBE LAU MEI YI

Miss Phoebe Lau Mei Yi, aged 37, joined the Group since February 1994 as an Assistant Company Secretary and was appointed Company Secretary of the Company in May 2000. She is an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. She is also the company secretary of Allied Properties.

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2003 are set out in notes 45, 46 and 47 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 22 and in the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend.

FIXED ASSETS

During the year, the Group spent HK\$14,788,000 on fixed assets, and acquired a further HK\$33,000,000 of fixed assets on the acquisition of a subsidiary. In addition, certain of the Group's properties held for sale with a carrying value of HK\$252,102,000 were transferred to investment properties. The Group disposed of certain of its fixed assets with a net carrying value of HK\$3,374,000.

The Group's investment properties were revalued on 31st December, 2003 at HK\$2,168,073,000. The resulting net revaluation deficit of HK\$6,145,000 has been charged to the income statement.

Details of these and other movements in fixed assets of the Group during the year are set out in note 14 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

The Group has invested in certain property development projects in Hong Kong and the United States of America. Additional expenditure incurred during the year amounted to HK\$14,939,000. An impairment loss of HK\$12,200,000 has been recognised in respect of these properties.

Details of these and other movements in the properties under development of the Group during the year are set out in note 18 to the financial statements.

PROPERTIES

Particulars of major properties of the Group as at 31st December, 2003 are set out on pages 87 and 88.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

SHARE OPTION SCHEMES

Particulars of each of the share option schemes of the Company and its subsidiary, Allied Properties, are set out in note 29 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Lee Seng Hui
Edwin Lo King Yau

Non-Executive Directors:

Lee Su Hwei
Arthur George Dew

Independent Non-Executive Directors:

Gordon Macwhinnie
Wong Po Yan
David Craig Bartlett
John Douglas Mackie (appointed on 1st February, 2004)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Arthur George Dew and Wong Po Yan will retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Mr. John Douglas Mackie, who has been appointed since the last Annual General Meeting and before the date of this report, will retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-appointment as Director.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

The terms of office of the Non-Executive Directors (including Independent Non-Executive Directors) are subject to re-appointment or retirement by rotation in accordance with Articles 96 and 105(A) of the Company's Articles of Association.

DIRECTORS' INTERESTS

At 31st December, 2003, Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, had the following interests in the shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO"):

Name of Director	Number of shares held	Approximate % of the issued share capital	Nature of interest
Lee Seng Hui	1,019,066,142	38.35%	Personal interest (held as beneficial owner) in 229,216 shares and other interest in 1,018,836,926 shares (Note 1)
Lee Su Hwei	1,018,836,926	38.34%	Other interest (Note 1)

Notes:

1. Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 1,018,836,926 shares of the Company.
2. All interests stated above represent long positions.

Save as disclosed above, at 31st December, 2003, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, Messrs. Lee Seng Hui, Arthur George Dew, Edwin Lo King Yau and Ms. Lee Su Hwei, Directors of the Company (not being the Independent Non-Executive Directors), are considered to have interests in the following competing businesses pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

- (i) Mr. Lee Seng Hui and Ms. Lee Su Hwei are two of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of Allied Properties, Sun Hung Kai, Tian An and Lippo Limited ("Lippo") which, through their subsidiaries, are partly engaged in the businesses as follows:
 - Allied Properties, through a subsidiary, is partly engaged in the business of money lending;
 - Sun Hung Kai, through certain of its subsidiaries, are partly engaged in the businesses of money lending, provision of financial services and property investment;
 - Tian An, through a subsidiary, is partly engaged in the business of money lending; and

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (CONT'D)

- Lippo, through its subsidiaries and associate, is partly engaged in the businesses of securities broking, securities trading, money lending, provision of financial, insurance as well as other related services and property development and investment;
- (ii) Mr. Arthur George Dew is a director of Sun Hung Kai which, through certain of its subsidiaries, are partly engaged in the businesses of money lending, provision of financial services and property investment; and
- (iii) Mr. Edwin Lo King Yau is a director of Tian An which, through a subsidiary, is partly engaged in the business of money lending.

As the Board of Directors of the Company is independent from the boards of the abovementioned companies and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company and its subsidiary, Allied Properties, under their respective share option schemes.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31st December, 2003, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Cashplus Management Limited ("Cashplus")	260,390,000	9.80%	–
Zealous Developments Limited ("Zealous")	260,390,000	9.80%	1, 2
Minty Hongkong Limited ("Minty")	758,446,926	28.54%	–
Lee and Lee Trust	1,018,836,926	38.34%	3, 4
China Online (Bermuda) Limited ("China Online")	208,200,944	7.83%	5

Notes:

1. This represents the same holding of 260,390,000 shares held by Cashplus.
2. Cashplus was wholly owned by Zealous and Zealous was therefore deemed to have an interest in the shares held by Cashplus.
3. Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONT'D)

4. Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, together with Mr. Lee Seng Huang are trustees of the Lee and Lee Trust and were therefore deemed to have an interest in the shares in which Minty and Zealous were interested.
5. This represents the holding of: (i) 133,647,704 shares held by Classic Fortune Limited ("Classic Fortune") and Honest Opportunity Limited ("Honest Opportunity"), direct and indirect wholly-owned subsidiaries of China Online respectively; and (ii) 74,553,240 shares held by Besford International Limited ("Besford") and Focus Clear Limited ("Focus Clear"), direct and indirect wholly-owned subsidiaries of China Online respectively. Therefore, China Online was deemed to have an interest in the shares in which Classic Fortune, Honest Opportunity, Besford and Focus Clear were interested.

As at the date of this report and according to the register as required to be kept by the Company under Section 336 of the SFO, China Online had notified the Company that, at 8th January, 2004, it was interested in 213,848,944 shares of the Company (representing 8.05% of the issued share capital) of which 2,202,000 shares were acquired before the year end date. Thus, at 31st December, 2003, China Online was interested in 210,402,944 shares of the Company (representing 7.91% of the issued share capital).

6. All interests stated above represent long positions.

Save as disclosed above, the Company had not been notified of any other person who had an interest or a short position in any shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO at 31st December, 2003.

CONNECTED TRANSACTIONS

- (a) During the year, AG Capital Limited, a wholly-owned subsidiary of the Company which is engaged in the business of money lending, granted and renewed an unsecured standby facility of not exceeding HK\$300 million ("Facility") to UAF. UAF is an indirect subsidiary of the Company and the attributable proportion of its issued share capital held by the Group at 31st December, 2003 was 54.98%.

The purpose of the Facility was to provide general working capital to UAF. The Facility had not been drawn upon by UAF during the year under review. Loans granted under the Facility bear interest at a normal commercial rate of 3.5% over Hong Kong prime interest rate per annum and a commitment fee of 0.25% per annum is charged on the daily undrawn portion of the Facility.

Sir Gordon Macwhinnie and Mr. Lee Seng Hui, being Directors of the Company, are also directors of UAF.

- (b) As disclosed in the joint announcement of the Company and Allied Properties dated 30th December, 2003, a tenancy agreement ("Tenancy Agreement") was entered into on 24th December, 2003 between the Company, as the tenant, and Hillcrest Development Limited, an indirect non wholly-owned subsidiary of the Company, as the landlord, for the renewal of a lease of 60 Plantation Road, The Peak, Hong Kong for a term of two years commencing from 1st January, 2004 to 31st December, 2005 at a monthly rental of HK\$200,000 (exclusive of rates and management fee). The rental was based on the prevailing market rental as reviewed by an independent firm of international property consultants. The Directors (including the Independent Non-Executive Directors) of the Company were of the view that the terms and conditions of the Tenancy Agreement were fair and reasonable so far as the shareholders of the Company were concerned.

The Stock Exchange was of the view that the renewed tenancy constituted a connected transaction of the Company under Rule 14.25(1) of the Listing Rules. Based on the legal advice of the Company's legal advisers and for the sake of prudence, the Company had disclosed the details of the Tenancy Agreement jointly with Allied Properties as a connected transaction of the Company, as requested by the Stock Exchange. The transaction is not subject to shareholders' approval under Rule 14.25(1) of the Listing Rules.

Report of the Directors (Cont'd)

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company repurchased 750,000,000 shares at a consideration of HK\$0.50 per share (as to HK\$0.15 in cash and HK\$0.35 in the form of loan note) pursuant to a general offer made by Sun Hung Kai International Limited on behalf of the Company which was completed on 16th September, 2003. The aggregate consideration paid for the repurchase of 750,000,000 shares was HK\$375,000,000 (as to HK\$112,500,000 in cash and HK\$262,500,000 in the form of loan notes).

During the year, the Company also made the following purchases of its own shares on the Stock Exchange:

Month of purchase on the Stock Exchange in 2003	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
September	596,000	0.500	0.495	296,500
October	840,000	0.500	0.500	420,000
November	1,562,000	0.500	0.490	777,880

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

DONATIONS

The Group made charitable donations of HK\$430,000 during the year.

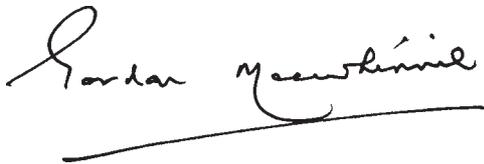
CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board



Sir Gordon Macwhinnie

Chairman

Hong Kong, 15th April, 2004

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF ALLIED GROUP LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 22 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

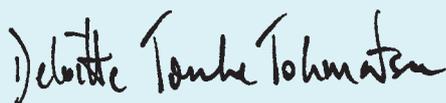
BASIS OF OPINION

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements 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 profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



Certified Public Accountants
Hong Kong, 15th April, 2004

Consolidated Income Statement

for the year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	4 & 5	1,609,482	1,812,277
Other operating income		71,353	29,100
Total income		1,680,835	1,841,377
Cost of sales		(163,525)	(325,394)
Brokerage and commission expenses		(99,639)	(77,702)
Selling expenses		(35,509)	(70,477)
Administrative expenses		(407,315)	(375,428)
Impairment losses and revaluation deficits	6	(47,604)	(574,354)
Bad and doubtful debts	7	(230,759)	(506,115)
Other operating expenses		(183,640)	(122,684)
Profit (loss) from operations	8	512,844	(210,777)
Other finance costs	10	(61,277)	(72,183)
Amortisation of goodwill		(7,142)	(7,142)
Release of negative goodwill		237,923	136,899
Amortisation of capital reserve		17,267	17,267
Share of results of associates		135,708	117,473
Share of results of jointly controlled entities		22,900	(22,730)
Profit (loss) before taxation		858,223	(41,193)
Taxation	11	(127,518)	(82,972)
Profit (loss) after taxation		730,705	(124,165)
Minority interests		(244,239)	(45,430)
Profit (loss) attributable to shareholders		486,466	(169,595)
Dividend	12	–	–
Earnings (loss) per share	13		
Basic		15.3 cents	(5.0 cents)
Diluted		N/A	N/A

