

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

1 BASIS OF PRESENTATION

(a) Statement of compliance

Although not required to do so under the Bye-Laws of the Company, the financial statements of the Company and the Group are prepared so as to comply with the disclosure requirements of the Hong Kong Companies Ordinance, generally accepted accounting principles in Hong Kong and all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 30 June each year. All material intra-group accounts and transactions are eliminated upon consolidation. The Group’s results include, in respect of any subsidiaries acquired during the year, their results attributable to the periods since the dates of acquisition and, in the case of subsidiaries disposed of during the year, their results attributable to the periods up to the dates of disposal.

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain financial instruments as explained in the accounting policies set out below.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

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

(ii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Revenue on the disposal of development properties is recognised in the financial statements using the percentage of completion method based on the stage of completion as certified by the architects or quantity surveyors. Provision for foreseeable loss is made in the year in which such loss is determined.

(iv) Revenue arising from the disposal of other properties is recognised when substantially all the conditions of sales have been met and the risks and rewards of ownership have been transferred to the buyers.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Revenue recognition (Cont'd)

- (v) Rental income from operating leases is recognised on a straight line basis over the period of the respective leases.
- (vi) Commission and brokerage income in respect of securities trading is recognised on a trade date basis when the relevant transactions are executed.
- (vii) *Insurance premiums*
Premiums are accounted for in the period in which the amount is determined, which is generally the period in which the risk commences.
- (viii) *Reinsurance treaty inward business*
Premiums and commission on inward treaty reinsurance business are accounted for on the basis of the latest advice from ceding companies or agents.

(b) Investments

(i) *Investment in securities*

Investments in equity and debt securities, except investments in subsidiaries, associates or jointly controlled entities, are accounted for as follows:

Investments in securities are classified as investment securities and other investments in securities, and are recognised as assets from the date on which the Group is bound by the contract which gives rise to them.

Transfer of a security between categories of investments is accounted for at fair value. The profit or loss arising from transfers between categories of investments is accounted for as if the investment had been sold and repurchased at the date of transfer.

Investment securities

Equity and debt securities which are intended to be held on a continuing basis for an identified long term purpose at the time of acquisition are stated in the balance sheet at cost less any provisions for diminution in value which is other than temporary.

The carrying amounts of investment securities are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Other investments in securities

Other investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

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2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Investments (Cont'd)

(ii) *Interest in subsidiaries*

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

Interest in subsidiaries is stated in the Company's balance sheet at cost less any impairment losses (see note 2(h)).

(iii) *Interest in associates and jointly controlled entities*

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

A jointly controlled entity is an entity which operates under a contractual agreement between the Group and other parties, where the contractual arrangement establishes that the Group and one of the other parties share joint control over the economic activity of the entity.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates and jointly controlled entities for the year. In the consolidated balance sheet, interests in associates and jointly controlled entities are accounted for under the equity method and are stated at cost, less amortised goodwill, and adjusted for the post acquisition change in the Group's share of the associates and jointly controlled entities' net assets.

Interests in associates and jointly controlled entities are stated in the Company's balance sheet at cost less any impairment losses (see note 2(h)).

(c) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(h)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 2(h)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Goodwill (Cont'd)

In respect of any negative goodwill not yet recognised in the consolidated income statement:

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

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

(d) Fixed assets and depreciation

(i) Premises are stated at cost less accumulated depreciation and impairment loss (see note 2(h)). Depreciation is calculated to write off the assets over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Land held on lease is depreciated over the unexpired terms of the leases on a straight line basis.
- Buildings and improvements thereto are depreciated at the higher of 2% per annum or over the unexpired terms of the leases on a straight line basis.

Furniture, fixtures and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)). Depreciation is calculated on a straight line basis to write off the assets over their estimated useful lives, taken as being between 3 to 10 years.

(ii) On disposal of fixed assets, the profit or loss is determined as the difference between the net sale proceeds and the carrying amount.

(e) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value. An internal valuation is done annually and an independent professional valuation is made at least once every three years. The net surplus or deficit on revaluation is taken to the investment property revaluation reserve except when the total of the reserve is not sufficient to cover a deficit on an aggregate basis, in which case the amount by which the deficit exceeds the amount in the investment property revaluation reserve is charged to the income statement.

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

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the income statement for the year.

(f) Properties held for sale

Properties held for sale are included in the balance sheet as current assets and are stated at the lower of cost and net realisable value. Cost includes land and building cost and other expenses incurred incidental to the acquisition of these properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

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2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Development properties

Development properties are stated at cost less any provisions for impairment in value (see note 2(h)) which is other than temporary as determined by the directors, plus, where appropriate, a portion of attributable profit less progress billings. Land, related acquisition expenses, development expenditure, interest and other related expenditure are capitalised as part of the cost of development properties.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- furniture, fixtures and equipment;
- properties (other than investment properties);
- investments in subsidiaries, associates and jointly controlled entities; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

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

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, except where the assets are carried at revalued amounts, in which case the reversal of impairment loss is treated as a revaluation movement.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Leased assets

(i) *Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(a)(v).

(ii) *Operating lease charges*

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

(j) Long term notes and bonds

Long term notes and bonds are stated at amortised cost. The difference between the initial cost and the maturity amount is amortised using the effective interest rate method over the repayment period.

(k) Cash equivalents

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

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Income tax (Cont'd)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

(m) Insurance funds

Insurance funds represent the estimated proportion of the net written premiums, after reinsurance and acquisition costs where applicable, which relates to periods of risk subsequent to the balance sheet date.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement. The results of foreign subsidiaries, associates and jointly controlled entities are translated into United States dollars at the average exchange rates for the year; balance sheet items are translated into United States dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as expenses in the income statement as incurred.
- (iii) The Group also contributed to retirement schemes of its overseas subsidiaries in accordance with their respective requirements and the contributions thereto are charged to the income statement for the year.
- (iv) When the Group grants employees options to acquire shares of the Company at nil or nominal consideration, no employee benefit cost or obligation is recognised at the date of grant.

(p) Borrowing costs

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

(q) Provisions and contingent liabilities

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

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

(r) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes or to hedge risk.

Transactions undertaken for dealing purposes are marked to market and the net present value of the gain or loss arising is recognised in the income statement as dealing profits or losses.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expenses arising therefrom is netted off against the related interest income or expenses on the on-balance sheet items these transactions are hedged against.

Unrealised gains on transactions which are marked to market are included in "Other assets" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Other payables and provisions".

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2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(s) Related parties

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

(t) Segment reporting

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process.

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

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

(i) Business segments

The Group comprises the following main business segments:

Treasury, fund and investment management	:	Provision of fund management services, treasury and investment management
Property development	:	Development of residential and commercial properties
Property investment	:	Holding properties for rental income
Securities, commodities and brokerage	:	Stock and commodity broking
Insurance	:	Insurance and reinsurance of all classes of general insurance risk

(ii) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

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3 TURNOVER

The principal activity of the Company is investment holding and those of its subsidiaries are set out on Note 16.

