



Notes to the Accounts

1 Principal Accounting Policies

A Basis of preparation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("SSAP"). The accounts are prepared under the historical cost convention except that, as set out in Notes 1F and 1H below, listed equity securities and investment properties are stated at fair value and open market value respectively. In the current year, the Group has adopted the new or revised SSAPs effective for accounting periods commencing on or after 1 January 2003. Except for the adoption of the revised SSAP 12 "Income taxes" to account for deferred taxation as set out in Note 1P below, the adoption of these new or revised SSAPs had on material effects on the Group's results.

Certain comparative figures have been reclassified to conform with the current year's presentation.

The principal accounting policies adopted in the preparation of these accounts are set out below.

B Basis of consolidation

The consolidated accounts of the Group include the accounts for the year ended 31 December 2003 of the Company and of all its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies and jointly controlled entities on the basis set out in Notes 1D and 1E below. Results of subsidiary and associated companies and jointly controlled entities acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 2003 or up to the dates of disposal as the case may be.

C Subsidiary companies

A company is a subsidiary company if more than 50% of the equity voting rights or issued share capital is held long term. In the consolidated accounts, subsidiary companies are accounted for as described in Note 1B above. In the unconsolidated accounts of the holding company, investments in subsidiary companies are carried at cost less provision for impairment in value.

D Associated companies

A company or a joint venture is classified as an associated company if not less than 20% nor more than 50% of the equity voting rights are held as a long term investment, a significant influence is exercised over its management and there is no contractual agreement between the shareholders to establish joint control over the economic activities of the entity. Results of the associated companies are incorporated in the accounts to the extent of the Group's share of the post acquisition results. Investments in associated companies represent the Group's share of their net assets, after attributing fair values to their net tangible and intangible assets at the date of acquisition, less provision for impairment in value.

E Joint ventures

A joint venture is classified as a jointly controlled entity if it is held as a long term investment and a contractual arrangement between the shareholders establishes joint control over the economic activities of the joint venture. Results of the jointly controlled entities are incorporated in the accounts to the extent of the Group's share of the post acquisition results. Investments in jointly controlled entities represent the Group's share of their net assets, after attributing fair values to their net tangible and intangible assets at the date of acquisition, less provision for impairment in value.

1 Principal Accounting Policies (continued)

E Joint ventures (continued)

A joint venture is classified as other joint venture if it is held as a long term investment and is not an associated company nor a jointly controlled entity. Other joint ventures, which give fixed rate returns, are carried at cost less repayment of capital and provision for impairment in value. Cost includes capital contributions and loans to the joint ventures, capitalised interest on related loans incurred up to the date of operations, and, in circumstances where the Group acquired the joint ventures, the purchase consideration which is attributable to their net tangible and intangible assets based upon their estimated fair value at the date of acquisition. Income is recognised on the accrual basis throughout the joint venture period.

F Liquid funds and other listed investments

Liquid funds and other listed investments are investments in cash and cash equivalents, listed held-to-maturity debt securities and listed equity securities. Listed held-to-maturity debt securities are carried at cost less provision for impairment in value. Listed equity securities ("equity securities") represent listed investments in companies which are not subsidiary companies nor associated companies nor joint ventures and are carried at fair value. Changes in the fair value of equity securities are dealt with as movements in the investment revaluation reserve. In circumstances where the fair value of equity securities has declined below their cost and the decline is determined not to be temporary, a provision for impairment in value is charged to the profit and loss account. Upon disposal of equity securities, the relevant revaluation surplus or deficit is dealt with in the profit and loss account. Interest income from these investments are recognised on the accrual basis. Dividends from these investments are recognised when the right to receive payment is established.

G Fixed assets

Fixed assets are stated at cost or valuation less depreciation. Leasehold land is amortised over the remaining period of the lease. Buildings are depreciated on the basis of an expected life of fifty years, or the remainder thereof, or over the remaining period of the lease, whichever is less. The period of the lease includes the period for which a right of renewal is attached.

Depreciation of other fixed assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight line basis at the following annual rates:

Motor vehicles	20 – 25%
Plant, machinery and equipment	3½ – 33½%
Container terminal equipment	5 – 20%
Telecommunication equipment	5 – 10%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is the greater

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



| Notes to the Accounts

1 Principal Accounting Policies (continued)

H Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed and which are held for their investment potential. Such properties are included in fixed assets at their open market value based on existing use as determined by an annual professional valuation. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Upon disposal of an investment property, the relevant revaluation reserve is recognised in the profit and loss account. Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less.

I Leased assets

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased.

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Leases payments are treated as consisting of capital and interest elements. The capital element of the leasing commitment is included as a liability and the interest element is charged to the profit and loss account. All other leases are accounted for as operating leases and the rental payments are charged to the profit and loss account on accrual basis.

J Other non-current assets

3G telecommunications spectrum licences acquired are stated at cost for the period from acquisition to the dates of first commercial usage of the related spectrum. Thereafter licences are stated net of accumulated amortisation which is expensed systematically over the remaining licence periods.

Telecommunications customer acquisition costs are capitalised and amortised over a period of 36 months. In the event that a customer churns off the network within the 36 month period, any unamortised customer acquisition costs are written off in the period in which the customer churns.

