

Consolidated Income Statement

for the year ended 31st December

<i>HK\$ million</i>	Notes	2003	Restated 2002
Turnover	3		
Group turnover		1,613	1,872
Share of turnover of jointly controlled entities		1,841	1,723
		3,454	3,595
Group turnover	3	1,613	1,872
Other revenue	4	1,196	1,039
Operating costs	5	(1,807)	(2,051)
Operating profit	6	1,002	860
Finance costs	7	(630)	(624)
Share of results of associates		3,202	3,201
Share of results of jointly controlled entities		611	453
Profit before taxation		4,185	3,890
Taxation	8	(846)	(569)
Profit after taxation		3,339	3,321
Minority interests		10	5
Profit attributable to shareholders	9	3,349	3,326
Earnings per share	10	HK\$1.49	HK\$1.48
Dividends	11		
Interim dividend paid		485	485
Proposed final dividend		1,127	1,048
		1,612	1,533

Balance Sheets

as at 31st December

HK\$ million	Notes	Group		Company	
		2003	Restated 2002	2003	2002
Property, plant and equipment	12	1,804	1,992	2	4
Interests in subsidiaries	13	–	–	28,573	28,421
Interests in associates	14	23,681	22,213	–	–
Interests in jointly controlled entities	15	4,836	4,538	–	–
Interests in infrastructure project investments	16	1,948	2,465	–	–
Investments in securities	17	2,091	803	–	–
Other non-current assets	18	36	43	–	–
Total non-current assets		34,396	32,054	28,575	28,425
Inventories	19	164	188	–	–
Retention receivables		21	20	–	–
Debtors and prepayments	20	649	722	7	7
Dividend receivable		–	–	1,709	1,682
Bank balances and deposits		7,243	7,191	4	4
Total current assets		8,077	8,121	1,720	1,693
Bank loans	21	1,258	2,269	–	–
Creditors and accruals	22	642	571	159	152
Taxation		109	99	–	–
Total current liabilities		2,009	2,939	159	152
Net current assets		6,068	5,182	1,561	1,541
Total assets less current liabilities		40,464	37,236	30,136	29,966
Bank and other loans	21	11,079	10,376	–	–
Deferred tax liabilities	23	151	111	–	–
Total non-current liabilities		11,230	10,487	–	–
Minority interests		209	219	–	–
Net assets		29,025	26,530	30,136	29,966
Representing:					
Share capital	24	2,254	2,254	2,254	2,254
Reserves	25	26,771	24,276	27,882	27,712
Capital and reserves		29,025	26,530	30,136	29,966

LI TZAR KUOI, VICTOR

Director

IP TAK CHUEN, EDMOND

Director

9th March, 2004

Consolidated Statement of Changes in Equity

for the year ended 31st December

<i>HK\$ million</i>	2003	Restated 2002
Total equity at 1st January, as previously reported	28,853	26,787
Prior year adjustment (note 2 (m))	(2,323)	(2,196)
Total equity at 1st January, as restated	26,530	24,591
Surplus/(deficit) on revaluation of non-trading securities	44	(9)
Deferred tax charges on revaluation surplus of non-trading securities	(23)	(18)
Exchange translation differences	675	162
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	(36)	–
Net gain not recognised in the consolidated income statement	660	135
Profit for the year	3,349	3,326
Goodwill charged to income statement on disposal of a subsidiary	19	–
Previously recognised revaluation surplus realised upon disposals of non-trading securities	–	(90)
Final dividend for the year 2002/2001 paid	(1,048)	(947)
Interim dividend for the year 2003/2002 paid	(485)	(485)
Total equity at 31st December	29,025	26,530

Consolidated Cash Flow Statement

for the year ended 31st December

<i>HK\$ million</i>	Notes	2003	2002
Operating activities			
Cash generated from operations	26(a)	1,264	1,212
Income taxes refunded/(paid)		2	(14)
Net cash from operating activities		1,266	1,198
Investing activities			
Purchases of property, plant and equipment		(90)	(111)
Disposals of property, plant and equipment		66	3
Disposals of subsidiaries	26(b)	(11)	803
Advances to associates		(352)	(2,309)
Repayments from associates		2,108	48
Advances from an associate		–	15
Advance to a jointly controlled entity		(15)	–
Disposal of infrastructure project investment		61	–
Purchases of securities		(1,037)	(333)
Disposals of listed securities		–	246
Repayments from finance lease debtors		11	14
Acquisitions of other non-current assets		(2)	(3)
Dividends received from associates		1,422	1,379
Distributions received from listed stapled securities		63	53
Interest received		456	300
Finance lease income received		4	5
Release of pledged bank deposit		–	23
Net cash from investing activities		2,684	133
Net cash before financing activities		3,950	1,331
Financing activities			
New bank and other loans		2,125	7,405
Repayments of bank loans		(4,311)	(3,915)
Redemption of debentures		–	(6)
Finance costs paid		(179)	(215)
Dividends paid		(1,533)	(1,432)
Net cash (utilised in)/from financing activities		(3,898)	1,837
Net increase in cash and cash equivalents		52	3,168
Cash and cash equivalents at 1st January		7,191	4,023
Cash and cash equivalents at 31st December		7,243	7,191
Representing:			
Bank balances and deposits at 31st December		7,243	7,191

Notes to the Financial Statements

1. Corporate Information

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The Directors consider that the Company's ultimate holding company is Hutchison Whampoa Limited ("Hutchison Whampoa"), a company incorporated in Hong Kong with limited liability, the shares of which are listed on Hong Kong Stock Exchange.

The Group's principal activities are the development, investment and operation of infrastructure businesses in Hong Kong, Mainland China and Australia.

2. Principal Accounting Policies

The financial statements are prepared under the historical cost convention as modified for the revaluation of investments in securities.

The financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The term of HKFRS is inclusive of Hong Kong Statements of Standard Accounting Practice ("SSAPs") and interpretations issued by the Hong Kong Society of Accountants. The principal accounting policies adopted are set out below:

a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December together with the Group's interests in associates and jointly controlled entities on the basis set out in (d) and (e) below, respectively.

Results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are accounted for from the effective dates of acquisitions or up to the effective dates of disposals.

b) Goodwill

Goodwill represents the excess of costs of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the subsidiaries, associates and jointly controlled entities acquired.

The Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves prior to 1st January, 2001. Accordingly, such goodwill continues to be held in reserves and will be charged to the income statement on disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as further impairment losses are identified.

Goodwill arising on acquisition on or after 1st January, 2001 is capitalised and amortised using the straight-line method over its estimated useful life. On disposal of the relevant subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

The carrying amount of the goodwill, including that previously eliminated against reserves, is reduced to recognise any identified impairment loss in the value of individual acquisitions.