An analysis of the amount of each significant category of revenue recognised as turnover during the year is as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Income from sale of investments in securities	1,281,020	120,395
Income from sale of properties	164,519	190,193
Interest income	40,084	47,777
Dividend income from listed securities	17,084	8,389
Gross insurance premiums	13,294	13,898
Rental income from properties	9,882	13,338
Security commission and brokerage	7,262	4,252
Dividend income from unlisted securities	—	11,225
Other income	560	7,633
	1,533,705	417,100
	1,533,705	417,100

4 OTHER REVENUE AND NET INCOME

(a) Other revenue

	The Group	
	2004	2003
	\$'000	\$'000
Interest income from listed securities	549	1,287
Interest income from unlisted securities	2	146
Others	2,754	1,232
	3,305	2,665
	3,305	2,665

(b) Other net income

	The Group	
	2004	2003
	\$'000	\$'000
Net realised gains on other investments	5,398	68,200
Net exchange gains	34,102	38,569
Net (losses)/profits on disposal of fixed assets	(69)	94
Net unrealised gains/(losses) on other investments	16,976	(3,592)
Others	(3,871)	9,809
	52,536	113,080
	52,536	113,080

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5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at

	The Group	
	2004	2003
	\$'000	\$'000
<i>after charging:</i>		
Staff costs (including retirement scheme contributions of \$1,062,000 (2003: \$890,000))	19,973	20,591
Depreciation	2,359	2,823
Operating lease charges		
- properties	1,269	1,643
- others	8	8
Amortisation of goodwill included in share of profits less losses of associates	456	1,434
Auditors' remuneration	300	278
Donations	73	81
	<u>6,517</u>	<u>3,027</u>
<i>and crediting:</i>		
Amortisation of negative goodwill	6,517	3,027
Impairment loss write back on properties	10,687	11,449
	<u>17,204</u>	<u>14,476</u>
Gross rental income from investment properties	9,882	13,338
Less: direct outgoings	(1,614)	(1,233)
	<u>8,268</u>	<u>12,105</u>
Net rental income	8,268	12,105
Share of profits less losses of associates:		
- listed	46,357	41,689
- unlisted	1,288	(1,490)
	<u>47,645</u>	<u>40,199</u>

6 FINANCE COST

	The Group	
	2004	2003
	\$'000	\$'000
Interest on bank advances and other borrowings repayable within five years	16,262	21,527
Other borrowing costs	523	344
	<u>16,785</u>	<u>21,871</u>
Total borrowing costs	16,785	21,871
Less: borrowing costs capitalised into development properties (Note)	(12,884)	(16,008)
	<u>3,901</u>	<u>5,863</u>

Note: The borrowing costs have been capitalised at rates of 1.786% to 6.125% per annum (2003: 1.71% to 6.125%).

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7 TAXATION

(a) Taxation in the consolidated income statement represents:

	The Group	
	2004	2003
	\$'000	\$'000
		(restated)
Current tax - Provision for Hong Kong Profits Tax		
Tax for the year	2,990	7,564
Overprovision in respect of prior years	(9,961)	(28)
	(6,971)	7,536
Current tax - Overseas		
Tax for the year	755	9,515
(Over)/under-provision in respect of prior years	(848)	417
	(93)	9,932
Deferred tax		
Origination and reversal of temporary differences	(1,988)	(4,189)
Benefit of previously unrecognised tax losses now recognised	(384)	—
Effect of changes in tax rate on deferred tax balances at 1 July	—	101
Overprovision in respect of prior years	(35)	—
	(2,407)	(4,088)
Share of associates' taxation	7,107	15,436
	(2,364)	28,816

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

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7 TAXATION (Cont'd)

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

	2004		2003	
	\$'000	%	\$'000	%
Profit before tax	<u>329,867</u>		<u>183,387</u>	
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	65,139	19.7	28,209	15.4
Deferred tax benefit not recognised	1,479	0.4	3,910	2.1
Tax effect of non-deductible expenses	14,863	4.5	28,996	15.8
Tax effect of non-taxable revenue	(57,470)	(17.4)	(34,684)	(18.9)
Tax effect of unused tax losses not recognised	2,124	0.6	4,543	2.5
Tax effect of utilisation of tax losses not previously recognised	(2,786)	(0.8)	(329)	(0.2)
Reversal of temporary differences not accounted for in previous years	(8,840)	(2.7)	(2,480)	(1.4)
Effect on opening deferred tax balances resulting from the changes of tax rate during the year	(384)	(0.1)	50	—
(Over)/under-provision in prior years	(10,844)	(3.3)	389	0.2
Overprovision in prior years - associates	(5,418)	(1.6)	(1,172)	(0.6)
Others	(227)	—	1,384	0.8
Actual tax expense	<u>(2,364)</u>	<u>(0.7)</u>	<u>28,816</u>	<u>15.7</u>

(c) Taxation in the balance sheet represents:

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Hong Kong Profits Tax	3,205	10,647	27	9,888
Overseas taxation	<u>13,909</u>	<u>20,828</u>	<u>—</u>	<u>—</u>
Taxation payable	<u>17,114</u>	<u>31,475</u>	<u>27</u>	<u>9,888</u>
Amount of taxation payable expected to be settled after more than 1 year	<u>480</u>	<u>602</u>	<u>—</u>	<u>—</u>

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8 DIRECTORS' REMUNERATION

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

	The Group	
	2004	2003
	\$'000	\$'000
Fees	250	204
Salaries, allowances and benefits in kind	1,794	1,810
Discretionary bonuses	1,641	287
Pension contributions	71	87
	3,756	2,388
	3,756	2,388

Included in the above are the following emoluments paid to independent non-executive directors:

	The Group	
	2004	2003
	\$'000	\$'000
Fees	83	75
Salaries, allowances and benefits in kind	40	9
	123	84
	123	84

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Executive share option scheme" in the directors' report.

The number of directors whose remuneration falls within the following bands is:

	The Group	
\$	2004	2003
	Number of directors	Number of directors
0 - 150,000	7	6
150,001 - 200,000	—	1
200,001 - 250,000	1	—
450,001 - 500,000	1	1
550,001 - 600,000	—	1
600,001 - 700,000	1	—
950,001 - 1,000,000	—	1
2,200,001 - 2,300,000	1	—
	11	10
	11	10

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9 EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Among the five highest paid individuals of the Group, three (2003: three) are directors whose remuneration is disclosed in Note 8. The remuneration of the other two (2003: two) individuals is as follows:

	The Group	
	2004 \$'000	2003 \$'000
Salaries, allowances and benefits in kind	760	697
Discretionary bonuses	312	82
Pension contributions	50	33
	1,122	812
	1,122	812

The number of individuals whose remuneration falls within the following bands is:

\$	The Group	
	2004 Number of individuals	2003 Number of individuals
250,001 - 300,000	—	1
350,001 - 400,000	1	—
500,001 - 550,000	—	1
750,001 - 800,000	1	—
	2	2
	2	2

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$66,325,000 (2003: \$97,523,000) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

	The Group and the Company	
	2004 \$'000	2003 \$'000
2003: Final dividend paid of HK\$0.70 per share (2002: HK\$0.70 per share)	29,679	29,164
2004: Interim dividend paid of HK\$0.40 per share (2003: HK\$0.40 per share)	16,891	16,782
	46,570	45,946
2004: Proposed final dividend of HK\$2.60 per share (2003: HK\$0.70 per share)	109,684	29,373
	109,684	29,373

The proposed final dividend for the year ended 30 June 2004 of \$109,684,000 (2003: \$29,373,000) is calculated based on 329,051,373 ordinary shares (2003: 327,211,373 ordinary shares) in issue as at 30 June 2004.

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12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$312,805,000 (2003 (restated): \$157,193,000) and the weighted average number of 328,365,198 ordinary shares (2003: 325,839,510 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$312,781,000 (2003 (restated): \$157,173,000) and the weighted average number of 328,808,118 ordinary shares (2003: 327,660,400 ordinary shares) in issue during the year after adjusting for the effect of all dilutive potential ordinary shares.