Other unlisted investments are investments in unlisted held-to-maturity debt securities and unlisted equity securities and advances. Unlisted equity securities represent unlisted investments in companies which are not subsidiary companies nor associated companies nor joint ventures. Other unlisted investments are carried at cost less provision for impairment in value.

K Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company, associated company or jointly controlled entity at the date of its acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is reported in the balance sheet as a separate asset or, as applicable, included within investments in associated companies and joint ventures, and is amortised using the straight line method over its estimated useful life. Goodwill on acquisitions which occurred before 1 January 2001 was taken directly to reserves.

1 Principal Accounting Policies (continued)

L Asset impairment

Intangible and tangible assets, except investment properties, are tested for impairment when an event that might affect asset values has occurred. A provision for impairment in value is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by discounting future earnings from operating the asset. Such provision is recognised in the profit and loss account except where the asset is carried at valuation and the provision does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

M Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs related to funding of fixed assets, properties under development, 3G licences and infrastructure joint ventures which are capitalised as part of the cost of that asset up to the date of commencement of its operations.

Fees paid for the arrangement of syndicated loan facilities and debt securities are deferred and amortised on a straight line basis over the period of the loans.

N Properties under development

Land for properties under development is stated at cost and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion, including capitalised interest on related loans. The profit and turnover on sales of property are recorded either on the date of sale or on the date of issue of the occupation permit, whichever is the later.

O Stocks

Stocks consist mainly of retail goods and the carrying value is determined as the estimated selling price less the normal gross profit margin. Other stocks are stated at the lower of cost and net realisable value.

P Deferred taxation

In previous years, deferred taxation was accounted for in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Pursuant to the revised SSAP 12, deferred taxation is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the accounts. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and the comparative figures have been restated accordingly. This change in accounting policy has resulted in an increase of HK\$4,487 million and HK\$74 million in the profit attributable to shareholders for the years ended 31 December 2003 and 2002 respectively. The opening reserves at 1 January 2003 and 2002 have been reduced by HK\$4,031 million and HK\$3,923 million respectively. The effect of this change in accounting policy on the various other balance sheet items as at 31 December 2002 is set out in note 6.



| Notes to the Accounts

1 Principal Accounting Policies (continued)

Q Pension plans

Pension plans are classified into defined benefit and defined contribution plans.

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. Cumulative unrecognised net actuarial gains and losses at the previous financial year end to the extent of the amount in excess of 10% of the greater of the present value of plan obligations and the fair value of plan assets at that date are recognised over the average remaining service lives of employees.

The Group's contributions to the defined contribution plans are charged to the profit and loss account in the year incurred.

Pension costs are charged against the profit and loss account within staff costs.

The pension plans are generally funded by the relevant Group companies taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

R Foreign exchange

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of operating profit.

The accounts of subsidiary and associated companies and jointly controlled entities outside Hong Kong are translated into Hong Kong dollars using the year end rates of exchange for the balance sheet items and the average rates of exchange for the year for the profit and loss account items. Exchange differences are dealt with as a movement in reserves.

S Dividends

Dividend is recorded as a liability on the date of declaration.



2 Turnover

Turnover comprises the gross value of goods and services invoiced to customers, income from investments and other joint ventures, proceeds from the sales of development properties, rental income from investment properties, interest income and finance charges earned. An analysis of turnover of the Company and subsidiary companies is as follows:

	2003 HK\$ millions	2002 HK\$ millions
Sales of goods	62,510	38,071
Rendering of services	37,473	31,333
Interest	4,632	4,331
Dividends	306	1,500
	104,921	75,235

3 Segment information

Segment information is presented in respect of the Group's primary business segment and secondary geographical segment.

Turnover from external customers is after elimination of inter-segment turnover. The amount eliminated attributable to Telecommunications – 2G and others is HK\$93 million (2002 – HK\$48 million), Property and hotels is HK\$343 million (2002 – HK\$467 million) and Retail and manufacturing is HK\$76 million (2002 – HK\$79 million) and Finance and investments is nil (2002 – HK\$240 million).

The column headed as Company and Subsidiaries refers to the Company and subsidiary companies' respective items. The column headed as Associates and JCE refers to the Group's share of associated companies and jointly controlled entities' respective items.

Business segment

	Turnover from external customers					
	Company and Subsidiaries	Associates and JCE	2003 Total	Company and Subsidiaries	Associates and JCE	2002 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
ESTABLISHED BUSINESSES						
Ports and related services	20,282	2,847	23,129	18,156	2,416	20,572
Telecommunications – 2G and others (note a)	11,612	3,859	15,471	10,021	3,346	13,367
Property and hotels	5,637	5,587	11,224	3,802	7,907	11,709
Retail and manufacturing	58,878	4,208	63,086	36,600	2,871	39,471
Cheung Kong Infrastructure	2,647	8,920	11,567	2,707	7,919	10,626
Husky Energy	–	14,886	14,886	–	11,198	11,198
Finance and investments	3,842	381	4,223	3,949	237	4,186
Subtotal – established businesses	102,898	40,688	143,586	75,235	35,894	111,129
TELECOMMUNICATIONS – 3G (note c)	2,023	–	2,023	–	–	–
	104,921	40,688	145,609	75,235	35,894	111,129

| Notes to the Accounts

3 Segment information (continued)

Business segment (continued)