Consolidated Balance Sheet

at 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Non-current assets			
Fixed assets	14	2,334,695	2,073,696
Intangible assets	15	7,081	4,860
Goodwill	16	15,776	22,918
Negative goodwill	17	(831,149)	(707,062)
Properties under development	18	131,174	128,802
Interest in associates	20	2,201,871	2,026,470
Interest in jointly controlled entities	21	1,087,379	1,123,300
Investments	22	608,785	469,583
Loans and advances to consumer finance customers			
due after one year	23	569,206	321,687
Deferred tax assets	24	35,743	28,602
		6,160,561	5,492,856
Current assets			
Properties held for sale and other inventories	25	447,890	741,758
Investments	22	54,499	36,617
Loans and advances to consumer finance customers			
due within one year	23	1,098,364	1,372,264
Accounts receivable, deposits and prepayments	26	2,893,950	2,040,734
Amounts due from associates		266,303	294,787
Amount due from a jointly controlled entity		2,056	1,564
Tax recoverable		5,281	–
Short-term pledged bank deposits		1,487	1,000
Bank deposits, bank balances and cash		763,072	619,536
		5,532,902	5,108,260
Current liabilities			
Accounts payable and accrued charges	27	1,713,726	838,750
Amounts due to associates		38,081	37,544
Amount due to a jointly controlled entity		171,658	178,041
Taxation		60,162	15,412
Bank and other borrowings due within one year	31	1,110,282	957,018
Other liabilities due within one year	33	1,404	1,399
		3,095,313	2,028,164
Net current assets		2,437,589	3,080,096
		8,598,150	8,572,952

Consolidated Balance Sheet (Cont'd)

at 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Capital and reserves			
Share capital	28	531,374	681,973
Reserves	30	3,624,531	3,307,320
		<u>4,155,905</u>	<u>3,989,293</u>
Minority interests		<u>3,103,967</u>	<u>3,589,897</u>
Non-current liabilities			
Bank and other borrowings due after one year	31	941,435	962,039
Loan notes	32	370,529	–
Deferred tax liabilities	24	21,406	24,624
Other liabilities due after one year	33	4,908	7,099
		<u>1,338,278</u>	<u>993,762</u>
		<u>8,598,150</u>	<u>8,572,952</u>

The financial statements on pages 22 to 85 were approved and authorised for issue by the Board of Directors on 15th April, 2004, and are signed on its behalf by:



Gordon Macwhinnie
Director

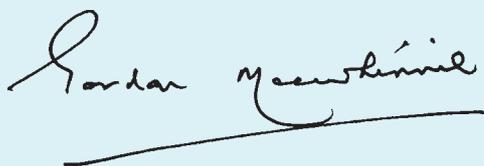


Edwin Lo King Yau
Director

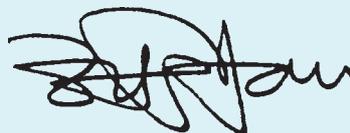
Balance Sheet

at 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Fixed assets	14	1,774	1,454
Interest in subsidiaries	19	2,600,398	2,594,360
		<u>2,602,172</u>	<u>2,595,814</u>
Current assets			
Accounts receivable, deposits and prepayments		906	1,546
Amounts due from subsidiaries		29,813	59,061
Bank deposits, bank balances and cash		324	70,645
		<u>31,043</u>	<u>131,252</u>
Current liabilities			
Accounts payable and accrued charges		7,485	6,265
Other liabilities due within one year	33	131	329
		<u>7,616</u>	<u>6,594</u>
Net current assets		<u>23,427</u>	<u>124,658</u>
		<u>2,625,599</u>	<u>2,720,472</u>
Capital and reserves			
Share capital	28	531,374	681,973
Reserves	30	1,953,350	2,036,500
		<u>2,484,724</u>	<u>2,718,473</u>
Non-current liabilities			
Loan notes	32	138,892	–
Amount due to a subsidiary	34	1,983	1,999
		<u>2,625,599</u>	<u>2,720,472</u>



Gordon Macwhinnie
Director



Edwin Lo King Yau
Director

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2003

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Non distributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2002										
- As previously stated	681,973	1,894,481	15,784	11,937	20,175	(110,422)	55,226	371,367	1,333,506	4,274,027
- Arising from the adoption of SSAP 12 (Revised)	-	-	(4,981)	-	-	20,802	-	(16,382)	(72,046)	(72,607)
- As restated	681,973	1,894,481	10,803	11,937	20,175	(89,620)	55,226	354,985	1,261,460	4,201,420
Deficit arising on revaluation	-	-	(1,667)	(19,527)	-	-	-	-	-	(21,194)
Transferred from deferred tax liabilities	-	-	1,667	-	-	-	-	-	-	1,667
Share of reserve movements of associates	-	-	3,314	850	-	2,593	-	-	-	6,757
Share of reserve movements of a jointly controlled entity	-	-	-	-	-	(7,410)	-	-	-	(7,410)
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	202	-	-	-	202
Net gains and losses not recognised in the income statement	-	-	3,314	(18,677)	-	(4,615)	-	-	-	(19,978)
Loss attributable to shareholders	-	-	-	-	-	-	-	-	(169,595)	(169,595)
Released on impairment of non-trading securities	-	-	-	4,837	-	-	-	-	-	4,837
Released on disposal of non-trading securities	-	-	-	(35)	-	-	-	-	-	(35)
Released on disposal of subsidiaries	-	-	-	-	-	(1,148)	-	-	-	(1,148)
Released on disposal of associates	-	-	-	-	-	4	-	13,709	-	13,713
Amortisation of capital reserve	-	-	-	-	-	-	-	(39,921)	-	(39,921)
Transferred by an associate	-	-	-	-	-	-	-	(849)	849	-
	-	-	-	4,802	-	(1,144)	-	(27,061)	(168,746)	(192,149)
At 31st December, 2002	681,973	1,894,481	14,117	(1,938)	20,175	(95,379)	55,226	327,924	1,092,714	3,989,293

Consolidated Statement of Changes in Equity (Cont'd)

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for the year ended 31st December, 2003

	Share capital HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Non distributable reserve HK\$'000	Capital (goodwill) reserve HK\$'000	Distributable reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2003	681,973	1,894,481	14,117	(1,938)	20,175	(95,379)	55,226	327,924	-	1,092,714	3,989,293
Surplus arising on revaluation	-	-	-	81,040	-	-	-	-	-	-	81,040
Share of reserve movements of associates	-	-	22,574	(3,899)	-	(226)	-	-	-	-	18,449
Share of reserve movements of a jointly controlled entity	-	-	-	-	-	(9,071)	-	-	-	-	(9,071)
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	(1,302)	-	-	-	-	(1,302)
Net gains and losses not recognised in the income statement	-	-	22,574	77,141	-	(10,599)	-	-	-	-	89,116
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	486,466	486,466
Transferred upon approval by court order	-	(375,000)	-	-	-	-	-	-	375,000	-	-
Shares repurchased and cancelled	(150,599)	-	-	-	-	-	-	-	(225,000)	(6,799)	(382,398)
Transferred on share repurchase	-	-	-	-	150,599	-	-	-	(150,000)	(599)	-
Released on impairment of non-trading securities	-	-	-	3,629	-	-	-	-	-	-	3,629
Released on disposal of non-trading securities	-	-	-	1,195	-	-	-	-	-	-	1,195
Released on disposal of subsidiaries	-	-	-	-	-	1,886	-	-	-	-	1,886
Released on disposal of associates	-	-	-	-	-	(148)	-	(237)	-	-	(385)
Amortisation of capital reserve	-	-	-	-	-	-	-	(32,897)	-	-	(32,897)
Transferred by an associate	-	-	-	-	-	-	-	479	-	(479)	-
	(150,599)	(375,000)	-	4,824	150,599	1,738	-	(32,655)	-	478,589	77,496
At 31st December, 2003	531,374	1,519,481	36,691	80,027	170,774	(104,240)	55,226	295,269	-	1,571,303	4,155,905

Consolidated Cash Flow Statement

for the year ended 31st December, 2003

	2003 HK\$'000	2002 HK\$'000
Operating activities		
Profit (loss) from operations	512,844	(210,777)
Adjustments for:		
Bad and doubtful debts	230,759	506,115
Depreciation	29,367	38,053
Impairment loss recognised in respect of properties held for sale	22,546	104,000
Impairment loss recognised in respect of properties under development	12,200	17,100
Impairment loss recognised in respect of non-trading securities	6,713	12,306
Deficit arising on revaluation of investment properties	6,145	440,948
Loss on disposal of fixed assets	3,273	1,378
Loss (profit) on disposal of associates	3,088	(3,725)
Amortisation of intangible assets	2,780	1,366
Loss (profit) on disposal of subsidiaries	2,229	(2,020)
Loss (profit) on disposal of non-trading securities	753	(1,123)
(Write-back of) loss arising from default of loan agreement with Millennium Touch Limited (note 26)	(26,412)	10,110
Profit on repurchase of loan notes	(23,226)	–
Amortisation of capital reserve	(20,095)	(25,832)
Net unrealised (profit) loss on trading securities	(7,142)	11,193
Intangible assets written off	–	4,472
Operating cash flow before movements in working capital	755,822	903,564
Increase in properties under development for sale	–	(51,185)
Decrease in properties held for sale and other inventories	19,220	119,022
(Increase) decrease in trading securities	(10,238)	8,316
Increase in loans and advances to consumer finance customers	(224,171)	(5,161)
(Increase) decrease in accounts receivable, deposits and prepayments	(757,983)	632,416
Increase in accounts payable and accrued charges	769,831	107,600
Cash generated from operations	552,481	1,714,572
Tax outside Hong Kong refunded (paid)	95	(1,513)
Interest paid	(63,111)	(78,431)
Hong Kong Profits Tax paid	(43,146)	(42,197)
Tax reserve certificates refunded	–	11
Net cash from operating activities	446,319	1,592,442

Consolidated Cash Flow Statement (Cont'd)