(c) Reconciliations

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	328,365,198	325,839,510
Deemed issue of ordinary shares under executive share option scheme	442,920	1,820,890
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>328,808,118</u>	<u>327,660,400</u>

13 CHANGES IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 July 2003, in order to comply with SSAP 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax as set out in note 2(I). As a result of the adoption of this accounting policy, the Group's profit for the year has been increased by \$119,000 (2003: \$97,000) and the net assets as at the year end have been increased by \$1,063,000 (2003: \$944,000).

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

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14 SEGMENT INFORMATION

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

Business segments

Revenue and expenses

For the year ended 30 June 2004

	Treasury, fund and investment management \$'000	Property development \$'000	Property investment \$'000	Securities, commodities and brokerage \$'000	Insurance \$'000	Inter- segment elimination \$'000	Total \$'000
Turnover	1,337,095	164,519	10,545	8,048	13,498	—	1,533,705
Inter-segment turnover	17,449	—	587	104	134	(18,274)	—
	<u>1,354,544</u>	<u>164,519</u>	<u>11,132</u>	<u>8,152</u>	<u>13,632</u>	<u>(18,274)</u>	<u>1,533,705</u>
Contribution from operations	224,036	10,898	6,744	1,296	31	—	243,005
Unallocated income							8,454
Unallocated expenses							(15,960)
Operating profit before finance cost							235,499
Finance cost							(3,901)
Operating profit							231,598
Profit on disposal of subsidiaries							10,973
Profit on disposal of an associate							37,579
Impairment loss write back on properties	—	10,687	—	—	—	—	10,687
Impairment loss on investment securities	(23,879)	—	—	—	—	—	(23,879)
Surplus on revaluation of investment properties	—	—	13,074	—	—	—	13,074
Provision write back on amount due from a jointly controlled entity	—	1,100	—	—	—	—	1,100
Net profit on disposal of investment properties	—	—	1,090	—	—	—	1,090
Operating profit from ordinary activities							282,222
Share of profits less losses of associates	32,225	2,587	12,833	—	—	—	47,645
Profit from ordinary activities before taxation							329,867
Taxation							2,364
Profit after taxation							332,231
Minority interests							(19,426)
Profit attributable to shareholders							<u>312,805</u>

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14 SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Revenue and expenses (Cont'd)

For the year ended 30 June 2003

	Treasury, fund and investment management \$'000	Property development \$'000	Property investment \$'000	Securities, commodities and brokerage \$'000	Insurance \$'000	Inter- segment elimination \$'000	Total \$'000
Turnover	189,685	190,193	18,045	5,168	14,009	—	417,100
Inter-segment turnover	9,234	—	826	145	164	(10,369)	—
	<u>198,919</u>	<u>190,193</u>	<u>18,871</u>	<u>5,313</u>	<u>14,173</u>	<u>(10,369)</u>	<u>417,100</u>
Contribution from operations	170,038	12,674	12,067	(4,325)	1,976	—	192,430
Unallocated income							7,700
Unallocated expenses							(7,909)
Operating profit before finance cost							192,221
Finance cost							(5,863)
Operating profit							186,358
Profit on disposal of subsidiaries							18,013
Impairment loss write back/ (provided) on properties	(657)	13,055	—	—	(949)	—	11,449
Deficit on revaluation of investment properties	—	—	(74,531)	—	—	—	(74,531)
Provision write back on amount due from a jointly controlled entity	—	1,875	—	—	—	—	1,875
Operating profit from ordinary activities							143,164
Share of profits less losses of associates	37,524	(266)	2,941	—	—	—	40,199
Share of profits less losses of jointly controlled entities	24	—	—	—	—	—	24
Profit from ordinary activities before taxation							183,387
Taxation							(28,816)
Profit after taxation							154,571
Minority interests							2,622
Profit attributable to shareholders							<u>157,193</u>

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14 SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Assets and liabilities

	Treasury, fund and investment management \$'000	Property development \$'000	Property investment \$'000	Securities, commodities and brokerage \$'000	Insurance \$'000	Total \$'000
<i>As at 30 June 2004</i>						
Segment assets	3,625,430	608,041	249,732	22,025	25,793	4,531,021
Interest in associates	198,797	(55)	72,194	—	—	270,936
Interest in jointly controlled entities	245	(277)	—	—	—	(32)
Unallocated assets						56,532
Total assets						4,858,457
Segment liabilities	1,122	256,615	5,573	7,887	7,585	278,782
Unallocated liabilities						402,109
Total liabilities						680,891
<i>As at 30 June 2003</i>						
Segment assets	3,250,967	641,204	235,849	21,167	14,412	4,163,599
Interest in associates	218,735	29,267	166,138	—	—	414,140
Interest in jointly controlled entities	245	(4,586)	—	—	—	(4,341)
Unallocated assets						46,696
Total assets (restated)						4,620,094
Segment liabilities	17,325	326,249	5,039	8,553	9,914	367,080
Unallocated liabilities						336,493
Total liabilities (restated)						703,573

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14 SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Other information

	Treasury, fund and investment management \$'000	Property development \$'000	Property investment \$'000	Securities, commodities and brokerage \$'000	Insurance \$'000	Total \$'000
2004						
Capital expenditure incurred during the year	311	301	—	14	893	1,519
Depreciation and amortisation for the year	(3,628)	(868)	—	312	482	(3,702)
2003						
Capital expenditure incurred during the year	636	184	49	644	400	1,913
Depreciation and amortisation for the year	(119)	208	—	630	511	1,230

Geographical segments

	Turnover		Operating profit	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Hong Kong	1,357,606	196,739	190,387	133,974
Singapore	160,402	209,161	34,765	51,408
Asia (excluding Hong Kong and Singapore)	14,437	10,036	6,446	942
Others	1,260	1,164	—	34
	<u>1,533,705</u>	<u>417,100</u>	<u>231,598</u>	<u>186,358</u>
	Segment assets		Capital expenditure	
	2004 \$'000	2003 \$'000 (restated)	2004 \$'000	2003 \$'000
Hong Kong	3,528,498	3,235,561	948	1,517
Singapore	668,226	807,284	455	383
Asia (excluding Hong Kong and Singapore)	467,061	408,763	116	13
Others	194,672	168,486	—	—
	<u>4,858,457</u>	<u>4,620,094</u>	<u>1,519</u>	<u>1,913</u>

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15 FIXED ASSETS

	The Group			Total \$'000
	Investment properties \$'000	Leasehold premises \$'000	Furniture, fixtures and equipment \$'000	
<i>Cost or valuation:</i>				
As at 1 July 2003	215,480	23,624	10,298	249,402
Additions	—	740	779	1,519
Disposals	(2,459)	(265)	(1,412)	(4,136)
Surplus on revaluation	12,619	—	—	12,619
Exchange adjustments	4,269	(6)	65	4,328
As at 30 June 2004	<u>229,909</u>	<u>24,093</u>	<u>9,730</u>	<u>263,732</u>
<i>Representing:</i>				
Cost	—	24,093	9,730	33,823
Valuation - 30 June 2004	229,909	—	—	229,909
	<u>229,909</u>	<u>24,093</u>	<u>9,730</u>	<u>263,732</u>
<i>Accumulated depreciation:</i>				
As at 1 July 2003	—	9,758	6,747	16,505
Charge for the year	—	746	1,613	2,359
Written back on disposal	—	(251)	(1,099)	(1,350)
Exchange adjustments	—	(1)	44	43
As at 30 June 2004	<u>—</u>	<u>10,252</u>	<u>7,305</u>	<u>17,557</u>
<i>Net book value:</i>				
As at 30 June 2004	<u>229,909</u>	<u>13,841</u>	<u>2,425</u>	<u>246,175</u>
As at 30 June 2003	<u>215,480</u>	<u>13,866</u>	<u>3,551</u>	<u>232,897</u>