	Earnings before interest expense and taxation					
	Company and Subsidiaries	Associates and JCE	2003 Total	Company and Subsidiaries	Associates and JCE	2002 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
ESTABLISHED BUSINESSES						
Ports and related services	6,585	1,012	7,597	5,839	787	6,626
Telecommunications – 2G and others (notes a & b)	590	605	1,195	714	255	969
Property and hotels	1,973	1,148	3,121	2,017	553	2,570
Retail and manufacturing	1,668	637	2,305	758	273	1,031
Cheung Kong Infrastructure	1,031	4,574	5,605	813	4,177	4,990
Husky Energy	–	3,462	3,462	–	2,084	2,084
Finance and investments	5,988	262	6,250	6,120	80	6,200
Subtotal – established businesses	17,835	11,700	29,535	16,261	8,209	24,470
TELECOMMUNICATIONS – 3G (note c)						
EBIT before amortisation and depreciation	(11,939)	–	(11,939)	(1,839)	–	(1,839)
Amortisation and depreciation	(6,371)	–	(6,371)	(231)	–	(231)
Subtotal – telecommunications – 3G	(18,310)	–	(18,310)	(2,070)	–	(2,070)
PROFIT ON DISPOSAL OF INVESTMENTS AND PROVISIONS (note d)						
	8,893	–	8,893	3,395	–	3,395
	8,418	11,700	20,118	17,586	8,209	25,795

Notes

- (a) Telecommunications – 2G and others includes the fixed line business of Hutchison Global Communications in Hong Kong and the 2G operations in Hong Kong, India, Israel, Australia, Thailand and other countries.
- (b) Earnings before interest expense and taxation (“EBIT”) for Telecommunications – 2G and others includes a full write-off of the investment in Asia Global Crossing, a company being restructured under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for Southern District of New York, of HK\$390 million offset by release of a provision made in previous years of the same amount.
- (c) Telecommunications – 3G includes 3G operations in the UK, Italy, Australia, Hong Kong, Sweden, Austria, Denmark and Ireland.
- (d) Profit on disposal of investments and provisions in 2003 represents a profit of HK\$1,683 million on the disposal of the European water businesses and a profit of HK\$2,627 million from the disposal of equity investments in Vodafone and Deutsche Telekom, release of provisions of HK\$7,810 million, less a full write-off of the HK\$3,111 million investment in Global Crossing and other net non-recurring charge of HK\$116 million. The comparative amounts in 2002 represents profit on sale of equity interests ranging from 1% to 3% in certain ports of HK\$1,129 million, write-back of a provision previously made for Hutchison Harbour Ring Limited of HK\$395 million and release of provisions amounting to HK\$1,871 million.

3 Segment information (continued)

Business segment (continued)

	Depreciation and amortisation					
	Company and Subsidiaries	Associates and JCE	2003 Total	Company and Subsidiaries	Associates and JCE	2002 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
ESTABLISHED BUSINESSES						
Ports and related services	2,326	357	2,683	2,358	311	2,669
Telecommunications – 2G and others	1,712	461	2,173	1,498	399	1,897
Property and hotels	196	91	287	195	54	249
Retail and manufacturing	1,703	179	1,882	1,031	124	1,155
Cheung Kong Infrastructure	236	1,675	1,911	257	1,317	1,574
Husky Energy	–	2,342	2,342	–	1,891	1,891
Finance and investments	75	1	76	66	1	67
Subtotal – established businesses	6,248	5,106	11,354	5,405	4,097	9,502
TELECOMMUNICATIONS – 3G	6,371	–	6,371	231	–	231
	12,619	5,106	17,725	5,636	4,097	9,733

	Capital expenditures	
	Company and subsidiaries	
	2003	2002
	HK\$ millions	HK\$ millions
ESTABLISHED BUSINESSES		
Ports and related services	6,559	4,005
Telecommunications – 2G and others	2,841	2,799
Property and hotels	2,175	1,190
Retail and manufacturing	1,454	1,237
Cheung Kong Infrastructure	83	111
Husky Energy	–	–
Finance and investments	41	14
Subtotal – established businesses	13,153	9,356
TELECOMMUNICATIONS – 3G	24,557	29,842
	37,710	39,198

| Notes to the Accounts

3 Segment information (continued)

Business segment (continued)

	Total assets								
	Company and Subsidiaries		Investments in associated companies and interests in joint ventures		2003 Total assets	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	
	Segment assets	Deferred tax assets	HK\$ millions	HK\$ millions	HK\$ millions	Segment assets	Deferred tax assets	HK\$ millions	HK\$ millions
ESTABLISHED BUSINESSES									
Ports and related services	61,794	59	6,508	68,361	53,905	143	5,951	59,999	
Telecommunications –									
2G and others	20,791	653	4,831	26,275	52,414	276	1,593	54,283	
Property and hotels	36,529	1	19,399	55,929	37,848	–	19,599	57,447	
Retail and manufacturing	28,347	416	1,848	30,611	26,556	333	1,064	27,953	
Cheung Kong Infrastructure	15,014	1	41,616	56,631	14,880	3	38,995	53,878	
Husky Energy	–	–	15,000	15,000	–	–	12,090	12,090	
Finance and investments	181,324	2	981	182,307	94,250	4	1,001	95,255	
Subtotal – established businesses	343,799	1,132	90,183	435,114	279,853	759	80,293	360,905	
TELECOMMUNICATIONS – 3G ⁽¹⁾	180,357	8,206	–	188,563	135,971	1,273	–	137,244	
	524,156	9,338	90,183	623,677	415,824	2,032	80,293	498,149	