Notes to the Financial Statements

2. Principal Accounting Policies (Cont'd)

c) Subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities. Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

d) Associates

An associate is a company, other than a subsidiary or jointly controlled entity, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in the Group's financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

e) Joint Ventures

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly controlled entities are joint ventures which involve the establishment of a separate entity. The results and assets and liabilities of jointly controlled entities are incorporated in the Group's financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

f) Infrastructure Project Investments

Investments in infrastructure projects which do not fall into the definition of subsidiaries, associates and jointly controlled entities are classified as infrastructure project investments if the Group's return to be derived therefrom is predetermined in accordance with the provisions of the relevant agreements and the venturers' share of net assets are not in proportion to their capital contribution ratios but are as defined in the contracts and in respect of which the Group is not entitled to share the assets at the end of the investment period.

The Group's interests in the infrastructure project investments are recorded at cost less amortisation over the relevant contract period on a straight-line basis from commencement of operation of the project or from commencement of the Group's entitlement to income. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments. Income from these interests is recognised when the Group's right to receive payment is established.

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred.

Notes to the Financial Statements

2. Principal Accounting Policies (Cont'd)

g) Property, Plant and Equipment (Cont'd)

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

Depreciation of property, plant and equipment is calculated to write off their depreciable amount over their estimated useful lives using the straight-line method, at the following rates per annum:

Land	Over the unexpired lease terms of the land
Buildings	2% to 3 ¹ / ₃ % or over the unexpired lease terms of the land, whichever is the higher
Plant and machinery	3 ¹ / ₃ % to 33 ¹ / ₃ %
Others	5% to 33 ¹ / ₃ %

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the income statement.

h) Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

i) Contract Work

When the outcome of a contract can be estimated reliably, revenue and costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date, that is the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs.

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

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

j) Investments in Securities

Non-trading securities intended to be held long-term are stated at their fair values at the balance sheet date. The gains or losses arising from changes in the fair values of a security are dealt with as movements in investment revaluation reserve, until the security is disposed of, or is determined to be impaired, when the cumulative gain or loss is included in the income statement.

Other securities are stated at fair value in the balance sheet. Changes in fair value are dealt with in the income statement.

Notes to the Financial Statements

2. Principal Accounting Policies (Cont'd)

k) Revenue Recognition

(i) Sales of goods

Revenue from sales of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is arrived at after deduction of any sales returns and discounts and does not include sales taxes.

(ii) Contract revenue

Income from long-term contracts is recognised according to the stage of completion.

(iii) Income from infrastructure projects and investments in securities

Income from infrastructure projects and investments in securities is recognised when the Group's right to receive payment is established. Income from infrastructure project investments is calculated in accordance with the terms and conditions of the relevant contracts.

(iv) Interest income

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the interest rate applicable.

l) Foreign Currencies

The income statements and cash flow statements of overseas subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars using average rates of exchange. Balance sheets are translated at closing rates.

Exchange differences arising on the translation at closing rates of the opening net assets and the profits for the year retained by overseas subsidiaries, associates and jointly controlled entities are taken to reserves.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the relevant transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the income statement.

m) Deferred Taxation

In accordance with SSAP 12 (Revised) "Income Taxes" which became effective from 1st January, 2003, deferred taxation is provided using balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding period. 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 difference arises 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.

Notes to the Financial Statements

2. Principal Accounting Policies (Cont'd)

m) Deferred Taxation (Cont'd)

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, 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 assets 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.

In prior years, tax deferred or accelerated by the effects of timing differences was provided at the prevalent income tax rate, using income statement liability method, to the extent that it was probable that a liability or an asset would crystallise in the foreseeable future. The timing differences were calculated based on the differences between profits as computed for tax purposes and the profits as stated in the financial statements.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively by means of a prior year adjustment. Cumulative effects from this change in accounting policy on the Group's balances at 1st January, 2003 include an increase in deferred tax liabilities by HK\$111 million (2002: HK\$86 million), decreases in interests in associates, retained profits, contributed surplus, investment revaluation reserve and exchange translation reserve by HK\$2,212 million, HK\$713 million, HK\$1,553 million, HK\$46 million and HK\$11 million (2002: HK\$2,110 million, HK\$614 million, HK\$1,553 million, HK\$28 million and HK\$1 million) respectively. In addition, the effects of the change on the Group's results, contributed surplus, investment revaluation reserve, and exchange translation reserve for the current year are an increased charge to taxation of HK\$237 million (2002: HK\$99 million), a deferred tax charge of HK\$36 million (2002: Nil), a deferred tax charge of HK\$23 million (2002: HK\$18 million), and an increased charge to exchange translation differences of HK\$41 million (2002: HK\$10 million). Certain comparative figures have been restated accordingly.

n) Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the income statement on a straight-line basis over the respective lease terms.

o) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases. The amounts due from the lessees under finance lease contracts are recorded as finance lease debtors. The finance lease debtors comprise the gross investment in leases less unearned finance lease income allocated to future accounting periods. The unearned finance lease income is allocated to future accounting periods so as to reflect constant periodic rates of return on the Group's net investments outstanding in respect of the leases.

Notes to the Financial Statements

2. Principal Accounting Policies (Cont'd)

p) Employee Retirement Benefits

The Group operates defined contribution and defined benefit retirement plans for its employees.

The costs of defined contribution plans are charged to the income statement as and when the contributions fall due.

The cost of providing retirement benefits under the Group's defined benefit retirement plan is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10 per cent. of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plan. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

q) Borrowing Costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the financing of the Group's infrastructure projects up to the commencement of revenue contribution or upon commencement of operation of the projects, whichever is the earlier.

3. Turnover

Group turnover represents net sales from infrastructure materials business, return on investments and interest income received and receivable from infrastructure project investments, net of withholding tax, where applicable.

In addition, the Group also accounts for its proportionate share of turnover of jointly controlled entities. Turnover of associates is not included.

By business segment

for the year ended 31st December

<i>HK\$ million</i>	Group turnover	2003 Share of turnover of jointly controlled entities	Total	Group turnover	2002 Share of turnover of jointly controlled entities	Total
Infrastructure investments	212	1,841	2,053	277	1,723	2,000
Infrastructure related business	1,401	–	1,401	1,595	–	1,595
Total	1,613	1,841	3,454	1,872	1,723	3,595

Notes to the Financial Statements

3. Turnover (Cont'd)

By geographic region

for the year ended 31st December

<i>HK\$ million</i>	Group turnover	2003 Share of turnover of jointly controlled entities	Total	Group turnover	2002 Share of turnover of jointly controlled entities	Total
Hong Kong	1,012	–	1,012	1,194	–	1,194
Mainland China	564	1,841	2,405	600	1,723	2,323
Others	37	–	37	78	–	78
Total	1,613	1,841	3,454	1,872	1,723	3,595

4. Other Revenue

Other revenue includes the following:

<i>HK\$ million</i>	2003	2002
Interest income	967	748
Finance lease income	4	5
Distributions from listed stapled securities	63	53
Gain on disposal of infrastructure project investment	11	–
Gain on disposals of subsidiaries	–	51
Unrealised holding gain on other securities	40	–
Gain on disposals of listed securities	–	97

Notes to the Financial Statements

5. Operating Costs

<i>HK\$ million</i>	2003	2002
Changes in inventories of finished goods and work-in-progress	4	15
Raw materials and consumables used	386	459
Staff costs including directors' remuneration	353	399
Depreciation	181	193
Impairment loss recognised in respect of property, plant and equipment	30	53
Amortisation of other non-current assets	1	1
Amortisation of costs of investments in infrastructure projects	107	138
Unrealised holding loss on other securities	–	91
Other operating expenses	745	702
Total	1,807	2,051

6. Operating Profit

<i>HK\$ million</i>	2003	2002
Operating profit is arrived at after crediting:		
Contract revenue	232	236
Net exchange gain	13	–
and charging:		
Operating lease rental		
Land and buildings	37	51
Vessels	–	28
Directors' remuneration (note 28)	32	29
Auditors' remuneration	2	3
Loss on disposals of property, plant and equipment	4	7
Loss on disposal of a subsidiary	19	–
Net exchange loss	–	88

7. Finance Costs

<i>HK\$ million</i>	2003	2002
Interest and other finance costs on		
Bank borrowings wholly repayable within five years	558	556
Notes not repayable within five years	72	68
Total	630	624

Notes to the Financial Statements

8. Taxation

Hong Kong Profits Tax is provided for at the rate of 17.5 per cent. (2002: 16 per cent.) on the estimated assessable profits for the year.

<i>HK\$ million</i>	2003	2002
Company and subsidiaries		
Current taxation – Hong Kong Profits Tax	9	12
Deferred taxation (note 23)	(4)	4
	5	16
Share of taxation attributable to		
Associates	780	517
Jointly controlled entities	61	36
	841	553
Total	846	569

The charge for the year can be reconciled to the profit per the income statement as follows:

<i>HK\$ million</i>	2003	2002
Profit before taxation	4,185	3,890
Tax at the weighted average effective rate of 15.3% (2002: 13.9%)	642	540
Tax impact on:		
Income not subject to tax	(132)	(163)
Expenses not deductible for tax purpose	122	115
Tax losses and other temporary differences not recognised	22	50
Utilisation of previously unrecognised tax losses	(8)	(3)
Undistributed reserves of associates	32	27
Change in tax rate attributable to deferred tax liabilities brought forward from prior years	169	–
Others	(1)	3
Taxation charge	846	569

The weighted average effective tax rate changes to 15.3% in 2003 from 13.9% in 2002 mainly due to increase in Hong Kong Profits Tax Rate by 1.5% and change of profit mix from countries and regions of different tax jurisdictions.

Notes to the Financial Statements

9. Profit Attributable to Shareholders and Segment Information

Of the Group's profit attributable to shareholders for the year, HK\$1,703 million (2002: HK\$1,678 million) has been dealt with in the financial statements of the Company.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographic regions as the secondary reporting format.

By business segment

for the year ended 31st December

<i>HK\$ million</i>	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Segment revenue										
Group turnover	-	-	212	277	1,401	1,595	-	-	1,613	1,872
Others	-	-	20	15	81	70	-	-	101	85
	-	-	232	292	1,482	1,665	-	-	1,714	1,957
Segment result	-	-	80	101	(49)	47	-	-	31	148
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	-	-	11	51	(19)	-	-	97	(8)	148
Interest and finance lease income	-	-	792	608	81	88	98	57	971	753
Other revenue	-	-	63	53	-	-	-	-	63	53
Corporate overheads and others	-	-	-	-	-	-	(55)	(242)	(55)	(242)
Operating profit	-	-	946	813	13	135	43	(88)	1,002	860
Finance costs	-	-	-	-	-	-	(630)	(624)	(630)	(624)
Share of results of associates and jointly controlled entities	2,942	3,021	877	633	(6)	-	-	-	3,813	3,654
Taxation	(661)	(465)	(182)	(89)	2	(15)	(5)	-	(846)	(569)
Minority interests	-	-	-	-	10	5	-	-	10	5
Profit attributable to shareholders	2,281	2,556	1,641	1,357	19	125	(592)	(712)	3,349	3,326
Other information										
Capital expenditure	-	-	-	-	90	111	-	-	90	111
Depreciation and amortisation	-	-	107	138	180	192	2	2	289	332

Notes to the Financial Statements

9. Profit Attributable to Shareholders and Segment Information(Cont'd)

By business segment (Cont'd)

as at 31st December

<i>HK\$ million</i>	Investment in Hongkong Electric*		Infrastructure investments		Infrastructure related business		Unallocated items		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Assets										
Segment assets	-	-	2,845	3,287	3,775	3,892	-	-	6,620	7,179
Interests in associates and jointly controlled entities	15,195	14,198	13,205	12,416	117	137	-	-	28,517	26,751
Unallocated corporate assets	-	-	-	-	-	-	7,336	6,245	7,336	6,245
Total assets	15,195	14,198	16,050	15,703	3,892	4,029	7,336	6,245	42,473	40,175
Liabilities										
Segment liabilities	-	-	15	11	285	372	-	-	300	383
Taxation, deferred taxation and unallocated corporate liabilities	-	-	86	47	82	81	12,771	12,915	12,939	13,043
Minority interests	-	-	-	-	209	219	-	-	209	219
Total liabilities	-	-	101	58	576	672	12,771	12,915	13,448	13,645

* During the year, the Group has a 38.87 per cent. equity interest in Hongkong Electric Holdings Limited ("Hongkong Electric"), which is listed on Hong Kong Stock Exchange.

Notes to the Financial Statements

9. Profit Attributable to Shareholders and Segment Information(Cont'd)

By geographic region

for the year ended 31st December

HK\$ million	Hong Kong		Mainland China		Australia		Others		Unallocated items		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Segment revenue												
Group turnover	1,012	1,194	564	600	-	-	37	78	-	-	1,613	1,872
Others	60	31	41	16	-	-	-	38	-	-	101	85
	1,072	1,225	605	616	-	-	37	116	-	-	1,714	1,957
Segment result	64	146	49	20	-	-	(82)	(18)	-	-	31	148
Net gain/(loss) on disposals of infrastructure project investment, subsidiaries and listed securities	-	-	11	51	-	-	(19)	-	-	97	(8)	148
Interest and finance lease income	81	87	-	1	792	608	-	-	98	57	971	753
Other revenue	-	-	-	-	63	53	-	-	-	-	63	53
Corporate overheads and others	-	-	-	-	-	-	-	-	(55)	(242)	(55)	(242)
Operating profit	145	233	60	72	855	661	(101)	(18)	43	(88)	1,002	860
Finance costs	-	-	-	-	-	-	-	-	(630)	(624)	(630)	(624)
Share of results of associates and jointly controlled entities	2,962	3,042	610	453	247	159	(6)	-	-	-	3,813	3,654
Taxation	(663)	(482)	(61)	(36)	(117)	(51)	-	-	(5)	-	(846)	(569)
Minority interests	-	-	1	(1)	-	-	9	6	-	-	10	5
Profit attributable to shareholders	2,444	2,793	610	488	985	769	(98)	(12)	(592)	(712)	3,349	3,326
Other information												
Capital expenditure	44	91	46	14	-	-	-	6	-	-	90	111