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for the year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Investing activities			
Amounts repaid by associates		22,342	10,517
Dividend received from associates		17,812	18,602
Proceeds on disposal of non-trading securities		6,348	1,534
Amounts repaid by investee companies		2,951	12,837
Proceeds on disposal of an associate		2,446	26,915
Amount repaid by a jointly controlled entity		2,338	5,410
Proceeds on disposal of fixed assets		101	33
Proceeds on disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	87	(554)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	36	(49,579)	–
Acquisition of additional interest in subsidiaries		(20,301)	(208,201)
Additions to properties under development		(14,790)	(21,540)
Purchase of fixed assets		(14,788)	(22,172)
Acquisition of an associate		(6,156)	(142,134)
Purchase of intangible assets		(5,001)	(4,528)
Amount advanced to a jointly controlled entity		(2,830)	(3,403)
Purchase of non-trading securities		(560)	(7,033)
Increase in pledged bank deposits		(487)	–
Acquisition of a jointly controlled entity		–	(936)
Net cash used in investing activities		(60,067)	(334,653)
Financing activities			
New bank and other borrowings raised		877,954	340,000
Amount advanced by a jointly controlled entity		23,617	120,149
Amounts advanced by associates		1,450	125
Net proceeds received from issue of shares by a subsidiary		29	–
Repayment of bank and other borrowings		(897,686)	(1,537,919)
Repurchase of loan notes		(124,349)	–
Amounts paid on share repurchase		(119,898)	–
Amounts paid by a subsidiary on repurchase of its shares		(83,945)	–
Dividends paid by subsidiaries to minority shareholders		(72,202)	(115,537)
Repayment of obligations under a finance lease		(850)	(746)
Amount repaid to associates		(163)	–
Amount repaid to a jointly controlled entity		–	(208)
Share issue expenses of a subsidiary		–	(38)
Net cash used in financing activities		(396,043)	(1,194,174)
(Decrease) increase in cash and cash equivalents		(9,791)	63,615
Exchange adjustments		935	615
Cash and cash equivalents at 1st January		616,681	552,451
Cash and cash equivalents at 31st December		607,825	616,681
Analysis of the balances of cash and cash equivalents			
Bank deposits, bank balances and cash		763,072	619,536
Bank overdrafts		(155,247)	(2,855)
		607,825	616,681

Notes to the Financial Statements

for the year ended 31st December, 2003

1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong Special Administrative Region (“Hong Kong”).

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2003 are set out in notes 45, 46 and 47 respectively.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

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

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

	Negative goodwill HK\$'000	Interest in associates HK\$'000	Interest in jointly controlled entities HK\$'000	Deferred tax assets HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Minority interests HK\$'000	Deferred tax liabilities HK\$'000
Balance at 1st January, 2002										
- As previously stated	(438,073)	2,137,524	1,345,110	-	15,784	(110,422)	371,367	1,333,506	4,447,482	13,277
- Arising from the adoption of SSAP 12 (Revised)	47,844	(122,904)	(105,373)	32,216	(4,981)	20,802	(16,382)	(72,046)	(88,740)	13,130
- As restated	<u>(390,229)</u>	<u>2,014,620</u>	<u>1,239,737</u>	<u>32,216</u>	<u>10,803</u>	<u>(89,620)</u>	<u>354,985</u>	<u>1,261,460</u>	<u>4,358,742</u>	<u>26,407</u>

The adoption of SSAP 12 (Revised) has increased the loss for the year ended 31st December, 2002 by HK\$24,947,000.

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill and negative goodwill (capital reserve)

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

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

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currencies

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

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

Revenue recognition

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

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

Sales of goods are recognised when goods are delivered and title has passed.

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

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

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

Interest income receivable from customers is recognised in the income statement on a time basis by reference to the principal outstanding and at the interest rate applicable, except in the case of loans which are overdue for which no interest is accrued in the income statement.

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

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

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating leases

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

Bad and doubtful debts

Allowances for bad and doubtful debts are made, having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances and accounts receivable. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and accounts receivable and prior loss experience in respect of loans and advances and accounts receivable.

Finance leases

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

Impairment

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

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

Employee benefits

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

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxation

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

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

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

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

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

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

Fixed assets

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

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed assets (Cont'd)

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

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

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

Investment properties

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

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

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

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

Intangible assets

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Properties under development

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

Investments in subsidiaries

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

Interest in associates

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

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

Interest in jointly controlled entities

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

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

for the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in securities

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

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

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

Other investments

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

Properties held for sale

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

Inventories

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

Capitalisation of borrowing costs

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

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

for the year ended 31st December, 2003

4. TURNOVER

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

	2003 HK\$'000	2002 HK\$'000
Interest income on loans and advances to consumer finance customers	763,006	892,742
Other interest income	208,615	302,368
Securities broking	185,130	122,749
Property rental, hotel operations and management services	159,338	150,400
Income from forex, bullion, commodities and futures	123,962	79,145
Income from corporate finance and others	116,576	58,496
Dividend income	19,666	24,565
Securities trading	16,991	67,578
Sale of properties	16,000	112,883
Sales of goods	198	1,351
	<u>1,609,482</u>	<u>1,812,277</u>

5. SEGMENTAL INFORMATION

The Group has the following main business segments:

- Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking service, provision of related financing and advisory product, and provision of term loan financing.
- Consumer finance – providing consumer loan finance products.
- Property development and investment – development and sale of properties, properties rental, provision of property management services and hotel operations managed by third parties.
- Corporate and other operations – including corporate revenue and expenses and results of unallocated operations.

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

for the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (CONT'D)

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

	2003				
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
Turnover	684,693	763,322	182,198	32,468	1,662,681
Less: inter-segment turnover	(15,322)	–	(6,860)	(31,017)	(53,199)
	669,371	763,322	175,338	1,451	1,609,482
Profit from operations	152,977	328,309	7,765	23,793	512,844
Other finance costs					(61,277)
Amortisation of goodwill					(7,142)
Release of negative goodwill					237,923
Amortisation of capital reserve					17,267
Share of results of associates					135,708
Share of results of jointly controlled entities	–	–	22,900	–	22,900
Profit before taxation					858,223
Taxation					(127,518)
Profit after taxation					730,705
Segment assets	3,435,689	1,845,998	2,807,274	5,869	8,094,830
Interests in associates					2,201,871
Interests in jointly controlled entities	937	–	1,086,442	–	1,087,379
Deferred tax assets					35,743
Amounts due from associates					266,303
Amount due from a jointly controlled entity	–	–	2,056	–	2,056
Tax recoverable					5,281
Total assets					11,693,463
Segment liabilities	1,614,109	34,856	107,185	13,296	1,769,446
Amounts due to associates					38,081
Amount due to a jointly controlled entity	–	–	171,658	–	171,658
Taxation					60,162
Bank and other borrowings					2,372,838
Deferred tax liabilities					21,406
Total liabilities					4,433,591
Other information					
Depreciation	17,133	6,146	5,556	532	29,367
Amortisation of intangible assets	2,780	–	–	–	2,780
Impairment losses recognised	6,524	189	34,746	–	41,459
Deficits arising on revaluation of investment properties	–	–	6,145	–	6,145
Bad and doubtful debts	(19,339)	250,552	–	(454)	230,759
Capital expenditure	15,631	5,379	12,720	849	34,579

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (CONT'D)

	2002				Total HK\$'000
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	
Turnover	665,405	892,742	268,868	43,284	1,870,299
Less: inter-segment turnover	(10,985)	-	(5,585)	(41,452)	(58,022)
	<u>654,420</u>	<u>892,742</u>	<u>263,283</u>	<u>1,832</u>	<u>1,812,277</u>
Profit (loss) from operations	128,162	189,243	(531,806)	3,624	(210,777)
Other finance costs					(72,183)
Amortisation of goodwill					(7,142)
Release of negative goodwill					136,899
Amortisation of capital reserve					17,267
Share of results of associates					117,473
Share of results of jointly controlled entities	-	-	(22,730)	-	(22,730)
Loss before taxation					(41,193)
Taxation					(82,972)
Loss after taxation					<u>(124,165)</u>
Segment assets	2,251,601	1,926,224	2,872,436	76,132	7,126,393
Interests in associates					2,026,470
Interests in jointly controlled entities	936	-	1,122,364	-	1,123,300
Deferred tax assets					28,602
Amounts due from associates					294,787
Amount due from a jointly controlled entity	-	-	1,564	-	1,564
Total assets					<u>10,601,116</u>
Segment liabilities	695,965	154,971	128,297	11,199	990,432
Amounts due to associates					37,544
Amount due to a jointly controlled entity	-	-	178,041	-	178,041
Taxation					15,412
Bank and other borrowings					1,775,873
Deferred tax liabilities					24,624
Total liabilities					<u>3,021,926</u>
Other information					
Depreciation	16,752	13,801	6,926	574	38,053
Amortisation of intangible assets	1,366	-	-	-	1,366
Impairment losses recognised	11,686	-	121,720	-	133,406
Deficits arising on revaluation of investment properties	-	-	440,948	-	440,948
Bad and doubtful debts	24,027	467,992	14,632	(536)	506,115
Capital expenditure	18,474	3,961	96,596	376	119,407

for the year ended 31st December, 2003

5. SEGMENTAL INFORMATION (CONT'D)

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

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

6. IMPAIRMENT LOSSES AND REVALUATION DEFICITS

	2003 HK\$'000	2002 HK\$'000
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	22,546	104,000
Properties under development	12,200	17,100
Non-trading securities	6,713	12,306
	<u>41,459</u>	<u>133,406</u>
Deficits arising on revaluation of investment properties	6,145	440,948
	<u>47,604</u>	<u>574,354</u>

7. BAD AND DOUBTFUL DEBTS

	2003 HK\$'000	2002 HK\$'000
Bad debts written off	278,758	480,194
Allowances for doubtful debts	32,309	50,157
Bad debts recovered	(80,308)	(24,236)
	<u>230,759</u>	<u>506,115</u>