⁽¹⁾ Included in this amount is an unrealised foreign currency exchange gain arising in 2003 of HK\$17,034 million (2002 – HK\$10,829 million) from the translation of overseas subsidiaries accounts to Hong Kong dollars with an offsetting amount recorded in exchange reserve.

Segment assets comprise fixed assets, other non-current assets, goodwill, liquid funds and other listed investments, cash and cash equivalents and other current assets.

	Total liabilities						
	Segment liabilities		Current & Deferred tax liabilities		2003 Total liabilities	Current & Deferred tax liabilities	
	Segment liabilities	HK\$ millions	Current & Deferred tax liabilities	HK\$ millions	Segment liabilities	HK\$ millions	Current & Deferred tax liabilities
ESTABLISHED BUSINESSES							
Ports and related services	28,580	6,549	35,129	24,067	6,022	30,089	
Telecommunications –							
2G and others	17,697	53	17,750	64,560	14	64,574	
Property and hotels	3,293	422	3,715	2,123	292	2,415	
Retail and manufacturing	25,900	610	26,510	22,485	300	22,785	
Cheung Kong Infrastructure	13,131	2,229	15,360	14,515	2,278	16,793	
Husky Energy	–	754	754	–	356	356	
Finance and investments	159,694	31	159,725	59,499	9	59,508	
Subtotal – established businesses	248,295	10,648	258,943	187,249	9,271	196,520	
TELECOMMUNICATIONS – 3G	71,462	9	71,471	37,888	–	37,888	
	319,757	10,657	330,414	225,137	9,271	234,408	

Segment liabilities comprise bank and other loans, notes and bonds, trade payables, other payables, accruals and pension obligations.

3 Segment information (continued)

Geographical segment

	Turnover from external customers					
	Company and Subsidiaries	Associates and JCE	2003 Total	Company and Subsidiaries	Associates and JCE	2002 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	35,628	9,599	45,227	33,618	14,419	48,037
Mainland China	8,407	7,876	16,283	7,098	5,518	12,616
Asia and Australia	15,944	6,014	21,958	12,228	4,290	16,518
Europe	38,146	2,164	40,310	15,253	354	15,607
Americas and others	6,796	15,035	21,831	7,038	11,313	18,351
	104,921	40,688	145,609	75,235	35,894	111,129

	Earnings before interest expense and taxation					
	Company and Subsidiaries	Associates and JCE	2003 Total	Company and Subsidiaries	Associates and JCE	2002 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	6,043	3,744	9,787	4,992	3,939	8,931
Mainland China	2,230	2,685	4,915	1,947	1,431	3,378
Asia and Australia	337	1,485	1,822	291	759	1,050
Europe	(12,525)	268	(12,257)	1,070	(15)	1,055
Americas and others	3,440	3,518	6,958	5,891	2,095	7,986
	(475)	11,700	11,225	14,191	8,209	22,400
Profit on disposal of investments and provisions (note d above)	8,893	-	8,893	3,395	-	3,395
	8,418	11,700	20,118	17,586	8,209	25,795

	Capital expenditures	
	Company and subsidiaries	
	2003	2002
	HK\$ millions	HK\$ millions
Hong Kong	5,493	4,336
Mainland China	3,724	1,028
Asia and Australia	4,260	5,490
Europe	23,085	27,970
Americas and others	1,148	374
	37,710	39,198

Notes to the Accounts

3 Segment information (continued)

Geographical segment (continued)

	Total assets							
	Company and Subsidiaries		Investments in associated companies		Company and Subsidiaries		Investments in associated companies	
	Segment assets	Deferred tax assets	and interests in joint ventures	Total assets	Segment assets	Deferred tax assets	and interests in joint ventures	Total assets
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	91,442	280	29,082	120,804	88,278	381	29,985	118,644
Mainland China	16,282	32	27,450	43,764	13,273	18	23,185	36,476
Asia and Australia	34,318	456	15,989	50,763	27,781	8	13,209	40,998
Europe	227,060	8,534	964	236,558	192,914	1,590	754	195,258
Americas and others	155,054	36	16,698	171,788	93,578	35	13,160	106,773
	524,156	9,338	90,183	623,677	415,824	2,032	80,293	498,149

4 Interest and other finance costs

	2003 HK\$ millions	2002 HK\$ millions
Company and subsidiary companies		
Bank loans and overdrafts	4,320	2,776
Other loans repayable within 5 years	841	251
Other loans not wholly repayable within 5 years	267	2
Notes and bonds repayable within 5 years	1,942	1,728
Notes and bonds not wholly repayable within 5 years	2,695	1,703
Less: interest capitalised	(2,350)	(1,198)
Share of associated companies	7,715	5,262
Share of jointly controlled entities	1,407	1,233
	446	598
	9,568	7,093

5 Directors' emoluments

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of the directors of the Company, excluding amounts received from the Company's listed subsidiaries and paid to the Company, are as follows:

	2003 HK\$ millions	2002 HK\$ millions
Fees	1	1
Basic salaries, allowances and benefits-in-kind	39	39
Provident fund contributions	5	5
Bonuses	215	214
	260	259

The total emoluments of the five independent non-executive directors of the Company was HK\$0.35 million (2002 – six directors, HK\$0.45 million).