as at 31st December

HK\$ million	Hong Kong		Mainland China		Australia		Others		Unallocated items		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Assets												
Segment assets	2,743	2,731	3,054	3,788	771	573	52	87	-	-	6,620	7,179
Interests in associates and jointly controlled entities	15,340	14,316	4,821	4,538	8,263	7,770	93	127	-	-	28,517	26,751
Unallocated corporate assets	-	-	-	-	-	-	-	-	7,336	6,245	7,336	6,245
Total assets	18,083	17,047	7,875	8,326	9,034	8,343	145	214	7,336	6,245	42,473	40,175

Notes to the Financial Statements

10. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$3,349 million (2002: HK\$3,326 million) and on 2,254,209,945 shares (2002: 2,254,209,945 shares) in issue during the year.

Diluted earnings per share has not been shown as there was no dilutive effect on the earnings per share if the convertible debentures outstanding during the year ended 31st December 2002 were fully converted into shares of a non-wholly owned subsidiary which issued the debentures.

11. Dividends

<i>HK\$ million</i>	2003	2002
Interim dividend paid of HK\$0.215 (2002: HK\$0.215) per share	485	485
Proposed final dividend of HK\$0.5 (2002: HK\$0.465) per share	1,127	1,048
Total	1,612	1,533

12. Property, Plant and Equipment

<i>HK\$ million</i>	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings outside Hong Kong	Plant and machinery	Furniture, fixtures and others	Total
Group					
Cost					
At 1st January, 2003	864	404	2,075	260	3,603
Exchange translation differences	–	1	1	1	3
Additions	4	–	64	22	90
Disposals	(2)	(19)	(93)	(119)	(233)
At 31st December, 2003	866	386	2,047	164	3,463
Accumulated depreciation and impairment					
At 1st January, 2003	299	76	1,044	192	1,611
Charge for the year	30	10	124	17	181
Impairment loss	–	15	15	–	30
Disposals	(1)	(4)	(67)	(91)	(163)
At 31st December, 2003	328	97	1,116	118	1,659
Net book value					
At 31st December, 2003	538	289	931	46	1,804
At 31st December, 2002	565	328	1,031	68	1,992

Notes to the Financial Statements

12. Property, Plant and Equipment (Cont'd)

<i>HK\$ million</i>	Medium term leasehold land and buildings in Hong Kong	Medium term leasehold land and buildings outside Hong Kong	Plant and machinery	Furniture, fixtures and others	Total
Company					
Cost					
At 1st January and 31st December, 2003	–	–	–	14	14
Accumulated depreciation					
At 1st January, 2003	–	–	–	10	10
Charge for the year	–	–	–	2	2
At 31st December, 2003	–	–	–	12	12
Net book value					
At 31st December, 2003	–	–	–	2	2
At 31st December, 2002	–	–	–	4	4

13. Interests in Subsidiaries

<i>HK\$ million</i>	Company	
	2003	2002
Unlisted shares, at cost	22,757	22,757
Amounts due by subsidiaries	5,816	5,664
At 31st December	28,573	28,421

Particulars of the principal subsidiaries are set out in Appendix 1 on pages 77 and 78.

Notes to the Financial Statements

14. Interests in Associates

<i>HK\$ million</i>	Group	
	2003	2002
Share of net assets		
Listed associate	15,195	14,198
Unlisted associates	960	652
	16,155	14,850
Amounts due by unlisted associates	7,526	7,363
At 31st December	23,681	22,213
Market value of listed associate	25,469	24,473

Included in the amounts due by unlisted associates are subordinated loan of HK\$6,310 million (2002: HK\$4,597 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

Particulars of the principal associates are set out in Appendix 2 on pages 79 and 80.

An extract of the published financial statements of Hongkong Electric, a principal associate of the Group, for the year ended 31st December, 2003, is shown in Appendix 4 on pages 82 and 83.

15. Interests in Jointly Controlled Entities

<i>HK\$ million</i>	Group	
	2003	2002
Investment costs	2,505	2,098
Shareholders' loans to jointly controlled entities	1,957	1,942
Share of undistributed post-acquisition results	374	498
At 31st December	4,836	4,538

The Group's interests in a jointly controlled entity with carrying value of HK\$1,888 million as at 31st December, 2003 (2002: HK\$1,982 million) have been pledged as part of the security to secure certain bank borrowings granted to the jointly controlled entity.

Particulars of the principal jointly controlled entities are set out in Appendix 3 on page 81.

Notes to the Financial Statements

16. Interests in Infrastructure Project Investments

<i>HK\$ million</i>	Group	
	2003	2002
Investments	2,550	3,026
Accumulated amortisation	(624)	(616)
Infrastructure project receivables	156	405
	2,082	2,815
Provision	(134)	(350)
At 31st December	1,948	2,465

17. Investments in Securities

<i>HK\$ million</i>	Group	
	2003	2002
Non-trading securities		
Equity investments, listed overseas, at market value	46	32
Debt investments, listed overseas, at market value	1,055	19
Stapled securities, listed overseas, at market value	771	573
	1,872	624
Other securities		
Unlisted equity securities	219	179
Total	2,091	803

The stapled security comprises a subordinated loan note and a fully paid ordinary share. It is quoted at a single combined price and cannot be traded separately.

Notes to the Financial Statements

18. Other Non-current Assets

<i>HK\$ million</i>	2003	Group 2002
Finance lease debtors – non-current portion	13	23
Employee retirement benefit assets (note 27)	23	12
Others	–	8
At 31st December	36	43

Details of finance lease debtors are shown below:

<i>HK\$ million</i>	2003	Group 2002
Gross investment in leases receivable:		
Within one year	14	17
In the second to fifth year, inclusive	15	28
	29	45
Unearned finance lease income	(5)	(10)
Present value of finance lease debtors	24	35
Portion receivable:		
Within one year – current portion	11	12
In the second to fifth year, inclusive – non-current portion	13	23
Total	24	35

Notes to the Financial Statements

19. Inventories

<i>HK\$ million</i>	Group	
	2003	2002
Raw materials	31	41
Work-in-progress	3	7
Stores, spare parts and supplies	107	115
Finished goods	23	23
	164	186
Contract work-in-progress	–	2
Total	164	188
Portion carried at net realisable value		
Raw materials	1	–
Stores, spare parts and supplies	65	53
Finished goods	–	2
Total	66	55
Contract work-in-progress		
Costs plus recognised profits less recognised losses	89	106
Progress billing	(89)	(104)
Net amount	–	2

The cost of inventories charged to the Group's income statement during the year was HK\$1,075 million (2002: HK\$1,117 million).