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15 FIXED ASSETS (Cont'd)

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

	The Group	
	2004	2003
	\$'000	\$'000
In Hong Kong:		
- Leasehold with over 50 years unexpired	18,385	12,869
- Leasehold with between 10 to 50 years unexpired	46,163	35,301
- Leasehold with less than 10 years unexpired	190	657
Outside Hong Kong:		
- Leasehold with over 50 years unexpired	179,012	180,519
	243,750	229,346
	243,750	229,346

- (b) The Group's investment properties are located in Hong Kong and Singapore. The properties which are located in Singapore were valued on an open market basis as at 30 June 2004 by DTZ Debenham Tie Leung (SEA) Pte Ltd, an independent firm of professional valuers, who are members of the Singapore Institute of Surveyors and Valuers. The properties in Hong Kong were revalued on an open market basis as at 30 June 2004 by CB Richard Ellis Limited, an independent firm of professional valuers, who are members of the Hong Kong Institute of Surveyors.
- (c) Certain of the Group's investment properties with a book value of \$71 million (2003: \$74 million) were pledged to banks to secure banking facilities granted to the Group.
- (d) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals. The gross carrying amounts of investment properties of the Group held for use in operating leases were \$229,909,000 (2003: \$215,480,000).

16 INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	\$'000	\$'000
Unlisted shares, at cost	22,502	22,502
Amounts due from subsidiaries	959,578	1,084,452
	982,080	1,106,954
	982,080	1,106,954

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(a) Details of the principal subsidiaries incorporated and operating in Hong Kong are as follows:

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
Asia Fountain Investment Company Limited	2 shares of HK\$10 each	—	100	Investment trading
Dao Heng Commodities Limited	100,000 shares of HK\$100 each	—	100	Commodities broking
Dao Heng Enterprises Limited	23,000,000 shares of HK\$1 each	100	—	Investment holding
Dao Heng Insurance Co., Limited	500,000 shares of HK\$100 each	—	100	Insurance
Dao Heng Securities Limited	120,000 shares of HK\$100 each	—	100	Stock broking and securities trading
Guoco Management Company Limited	2 shares of HK\$1 each	100	—	Provision of general management services
Guoco Investments (China) Limited	10,000,000 shares of HK\$1 each	100	—	Investment holding
Guo Xiang Property Co., Limited	10,000 shares of HK\$1 each	—	61	Investment holding and agency services

(b) Details of the principal subsidiaries incorporated and operating in Singapore are as follows:

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
A-Z Holdings Pte Ltd	27,000,000 shares of S\$1 each	—	61	Investment holding and property investment
Branmil Holdings Pte Ltd	2 shares of S\$1 each	—	61	Investment holding
Century Square Development Ltd	97,060,000 shares of S\$1 each	—	61	Property investment
Chelford Pte Ltd	2 shares of S\$1 each	—	61	Investment holding

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(b) Details of the principal subsidiaries incorporated and operating in Singapore are as follows (Cont'd):

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
Cheltenham Investments Pte Ltd	500,000 shares of S\$1 each	—	61	Investment holding
Chiltern Park Development Pte Ltd	28,300,000 shares of S\$1 each	—	61	Property development
Da Zhong Investment Pte Ltd	4,000,000 shares of S\$1 each	—	61	Investment holding
First Capital Corporations Realty Pte. Ltd.	2 shares of S\$1 each	—	61	Investment holding
Elias Development Pte Ltd	7,500,000 shares of S\$1 each	—	61	Property development
Everian Holdings Pte Ltd	32,000,000 shares of S\$1 each	—	61	Property development
First Bedok Land Pte Ltd	72,000,000 shares of S\$1 each	—	61	Property development
First Bukit Panjang Land Pte Ltd	71,190,000 shares of S\$1 each	—	61	Property development
First Capital Asia Pte Ltd	19,000,000 shares of S\$1 each	—	61	Investment holding
First Capital Asia Land Pte Ltd	88,000,000 shares of S\$1 each	—	61	Property investment
GuocoLand Limited	675,523,653 shares of S\$1 each	—	61	Investment holding
First Capital Development Pte Ltd	1,000,000 shares of S\$1 each	—	61	Property investment
First Cavendish Development Pte Ltd	23,400,000 shares of S\$1 each	—	61	Property development
First Capital Hotels Pte Ltd	2 shares of S\$1 each	—	61	Investment holding
First Capital Investment Ltd	10,000,000 shares of S\$1 each	—	61	Investment trading
GLL Land Pte. Ltd. (formerly known as First Capital Land Pte Ltd)	70,000,000 shares of S\$1 each	—	61	Property investment

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(b) Details of the principal subsidiaries incorporated and operating in Singapore are as follows (Cont'd):

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
GuocoLand Management Pte. Ltd. (formerly known as First Capital Management Pte Ltd)	500,000 shares of S\$1 each	—	61	Provision of management services
First Capital Properties Pte Ltd	10,000,000 shares of S\$1 each	—	61	Property investment
First Capital Assets Pte Ltd	15,000,000 shares of S\$1 each	—	61	Investment holding
First Capital Holdings (HK) Pte Ltd	4,500,000 shares of S\$1 each	—	61	Investment holding
First Capital Holdings (Thailand) Pte Ltd	2 shares of S\$1 each	—	61	Investment holding
Guoco Investment Services Pte Ltd	50,000 shares of S\$1 each	100	—	Provision of investment advisory services
Guoco Property Management Pte Ltd	2 shares of S\$1 each	—	61	Property management
Pemberton Limited	200 shares of S\$1 each	—	61	Investment holding
GuocoLand (Singapore) Pte. Ltd.	1 share of S\$1 each	—	61	Investment holding
GLL Holdings (UK) Pte. Ltd. (formerly known as First Capital Holdings (U.K.) Pte Ltd)	9,000,000 shares of S\$1 each	—	61	Investment holding
First Capital Holdings Pte Ltd	2 shares of S\$1 each	—	61	Investment holding and trading
GuocoLand Property Management Pte. Ltd. (formerly known as First Capital Property Management Pte Ltd)	2 shares of S\$1 each	—	61	Property management, marketing and maintenance services
First Capital Realty Pte Ltd	30,000,000 shares of S\$1 each	—	61	Property development

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(b) Details of the principal subsidiaries incorporated and operating in Singapore are as follows (Cont'd):