No management remuneration was paid to Mr Li Ka-shing during the year other than a director's fee of HK\$50,000 which he paid to Cheung Kong (Holdings) Limited.

The Company does not have an option scheme for the purchase of ordinary shares in the Company.

HK\$	2003 Number of directors	2002 Number of directors
Nil – 1,000,000	8	8
7,500,001 – 8,000,000	1	1
11,000,001 – 11,500,000	1	1
11,500,001 – 12,000,000	–	1
13,000,001 – 13,500,000	1	–
32,500,001 – 33,000,000	1	1
34,000,001 – 34,500,000	1	1
35,000,001 – 35,500,000	1	1
125,000,001 – 125,500,000	1	1

The five individuals whose emoluments were the highest for the year were four (2002 – four) directors of the Company and one (2002 – one) director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary, allowances and benefits-in-kind – HK\$7.0 million (2002 – HK\$6.6 million); provident fund contribution – HK\$1.1 million (2002 – HK\$1.0 million); and bonus – HK\$19.0 million (2002 – HK\$25.0 million).

Further details on directors' emoluments can be found in the Report of the Directors on pages 63 to 64.

Notes to the Accounts

6 Taxation

	Current taxation HK\$ millions	Deferred taxation HK\$ millions	2003 Total HK\$ millions	Current taxation HK\$ millions	Deferred taxation HK\$ millions	2002 Total HK\$ millions
Hong Kong						
Subsidiary companies	602	146	748	492	21	513
Associated companies	430	241	671	393	80	473
Jointly controlled entities	66	26	92	113	12	125
Outside Hong Kong						
Subsidiary companies	997	(6,085)	(5,088)	752	(461)	291
Associated companies	365	268	633	168	638	806
Jointly controlled entities	298	154	452	97	28	125
	2,758	(5,250)	(2,492)	2,015	318	2,333

Hong Kong profits tax has been provided for at the rate of 17.5% (2002 – 16%) on the estimated assessable profits less available tax losses. In 2003, The Government of the Hong Kong Special Administrative Region enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less available tax losses.

The change in accounting policy in accordance with the revised SSAP 12 "Income taxes" to account for deferred taxation has been applied retrospectively and the comparative amounts previously reported have been restated accordingly. The adjustments to the balance sheet at 31 December 2002 are as follows:

	HK\$ millions
Fixed assets	4,483
Goodwill	(69)
Deferred tax assets	1,717
Associated companies	(1,454)
Interests in joint ventures	(199)
Deferred tax liabilities	(8,449)
Minority interests	(60)
Decrease in reserves	(4,031)

6 Taxation (continued)

The differences between the Group's expected tax charge (credit), using the weighted average applicable tax rate, and the Group's tax charge (credit) for the years were as follows:

	Established businesses HK\$ millions	3G businesses HK\$ millions	2003 Total HK\$ millions	2002 Total HK\$ millions
Expected tax calculated at the weighted average applicable tax rate	3,836	(6,232)	(2,396)	1,527
Tax losses not recognised	895	1,182	2,077	932
Tax incentives of other places	(429)	(1,076)	(1,505)	–
Income not subject to taxation	(126)	(170)	(296)	(264)
Expenses not deductible for taxation purposes	644	–	644	574
Recognition of previously unrecognised tax losses	(799)	–	(799)	(18)
Utilisation of previously unrecognised tax losses	(285)	–	(285)	(132)
Under (over) provision in prior years	78	–	78	(187)
Deferred tax assets written off	84	–	84	4
Others temporary differences	(210)	(231)	(441)	(103)
Effect of change in tax rate	182	165	347	–
Total taxation	3,870	(6,362)	(2,492)	2,333

The weighted average applicable tax rate is the aggregate of the domestic rate in each of the Group companies.

7 Dividends

	2003 HK\$ millions	2002 HK\$ millions
Interim, paid of HK\$0.51 per share (2002 – HK\$0.51)	2,174	2,174
Final, proposed of HK\$1.22 per share (2002 – HK\$1.22)	5,201	5,201
	7,375	7,375

| Notes to the Accounts

8 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of HK\$14,378 million (2002 – HK\$14,362 million, as restated) and on 4,263,370,780 shares in issue during 2003 (2002 – 4,263,370,780 shares).