Notes to the Financial Statements

20. Debtors and Prepayments

<i>HK\$ million</i>	Group		Company	
	2003	2002	2003	2002
Trade debtors and infrastructure project receivables	417	589	–	–
Prepayments, deposits and other receivables	232	133	7	7
Total	649	722	7	7

The ageing analysis of the Group's trade debtors and infrastructure project receivables is as follows:

<i>HK\$ million</i>	2003	2002
Current	218	367
One month	107	104
Two to three months	38	48
Over three months	204	208
Gross total	567	727
Provision	(150)	(138)
Total after provision	417	589

Trade with customers is carried out largely on credit, except for new customers and customers with unsatisfactory payment records, where payment in advance is normally required. Invoices are normally payable within one month of issuance, except for certain well-established customers, where the terms are extended to two months, and certain customers with disputed items, where the terms are negotiated individually. Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures.

Infrastructure project receivables are mainly derived from return from infrastructure project investments, which is predetermined in accordance with provisions of the relevant agreements. The return is contractually payable annually or semi-annually to the Group within a specified period.

Notes to the Financial Statements

21. Bank and Other Loans

<i>HK\$ million</i>	Group	
	2003	2002
Unsecured bank loans repayable:		
Within one year	1,258	2,250
In the second year	514	2,409
In the third to fifth year, inclusive	8,396	5,988
	10,168	10,647
Secured bank loans repayable:		
Within one year	–	19
In the third to fifth year, inclusive	–	5
	–	24
Unsecured notes, 3.5%, repayable after five years	2,169	1,974
Total	12,337	12,645
Portion classified as:		
Current liabilities	1,258	2,269
Non-current liabilities	11,079	10,376
Total	12,337	12,645

Interest rates on the loans are either fixed or floating and determined with reference to Hong Kong Interbank Offered Rate or Australian Bank Bill Swap Reference Rate:

<i>HK\$ million</i>	Group	
	2003	2002
Fixed rate loans and loans swapped to fixed rate	8,231	8,610
Floating rate loans	4,106	4,035
Total	12,337	12,645

Notes to the Financial Statements

22. Creditors and Accruals

<i>HK\$ million</i>	Group		Company	
	2003	2002	2003	2002
Trade creditors	117	90	–	–
Amount due to an unlisted associate	133	131	133	131
Other payables and accruals	392	350	26	21
Total	642	571	159	152

The ageing analysis of the Group's trade creditors is as follows:

<i>HK\$ million</i>	2003	2002
Current	36	30
One month	25	20
Two to three months	13	9
Over three months	43	31
Total	117	90

23. Deferred Tax Liabilities

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years:

<i>HK\$ million</i>	Accelerated tax depreciation	Tax Losses	Revaluation of investments in securities	Total
At 1st January, 2002, as previously reported	–	–	–	–
Prior year adjustment (note 2(m))	119	(61)	28	86
At 1st January, 2002, as restated	119	(61)	28	86
Charge against profit for the year	–	4	–	4
Charge against investment revaluation reserve	–	–	18	18
Exchange translation differences	–	–	3	3
At 31st December, 2002	119	(57)	49	111
(Credit to)/charge against profit for the year	(11)	7	–	(4)
Charge against investment revaluation reserve	–	–	23	23
Change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries in prior years	6	–	–	6
Exchange translation differences	–	–	15	15
At 31st December, 2003	114	(50)	87	151

Notes to the Financial Statements

23. Deferred Tax Liabilities (Cont'd)

For the purpose of balance sheet presentation, all deferred tax assets have been offset against deferred tax liabilities in accordance with the conditions set out in SSAP12 (Revised).

Apart from the unused tax losses of which the deferred tax assets have been recognised as presented above, the Group has unused tax losses and other unused tax credits totalling HK\$397 million (2002: HK\$450 million) at the balance sheet date. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits. An analysis of the expiry dates of the tax losses and tax credits is as follows:

<i>HK\$ million</i>	2003	2002
Within one year	14	25
In the second year	45	20
In the third to fifth year, inclusive	117	146
After five years	–	15
No expiry date	221	244
Total	397	450

24. Share Capital

<i>HK\$ million</i>	2003	2002
Authorised:		
4,000,000,000 shares of HK\$1 each	4,000	4,000
Issued and fully paid:		
2,254,209,945 shares of HK\$1 each	2,254	2,254

Notes to the Financial Statements

25. Reserves

Group

<i>HK\$ million</i>	Share premium	Contributed surplus	Investment revaluation reserve	Exchange translation reserve	Retained profits	Proposed dividends	Total
At 1st January, 2002, as previously reported	3,836	7,632	108	(22)	12,032	947	24,533
Prior year adjustment (note 2 (m))	–	(1,553)	(28)	(1)	(614)	–	(2,196)
At 1st January, 2002, as restated	3,836	6,079	80	(23)	11,418	947	22,337
Final dividend for the year 2001 paid	–	–	–	–	–	(947)	(947)
Deficit on revaluation of non-trading securities	–	–	(9)	–	–	–	(9)
Surplus realised on disposals of non-trading securities	–	–	(90)	–	–	–	(90)
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(18)	–	–	–	(18)
Exchange translation differences	–	–	–	162	–	–	162
Profit for the year	–	–	–	–	3,326	–	3,326
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	6,079	(37)	139	13,211	1,048	24,276
Final dividend for the year 2002 paid	–	–	–	–	–	(1,048)	(1,048)
Deferred tax charges arising from change in applicable tax rate on the revaluation surplus from acquisitions of subsidiaries and associates in prior years	–	(36)	–	–	–	–	(36)
Goodwill charged to income statement on disposal of a subsidiary	–	19	–	–	–	–	19
Surplus on revaluation of non-trading securities	–	–	44	–	–	–	44
Deferred tax charge on revaluation surplus of non-trading securities	–	–	(23)	–	–	–	(23)
Exchange translation differences	–	–	–	675	–	–	675
Profit for the year	–	–	–	–	3,349	–	3,349
Proposed interim dividend	–	–	–	–	(485)	485	–
Interim dividend paid	–	–	–	–	–	(485)	(485)
Proposed final dividend	–	–	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	6,062	(16)	814	14,948	1,127	26,771

The retained profits of the Group include the Group's share of the undistributed retained profits of its associates and jointly controlled entities amounting to HK\$6,957 million (2002: HK\$6,037 million) and HK\$374 million (2002: HK\$498 million) respectively.