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

8. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	5,848	5,654
Overprovision in prior years	(66)	(483)
	<u>5,782</u>	<u>5,171</u>
Amortisation of intangible assets (included in other operating expenses)	2,780	1,366
Commission expenses and sales incentives to account executives and certain staff	103,754	52,277
Depreciation		
Owned assets	28,854	37,583
Assets held under a finance lease	513	470
	<u>29,367</u>	<u>38,053</u>
Loss arising from default of loan agreement with Millennium Touch Limited (note 26)	–	10,110
Loss on disposal of an associate	3,088	–
Loss on disposal of fixed assets	3,273	1,378
Loss on disposal of non-trading securities	753	–
Loss on disposal of subsidiaries	2,229	–
Net realised loss on trading securities	–	5,361
Net unrealised loss on trading securities	–	11,193
Provision for interest and legal costs in respect of a litigation (note)	58,364	–
Retirement benefit scheme contributions, net of forfeited contributions of HK\$1,405,000 (2002: HK\$1,233,000) (note 41)	13,668	14,423
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	286,151	270,864
and after crediting:		
Dividend income from investments in listed securities	11,121	7,285
Dividend income from investments in unlisted securities	8,545	17,280
Net realised profit on derivatives	6,403	75
Net profit on other dealing activities	4,531	706
Net realised profit on trading securities	5,728	–
Net unrealised profit on trading securities	7,142	–
Profit on disposal of non-trading securities	–	1,123
Profit on dealing in foreign currencies	16,938	9,110
Profit on disposal of subsidiaries	–	2,020
Profit on disposal of associates	–	3,725
Profit on repurchase of loan notes	23,226	–
Rental income from investment properties under operating leases, net of outgoings of HK\$18,280,000 (2002: HK\$17,290,000)	45,400	42,412
Write-back of loss arising from default of loan agreement with Millennium Touch Limited (note 26)	26,412	–
	<u>26,412</u>	<u>–</u>

for the year ended 31st December, 2003

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

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

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

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

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

9. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Independent Non-Executive Directors	20	27
Other Directors	12	5
	<u>32</u>	<u>32</u>
Other emoluments:		
Independent Non-Executive Directors:		
Consultancy fees, salaries, housing and other benefits	1,919	3,475
Retirement benefit scheme contributions	–	53
	<u>1,919</u>	<u>3,528</u>
Other Directors:		
Salaries, housing and other benefits	8,869	7,264
Retirement benefit scheme contributions	203	149
	<u>9,072</u>	<u>7,413</u>
	<u>11,023</u>	<u>10,973</u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2003	2002
HK\$ Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	1	1
	<u>1</u>	<u>1</u>

for the year ended 31st December, 2003

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

(b) Employees' emoluments

The five highest paid individuals included two (2002: two) of the Directors, details of whose emoluments are set out in 9(a) above. The emoluments of the remaining three (2002: three) individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	17,515	10,247
Performance related incentive payments (overprovided)	6,750	(882)
Retirement benefit scheme contributions	311	363
	<u>24,576</u>	<u>9,728</u>

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

	Number of employees	
	2003	2002
HK\$2,000,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$8,500,001 – HK\$9,000,000	1	–
HK\$12,000,001 – HK\$12,500,000	1	–
	<u>1</u>	<u>–</u>

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10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	47,507	72,015
Other borrowings wholly repayable within five years	762	4,990
Bank borrowings not wholly repayable within five years	7,711	21,578
Loan notes wholly repayable within five years (note 32)	8,902	–
Obligations under a finance lease	65	93
	<u>64,947</u>	<u>98,676</u>
Less: Amount capitalised in respect of properties under development and properties under development for sale	<u>(149)</u>	<u>(5,367)</u>
	<u>64,798</u>	<u>93,309</u>
Total finance costs included in:		
Cost of sales	3,521	21,126
Other finance costs	61,277	72,183
	<u>64,798</u>	<u>93,309</u>

11. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	82,069	41,127
Outside Hong Kong	418	219
	<u>82,487</u>	<u>41,346</u>
Deferred tax (note 24):		
Current year	(8,764)	6,020
Effect of change in tax rate	(1,656)	–
	<u>72,067</u>	<u>47,366</u>
Taxation attributable to the Company and subsidiaries	72,067	47,366
Share of taxation attributable to associates	38,751	22,710
Share of deferred taxation attributable to associates	6,724	9,490
Share of taxation attributable to jointly controlled entities	9,976	3,406
	<u>127,518</u>	<u>82,972</u>

for the year ended 31st December, 2003

11. TAXATION (CONT'D)

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

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

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

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	858,223	(41,193)
Less: share of results of associates	(135,708)	(117,473)
share of results of jointly controlled entities	(22,900)	22,730
Profit (loss) before taxation excluding share of results of associates and jointly controlled entities	<u>699,615</u>	<u>(135,936)</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	122,433	(21,750)
Tax effect of expenses that are not deductible for tax purposes	26,902	87,107
Tax effect of income that are not assessable for tax purposes	(63,168)	(41,096)
Tax effect of tax losses not recognised	12,878	30,386
Tax effect of utilisation of tax losses not previously recognised	(18,543)	(5,407)
Increase in opening deferred taxation due to change in tax rate	(1,656)	–
Tax effect of utilisation of unrecognised deductible temporary differences	(3,129)	(3,549)
Effect of different income tax rate of overseas subsidiaries	(2,559)	1,730
Others	(1,091)	(55)
Taxation attributable to the Company and subsidiaries	<u>72,067</u>	47,366
Share of taxation attributable to associates	38,751	22,710
Share of deferred taxation attributable to associates	6,724	9,490
Share of taxation attributable to jointly controlled entities	<u>9,976</u>	3,406
Taxation for the year	<u>127,518</u>	<u>82,972</u>

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 24).

12. DIVIDEND

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

for the year ended 31st December, 2003

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders of HK\$486,466,000 (2002: loss of HK\$169,595,000 as restated) and on the weighted average number of 3,189,472,692 (2002: 3,409,866,308) shares in issue during the year.

Diluted earnings (loss) per share is not presented as the Company had no dilutive potential ordinary shares during both years.

14. FIXED ASSETS

	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
The Group							
Cost or valuation							
At 1st January, 2003	276,579	1,645,537	104,274	86,643	131,710	25,505	2,270,248
Exchange adjustments	-	-	-	(7)	(18)	-	(25)
Transferred from properties held for sale	-	252,102	-	-	-	-	252,102
Additions	-	-	1,207	4,243	8,400	938	14,788
Acquisition of subsidiaries	-	-	32,000	137	863	-	33,000
Other disposals	-	-	-	(16,361)	(6,797)	(1,334)	(24,492)
Surplus (deficit) arising on revaluation	1,459	(7,604)	-	-	-	-	(6,145)
At 31st December, 2003	278,038	1,890,035	137,481	74,655	134,158	25,109	2,539,476
Comprising:							
At cost	-	-	121,481	74,655	134,158	25,109	355,403
At valuation in 1985	-	-	16,000	-	-	-	16,000
At valuation in 2003	278,038	1,890,035	-	-	-	-	2,168,073
	278,038	1,890,035	137,481	74,655	134,158	25,109	2,539,476
Depreciation							
At 1st January, 2003	-	-	17,952	64,554	90,394	23,652	196,552
Exchange adjustments	-	-	-	(2)	(18)	-	(20)
Provided for the year	-	-	2,751	9,148	16,505	963	29,367
Eliminated on other disposals	-	-	-	(13,323)	(6,466)	(1,329)	(21,118)
At 31st December, 2003	-	-	20,703	60,377	100,415	23,286	204,781
Net book values							
At 31st December, 2003	278,038	1,890,035	116,778	14,278	33,743	1,823	2,334,695
At 31st December, 2002	276,579	1,645,537	86,322	22,089	41,316	1,853	2,073,696

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14. FIXED ASSETS (CONT'D)

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

	2003			2002		
	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000	Investment properties – hotel property HK\$'000	Investment properties – others HK\$'000	Land and buildings HK\$'000
Properties in						
Hong Kong:						
Long-term	278,038	1,523,000	114,311	276,579	1,346,837	84,863
Medium-term	-	367,035	-	-	298,700	-
Properties outside						
Hong Kong:						
Medium-term	-	-	2,467	-	-	1,459
	278,038	1,890,035	116,778	276,579	1,645,537	86,322

The Group's hotel property is managed by an independent hotel operator and other investment properties are held for rental purposes under operating leases. The Group's investment properties in Hong Kong were revalued on 31st December, 2003 by FPDSavills (Hong Kong) Limited, Chartered Surveyors, on an open market value basis, at HK\$2,168,073,000 (2002: HK\$1,922,116,000).

In preparing these accounts, the Group has placed reliance on paragraph 80 of the SSAP 17, which provides exemption from the need to make regular revaluations for "Land and buildings" carried at a revalued amount prior to 30th September, 1995. Included in "Land and buildings" is a property carried at HK\$16,000,000 which was revalued in 1985 by Jones Lang Wootton, independent professional valuer, on an open market value basis. The carrying amount of the "Land and buildings", including the revalued property, would have been HK\$118,460,000 (2002: HK\$88,035,000), had the property been carried at cost less depreciation.

The deficit of HK\$6,145,000 arising on revaluation during the year has been charged to the income statement. Of the deficit of HK\$443,217,000 for 2002, HK\$440,948,000 has been charged to the income statement. HK\$1,667,000, after adjusting for an amount attributable to minority interest of HK\$602,000, has been charged against the property revaluation reserve.

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14. FIXED ASSETS (CONT'D)

The net book value of furniture, fixtures and equipment of HK\$33,743,000 (2002: HK\$41,316,000) includes an amount of HK\$1,580,000 (2002: 2,093,000) in respect of assets held under finance leases.

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The Company				
Cost				
At 1st January, 2003	6,231	5,909	784	12,924
Additions	8	192	650	850
Disposals	–	(356)	(498)	(854)
At 31st December, 2003	<u>6,239</u>	<u>5,745</u>	<u>936</u>	<u>12,920</u>
Depreciation				
At 1st January, 2003	5,574	5,245	651	11,470
Provided for the year	170	260	100	530
Eliminated on disposals	–	(356)	(498)	(854)
At 31st December, 2003	<u>5,744</u>	<u>5,149</u>	<u>253</u>	<u>11,146</u>
Net book values				
At 31st December, 2003	<u>495</u>	<u>596</u>	<u>683</u>	<u>1,774</u>
At 31st December, 2002	<u>657</u>	<u>664</u>	<u>133</u>	<u>1,454</u>

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

15. INTANGIBLE ASSETS

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

16. GOODWILL

	The Group HK\$'000
Cost	
At 1st January, 2003 and 31st December, 2003	34,820
Amortisation	
At 1st January, 2003	11,902
Provided for the year	7,142
	<u>19,044</u>
At 31st December, 2003	<u>19,044</u>
Net book values	
At 31st December, 2003	<u>15,776</u>
At 31st December, 2002	<u>22,918</u>

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17. NEGATIVE GOODWILL

	The Group
	HK\$'000
Gross amount	
At 1st January, 2003	
– As previously stated	979,678
– Adjustment on adoption of SSAP 12 (Revised)	(74,890)
– As restated	904,788
Acquisition of additional interest in subsidiaries	353,280
Acquisition of subsidiaries	8,730
Released on disposal of a subsidiary	(3)
At 31st December, 2003	<u>1,266,795</u>
Released to income statement	
At 1st January, 2003	
– As originally stated	217,383
– Adjustment on adoption of SSAP 12 (Revised)	(19,657)
– As restated	197,726
Released during the year	237,923
Eliminated on disposal	(3)
At 31st December, 2003	<u>435,646</u>
Net book values	
At 31st December, 2003	<u>831,149</u>
At 31st December, 2002	<u>707,062</u>