9 Fixed assets

	Investment properties HK\$ millions	Other properties HK\$ millions	Other assets HK\$ millions	2003 Total HK\$ millions	2002 Total HK\$ millions
Cost or valuation					
At 1 January, as previously reported	28,525	51,116	96,795	176,436	127,327
Prior year adjustment	–	4,955	–	4,955	4,653
At 1 January, as restated	28,525	56,071	96,795	181,391	131,980
Exchange translation differences	–	1,059	8,579	9,638	2,663
Additions	36	6,831	30,843	37,710	39,198
Disposals	(1)	(275)	(2,600)	(2,876)	(2,339)
Relating to subsidiaries acquired	–	1,366	871	2,237	14,691
Relating to subsidiaries disposed of	–	(157)	(952)	(1,109)	(1,405)
Revaluation	(1,796)	–	–	(1,796)	(1,866)
Transfer to current assets	(14)	(1,771)	(22)	(1,807)	(318)
Transfer between categories	719	(708)	(18)	(7)	(1,213)
At 31 December	27,469	62,416	133,496	223,381	181,391
Accumulated depreciation					
At 1 January, as previously reported	–	7,096	25,110	32,206	24,571
Prior year adjustment	–	472	–	472	310
At 1 January, as restated	–	7,568	25,110	32,678	24,881
Exchange translation differences	–	271	1,748	2,019	1,031
Charge for the year	–	1,400	8,054	9,454	5,489
Impairment recognised	–	16	212	228	112
Disposals	–	(123)	(2,186)	(2,309)	(2,053)
Relating to subsidiaries acquired	–	122	450	572	4,819
Relating to subsidiaries disposed of	–	(9)	(376)	(385)	(356)
Transfer from (to) current assets	–	–	32	32	(32)
Transfer between categories	–	168	(175)	(7)	(1,213)
At 31 December	–	9,413	32,869	42,282	32,678
Net book value at 31 December	27,469	53,003	100,627	181,099	148,713
Cost or valuation at 31 December					
At cost	–	62,416	133,496	195,912	152,866
At valuation	27,469	–	–	27,469	28,525
	27,469	62,416	133,496	223,381	181,391

9 Fixed assets (continued)

Net book value of investment properties and other properties comprises:

	2003 HK\$ millions	2002 HK\$ millions
Hong Kong		
Long leasehold (not less than 50 years)	15,269	14,565
Medium leasehold (less than 50 years but not less than 10 years)	32,104	33,789
Short leasehold (less than 10 years)	22	26
Outside Hong Kong		
Freehold	8,668	7,629
Long leasehold	2,243	1,781
Medium leasehold	20,535	14,139
Short leasehold	1,631	616
	80,472	72,545

Investment properties have been revalued as at 31 December 2003 by DTZ Debenham Tie Leung Limited, professional valuers, on an open market value basis based on existing use.

Other properties include projects under development in the amount of HK\$2,981 million at 31 December 2003 (2002 – HK\$3,503 million).

Cost and net book value of fixed assets include HK\$70,729 million (2002 – HK\$40,615 million) and HK\$66,422 million (2002 – HK\$40,223 million) respectively relating to 3G businesses.

At 31 December, the analysis of the Group's aggregate future minimum lease payments receivable under non-cancellable operating leases is as follows:

	2003 HK\$ millions	2002 HK\$ millions
Within 1 year	1,308	1,282
After 1 year, but within 5 years	2,359	2,211
After 5 years	978	722

| Notes to the Accounts

10 Other non-current assets

	2003 HK\$ millions	2002 HK\$ millions
Cost of licences for 3G telecommunications spectrum		
At 1 January	88,519	78,152
Exchange translation differences	11,466	10,187
Additions	126	180
Amortisation for the year	(2,185)	–
At 31 December	97,926	88,519
Telecommunications customer acquisition costs		
Additions	3,699	–
Exchange translation differences	(64)	–
Amortisation for the year	(555)	–
At 31 December	3,080	–
Other unlisted investments		
Held-to-maturity debt securities	509	3,842
Equity securities and advances	4,238	2,673
	4,747	6,515
Pension assets	–	35
	105,753	95,069

11 Goodwill

	2003 HK\$ millions	2002 HK\$ millions
Cost		
At 1 January, as previously reported	8,304	440
Prior year adjustment	(75)	(75)
At 1 January, as restated	8,229	365
Additional goodwill recognised	431	7,534
Exchange translation differences	1,110	405
Relating to subsidiaries disposed of	(307)	(75)
At 31 December	9,463	8,229
Accumulated amortisation		
At 1 January, as previously reported	397	35
Prior year adjustment	(6)	(3)
At 1 January, as restated	391	32
Charge for the year	425	147
Exchange translation differences	87	12
Relating to subsidiaries acquired	–	230
Relating to subsidiaries disposed of	(23)	(30)
At 31 December	880	391
Net book value at 31 December	8,583	7,838



12 Associated companies

	2003 HK\$ millions	2002 HK\$ millions
Unlisted shares	1,543	1,524
Listed shares, Hong Kong	9,683	9,512
Listed shares, outside Hong Kong	10,928	10,864
Share of undistributed post acquisition reserves	16,242	12,239
Investments in associated companies	38,396	34,139
Amounts due from associated companies	13,004	12,722
Amounts due to associated companies	(268)	(1,584)
	51,132	45,277

The market value of the listed investments at 31 December 2003 was HK\$53,155 million (2002 – HK\$40,315 million).

Particulars regarding the principal associated companies are set forth on pages 118 to 124.