Notes to the Financial Statements

25. Reserves (Cont'd)

Company	Share premium	Contributed surplus	Retained profits	Proposed dividends	Total
<i>HK\$ million</i>					
At 1st January, 2002	3,836	20,810	1,873	947	27,466
Final dividend for the year 2001 paid	–	–	–	(947)	(947)
Profit for the year	–	–	1,678	–	1,678
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,048)	1,048	–
At 31st December, 2002	3,836	20,810	2,018	1,048	27,712
Final dividend for the year 2002 paid	–	–	–	(1,048)	(1,048)
Profit for the year	–	–	1,703	–	1,703
Proposed interim dividend	–	–	(485)	485	–
Interim dividend paid	–	–	–	(485)	(485)
Proposed final dividend	–	–	(1,127)	1,127	–
At 31st December, 2003	3,836	20,810	2,109	1,127	27,882

Contributed surplus of the Company arose when the Company issued shares in exchange for shares of subsidiaries and associates being acquired pursuant to the IPO Reorganisation in July 1996 and the Cheung Kong Group Restructuring (see below) in March 1997, and represents the difference between the value of net assets of the companies acquired and the nominal value of the Company's shares issued. Under the Company Act of 1981 of Bermuda (as amended), the contributed surplus is available for distribution to the shareholders.

Cheung Kong Group Restructuring is the reorganisation involving Cheung Kong (Holdings) Limited, Hutchison Whampoa, the Company and Hongkong Electric pursuant to which the transactions relating to the Company were completed on 10th March, 1997 which resulted in the Company becoming an 84.6 per cent. subsidiary of Hutchison Whampoa and acquiring a 35.01 per cent. interest in Hongkong Electric.

Total distributable reserves of the Company amounted to HK\$24,046 million as at 31st December, 2003 (2002: HK\$23,876 million).

Notes to the Financial Statements

26. Notes to Consolidated Cash Flow Statement

(a) Cash generated from operations

<i>HK\$ million</i>	2003	2002
Profit before taxation	4,185	3,890
Share of results of associates	(3,202)	(3,201)
Share of results of jointly controlled entities	(611)	(453)
Interest income	(967)	(748)
Finance lease income	(4)	(5)
Income from infrastructure project investments	(212)	(277)
Distributions from listed stapled securities	(63)	(53)
Finance costs	630	624
Depreciation	181	193
Impairment loss recognised in respect of property, plant and equipment	30	53
Loss on disposals of property, plant and equipment	4	7
Gain on disposal of infrastructure project investment	(11)	–
Loss/(gain) on disposals of subsidiaries	19	(51)
Provision against amounts due by unlisted associates	49	19
Provision against interests in jointly controlled entities	–	19
Amortisation of costs of investments in infrastructure projects	107	138
Gain on disposals of listed securities	–	(97)
Unrealised holding (gain)/loss on other securities	(40)	91
Pension costs of defined benefit retirement plan	9	9
Amortisation of other non-current assets	1	1
Loss on disposals of other non-current assets	9	–
Unrealised exchange loss on borrowings	195	161
Returns received from jointly controlled entities	744	562
Returns received from infrastructure project investments	262	396
Contributions to defined benefit retirement plan	(20)	(21)
Operating cash flows before changes in working capital	1,295	1,257
Decrease in inventories	24	18
Increase in retention receivables	(1)	(4)
(Increase)/decrease in debtors and prepayments	(60)	129
Increase/(decrease) in creditors and accruals	53	(179)
Exchange translation differences	(47)	(9)
Cash generated from operations	1,264	1,212

Notes to the Financial Statements

26. Notes to Consolidated Cash Flow Statement (Cont'd)

(b) Disposals of subsidiaries

<i>HK\$ million</i>	2003	2002
Net assets disposed of:		
Interests in a jointly controlled entity	–	3
Interests in infrastructure project investments	–	1,162
Debtors and prepayments	1	–
Bank balances and deposits	11	–
Creditors and accruals	(12)	–
	–	1,165
Attributable goodwill	19	–
(Loss)/gain on disposals of subsidiaries	(19)	51
Total consideration	–	1,216
Satisfied by:		
Cash	–	1,216

Analysis of the net cash flow arising on the disposals:

<i>HK\$ million</i>	2003	2002
Cash consideration	–	1,216
Deposits received in prior years	–	(413)
Bank balances and deposits disposed of	(11)	–
Net cash (outflow)/inflow arising from the disposals	(11)	803

27. Retirement Plans

The Group provides defined contribution retirement plans for its eligible employees except for a defined benefit plan for the employees of certain subsidiaries.

Contributions to the defined contribution plans are made by either the employer only at 10 per cent. of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent. of the employees' monthly basic salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent. of the employees' monthly relevant incomes each capped at HK\$20,000. As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned above, are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), except for certain subsidiaries of which the new Hong Kong employees have to join the MPF schemes, the Group offers an option to its new Hong Kong employees to elect between the ORSO schemes and the MPF schemes.

Notes to the Financial Statements

27. Retirement Plans (Cont'd)

Contributions to the defined benefit plan are made by the employees at either 5 or 7 per cent. of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

The Group's costs in respect of defined contribution plans for the year amounted to HK\$12 million (2002: HK\$12 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK\$1 million (2002: HK\$4 million) were used to reduce the existing level of contributions. At 31st December, 2003, forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years amounted to HK\$1 million (2002: HK\$1 million).

Actuarial valuations of the defined benefit plan according to SSAP 34 "Employee Benefits" were carried out at 1st January, 2004, by Mr. Joseph K.L. Yip of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

	2003	2002
Discount rate at 31st December	3.75% per annum	5.5% per annum
Expected return on plan assets	7% per annum	7% per annum
Expected rate of salary increase	3% per annum for the next two years and 5% per annum thereafter	Nil to 5% for the next five years and 5% per annum thereafter

Amounts charged/(credited) to the consolidated income statement in respect of the defined benefit plan are as follows:

<i>HK\$ million</i>	2003	2002
Current service cost	7	6
Interest cost	8	9
Expected return on plan assets	(9)	(9)
Net actuarial loss recognised	1	–
Amortisation of transitional liability	2	3
Net amount charged to consolidated income statement	9	9

The amount has been charged as operating costs to the consolidated income statement for the current year.

The actual return on plan assets for the year ended 31st December, 2003 is a gain of HK\$12 million (2002: loss of HK\$3 million).

Notes to the Financial Statements

27. Retirement Plans (Cont'd)

The amount included in the consolidated balance sheet at 31st December, 2003 and 2002 arising from the Group's obligations in respect of its defined benefit plan is as follows:

<i>HK\$ million</i>	2003	2002
Present value of defined benefit obligations	172	157
Unrecognised actuarial losses	(37)	(23)
Fair value of plan assets	(150)	(136)
Unrecognised transitional liability	(8)	(10)
Employee retirement benefit assets included in the consolidated balance sheet	(23)	(12)

Movements in the Group's net asset recognised in the consolidated balance sheet are as follows:

<i>HK\$ million</i>	2003	2002
At 1st January	(12)	–
Employers' contributions	(20)	(21)
Amount charged to consolidated income statement	9	9
At 31st December	(23)	(12)

Since 1st January, 2002, the Group has adopted SSAP 34 "Employee Benefits". As at that date, the Group determined the transitional liability for its defined benefit plan to be HK\$13 million. This amount is being recognised on a straight-line basis over a period of five years from 1st January, 2002. A charge of HK\$2 million (2002: HK\$3 million) was recognised in the current year. As at 31st December, 2003, transitional liability of HK\$8 million (2002: HK\$10 million) remained unrecognised.