18. PROPERTIES UNDER DEVELOPMENT

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

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18. PROPERTIES UNDER DEVELOPMENT (CONT'D)

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

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

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

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

19. INTEREST IN SUBSIDIARIES

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Listed securities in Hong Kong, at cost	692,516	692,516
Unlisted shares at cost, less impairment loss recognised	–	–
Amounts due from subsidiaries, less allowances	1,907,882	1,901,844
	<u>2,600,398</u>	<u>2,594,360</u>
Market value of listed securities in Hong Kong	<u>260,288</u>	<u>211,068</u>

Other than the loan notes issued by Sun Hung Kai, terms of which are shown in note 32, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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

20. INTEREST IN ASSOCIATES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Listed securities in Hong Kong (note 20(i))	1,970,437	1,826,802
Unlisted shares (note 20(ii))	231,434	199,668
	<u>2,201,871</u>	<u>2,026,470</u>

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20. INTEREST IN ASSOCIATES (CONT'D)

Notes:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
(i) Listed securities in Hong Kong		
Share of net assets other than goodwill	2,058,401	1,801,236
Unamortised goodwill on acquisition of associates (note 20(iii))	112,405	143,639
Unamortised negative goodwill on acquisition of associates (note 20(iv))	(200,369)	(118,073)
	<u>1,970,437</u>	<u>1,826,802</u>
Market value of listed securities	<u>950,062</u>	<u>585,287</u>

	The Group	
	2003	2002
	HK\$'000	HK\$'000
(ii) Unlisted shares		
Share of net assets other than goodwill	111,445	142,223
Unamortised goodwill on acquisition of associate (note 20(v))	5,940	-
Unamortised negative goodwill on acquisition of associates (note 20(vi))	(1,375)	(1,963)
	<u>116,010</u>	<u>140,260</u>
Less: impairment loss recognised	(21,892)	-
	<u>94,118</u>	<u>140,260</u>
Amounts due from associates	<u>137,316</u>	<u>59,408</u>
	<u>231,434</u>	<u>199,668</u>

The amounts due from associates are not repayable within twelve months.

(iii) Unamortised goodwill on acquisition of listed associates

	The Group
	HK\$'000
Cost	
At 1st January, 2003	
- As previously stated	228,559
- Adjustment on adoption of SSAP 12 (Revised)	3,745
	<u>232,304</u>
- As restated and at 31st December, 2003	<u>232,304</u>
Amortisation	
At 1st January, 2003	
- As previously stated	85,716
- Adjustment on adoption of SSAP 12 (Revised)	2,949
	<u>88,665</u>
- As restated	<u>88,665</u>
Provided for the year	<u>31,234</u>
At 31st December, 2003	<u>119,899</u>
Net book values	
At 31st December, 2003	<u>112,405</u>
At 31st December, 2002	<u>143,639</u>

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20. INTEREST IN ASSOCIATES (CONT'D)

Notes (Cont'd):

- (iv) Unamortised negative goodwill on acquisition of listed associates

	The Group HK\$'000
Gross amount	
At 1st January, 2003	
– As previously stated	245,372
– Adjustment on adoption of SSAP 12 (Revised)	(28,696)
	<u>216,676</u>
– As restated	216,676
Acquisition of associates	<u>122,514</u>
At 31st December, 2003	<u>339,190</u>
Released to income statement	
At 1st January, 2003	
– As previously stated	107,813
– Adjustment on adoption of SSAP 12 (Revised)	(9,210)
	<u>98,603</u>
– As restated	98,603
Released during the year	<u>40,218</u>
At 31st December, 2003	<u>138,821</u>
Net book values	
At 31st December, 2003	<u>200,369</u>
At 31st December, 2002	<u>118,073</u>

- (v) Unamortised goodwill on acquisition of unlisted associates

	The Group HK\$'000
Cost	
At 1st January, 2003	7,805
Acquisition of associates	<u>6,364</u>
At 31st December, 2003	<u>14,169</u>
Amortisation	
At 1st January, 2003	7,805
Provided for the year	<u>424</u>
At 31st December, 2003	<u>8,229</u>
Net book values	
At 31st December, 2003	<u>5,940</u>
At 31st December, 2002	<u>–</u>

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20. INTEREST IN ASSOCIATES (CONT'D)

Notes (Cont'd):

(vi) Unamortised negative goodwill on acquisition of unlisted associates

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

Particulars of the Company's principal associates at 31st December, 2003 are set out in note 46.

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

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

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

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

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

for the year ended 31st December, 2003

21. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000 (Restated)
Unlisted shares		
Share of net assets	1,105,001	1,140,922
Elimination of unrealised profit	(17,622)	(17,622)
	<u>1,087,379</u>	<u>1,123,300</u>

Particulars of the Group's principal jointly controlled entities at 31st December, 2003 are set out in note 47.

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

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

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

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

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

Included in the share of results of jointly controlled entities in the consolidated income statement of HK\$22,900,000 (2002: loss of HK\$22,730,000 as restated) is an amount of HK\$19,041,000 ((2002: HK\$57,427,000) representing a revaluation deficit attributable to a jointly controlled entity.

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22. INVESTMENTS

	Investments in securities						Total	
	Non-trading securities		Trading securities		Other investments		2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group								
Listed equity securities, at market values, issued by corporate entities								
Hong Kong	346,734	204,041	42,125	19,874	-	-	388,859	223,915
Outside Hong Kong	2,903	1,461	4,243	1,799	-	-	7,146	3,260
issued by banks								
Hong Kong	-	-	-	1,390	-	-	-	1,390
issued by public utility entities								
Hong Kong	-	-	-	23	-	-	-	23
	<u>349,637</u>	<u>205,502</u>	<u>46,368</u>	<u>23,086</u>	<u>-</u>	<u>-</u>	<u>396,005</u>	<u>228,588</u>
Unlisted equity securities issued by corporate entities								
Hong Kong	63,764	75,262	-	335	-	-	63,764	75,597
Outside Hong Kong (note)	70,069	69,257	-	-	-	-	70,069	69,257
	<u>133,833</u>	<u>144,519</u>	<u>-</u>	<u>335</u>	<u>-</u>	<u>-</u>	<u>133,833</u>	<u>144,854</u>
Unlisted marketable debt securities								
issued by overseas government	-	-	7,747	7,772	-	-	7,747	7,772
issued by bank	-	-	-	5,424	-	-	-	5,424
	<u>-</u>	<u>-</u>	<u>7,747</u>	<u>13,196</u>	<u>-</u>	<u>-</u>	<u>7,747</u>	<u>13,196</u>
Other unlisted securities	<u>-</u>	<u>-</u>	<u>384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>384</u>	<u>-</u>
Exchange seats, statutory deposits and other deposits with Exchange and Clearing Companies	-	-	-	-	28,001	16,636	28,001	16,636
Amounts due from investee companies, less impairment losses recognised (note)	-	-	-	-	97,314	102,926	97,314	102,926
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,315</u>	<u>119,562</u>	<u>125,315</u>	<u>119,562</u>
	<u>483,470</u>	<u>350,021</u>	<u>54,499</u>	<u>36,617</u>	<u>125,315</u>	<u>119,562</u>	<u>663,284</u>	<u>506,200</u>
Carrying amount analysed for reporting purposes as:								
Non-current	483,470	350,021	-	-	125,315	119,562	608,785	469,583
Current	-	-	54,499	36,617	-	-	54,499	36,617
	<u>483,470</u>	<u>350,021</u>	<u>54,499</u>	<u>36,617</u>	<u>125,315</u>	<u>119,562</u>	<u>663,284</u>	<u>506,200</u>

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22. INVESTMENTS (CONT'D)

Note: A sum totalling HK\$115,437,000 is included in "Unlisted non-trading securities" and "Amounts due from investee companies" being the amount (excluding interest, which has been expensed or provided for in prior years, or is accounted for as described in note 8) which represents the carrying value of the effective 12.5% interest in the completed project in Kuala Lumpur, Malaysia presently known as "The Renaissance Kuala Lumpur Hotel", the circumstances surrounding which are further described in note 8. Sun Hung Kai is not in possession of any information that would in the opinion of the management render it appropriate to make any present provision against the carrying value. The matter will continue to be reviewed in the light of both probable ongoing litigation and the commercial prospects of the project.

23. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Loans and advances to consumer finance customers	1,811,429	1,839,969
Allowance for doubtful debts	(143,859)	(146,018)
	1,667,570	1,693,951
Less: Amount due within one year and shown under current assets	(1,098,364)	(1,372,264)
Amount due after one year	569,206	321,687

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24. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	General provision HK\$'000	Unrealised profits HK\$'000	Undistributed earnings HK\$'000	Tax losses HK\$'000	Revaluation of properties HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January, 2002								
- as previously stated	4,605	66	-	-	(1,182)	9,788	-	13,277
- adjustment on adoption of SSAP 12 (Revised)	23,000	(21,877)	1,252	3,283	(34,132)	7,331	2,057	(19,086)
- as restated	27,605	(21,811)	1,252	3,283	(35,314)	17,119	2,057	(5,809)
Exchange adjustments	-	-	(37)	-	-	-	-	(37)
Credited to equity	-	-	-	-	-	(2,269)	-	(2,269)
Transferred from tax reserve certificate	-	-	-	-	-	(1,883)	-	(1,883)
Charged (credited) to income statement	7,117	(1,552)	503	1,091	(345)	(108)	(686)	6,020
At 31st December, 2002	34,722	(23,363)	1,718	4,374	(35,659)	12,859	1,371	(3,978)
Exchange adjustments	-	-	(75)	-	-	-	-	(75)
Effect of change in tax rate charged (credited) to income statement	3,236	(2,357)	(1)	3	(3,344)	678	129	(1,656)
Acquisition of subsidiaries	-	-	-	-	136	-	-	136
Charged (credited) to income statement	11,164	(4,886)	(249)	(2,669)	(11,119)	(255)	(750)	(8,764)
At 31st December, 2003	49,122	(30,606)	1,393	1,708	(49,986)	13,282	750	(14,337)

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Deferred tax liabilities	21,406	24,624
Deferred tax assets	(35,743)	(28,602)
	(14,337)	(3,978)

At 31st December, 2003, the Group had unrecognised deductible temporary difference of HK\$5,809,000 (2002: HK\$31,338,000) and unused tax losses of HK\$2,211,591,000 (2002: HK\$2,221,438,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$285,616,000 (2002: HK\$222,865,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,925,975,000 (2002: HK\$1,775,934,000) due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

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

At 31st December, 2003, the Company had unused tax losses of HK\$30,864,000 (2002: HK\$41,575,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

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25. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

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

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

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

26. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The average credit terms of other trade receivables range from 30 to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,767,899,000 (2002: HK\$1,957,260,000), the aged analysis of which is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
0 to 30 days	2,718,315	1,748,929
31 to 180 days	12,755	11,335
181 to 365 days	3,427	43,893
over 365 days	435,913	551,850
	<u>3,170,410</u>	<u>2,356,007</u>
Allowance for doubtful debts	(402,511)	(398,747)
	<u>2,767,899</u>	<u>1,957,260</u>

The above balance of HK\$3,170,410,000 (2002: HK\$2,356,007,000) includes term loans totalling HK\$538,758,000 (2002: HK\$761,167,000), the maturity profile of which is shown in note 44.