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
First Changi Development Pte Ltd	44,446,750 shares of S\$1 each	—	55	Property development
First Coventry Development Pte Ltd	17,830,000 shares of S\$1 each	—	61	Property development
FCC Equities Pte Ltd	4,500,000 shares of S\$1 each	—	61	Investment holding and trading
First Garden Development Pte Ltd	80,000,000 shares of S\$1 each	—	55	Property development
Fasidon Holdings Pte Ltd	77,112,700 shares of S\$1 each	—	61	Property development
FCC Holdings Pte Ltd	2 shares of S\$1 each	—	61	Investment holding
Fica Nominees Pte Ltd	2 shares of S\$1 each	—	61	Investment holding and provision of nominee services
First Mayer Development Pte Ltd	118,930,000 shares of S\$1 each	—	61	Property development
First Loyang Land Pte Ltd	55,834,697 shares of S\$1 each	—	61	Property development
First Tanglin Land Pte Ltd	25,628,700 shares of S\$1 each	—	61	Property development
Guoco Assets Pte Ltd	2 shares of S\$1 each	100	—	Investment holding
Guoco Investment Pte Ltd	20,000,000 shares of S\$1 each	100	—	Investment holding
Hedover Holdings Pte Ltd	5,000,000 shares of S\$1 each	—	61	Property investment
Harbour View Development Pte Ltd	13,100,000 shares of S\$1 each	—	61	Property development
Leonie Land Pte Ltd	19,310,000 shares of S\$1 each	—	61	Property development

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(b) Details of the principal subsidiaries incorporated and operating in Singapore are as follows (Cont'd):

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
Melville Park Development Pte Ltd	72,300,000 shares of S\$1 each	—	49	Property development
My Home Online Pte Ltd	10 shares of S\$1 each	—	61	Provider of internet commerce services
Rivaldo Investments Pte Ltd	2 shares of S\$1 each	—	61	Investment holding and trading
Sanctuary Land Pte Ltd	60,000,000 shares of S\$1 each	—	55	Property development
Tanamera Development Pte Ltd	20,500,000 shares of S\$1 each	—	61	Property development
Winterhall Pte Ltd	2 shares of S\$1 each	—	61	Investment holding and trading
FCC Net Pte Ltd	2 shares of S\$1 each	—	61	Investment holding
GLL (Malaysia) Pte. Ltd. (formerly known as Lilleham Investments Pte Ltd)	58,000,000 shares of S\$1 each	—	61	Investment holding and trading

(c) Details of the principal subsidiaries incorporated and operating in other countries are as follows:

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
			Company	Group	
Beijing Minghua Property Development Co., Ltd (Note(i))	The People's Republic of China	RMB200,000,000 (Note (ii))	—	46	Property development
DH Capital Management (BVI) Limited (Note (iii))	British Virgin Islands	2 shares of US\$1 each	100	—	Investment holding
Dynamic Source Group Limited (Note (iii))	British Virgin Islands	1 share of US\$1 each	100	—	Investment holding

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(c) Details of the principal subsidiaries incorporated and operating in other countries are as follows (Cont'd):

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
			Company	Group	
Guoco Assets (Philippines), Inc.	The Philippines	1,210,000 shares of P100 each	—	100	Investment holding
Guoco Assets Sdn. Bhd.	Malaysia	2 shares of M\$1 each	100	—	Investment holding
Guoco Properties Limited	Bermuda	20,000,000 shares of US\$1 each	—	61	Investment holding
Guoco Securities (Bermuda) Limited (Note (iii))	Bermuda	120,000 shares of US\$0.10 each	100	—	Investment holding
GL Holdings Limited (Note (iii))	British Virgin Islands	1 share of US\$1 each	100	—	Investment holding
Hong Way Holdings, Inc.	The Philippines	100,000 shares of P1 each	60	40	Investment holding
Reunification Properties Limited (Note (iii))	British Virgin Islands	1 share of US\$1 each	—	100	Investment holding
Shanghai Xin Hao Zhong Property Development Co., Ltd (Note (i))	The People's Republic of China	RMB165,729,917 (Note (ii))	—	60	Property development
Scorewell Corporation (Note (iii))	British Virgin Islands	1 share of US\$1 each	—	100	Investment holding
W.C.H. Limited (Notes (iii) and (iv))	British Virgin Islands	500,000 shares of HK\$1 each	—	100	Property investment
Wanchai Property Investment Limited (Notes (iii) and (iv))	British Virgin Islands	500,000 shares of HK\$1 each	—	100	Property investment
Supreme Goal Investments Limited (Note (iii))	British Virgin Islands	1 share of US\$1 each	—	100	Property investment

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16 INTEREST IN SUBSIDIARIES (Cont'd)

(c) Details of the principal subsidiaries incorporated and operating in other countries are as follows (Cont'd):

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
			Company	Group	
Capital Intelligence Limited (Note (iii))	Cayman Islands	1 share of US\$1 each	100	—	Investment trading
Checkenden Limited	British Virgin Islands	2 shares of US\$1 each	—	61	Investment holding
First Capital Assets (BVI) Ltd	British Virgin Islands	2 shares of US\$1 each	—	61	Investment holding
Zeltand Holdings Limited	British Virgin Islands	10 shares of US\$1 each	—	61	Investment holding

Notes:

- (i) These companies have a financial year end of 31 December.
- (ii) These comprise capital contribution to the companies. These companies have a defined period of existence.
- (iii) These companies are operating in Hong Kong.
- (iv) These companies have issued and paid up preference share capital of 4,500,000 shares of HK\$1 each.

17 INTEREST IN ASSOCIATES

	The Group	
	2004 \$'000	2003 \$'000
Unlisted shares, at cost	—	—
Share of net assets		
- Listed shares, overseas	295,329	405,019
- Unlisted	14,411	(321)
Goodwill	(23,875)	12,450
Amounts due from associates	21,042	59,806
	<hr/>	<hr/>
	306,907	476,954
Less: Impairment loss	(37,462)	(68,051)
	<hr/>	<hr/>
	269,445	408,903
	<hr/> <hr/>	<hr/> <hr/>

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

17 INTEREST IN ASSOCIATES (Cont'd)

Details of the principal associates are as follows:

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the Group	Principal activities
Crawfom Pte Ltd	Singapore	1,000,000 shares of S\$1 each	25	Property development
First Capital Property Ventures Pte Ltd	Singapore	100 shares of S\$1 each	21	Investment holding
Guoman Hotel & Resort Holdings Sdn Bhd	Malaysia	277,000,000 shares of M\$1 each	18	Investment holding
Hong Leong Credit Berhad	Malaysia	1,040,722,242 shares of M\$1 each	26	Financial services and property development
Hong Leong Properties Berhad	Malaysia	700,458,418 shares of M\$0.5 each	26	Investment holding
Razgrad Pte Ltd	Singapore	1,000,000 shares of S\$1 each	25	Property development
Stockton Investments Pte Ltd	Singapore	10,000 shares of S\$1 each	23	Investment holding
Tiara Investment Holdings Limited	Mauritius	6,500,000 shares of US\$1 each	25	Investment holding

18 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2004	2003
	\$'000	\$'000
Share of net assets - unlisted	(1,121)	(1,153)
Amounts due from jointly controlled entities	70,523	67,346
	69,402	66,193
Less: Impairment loss	(69,434)	(70,534)
	(32)	(4,341)

NOTES ON THE FINANCIAL STATEMENTS

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18 INTEREST IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Details of jointly controlled entities are as follows:

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the Group	Principal activities
Bushell Limited	Hong Kong	2 shares of HK\$1 each	50	Property development
Hillfield Trading Limited (Note)	British Virgin Islands	2 shares of US\$1 each	50	Investment holding
Regal Trophy Limited (Note)	British Virgin Islands	20 shares of US\$1 each	25	Investment holding
World Glory Properties Limited	Hong Kong	2 shares of HK\$1 each	25	Property development

Note: These companies are operating in Hong Kong.