Another actuarial valuation was completed at 1st January, 2004 by Mr. Joseph K.L. Yip, the same actuary as mentioned above, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance. The actuarial method adopted was Attained Age Funding Method. The major assumptions used were the long-term average annual rate of investment return on the plan assets at 7 per cent. per annum, and the average annual salary increases at 3 per cent. per annum for the next two years and 5 per cent. per annum thereafter. The actuarial valuation showed that the fair value of the plan assets attributable to the Group of HK\$150 million at 31st December, 2003 represents 98 per cent. of the present value of the obligations as at that day. The Group's future annual contribution is designed to fund the shortfall over a period of time and the employer funding rates have been increased since 1st January, 1998. The funding rates are subject to annual review.

Notes to the Financial Statements

28. Remuneration of Directors and Senior Executives

(a) Directors' Remuneration

The following table shows the remuneration of the Company's directors:

<i>HK\$ million</i>	2003	2002
Salaries, benefits in kind and fees	16	15
Contributions to retirement plans	1	1
Bonuses	15	13
Total	32	29

The directors' remuneration for the year includes directors' fees of HK\$700,000 (2002: HK\$600,000) of which HK\$200,000 (2002: HK\$100,000) have been paid to independent non-executive directors of the Company.

The table below shows the number of directors whose remuneration was within the following bands:

Remuneration band	2003	2002
Nil – HK\$1,000,000	7	7
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$5,500,001 – HK\$6,000,000	1	1
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	1
HK\$7,000,001 – HK\$7,500,000	1	1
HK\$7,500,001 – HK\$8,000,000	1	–

During the year, certain directors of the Company received directors' fees totalling HK\$400,000 (2002: HK\$400,000) from Hongkong Electric, which were then paid back to the Company.

Further details of remuneration to the Company's directors are set out in Report of the Directors.

Notes to the Financial Statements

28. Remuneration of Directors and Senior Executives (Cont'd)

(b) Senior Executives' Remuneration

Of the five individuals with the highest emoluments in the Group, four (2002: four) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining one (2002: one) individual is as follows:

<i>HK\$ million</i>	2003	2002
Salaries and benefits in kind	2	2
Contributions to retirement plan	1	1
Bonuses	2	1
Total	5	4

The remaining one (2002: one) individual with the highest emoluments is within the following band:

Remuneration band	2003	2002
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	1	–

29. Commitments

- (a) The Group's capital commitments outstanding at 31st December and not provided for in the financial statements are as follows:

<i>HK\$ million</i>	Contracted but not provided for		Authorised but not contracted for	
	2003	2002	2003	2002
Investments	1,711	976	–	–
Plant and machinery	9	13	84	146
Others	–	–	12	–
Total	1,720	989	96	146

- (b) At 31st December, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

<i>HK\$ million</i>	Group		Company	
	2003	2002	2003	2002
Within one year	21	41	4	6
In the second to fifth year, inclusive	20	78	2	9
After five years	13	22	–	–
Total	54	141	6	15

Notes to the Financial Statements

30. Contingent Liabilities

<i>HK\$ million</i>	Group		Company	
	2003	2002	2003	2002
Guarantees in respect of bank and other loans drawn by subsidiaries	–	–	12,337	12,549
Guarantee in respect of bank loans drawn by an associate	1,204	335	1,204	335
Guarantee in respect of bank loans drawn by a jointly controlled entity	696	696	696	696
Performance bonds	36	25	–	–
Total	1,936	1,056	14,237	13,580

31. Material Related Party Transactions

During the year, the Group advanced HK\$15 million (2002: Nil) to a jointly controlled entity. The total outstanding loan balances as at 31st December, 2003 amounted to HK\$1,957 million (2002: HK\$1,942 million), of which HK\$905 million (2002: HK\$905 million) bears interest with reference to Hong Kong dollar prime rate, and HK\$1,052 million (2002: HK\$1,037 million) are interest-free. Except for a loan of HK\$4 million which is repayable within one year, the loans have no fixed terms of repayment.

The Group advanced HK\$352 million (2002: HK\$2,309 million) to its unlisted associates, and received repayments totalling HK\$2,108 million (2002: HK\$48 million) during the year. The total outstanding loan balances as at 31st December, 2003 amounted to HK\$7,526 million (2002: HK\$7,363 million), of which HK\$7,061 million (2002: HK\$7,002 million) bears interest with reference to Australian Bank Bill Swap Reference Rate or fixed rate, and HK\$465 million (2002: HK\$361 million) are interest-free. Interest income contributed from the associates during the year amounted to HK\$792 million (2002: HK\$608 million). Except for a loan of HK\$94 million which is repayable within eighteen years, the loans have no fixed terms of repayment.

32. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 9th March, 2004.

Principal Subsidiaries

Appendix 1

The table below shows the subsidiaries as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
Incorporated and operating in Hong Kong				
Anderson Asia (Holdings) Limited	2 ordinary 65,780,000 non-voting deferred	HK\$0.5 HK\$0.5	100 –	Investment holding
Anderson Asia Concrete Limited	800,000 ordinary	HK\$1	100	Investment holding
Anderson Asphalt Limited	36,000 ordinary	HK\$100	100	Production and laying of asphalt and investment holding
Asia Stone Company, Limited	33,000,000 ordinary	HK\$1	100	Quarry operation and manufacture of aggregates
Cheung Kong Infrastructure Finance Company Limited	2 ordinary	HK\$1	100	Financing
China Cement Company (International) Limited	1,000,000 ordinary	HK\$1	70	Investment holding
Green Island Cement Company, Limited	76,032,000 ordinary	HK\$2	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	101,549,457 ordinary	HK\$2	100	Investment holding
Ready Mixed Concrete (H.K.) Limited	50,000,000 ordinary	HK\$1	100	Production and sale of concrete and investment holding

Principal Subsidiaries

Appendix 1 (Cont'd)

Name	Share capital issued Number	Par value per share	Proportion of nominal value of issued capital held by the Group (per cent.)	Principal activities
Incorporated in British Virgin Islands and operating in Hong Kong				
Cheung Kong Infrastructure Finance (BVI) Limited	1 ordinary	US\$1	100	Financing
Green Island International (BVI) Limited	1 ordinary	US\$1	100	Investment holding
Incorporated in Hong Kong and operating in Mainland China				
Cheung Kong China Infrastructure Limited	2 ordinary	HK\$1	100	Investment holding and investment in infrastructure projects in Mainland China
Incorporated and operating in Australia				
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	1 ordinary	A\$1	100	Financing
CKI Transmission Finance (Australia) Pty Ltd	12 ordinary	A\$1	100	Financing
CKI Distribution Finance (Australia) Pty Ltd	100 ordinary	A\$1	100	Financing

Note: The shares of all the above subsidiaries are indirectly held by the Company.