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

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 31st December, 2003 was HK\$5,118,827,000 (2002: HK\$3,693,446,000).

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

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

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

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

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

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27. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

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

28. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 2002, 31st December, 2002 and 31st December, 2003	<u>6,500,000,000</u>	<u>1,300,000</u>
Issued and fully paid:		
At 1st January, 2002 and 31st December, 2002	3,409,866,308	681,973
Share repurchased and cancelled	<u>(752,998,000)</u>	<u>(150,599)</u>
At 31st December, 2003	<u>2,656,868,308</u>	<u>531,374</u>

The shares repurchased and cancelled during the year included 750,000,000 shares which were repurchased by the Company on 16th September, 2003 pursuant to a general offer at a price of HK\$0.5 per share (as to HK\$0.15 in cash and HK\$0.35 in the form of loan note). The balance of 2,998,000 shares were repurchased on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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29. SHARE OPTION SCHEMES

A summary of each of the share option schemes of the Company (“AGL Scheme”) and the Company’s subsidiary, Allied Properties (“APL Scheme”) is as follows:

- (a) The AGL Scheme was adopted pursuant to a resolution passed by the Company’s shareholders on 3rd June, 2002 (“Adoption Date”) for the primary purpose of providing the eligible participants an opportunity to have a personal stake in the Company and to help motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the AGL Scheme include any employees, directors of the Company, its subsidiaries or any entity in which the Group holds an equity interest (“Invested Entity”), supplier of goods or services to the Group or any Invested Entity, customer of the Group or any Invested Equity, any minority shareholders of the Group or Invested Entity and any other person or entity who in the opinion of the Directors have contributed or may contribute to the development and growth of the Group. The AGL Scheme will expire on 2nd June, 2012.

The maximum number of shares which may be issuable under the AGL Scheme and any other schemes of the Company (excluding options lapsed pursuant to the AGL Scheme and any other schemes of the Company) must not exceed 10% of the issued shares of the Company at the Adoption Date, being 340,986,630 shares of the Company. At 31st December, 2002, the maximum number of shares issuable under the AGL Scheme was 340,986,630, which represented 10% of the Company’s shares in issue as at that date.

The total number of shares issued and to be issued to each eligible participant under the AGL Scheme in any 12-month period must not exceed 1% of the issued shares of the Company unless approved in advance by the shareholders of the Company in general meeting.

Any option to be granted under the AGL Scheme to a director, chief executive or substantial shareholder of the Company or to any of their respective associates must be approved by Independent Non-Executive Directors of the Company. In addition, any option to be granted to a substantial shareholder or an Independent Non-Executive Director of the Company or to any of their respective associates which will result in the shares issued and to be issued in excess of 0.1% of the issued shares or with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million within any 12-month period is subject to approval by the shareholders of the Company in general meeting.

The offer of a grant of options under the AGL Scheme may be accepted within 28 business days from the date of the offer and by payment of HK\$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the AGL Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the Adoption Date.

The exercise price is determined by the Directors and shall be at least the highest of: (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of grant of an option, which must be a trading day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations for the five trading days immediately preceding the date of the offer of grant of an option; and (iii) the nominal value of the Company’s shares.

No options were granted under the AGL Scheme during 2003 and there were no options outstanding at 31st December, 2003 and 2002.

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29. SHARE OPTION SCHEMES (CONT'D)

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

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

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

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

30. RESERVES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Share premium	1,519,481	1,894,481
Property revaluation reserve	36,691	14,117
Investment revaluation reserve	80,027	(1,938)
Capital redemption reserve	170,774	20,175
Translation reserve	(104,240)	(95,379)
Non-distributable reserve (note 30(a))	55,226	55,226
Capital (goodwill) reserve (note 30(b))	295,269	327,924
Accumulated profits (note 30(c))	1,571,303	1,092,714
	3,624,531	3,307,320

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30. RESERVES (CONT'D)

Notes:

(a) Non-distributable reserve represents the share of a subsidiary's capital redemption reserve.

	Goodwill HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Total HK\$'000
At 1st January, 2002				
– as previously stated	(57,126)	427,038	1,455	371,367
– adjustment on adoption of SSAP 12 (Revised)	(3,447)	(12,935)	–	(16,382)
– as restated	(60,573)	414,103	1,455	354,985
Released on disposal of associates	13,709	–	–	13,709
Amortisation of capital reserve	–	(39,921)	–	(39,921)
Transferred by an associate	–	–	(849)	(849)
At 31st December, 2002	(46,864)	374,182	606	327,924
Released on disposal of associates	–	–	(237)	(237)
Amortisation of capital reserve	–	(32,897)	–	(32,897)
Transferred by an associate	–	–	479	479
At 31st December, 2003	(46,864)	341,285	848	295,269

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

(c) The accumulated profits of the Group include HK\$90,919,000 (2002: HK\$79,418,000) retained by associates and HK\$368,473,000 (2002: HK\$363,779,000) retained by jointly controlled entities of the Group.

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Distributable reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
The Company					
At 1st January, 2002	1,894,481	20,175	–	36,388	1,951,044
Profit attributable to shareholders	–	–	–	85,456	85,456
At 31st December, 2002	1,894,481	20,175	–	121,844	2,036,500
Transferred upon approval by court order	(375,000)	–	375,000	–	–
Shares repurchased and cancelled	–	–	(225,000)	(6,799)	(231,799)
Transferred on share repurchase	–	150,599	(150,000)	(599)	–
Profit attributable to shareholders	–	–	–	148,649	148,649
At 31st December, 2003	1,519,481	170,774	–	263,095	1,953,350

The Company's reserves available for distribution to shareholders at 31st December, 2003 are represented by accumulated profits of HK\$263,095,000 (2002: HK\$121,844,000).

Notes to the Financial Statements (Cont'd)

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31. BANK AND OTHER BORROWINGS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans, overdrafts and other borrowings comprise:		
Bank loans	1,891,470	1,886,202
Overdrafts	155,247	2,855
Other borrowings	5,000	30,000
	<u>2,051,717</u>	<u>1,919,057</u>
Analysed as:		
Secured	1,964,936	1,774,034
Unsecured	86,781	145,023
	<u>2,051,717</u>	<u>1,919,057</u>
Bank loans and overdrafts are repayable as follows:		
Within one year or on demand	1,105,282	927,018
More than one year but not exceeding two years	70,760	259,669
More than two years but not exceeding five years	759,110	555,060
More than five years	111,565	147,310
	<u>2,046,717</u>	<u>1,889,057</u>
Other borrowings repayable within one year or on demand	5,000	30,000
	<u>2,051,717</u>	<u>1,919,057</u>
Less: Amount repayable within one year and shown under current liabilities	<u>(1,110,282)</u>	<u>(957,018)</u>
Amount due after one year	<u>941,435</u>	<u>962,039</u>

Details of the assets of the Group and the Company pledged to secure bank and other borrowings are set out in note 42.

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32. LOAN NOTES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan notes issued by the Company	262,500	–	262,500	–
Repurchased and cancelled	(123,608)	–	(123,608)	–
	138,892	–	138,892	–
Loan notes issued by a listed subsidiary	255,234	–	–	–
Repurchased and cancelled	(23,597)	–	–	–
	231,637	–	–	–
Total	370,529	–	138,892	–

The loan notes of the Company and those of the listed subsidiary, Sun Hung Kai, were issued as part of the consideration for the repurchase of shares of the Company and Sun Hung Kai respectively. The loan notes issued by the Company bear interest at 2.25% per annum and are due on 15th August, 2008. The loan notes issued by Sun Hung Kai bear interest at 4% per annum and are due on 7th March, 2008.

Notes to the Financial Statements (Cont'd)

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33. OTHER LIABILITIES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under a finance lease (note)	966	1,816	–	–
Other employee benefits	5,346	6,682	131	329
	6,312	8,498	131	329
Less: Amount due within one year and shown under current liabilities	(1,404)	(1,399)	(131)	(329)
Amount due after one year	4,908	7,099	–	–

Note:

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

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
Within one year	916	915	890	850
In the second year	76	916	76	890
In the third to fifth years	–	76	–	76
	992	1,907	966	1,816
Less: Future finance charges	(26)	(91)		
Present value of the lease obligations	966	1,816		
Less: Amount due within one year and shown under current liabilities			(890)	(850)
Amount due after one year			76	966

34. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest-free and has no fixed terms of repayment. The subsidiary will not demand repayment in the next twelve months and the amount is therefore shown as non-current liabilities.

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35. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	–	694
Accounts receivable, deposits and prepayments	21	12
Bank balances	1,208	579
Accounts payable and accrued charges	(264)	(447)
Taxation	–	(3)
	<u>965</u>	<u>835</u>
Translation reserve released upon disposal	1,886	(1,148)
Minority interests released upon disposal	673	(1,204)
(Loss) profit on disposal of subsidiaries	<u>(2,229)</u>	<u>2,020</u>
Proceeds on disposal	<u>1,295</u>	<u>503</u>
Satisfied by:		
Cash	1,295	25
Other receivables	–	478
	<u>1,295</u>	<u>503</u>
Analysis of the net inflow (outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	1,295	25
Bank balances disposed of	<u>(1,208)</u>	<u>(579)</u>
	<u>87</u>	<u>(554)</u>

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

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

36. ACQUISITION OF SUBSIDIARIES

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

The subsidiaries acquired during the year contributed HK\$29,140,000 to the Group's turnover and a loss of HK\$20,217,000 to the Group's profit before taxation.

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37. MAJOR NON-CASH TRANSACTIONS

Pursuant to a circular dated 21st August, 2003 issued by the Company, an unconditional offer was made by the Company for the repurchase up to 750,000,000 shares at HK\$0.5 per share, as to HK\$0.15 in cash and HK\$0.35 in the form of loan note. As announced by the Company on 15th September, 2003, 750,000,000 shares had been repurchased by the Company and, accordingly, loan notes to the value of HK\$262,500,000 were subsequently issued.