19 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Investment securities				
<i>Equity securities</i>				
- Listed outside Hong Kong	72,524	83,443	—	—
- Unlisted	3,493	5,659	—	—
	<u>76,017</u>	<u>89,102</u>	<u>—</u>	<u>—</u>
<i>Club and other debentures</i>	487	487	203	203
	<u>76,504</u>	<u>89,589</u>	<u>203</u>	<u>203</u>
Market value of listed equity securities	<u>72,159</u>	<u>68,798</u>	<u>—</u>	<u>—</u>

Certain listed investment securities with total carrying value of \$56.4 million (2003: \$76.2 million) were pledged with a bank to secure short-term bank loan facilities.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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20 GOODWILL

	The Group
	Negative goodwill
	\$'000
<i>Cost:</i>	
At 1 July 2003	(13,357)
Addition through increase in shareholding of a subsidiary	(10,975)
	<hr/>
At 30 June 2004	(24,332)
	<hr style="border-top: 1px dashed black;"/>
<i>Accumulated amortisation:</i>	
At 1 July 2003	(3,108)
Amortisation for the year	(6,517)
	<hr/>
At 30 June 2004	(9,625)
	<hr style="border-top: 1px dashed black;"/>
<i>Carrying amount:</i>	
At 30 June 2004	(14,707)
	<hr style="border-top: 3px double black;"/>
At 30 June 2003	(10,249)
	<hr style="border-top: 3px double black;"/>

Negative goodwill is recognised as income on a straight-line basis over 3 years. The amortisation of negative goodwill for the year is included in "administrative and other operating expenses" in the consolidated income statement.

21 DEVELOPMENT PROPERTIES

	The Group	
	2004	2003
	\$'000	\$'000
Cost as at 30 June	943,640	842,583
Less: Attributable loss	(40,295)	(32,376)
Less: Impairment loss	(89,228)	(113,735)
Less: Progress instalments received and receivable	(371,018)	(184,183)
	<hr/>	<hr/>
	443,099	512,289
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The amount of development properties expected to be recovered after more than one year is \$235.2 million (2003: \$315.5 million).

The carrying amounts of development properties were written down based on their estimated selling prices.

Certain of the Group's development properties with an original book value of \$370.4 million (2003: \$477.7 million) are under legal mortgages with banks.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

22 PROPERTIES HELD FOR SALE

	The Group	
	2004	2003
	\$'000	\$'000
As at 1 July	60,941	66,394
Disposals	(1,692)	(5,821)
	<hr/>	<hr/>
	59,249	60,573
Add: Write back for foreseeable loss	117	368
	<hr/>	<hr/>
As at 30 June	<u>59,366</u>	<u>60,941</u>

23 OTHER ASSETS

	The Group		The Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Accrued interest	2,788	2,361	2,390	2,123
Other accounts	234,691	59,885	39	51
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>237,479</u>	<u>62,246</u>	<u>2,429</u>	<u>2,174</u>

Included in the Group's other assets are amounts of \$10.7 million (2003: \$11.3 million) which are expected to be recovered after more than one year.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

24 OTHER INVESTMENTS IN SECURITIES

	The Group	
	2004 \$'000	2003 \$'000
<i>Debt securities</i>		
Listed		
- In Hong Kong	558	608
- Outside Hong Kong	2,595	27,637
	<u>3,153</u>	<u>28,245</u>
<i>Equity securities</i>		
Listed		
- In Hong Kong	65,911	37,268
- Outside Hong Kong	547,918	216,663
	<u>613,829</u>	<u>253,931</u>
Unlisted	—	34
	<u>613,829</u>	<u>253,965</u>
<i>Unit trust</i>		
Unlisted	26,367	51,518
	<u>643,349</u>	<u>333,728</u>
Market value of other listed investments in securities		
- Debt securities	3,153	28,245
- Equity securities	613,829	253,931
	<u>616,982</u>	<u>282,176</u>

25 CASH AND SHORT TERM FUNDS

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deposits with banks	2,822,971	2,903,206	2,693,265	2,520,675
Cash at bank and in hand	73,683	29,746	5,661	5,598
Cash and cash equivalents in the balance sheet and cash flow statement	<u>2,896,654</u>	<u>2,932,952</u>	<u>2,698,926</u>	<u>2,526,273</u>

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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26 OTHER PAYABLES AND PROVISIONS

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Other payables and provisions	73,944	60,059	1,908	7,333
Amount due to a fellow subsidiary	9,355	—	9,355	—
Amounts due to associates	1	38	—	—
	<u>83,300</u>	<u>60,097</u>	<u>11,263</u>	<u>7,333</u>

Included in other payables of the Group and the Company are amounts of \$2.8 million (2003: \$5.3 million) and \$1.4 million (2003: \$1.4 million) respectively which are expected to be settled after more than one year.

27 CURRENT PORTION OF BANK LOANS AND OTHER BORROWINGS

At 30 June 2004, the current portion of bank loans and other borrowings are as follows:

	The Group	
	2004 \$'000	2003 \$'000
Bank loans		
- Secured (Note)	120,252	259,028
- Unsecured	118,298	61,966
	<u>238,550</u>	<u>320,994</u>
Unsecured medium term notes repayable within 1 year	46,453	62,420
	<u>285,003</u>	<u>383,414</u>

Note: The bank loans are secured by the following:

- legal mortgages on investment properties (Note 15);
- legal mortgages on development properties (Note 21); and
- certain listed investment securities (Note 19).

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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28 NON-CURRENT PORTION OF BANK LOANS AND OTHER BORROWINGS

	The Group	
	2004 \$'000	2003 \$'000
Bank loans		
- Secured	172,941	113,080
- Unsecured	—	41,724
	<u>172,941</u>	<u>154,804</u>
Unsecured medium term notes	111,997	61,071
	<u>284,938</u>	<u>215,875</u>

Note: The bank loans are secured by the following:

- legal mortgages on investment properties (Note 15);
- legal mortgages on development properties (Note 21); and
- certain listed investment securities (Note 19).

The Group's bank loans and other borrowings were repayable as follows:

	The Group					
	2004			2003		
	Bank loans \$'000	Other borrowings \$'000	Total \$'000	Bank loans \$'000	Other borrowings \$'000	Total \$'000
On demand or within 1 year	238,550	46,453	285,003	320,994	62,420	383,414
After 1 year but within 2 years	89,873	11,593	101,466	54,440	45,318	99,758
After 2 years but within 5 years	83,068	100,404	183,472	100,364	15,753	116,117
	<u>172,941</u>	<u>111,997</u>	<u>284,938</u>	<u>154,804</u>	<u>61,071</u>	<u>215,875</u>
	<u>411,491</u>	<u>158,450</u>	<u>569,941</u>	<u>475,798</u>	<u>123,491</u>	<u>599,289</u>

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

29 DEFERRED TAXATION

(a) Deferred tax assets and liabilities recognised:

The Group

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

Deferred tax arising from:	Depreciation	Revaluation	Timing	Revaluation	General	Tax losses	Others	Total
	allowance in excess of related depreciation		difference on development properties		of securities			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2003								
- as previously reported	—	1,930	6,889	—	—	—	92	8,911
- prior period adjustments	195	—	—	—	(14)	(1,125)	—	(944)
- as restated	195	1,930	6,889	—	(14)	(1,125)	92	7,967
Charged/(credited) to								
consolidated income statement	(161)	(175)	(2,078)	—	—	42	(35)	(2,407)
Others	(38)	—	—	—	—	38	—	—
	(4)	1,755	4,811	—	(14)	(1,045)	57	5,560
Exchange adjustments	1	47	61	—	—	(1)	2	110
As at 30 June 2004	(3)	1,802	4,872	—	(14)	(1,046)	59	5,670
As at 1 July 2002								
- as previously reported	—	1,924	4,748	3,601	—	—	2,599	12,872
- prior period adjustments	341	—	—	—	(11)	(1,177)	—	(847)
- as restated	341	1,924	4,748	3,601	(11)	(1,177)	2,599	12,025
Charged/(credited) to								
consolidated income statement	(147)	—	2,141	(3,625)	(2)	52	(2,507)	(4,088)
	194	1,924	6,889	(24)	(13)	(1,125)	92	7,937
Exchange adjustments	1	6	—	24	(1)	—	—	30
As at 30 June 2003 (restated)	195	1,930	6,889	—	(14)	(1,125)	92	7,967
						2004		2003
						\$'000		\$'000
Net deferred tax asset recognised on the balance sheet						(1,125)		(1,139)
Net deferred tax liability recognised on the balance sheet						6,795		9,106
						5,670		7,967

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

29 DEFERRED TAXATION (Cont'd)

(b) Deferred tax assets unrecognised:

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

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deductible temporary differences	174,527	204,066	—	—
Tax losses	135,183	153,178	327	327
	<u>309,710</u>	<u>357,244</u>	<u>327</u>	<u>327</u>

The deductible temporary differences and tax losses do not expire under current tax legislation.

30 MINORITY INTERESTS

Minority interests include the interests of preference shareholders in subsidiaries of \$1,226,000 (2003: \$12,056,000).

31 SHARE CAPITAL

	The Group and the Company			
	2004 No. of shares '000	2004 \$'000	2003 No. of shares '000	2003 \$'000
<i>Authorised:</i>				
Ordinary shares of US\$0.50 each	<u>1,000,000</u>	<u>500,000</u>	<u>1,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>				
As at 1 July	327,211	163,606	324,081	162,041
Shares issued under executive share option scheme	<u>1,840</u>	<u>920</u>	<u>3,130</u>	<u>1,565</u>
As at 30 June	<u>329,051</u>	<u>164,526</u>	<u>327,211</u>	<u>163,606</u>

During the year, 1,840,000 (2003: 3,130,000 share options) share options were exercised to subscribe for 1,840,000 shares (2003: 3,130,000 shares) in the Company at a consideration net of charges of \$4,818,000 (2003: \$8,160,000) of which \$920,000 (2003: \$1,565,000) was credited to share capital and the balance of \$3,898,000 (2003: \$6,595,000) was credited to the share premium account.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

32 RESERVES

(a) The Group

	Share premium \$'000	Capital and other reserves \$'000	Contributed surplus \$'000	Exchange translation reserve \$'000	Retained profits \$'000	Total \$'000
At 1 July 2003						
- as previously reported	6,595	78,771	3,978	14,089	3,434,518	3,537,951
- prior period adjustment arising from change in accounting policy for deferred tax (Note 13)	—	—	—	—	944	944
- as restated	6,595	78,771	3,978	14,089	3,435,462	3,538,895
Shares issued under executive share option scheme	3,898	—	—	—	—	3,898
Transfer between reserves	—	3,755	—	—	(3,755)	—
Share of subsidiaries' and associates' capital reserves movement	—	(26,870)	—	—	(3,022)	(29,892)
Exchange differences on translation of the financial statements of foreign subsidiaries and associates	—	382	—	(10,439)	—	(10,057)
Retained profit for the year	—	—	—	—	266,235	266,235
At 30 June 2004	<u>10,493</u>	<u>56,038</u>	<u>3,978</u>	<u>3,650</u>	<u>3,694,920</u>	<u>3,769,079</u>
Retained in:						
- Company and subsidiaries						3,690,237
- Associates						94,544
- Jointly controlled entities						(15,702)
						<u>3,769,079</u>

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

32 RESERVES (Cont'd)

(a) The Group (Cont'd)

	Share premium \$'000	Capital and other reserves \$'000	Contributed surplus \$'000	Exchange translation reserve \$'000	Retained profits \$'000	Total \$'000
At 1 July 2002						
- as previously reported	—	58,837	3,978	9,736	3,343,138	3,415,689
- prior period adjustment arising from change in accounting policy for deferred tax (Note 13)	—	—	—	—	847	847
- as restated	—	58,837	3,978	9,736	3,343,985	3,416,536
Shares issued under executive share option scheme	6,595	—	—	—	—	6,595
Transfer between reserves	—	19,770	—	—	(19,770)	—
Share of subsidiaries' and associates' capital reserves movement	—	109	—	—	—	109
Exchange differences on translation of the financial statements of foreign subsidiaries and associates	—	55	—	4,353	—	4,408
Retained profit for the year	—	—	—	—	111,247	111,247
At 30 June 2003	6,595	78,771	3,978	14,089	3,435,462	3,538,895
Retained in:						
- Company and subsidiaries						3,443,094
- Associates						111,503
- Jointly controlled entities						(15,702)
						3,538,895

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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32 RESERVES (Con'd)

(b) The Company

	Share premium \$'000	Capital and other reserves \$'000	Contributed surplus \$'000	Exchange translation reserve \$'000	Retained profits \$'000	Total \$'000
At 1 July 2003	6,595	—	—	2,717	3,172,293	3,181,605
Shares issued under executive share option scheme	3,898	—	—	—	—	3,898
Exchange differences on translation of net investments in foreign subsidiaries and associates	—	—	—	3,416	—	3,416
Retained profit for the year	—	—	—	—	19,755	19,755
At 30 June 2004	<u>10,493</u>	<u>—</u>	<u>—</u>	<u>6,133</u>	<u>3,192,048</u>	<u>3,208,674</u>
At 1 July 2002	—	—	—	2,320	3,120,716	3,123,036
Shares issued under executive share option scheme	6,595	—	—	—	—	6,595
Exchange differences on translation of net investments in foreign subsidiaries and associates	—	—	—	397	—	397
Retained profit for the year	—	—	—	—	51,577	51,577
At 30 June 2003	<u>6,595</u>	<u>—</u>	<u>—</u>	<u>2,717</u>	<u>3,172,293</u>	<u>3,181,605</u>

Notes:

- (i) The contributed surplus is governed by Section 54 of the Companies Act 1981 of Bermuda.

The contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

- (ii) The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

- (iii) The capital and other reserves and the exchange translation reserve have been set up and will be dealt with in accordance with the Group's accounting policies.

- (iv) Distributable reserves of the Company as at 30 June 2004 amounted to \$3,198,181,000 (2003: \$3,175,010,000).

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries in 2003

	The Group
	2003
	\$'000
Net assets acquired:	
Other assets	1,941
Cash and short term funds	3,006
Other payables and provisions	(479)
Taxation	(1,203)
Minority interests	2,000
Exchange translation reserve	16
	<hr/>
	5,281
Negative goodwill arising on acquisition	(3,770)
	<hr/>
Total consideration	1,511
	<hr/> <hr/>
Satisfied by:	
Cash consideration	1,511
	<hr/> <hr/>

(b) Analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2003
	\$'000
Cash consideration	(1,511)
Cash at bank and in hand acquired	3,006
	<hr/>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	1,495
	<hr/> <hr/>

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
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33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Disposal of subsidiaries

	The Group	
	2004	2003
	\$'000	\$'000
Net assets disposed:		
Fixed assets	135	93
Development properties	—	29,891
Other assets	(2,476)	4,553
Cash and short term funds	1,564	43,547
Other payables and provisions	123	(16,296)
Taxation	—	(347)
Minority interests	—	(723)
Exchange translation reserve	13	(48)
Capital and other reserve	—	128
	<u>(641)</u>	<u>60,798</u>
Profit on disposal of subsidiaries	10,973	18,013
	<u>10,332</u>	<u>78,811</u>
Satisfied by:		
Cash received	<u>10,332</u>	<u>78,811</u>

(d) Analysis on net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	The Group	
	2004	2003
	\$'000	\$'000
Cash consideration received	10,332	78,811
Cash at bank and in hand disposed	(1,564)	(43,547)
	<u>8,768</u>	<u>35,264</u>

34 STAFF RETIREMENT SCHEME

The Company and its subsidiaries in Hong Kong operates a Mandatory Provident Fund Scheme ("MPF Scheme") which has been established under the Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance in December 2000. The MPF Scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the Group's contribution is 10 percent or 5 percent of employees' monthly salaries and is expensed as incurred.