Principal Associates

Appendix 2

The table below shows the associates as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the associates would, in the opinion of the Directors, result in particulars of excessive length.

Name	Share capital issued Number	Par value per share	Approximate share of equity shares held by the Group (per cent.)	Principal activities
Incorporated and operating in Hong Kong				
Hongkong Electric Holdings Limited (note 1)	2,134,261,654 ordinary	HK\$1	39	Electricity generation and distribution
Eastern Harbour Crossing Company Limited	35,000,000 ordinary	HK\$10	50	Exercise of a franchise to operate the rail section of a tunnel
Incorporated and operating in Australia				
ETSA Utilities Partnership (note 2)	N/A	N/A	50	Electricity distribution
CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited (note 3)	200 ordinary	A\$1	50	Investing holding
CKI/HEI Electricity Distribution Pty Limited (note 4)	200 ordinary	A\$1	50	Electricity distribution
CKI/HEI Electricity Distribution Two Pty Limited (note 5)	200 ordinary	A\$1	50	Electricity distribution
CrossCity Motorway Holdings Pty Limited (note 6)	3,339,969 ordinary	A\$0.01	50	Construction and operation of Cross City Tunnel
CrossCity Motorway Holdings Trust (note 6)	N/A	N/A	50	Construction and operation of Cross City Tunnel
Incorporated in British Virgin Islands				
CKI/HEI Electricity Assignment Limited	2 ordinary	US\$1	50	Investment holding

Principal Associates

Appendix 2 (Cont'd)

Notes:

1. The associate is listed on Hong Kong Stock Exchange.
2. ETSA Utilities Partnership, an unincorporated body, is formed by the following companies:

CKI Utilities Development Limited
CKI Utilities Holdings Limited
CKI/HEI Utilities Distribution Limited
HEI Utilities Development Limited
HEI Utilities Holdings Limited

CKI Utilities Development Limited is a subsidiary of the Group and the other four companies are associates of the Group.

The partnership operates and manages the electricity distribution business in the State of South Australia of Australia.
3. CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited owns 100 per cent. interests in CKI/HEI Electricity Distribution Pty Limited and CKI/HEI Electricity Distribution Two Pty Limited.
4. CKI/HEI Electricity Distribution Pty Limited owns 100 per cent. interests in the following companies ("the Powercor Group"):

Powercor Proprietary Limited
Powercor Australia Limited Liability Company
Powercor Australia Holdings Pty Limited
Powercor Australia Limited

The Powercor Group operates and manages an electricity distribution business in the State of Victoria of Australia.
5. CKI/HEI Electricity Distribution Two Pty Limited owns 100 per cent. interests in CitiPower I Pty Ltd, which is one of five electricity distributors in the State of Victoria of Australia.
6. CrossCity Motorway Holdings Limited or CrossCity Motorway Holdings Trust own 100 per cent. interests in the following companies ("the Cross City Tunnel Group"):

CrossCity Motorway Pty Limited
CrossCity Motorway Property Trust
CrossCity Motorway Finance Pty Limited

The Cross City Tunnel Group is engaged to construct and operate the Cross City Tunnel in Sydney of Australia.

Principal Jointly Controlled Entities

Appendix 3

The table below shows the jointly controlled entities as at 31st December, 2003 which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of all the jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

Name	Percentage of interest held by the Group	Profit sharing percentage	Principal activities
Incorporated and operating in Mainland China			
Guangdong Shantou Bay Bridge Co. Ltd.	30	30	Operation of Shantou Bay Bridge
Guangdong Zhuhai Power Station Co., Ltd.	45	45	Operation of Zhuhai Power Station
Guangdong Shenzhen-Shantou Highway (East) Co., Ltd.	33.5	33.5	Operation of Shenzhen-Shantou Highway (Eastern Section)
Guangzhou E-S-W Ring Road Co., Ltd.	44.5	45 *	Operation of Guangzhou East South West Ring Road

* Years from 2012 to 2021, inclusive : 37.5 per cent.
Thereafter : 32.5 per cent.

Extracts of Financial Statements of Hongkong Electric

Appendix 4

The following is a summary of the audited consolidated profit and loss account and consolidated balance sheet of Hongkong Electric, a principal associate of the Company, for the year ended 31st December, 2003, as extracted from the 2003 published financial statements of Hongkong Electric.

Consolidated Profit and Loss Account

for the year ended 31st December

<i>HK\$ million</i>	2003	Restated 2002
Turnover	11,250	11,605
Direct costs	(3,915)	(3,728)
	7,335	7,877
Other revenue and net income	1,283	878
Other operating costs	(578)	(513)
Finance costs	(646)	(565)
Operating profit	7,394	7,677
Share of results of associates	241	163
Profit before taxation	7,635	7,840
Income tax:		
Current	(1,092)	(971)
Deferred	(619)	(233)
Profit after taxation	5,924	6,636
Scheme of Control transfers		
From/(To):		
Development Fund	139	(1)
Rate Reduction Reserve	(6)	(11)
Profit attributable to shareholders	6,057	6,624
Dividends		
Interim dividend paid	1,238	1,238
Proposed final dividend	2,412	2,412
	3,650	3,650
Earnings per share	HK\$2.84	HK\$3.10
Dividends per share	HK\$1.71	HK\$1.71

Extracts of Financial Statements of Hongkong Electric

Appendix 4 (Cont'd)

Consolidated Balance Sheet

as at 31st December

<i>HK\$ million</i>	2003	Restated 2002
Fixed assets		
Property, plant and equipment	42,024	42,049
Assets under construction	3,000	3,153
Interest in associates	8,425	7,910
Other investments	7	405
Employee retirement benefit assets	236	228
Current assets	3,020	2,823
Current liabilities	(3,865)	(5,049)
Non-current liabilities	(17,531)	(18,890)
Rate Reduction Reserve	(5)	(10)
Development Fund	–	(139)
Net assets	35,311	32,480
Share capital	2,134	2,134
Reserves	33,177	30,346
Capital and reserves	35,311	32,480

Schedule of Major Properties

Appendix 5

Location	Lot Number	Group's Interest (per cent.)	Approximate floor/site area attributable to the Group (sq. m.)	Existing Usage	Lease Term
14-18 Tsing Tim Street, Tsing Yi	TYTL 98	100	3,355	I	Medium
TMTL 201 Tap Shek Kok	TMTL 201	100	152,855	I	Medium
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML113	100	5,712	C	Medium

I : Industrial C : Commercial