13 Interests in joint ventures

	2003 HK\$ millions	2002 HK\$ millions
Jointly controlled entities		
Unlisted shares	18,424	17,137
Share of undistributed post acquisition reserves	(5,258)	(5,963)
Investments in jointly controlled entities	13,166	11,174
Amounts due from jointly controlled entities	22,286	19,146
Amounts due to jointly controlled entities	(490)	(600)
	34,962	29,720
Other joint ventures		
Cost of investments	3,852	4,645
Amounts due from other joint ventures	237	651
	4,089	5,296
	39,051	35,016

Particulars regarding the principal jointly controlled entities are set forth on pages 118 to 124.



Notes to the Accounts

14 Liquid funds and other listed investments

	2003 HK\$ millions	2002 HK\$ millions
Managed funds, outside Hong Kong		
Listed held-to-maturity debt securities	42,998	33,471
Cash and cash equivalents	2,814	657
	45,812	34,128
Listed held-to-maturity debt securities	20,020	17,232
Long term deposits	316	321
Equity securities		
Listed equity securities, Hong Kong	4,410	3,427
Listed equity securities, outside Hong Kong	3,051	32,307
	73,609	87,415
Less: current portion	(9,680)	(11,818)
	63,929	75,597

The market value of the liquid funds and other listed investments excluding long term deposits at 31 December 2003 was HK\$73,390 million (2002 – HK\$88,603 million).

15 Current assets

	2003 HK\$ millions	2002 HK\$ millions
Stocks	11,966	8,742
Trade receivables	6,916	4,726
Other receivables and prepayments	24,297	20,469
Current portion of liquid funds and other listed investments	9,680	11,818
Total other current assets	52,859	45,755
Cash and cash equivalents	111,933	42,852
	164,792	88,607

The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 45 days.

At 31 December, the ageing analysis of the trade receivables is as follows:

	2003 HK\$ millions	2002 HK\$ millions
Current	4,081	3,277
31-60 days	1,378	844
61-90 days	502	253
Over 90 days	955	352
	6,916	4,726

16 Current liabilities

	2003 HK\$ millions	2002 HK\$ millions
Bank loans	13,908	13,334
Other loans	946	94
Exchangeable notes		
US\$3,000 million exchangeable notes, 2.875% due 2003	–	23,400
US\$2,657 million exchangeable notes, 2% due 2004	20,723	–
Other notes and bonds		
HK\$ notes, 7% due 2003	–	1,000
HK\$ notes, HIBOR + 0.8% due 2004	1,500	–
Trade payables	11,978	8,610
Other payables and accruals	39,560	36,400
Taxation	1,625	591
	90,240	83,429

The bank loans include project financing for 3G businesses totalling HK\$1,999 million (2002 – nil) which is guaranteed by the Group.

The bank and other loans of the Group are secured to the extent of HK\$1,059 million (2002 – HK\$3,159 million).

At 31 December, the ageing analysis of the trade payables is as follows:

	2003 HK\$ millions	2002 HK\$ millions
Current	9,007	5,354
31-60 days	1,930	1,280
61-90 days	539	516
Over 90 days	502	1,460
	11,978	8,610

| Notes to the Accounts

17 Long term liabilities

	2003 HK\$ millions	2002 HK\$ millions
Bank loans		
Repayable within 5 years	84,280	75,048
Not wholly repayable within 5 years	27,056	12,159
Less: current portion	(13,908)	(13,334)
	97,428	73,873
Other loans		
Repayable within 5 years	7,413	5,521
Not wholly repayable within 5 years	4,013	856
Less: current portion	(946)	(94)
	10,480	6,283
Exchangeable notes		
US\$2,657 million exchangeable notes, 2% due 2004	–	20,723
	–	20,723
Other notes and bonds		
HK\$1,500 million notes, HIBOR + 0.8% due 2004	–	1,500
US\$750 million notes-Series A, 6.95% due 2007	5,807	5,807
US\$500 million notes-Series B, 7.45% due 2017	3,871	3,871
US\$500 million notes-Series C, 7.5% due 2027	3,871	3,871
US\$250 million notes-Series D, 6.988% due 2037	1,935	1,935
US\$175 million notes, LIBOR + 0.45% due 2008	1,365	–
US\$1,500 million notes, 7% due 2011	11,700	11,700
US\$3,500 million notes, 6.5% due 2013	27,300	–
US\$1,500 million notes, 5.45% due 2010	11,700	–
US\$2,000 million notes, 6.25% due 2014	15,600	–
US\$1,500 million notes, 7.45% due 2033	11,700	–
EUR500 million bonds, 5.5% due 2006	4,815	4,085
EUR1,000 million notes, 5.875% due 2013	8,997	–
GBP325 million bonds, 6.75% due 2015	4,449	4,069
AUD425 million notes, 6.5% due 2006	2,427	1,878
AUD800 million notes, BBSW + 0.65% due 2008	4,568	–
JPY 30,000 million notes, 3.5% due 2032	2,169	1,974
	122,274	40,690
	230,182	141,569

17 Long term liabilities (continued)

The long term liabilities include financing for 3G businesses totalling HK\$50,532 million (2002 – HK\$24,691 million) of which HK\$16,187 million (2002 – HK\$4,074 million) were guaranteed by the Group.