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

The principal terms of the loan notes issued by the Company and Sun Hung Kai are shown in note 32.

38. CONTINGENT LIABILITIES

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

	2003 HK\$'000	2002 HK\$'000
Guarantees for banking and loan facilities granted to an investee company	6,989	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540
Indemnities on letter of credit issued by bank for a loan to a client	67,556	–
Other guarantees	913	1,734
	<u>79,998</u>	<u>13,294</u>

(b) On 9th September, 2002, Sun Hung Kai Investment Services Limited (“SHKIS”), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C. registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth HK\$40,567,000 at 31st December, 2003) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with. The plaintiffs have taken very few actions to progress their writs.

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38. CONTINGENT LIABILITIES (CONT'D)

- (c) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC"), also an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS, were served with a writ attaching a statement of claim by Shanghai Finance Holdings Limited, claiming, inter alia, an Order that the sale of the shares in Shun Loong Holdings Limited ("Shun Loong Shares") by STCC as assignee to SHKIS (at a consideration of HK\$36,500,000 subject to additional amounts in a sum of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, as against STCC, damages and an account as to the money obtained by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and firmly believe there is no basis to the claim. Legal costs will be recorded in the income statement as incurred.

At 31st December, 2003, the Company had guarantees of HK\$155,000,000 (2002: HK\$155,000,000) given to banks in respect of banking facilities utilised by a subsidiary. Facilities amounting to HK\$35,374,000 (2002: Nil) were utilised at 31st December, 2003.

39. CAPITAL COMMITMENTS

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	13,350	26,700
Others	2,810	4,355
	<u>16,160</u>	<u>31,055</u>
Capital expenditure authorised but not contracted for:		
Others	<u>16,205</u>	<u>47,175</u>

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

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40. OPERATING LEASE ARRANGEMENTS

As lessee

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lease payments under operating leases recognised in the income statement during the year				
Land and buildings	47,750	58,059	2,634	3,794
Others	2,429	640	–	–
	<u>50,179</u>	<u>58,699</u>	<u>2,634</u>	<u>3,794</u>

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

	The Group				The Company	
	2003		2002		2003	2002
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	HK\$'000
Within one year	43,884	927	45,344	77	6,656	4,507
In the second to fifth years inclusive	14,273	38	32,848	–	1,081	–
	<u>58,157</u>	<u>965</u>	<u>78,192</u>	<u>77</u>	<u>7,737</u>	<u>4,507</u>

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

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40. OPERATING LEASE ARRANGEMENTS (CONT'D)

As lessor

Property rental income earned during the year was HK\$63,680,000 (2002: HK\$59,702,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next two years.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	39,998	39,729
In the second to fifth years inclusive	9,154	14,881
	<u>49,152</u>	<u>54,610</u>

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

41. RETIREMENT BENEFIT SCHEMES

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

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

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

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

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

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42. PLEDGE OF ASSETS

At 31st December, 2003, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,791,950,000 (2002: HK\$2,790,137,000), listed investments belonging to the Group and margin clients with a carrying value of HK\$792,489,000 (2002: HK\$761,412,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,935,318,000 (2002: HK\$3,804,999,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,777,516,000 (2002: HK\$4,226,202,000) granted to the Group. Facilities amounting to HK\$1,964,936,000 (2002: HK\$1,774,034,000) were utilised at 31st December, 2003.

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

At 31st December, 2003, certain of the Company's interests in a listed subsidiary with an aggregate carrying value of HK\$674,636,000 (2002: HK\$674,636,000) together with certain investments of its subsidiaries, were pledged to secure credit facilities to the extent of HK\$150,000,000 (2002: HK\$150,000,000) granted to a subsidiary. Facilities amounting to HK\$35,374,000 (2002: Nil) were utilised at 31st December, 2003.

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43. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Summary of income and expense items

	(Income)/Expense	
	2003	2002
	HK\$'000	HK\$'000
Dividend income from associates	(18,912)	(7,504)
Dividend income from a jointly controlled entity	(30,000)	(60,000)
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(15,071)	(14,639)
Administration, management and consultancy fees from a jointly controlled entity	(2,360)	(5,860)
Interest income from associates	(16,786)	(15,867)
Rent, property management and air-conditioning fees and other related service fees from an associate	(1,345)	(2,050)
Insurance premium from an associate	(2,917)	(1,149)
Rent, property management and air-conditioning fees to a jointly controlled entity	<u>10,844</u>	<u>13,183</u>

- (b) A promissory note of HK\$21,900,000 issued by a listed associate with accrued interest of HK\$438,900 was repaid during the year.
- (c) A promissory note of HK\$40,419,000 was issued by a listed associate during the year for the purpose of repaying the outstanding principal and interest under a 4% convertible loan note dated 2nd June, 1998 due on 2nd June, 2002. The promissory note bears interest at 7% per annum and mature on 2nd June, 2003. The principal of the promissory note and the outstanding interest were repaid by the listed associate on 28th January, 2004.
- (d) On 28th January, 2004, a new promissory note of HK\$87,000,000 due on 30th December, 2004 was issued by a listed associate bearing interest at 5% per annum. The new promissory note was made for repayment in part of a promissory note of HK\$145,000,000 and its outstanding interest due on 30th December, 2003. The remaining outstanding balance was repaid by cash.
- (e) On 2nd September, 2003, 5 year 2½% loan notes of HK\$78,000,000 were issued by a listed associate as part of the consideration for the repurchase of shares by the listed associate as detailed in note 26.

None of the above related party transactions constitutes a discloseable connected transaction as defined in the Rules Governing the Listing of Securities on the Stock Exchange.

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

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Associates	373,107	322,293
Jointly controlled entity	(169,602)	(176,359)
	<u>203,505</u>	<u>145,934</u>

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest in associates	137,316	59,408
Accounts receivable, deposits and prepayments	7,569	6,535
Amounts due from associates	266,303	294,787
Amount due from a jointly controlled entity	2,056	1,564
Accounts payable and accrued charges	–	(775)
Amounts due to associates	(38,081)	(37,544)
Amount due to a jointly controlled entity	(171,658)	(178,041)
	<u>203,505</u>	<u>145,934</u>

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

Notes to the Financial Statements (Cont'd)

for the year ended 31st December, 2003

44. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

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

	At 31st December, 2003					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	-	251,080	-	-	-	251,080
Loans and advances to consumer finance customers	135,889	325,766	731,818	609,120	8,836	1,811,429
Promissory notes of a listed associate	202,144	-	40,419	-	-	242,563
Loan notes of a listed associate	-	-	-	-	78,000	78,000
Term loans	175,405	281,886	81,467	-	-	538,758
Marketable debt securities	-	7,747	-	-	-	7,747
Liabilities						
Bank and other borrowings	-	625,877	484,405	829,870	111,565	2,051,717
Loan notes	-	-	-	370,529	-	370,529
Obligations under a finance lease	-	219	671	76	-	966

	At 31st December, 2002					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
Assets						
Fixed deposits with banks	-	312,659	-	-	-	312,659
Loans and advances to consumer finance customers	165,945	441,261	883,941	340,478	8,344	1,839,969
Promissory notes of a listed associate	-	-	264,463	-	-	264,463
Term loans	248,241	168,659	341,800	2,467	-	761,167
Marketable debt securities	-	13,196	-	-	-	13,196
Liabilities						
Bank and other borrowings	-	618,189	338,829	814,729	147,310	1,919,057
Obligations under a finance lease	-	209	641	966	-	1,816

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
AG Capital Limited	2	100	100	Share trading, money lending and business of consultancy
Alaston Development Limited	US\$1	100	75	Property trading
Allied Aquatic Produce Development Limited	50,000,000	100*	100	Investment holding
Allied Capital Management Limited	2	100	100	Securities trading
Allied Properties (H.K.) Limited**	978,768,434	18* 57	75	Investment holding
Allied Real Estate Agency Limited	2	100	75	Real estate agency
AP Administration Limited	2	100	75	Provision of management and consultancy services
AP Corporate Services Limited	2	100	75	Provision of corporate services
AP Development Limited	2	100	75	Investment holding
AP Diamond Limited	US\$1	100	75	Property trading and holding
AP Emerald Limited	US\$1	100	75	Investment holding
AP Finance Limited	2	100	75	Money lending
AP Property Management Limited	2	100	75	Building management
Bali International Finance Limited	137,500,000	100	56	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	56	Securities dealer
Best Melody Development Limited	5,000	100	75	Property holding
Capscore Limited	2	100*	100	Investment holding
Cheeroll Limited	2	100	56	Share trading
China Direction Investments Limited	4,500,000	67	37	Share trading and investment holding
Citiwealth Investment Limited	2	100*	100	Share trading and investment holding
Cowslip Company Limited	2	100	56	Investment holding
Earnest Finance Limited	100	100	55	Investment holding
Easy Capital Investments Limited	US\$1	100	55	Investment holding
Fame Arrow Company Limited	100,000	95	71	Loan financing
Florich Development Limited	10,000	100	75	Investment holding
Front Sail Limited	5,000	100	75	Property holding

Notes to the Financial Statements (Cont'd)

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
Gloria (Nominees) Limited	200	100	56	Investment holding
Gloxin Limited	2	100	56	Investment holding
Grand Securities Company Limited	20,000,000	100	56	Securities broking
Hilarious (Nominees) Limited	10,000	100	56	Investment holding
Hillcrest Development Limited	20	100	75	Property holding
Hi-Link Limited	200	100	75	Investment holding
Integrated Custodian Limited	2	100	75	Property holding
Itso Limited	2	100	56	Share trading
Jaffe Development Limited	US\$1	100	75	Property holding
Kalix Investment Limited	2	100	75	Property holding
King Policy Development Limited	2	100	75	Property holding
Lexshan Nominees Limited	2	100	56	Nominee service
Macdonnell (Nominees) Limited	10,000	100	56	Investment holding
Maxplan Investment Limited	2	100	75	Securities trading
Mightyton Limited	10,000	100	75	Property holding
Oakfame Investment Limited	2	100	56	Investment holding
Ontone Limited	2	100	75	Hotel operations, property development and property holding
Pioneer Alliance Limited	10,000	100*	100	Investment holding
Pioneer Score Development Limited	2	100	56	Investment holding
Plentiwind Limited	2	100	56	Futures trading
Polyking Services Limited	2	100	48	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	48	Building management
Quick Art Limited	3,540,000	100	56	Share trading and property holding
Ranbridge Finance Limited	20,000,000	100	56	Money lending
Rank Crown Investment Limited	2	100*	100	Investment holding
San Pack Properties Limited	10	100	75	Property holding
Scienter Investments Limited	20	100	56	Share trading
SHK Financial Data Limited	100	51	28	Provision of financial information service
SHK Finance Limited	150,000,000	100	55	Consumer financing