A subsidiary in Singapore operates a Central Provident Fund Scheme ("CPF Scheme") which is a defined contribution scheme. Under this CPF Scheme, the subsidiary's contribution is 3.5 percent to 13 percent of employees' monthly salaries and is expensed as incurred.

NOTES ON THE FINANCIAL STATEMENTS

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35 EQUITY COMPENSATION BENEFITS

The Company adopted an executive share option scheme (“ESOS”) on 30 July 1991 to provide eligible employees including directors of the Company or any full-time employees in the services of the Company or a subsidiary of the Group with the opportunity to participate in the growth of the Company thereby achieving the purpose of attracting and motivating the Group’s high calibre and eligible employees. Pursuant to the terms of the ESOS, the directors of the Company might, subject to such conditions as they may think fit, offer to grant options to any eligible employees to subscribe for ordinary shares of US\$0.50 each in the capital of the Company.

The exercise price per share would not be less than 80% of the average of the last dealt prices of the shares on the Stock Exchange on the five business days immediately preceding the date of offer of such share options or the nominal value of the shares, whichever was higher. A nominal consideration of HK\$1 was payable on the acceptance of the share option within 21 days inclusive of and from the date of making such offer. Options could be exercised from the date of grant and ending on the tenth anniversary of the date on which the option was granted.

(a) Movements in share options

	2004 Number	2003 Number
At 1 July	1,840,000	5,090,000
Exercised	(1,840,000)	(3,130,000)
Lapsed	—	(120,000)
At 30 June	<u>—</u>	<u>1,840,000</u>
Options vested at 30 June	<u>—</u>	<u>1,840,000</u>

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2004 Number	2003 Number
30 July 1991	12 November 1999 to 12 February 2004	HK\$20.33	<u>—</u>	<u>1,840,000</u>

(c) No share option was granted during the year.

NOTES ON THE FINANCIAL STATEMENTS

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(Expressed in United States dollars)

35 EQUITY COMPENSATION BENEFITS (Cont'd)

(d) Details of share options exercised during the year

Exercise date	Exercise price	Market value per share on exercise date	Proceeds received \$'000	Number
13 November 2003	HK\$20.33	HK\$55.25	4,661	1,780,000
28 November 2003	HK\$20.33	HK\$54.75	157	60,000
			<u>4,818</u>	<u>1,840,000</u>

A new share option scheme (the "New Scheme") was adopted by the Company on 29 November 2001 for the purpose of providing any employee or director of the Company or any of its subsidiaries or associated companies (the "Eligible Employee") the opportunity of participating in the growth and success of the Group.

The option price per share payable upon exercise of any share option will be determined by the directors upon the grant of the share option. It will not be less than the greatest of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such a share option; (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the day of offer of such a share option; and (c) the nominal value of a share.

A nominal consideration of HK\$1 is payable on acceptance of the share option within 21 days inclusive of, and from the date of making such offer. The exercise period of the share option shall fall within the period from the date of grant and ending on the tenth anniversary of the date of grant in respect of such offer. No share option may be granted more than ten years after 29 November 2001, the date on which the New Scheme was adopted by the Company.

No option was granted to any Eligible Employee pursuant to the New Scheme during the year.

On 16 December 2002, the Company adopted a share option plan (the "Share Option Plan") for the purpose of motivating the employees and directors of the Group companies and the employees of associated companies (the "Participants") and allowing them to participate in the growth of the Group through the grant of options over existing shares.

The exercise price of an option for the purchase of share will not be less than the greatest of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such a share option; (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the day of offer of such a share option, which must be a business day; and (c) the nominal value of a share.

A nominal consideration of HK\$1 is payable on acceptance of the share option within 21 days from the date of making such offer. The exercise period of the share option shall fall within the period from the date of grant and ending on the tenth anniversary of the date of grant of such option. No share option may be granted more than ten years after 16 December 2002, the date on which the Share Option Plan was adopted by the Company.

No option was granted to any Participant pursuant to the Share Option Plan during the year.

36 CONTINGENT LIABILITIES

As at 30 June 2004, there were contingent liabilities in respect of guarantees given to bankers by the Company to secure banking facilities to the extent of US\$20,641,000 (2003: US\$40,124,000 by the Group and US\$21,159,000 by the Company) respectively granted to group companies and certain investee companies of the Group.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

37 COMMITMENTS

Operating lease arrangements

(i) *As lessee*

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Within 1 year	993	1,805
After 1 year but within 5 years	1,386	231
	<u>2,379</u>	<u>2,036</u>

The Group leases a property under an operating lease. The lease runs for a period of three years.

(ii) *As lessor*

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating lease are receivable as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Within 1 year	4,629	1,538
After 1 year but within 5 years	4,416	243
	<u>9,045</u>	<u>1,781</u>

There were also commitments in respect of foreign currency contracts and interest rate swap relating to the normal operations as at 30 June 2004.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 30 June 2004
(Expressed in United States dollars)

38 MATERIAL RELATED PARTY TRANSACTIONS

(a) Banking transactions

Transactions with companies in the Hong Leong Company (Malaysia) Berhad Group (“HLCM”).

During the year, the Group entered into a number of transactions in the normal course of business with companies in the HLCM group including deposits and correspondent banking transactions. The transactions were priced based on the relevant market rates at the time of each transaction, and were under the same terms as those available to the independent counterparties and customers.

Information relating to interest income from these transactions during the year and balance outstanding at the balance sheet date is set out below:

(i) Income for the year ended 30 June

	The Group	
	2004	2003
	\$'000	\$'000
Interest income	2,075	1,111

(ii) Balance as at 30 June

	The Group	
	2004	2003
	\$'000	\$'000
Cash and short term funds	116,130	149,314

(b) Management fee

On 21 August 2001, the Company entered into a management services agreement, determinable by either party giving six months' notice, with GOMC Limited (“GOMC”), a subsidiary of HLCM, for provision of general management services to the Group by GOMC. Total management fees paid and payable to GOMC for the year ended 30 June 2004 amounted to \$9.5 million (2003: \$5.6 million).

39 HONG KONG DOLLAR AMOUNTS

The Hong Kong dollar figures shown in the consolidated income statement and the balance sheet are for information only. They are translated from United States dollars at the rates ruling at the respective financial year ends.

40 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for details of which are set out in Note 13. The comparative figure for income from sale of investments in securities under Turnover has been adjusted to conform with the current year's presentation to better reflect the principal activities of the Group.

41 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 30 June 2004 to be Hong Leong Company (Malaysia) Berhad, which is incorporated in Malaysia.