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
SHK Fund Management Limited	5,000,000	100	56	Fund management and securities business development
SHK Online (Securities) Limited	30,000,000	100	56	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	56	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	56	Investment holding
Shun Loong Bullion Limited	6,000,000	100	56	Bullion dealing
Shun Loong Capital Limited	6,500,000	100	56	Investment holding
Shun Loong Finance Limited	1,000,000	100	56	Money lending
Shun Loong Forex Company Limited	32,000,000	100	56	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	56	Futures and option broking
Shun Loong Holdings Limited	200,000,000	100	56	Investment holding
Shun Loong Nominees Limited	100,000	100	56	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	56	Computer and marketing advisory service and securities trading
Shun Loong Securities Company Limited	50,000,000	100	56	Securities broking and share margin financing
Sierra Joy Limited	2	100	75	Property holding
Splendid Gain Limited	2	100	56	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	56	Bullion trading
Sun Hung Kai & Co. Limited**	249,140,631	75	56	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	56	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	56	Bullion trading
Sun Hung Kai Commodities Limited	80,000,600	100	56	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	56	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	56	Insurance broking

Notes to the Financial Statements (Cont'd)

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

Subsidiaries	Paid up issued ordinary share capital HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company* / subsidiaries %	attributable to the Group %	
Sun Hung Kai International Limited	10,000,000	100	56	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	56	Commodities dealer
Sun Hung Kai Investment Services Limited	290,000,000	100	56	Share broking
Sun Hung Kai Research Limited	100,000	100	56	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	56	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	56	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	56	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	56	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	56	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	56	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	56	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	56	Financial service
Sunhill Investments Limited	2	100*	100	Investment holding
Texgulf Limited	20	100	56	Property holding
To Wan Development Company Limited	10,000	100	56	Investment holding
Tung Wo Investment Company, Limited	10,000	100	56	Investment holding
United Asia Finance Limited	137,500,000	58	55	Consumer financing
Wah Cheong Development Company, Limited	25,100,000	100	56	Investment holding
Wineur Secretaries Limited	2	100	56	Secretarial service
Yee Li Ko Investment Limited	3,000,000	100	56	Property holding

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

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

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

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital		Principal activity
			held by subsidiaries %	attributable to the Group %	
Allied Properties China Limited	Cayman Islands	US\$1,000	100	75	Investment holding
Best Delta International Limited	British Virgin Islands	US\$1	100	56	Investment holding
Boneast Assets Limited	British Virgin Islands	US\$1	100	56	Investment holding
Constable Development S.A.	Panama	US\$5	100	56	Investment holding
Elecrent Consultants Limited	British Virgin Islands	US\$1	100	75	Investment holding
I-Market Limited	British Virgin Islands	US\$1	100	56	Investment holding
Kenworld Corporation	Republic of Liberia	US\$1	100	75	Investment holding
Lakewood Development Corporation	United States of America	US\$1,000	100	75	Property development and management
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	56	Money lending
Shipshape Investments Limited	British Virgin Islands	US\$1	100	56	Investment holding
SHK Global Managers Limited	British Virgin Islands	US\$5,000	100	56	Fund management
SL Meridian Holdings Limited	British Virgin Islands	HK\$1,000,000	100	56	Investment holding
Sun Hung Kai Capital Markets (Cayman) Limited	Cayman Islands	US\$1	100	56	Financial product origination
Sun Hung Kai Holdings, Inc.	The Philippines	Peso250,000,000 ordinary shares Peso50,000,000 preferred shares	100	56	Investment holding
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SGD10,000,000	100	56	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US\$50,000	100	56	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	56	Financial service
Sun Hung Kai Online Limited	British Virgin Islands	US\$1	100	56	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US\$12,000	100	56	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso273,600,000	100	56	Investment holding
Swan Islands Limited	British Virgin Islands	US\$1	100	56	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US\$1	100	56	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US\$1	100	56	Investment holding
Upstand Assets Limited	British Virgin Islands	US\$1	100	56	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US\$2,675,400	100	56	Investment holding
Zeal Goal International Limited	British Virgin Islands	US\$1	100	56	Investment holding

** The subsidiaries are listed in Hong Kong and further details of these subsidiaries are available in its published audited accounts.

for the year ended 31st December, 2003

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONT'D)

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

46. PARTICULARS OF PRINCIPAL ASSOCIATES

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

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital		Principal activity
		held by subsidiaries %	attributable to the Group %	
Chronicle Gain Limited	Hong Kong	45	25	Property holding
Drinkwater Investment Limited	Hong Kong	22	12	Property holding
Omicron International Limited	British Virgin Islands	44	25	Investment holding
Quality HealthCare Asia Limited**	Bermuda	28	16	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	22	Property development
Silver York Development Limited	Hong Kong	40	22	Property development
Start Hold Limited	Hong Kong	33	18	Investment holding
Tian An China Investments Company Limited**	Hong Kong	48	27	Investment holding
Yu Ming Investments Limited**	Hong Kong	22	12	Investment holding

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

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

for the year ended 31st December, 2003

47. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital		Principal activity
		held by subsidiaries %	attributable to the Group %	
Allied Kajima Limited	Hong Kong	50	37	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	18	Corporate finance advisory

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

Financial Summary

	Financial year ended 31st December,				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results					
Turnover	1,008,912	1,267,520	1,743,774	1,812,277	1,609,482
Profit (loss) from operations	471,566	(77,652)	248,220	(210,777)	512,844
Other finance costs	(73,104)	(100,891)	(111,391)	(72,183)	(61,277)
Amortisation of goodwill	–	–	(4,760)	(7,142)	(7,142)
Release of negative goodwill	–	–	68,220	136,899	237,923
Amortisation of capital reserve	–	–	20,417	17,267	17,267
Warrant reserve realised on warrants expired	–	43,487	–	–	–
Share of results of associates	112,396	88,099	123,505	117,473	135,708
Share of results of jointly controlled entities	52,296	63,368	51,213	(22,730)	22,900
Profit (loss) before taxation	563,154	16,411	395,424	(41,193)	858,223
Taxation	(95,462)	(96,058)	(95,366)	(82,972)	(127,518)
Profit (loss) after taxation	467,692	(79,647)	300,058	(124,165)	730,705
Minority interests	(230,571)	(39,527)	(196,621)	(45,430)	(244,239)
Profit (loss) attributable to shareholders	237,121	(119,174)	103,437	(169,595)	486,466
Basic earnings (loss) per share	7.6¢	(3.5¢)	3.0¢	(5.0¢)	15.3¢

	At 31st December,				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities					
Total assets	9,633,927	9,790,876	12,848,540	10,601,116	11,693,463
Total liabilities	(2,660,156)	(2,849,868)	(4,127,031)	(3,021,926)	(4,433,591)
Minority interests	(2,965,232)	(2,628,352)	(4,447,482)	(3,589,897)	(3,103,967)
	4,008,539	4,312,656	4,274,027	3,989,293	4,155,905

Certain amounts for the year 2002 have been restated to reflect the adoption of SSAP 12 (Revised) "Income taxes".

Particulars of the major properties held by the subsidiaries and jointly controlled entities of the Group at 31st December, 2003 are set out below:

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion	Anticipated completion
Hong Kong						
Park Place 7 Tai Tam Reservoir Road Hong Kong	2056 ⁺	R	3,475	74.61	Existing	N/A
Allied Cargo Centre 150-164 Texaco Road Tsuen Wan, New Territories	2047	G	46,594	74.61	Existing	N/A
60 Plantation Road, The Peak, Hong Kong	2066	R	639	74.61	Existing	N/A
Orchid Court 38 Tung On Street Mongkok, Kowloon	2049	R C	1,011 201	74.61 74.61	Existing Existing	N/A N/A
The Redhill Peninsula 18 Pak Pat Shan Road Tai Tam, Hong Kong	2056 ⁺	R CP	596 79 ^{###}	74.61 74.61	Existing Existing (Phase IV)	N/A N/A
China Online Centre 333 Lockhart Road Wanchai, Hong Kong	2026 ⁺⁺	C	16,013	74.61	Existing	N/A
St. George Apartments 81 Waterloo Road, Ho Man Tin, Kowloon	2006 ⁺	R	9,767	74.61	Existing	N/A
Ibis North Point 138 Java Road North Point, Hong Kong	2008 ⁺	H	5,478	74.61	Existing	N/A
Extension of Ibis North Point 144 Java Road North Point, Hong Kong	2008 ⁺	H	1,318	74.61	Superstructure construction completed	2005
Century Court 239 Jaffe Road, Wanchai, Hong Kong	2027 ⁺⁺	R C	2,592 1,323	74.61 74.61	Existing Existing	N/A N/A

Particulars of Major Properties (Cont'd)

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion	Anticipated completion
Hong Kong (Cont'd)						
Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong	2047	C	20,321	37.31*	Existing	N/A
Novotel Century Hong Kong 238 Jaffe Road, Wanchai Hong Kong	2047	H	27,364	37.31*	Existing	N/A
Tregunter Tower 3 14 Tregunter Path, Hong Kong	2051	R	745	74.61	Existing	N/A
Admiralty Centre 18 Harcourt Road, Hong Kong	2053 ⁺	C	2,171 [#]	55.92	Existing	N/A
House C7 and C8 Hawaii Garden 18 Silver Cape Road Sai Kung, New Territories	2047	R	437	55.92	Existing	N/A
Wing On House 71 Des Voexu Road Central Hong Kong	2902	C	533 [#]	55.92	Existing	N/A
Outside Hong Kong						
FM2100 Road and Diamond Head Boulevard, Harris County, Texas, U.S.A.	Freehold	R	13,888,933 ^{##}	74.61	Pending development	N/A
Westin Philippine Plaza Hotel Cultural Centre of the Philippines Complex, Roxas Boulevard, Pasay City, Manila, Philippines	2014 ⁺⁺⁺	H	73,866	37.31*	Existing	N/A

Notes:

Types of properties: R – Residential, C – Commercial, G – Godown, H – Hotel, CP – Car Parking Spaces

* Indicates properties held through a jointly controlled entity

+ With option to renew for a further term of 75 years

++ With option to renew for a further term of 99 years

+++ With option to renew for a further term of 25 years

Saleable area

Site area

Number of car parking spaces