The bank and other loans of the Group are secured to the extent of HK\$52,815 million (2002 – HK\$30,987 million) of which HK\$34,345 million (2002 – HK\$20,617 million) and HK\$16,187 million (2002 – HK\$4,074 million) are non guaranteed and guaranteed loans respectively for 3G operations included in the financing amounts above.

The US\$250 million notes-Series D due 2037 are subject to repayment at the option of the holders thereof on 1 August 2009.

The loans are repayable as follows:

	2003 HK\$ millions	2002 HK\$ millions
Bank loans		
After 1 year, but within 2 years	25,797	7,511
After 2 years, but within 5 years	44,787	54,210
After 5 years	26,844	12,152
Other loans		
After 1 year, but within 2 years	4,929	89
After 2 years, but within 5 years	1,738	5,348
After 5 years	3,813	846
Exchangeable notes		
After 1 year, but within 2 years	–	20,723
Other notes and bonds		
After 1 year, but within 2 years	–	1,500
After 2 years, but within 5 years	18,981	11,770
After 5 years	103,293	27,420
	230,182	141,569

The Group has entered into interest rate swap agreements with banks and other financial institutions mainly to swap fixed interest rate borrowings to floating interest rate borrowings. At 31 December 2003, outstanding interest rate swap agreements with financial institutions amounted to HK\$106,350 million (2002 – HK\$30,363 million). In addition, HK\$6,062 million (2002 – HK\$6,539 million) principal amount of infrastructure related floating interest rate borrowings were swapped to fixed interest rate borrowings.

The Group has entered into cross currency swap arrangements with banks to swap non HK dollar borrowings of HK\$8,997 million (2002 – nil) to US dollar payments, US dollar borrowings of HK\$1,365 million (2002 – nil) to non US dollar payments and non US dollar borrowings of HK\$2,555 million (2002 – nil) to non US dollar payments to match currency exposure of the underlying businesses.

18 Pledge of assets

At 31 December 2003, the Group's shares of Hutchison 3G UK Limited and H3G S.p.A. and their respective assets were pledged as security for 3G project financing facilities. The assets of these two companies totalled HK\$165,732 million (2002 – HK\$119,812 million) at 31 December 2003. In addition, HK\$17,628 million (2002 – HK\$22,238 million) of assets were pledged as security for bank and other loans of the Group.

Notes to the Accounts

19 Deferred taxation

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003 HK\$ millions	2002 HK\$ millions
Deferred tax assets	9,338	2,032
Deferred tax liabilities	9,032	8,680
Net deferred tax liabilities (assets)	(306)	6,648
Movements in net deferred tax liabilities (assets) are as follows:		
At 1 January, as previously reported	(84)	200
Prior year adjustment	6,732	6,878
At 1 January, as restated	6,648	7,078
Exchange translation differences	(1,081)	(23)
Relating to subsidiaries acquired	370	(43)
Relating to subsidiaries disposed of	(7)	55
Transfer to current tax	(344)	–
Net charge to reserves	47	21
Net credit for the year	(5,939)	(440)
At 31 December	(306)	6,648
Analysis of net deferred tax liabilities (assets):		
Unused tax losses	(10,710)	(3,062)
Accelerated depreciation allowances	2,704	2,381
Investments in subsidiary and associated companies and joint ventures	6,644	6,817
Withholding tax on unremitted earnings	703	477
Other temporary differences	353	35
	(306)	6,648
The potential deferred tax liabilities (assets) which have not been provided for in the accounts are as follows:		
Arising from accelerated depreciation allowances	789	1,046
Arising from unutilised tax losses	(6,766)	(5,073)
Arising from deductible temporary differences	306	267

The utilisation of unused tax losses depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

The unrecognised tax losses carried forwards amounted to HK\$29,685 million in 2003 (2002 – HK\$27,026 million). Of these, HK\$27,745 million (2002 – HK\$25,523 million) can be carried forward indefinitely. The remaining HK\$1,940 million (2002 – HK\$1,503 million) expires in the following years:

	2003 HK\$ millions	2002 HK\$ millions
In the first year	118	91
In the second year	121	232
In the third year	133	171
In the fourth year	158	238
In the fifth to tenth years inclusive	1,410	771
	1,940	1,503

20 Pension obligations

	2003 HK\$ millions	2002 HK\$ millions
Defined benefit plans		
Plan assets	–	(35)
Plan obligations	960	730
	960	695

Movements in the net defined benefit plan obligations are as follows:

	2003 HK\$ millions	2002 HK\$ millions
At 1 January	695	131
Exchange translation differences	30	49
Liabilities acquired in business acquisition	–	396
Total expense	669	440
Contributions paid	(434)	(321)
At 31 December	960	695

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

(a) Defined benefit plans

The Group's major defined benefit plans are in Hong Kong, the United Kingdom and the Netherlands. The plans are either contributory final salary pension plans or non contributory guaranteed return defined contribution plans.

The Group's major plans were valued by Watson Wyatt, qualified actuaries as at 31 December 2002 and 31 December 2003 using the projected unit credit method to account for the Group's pension accounting costs in accordance with SSAP 34 "Employee Benefits".

The principal actuarial assumptions used for accounting purposes are as follows:

	2003	2002
Discount rate applied to defined benefit plan obligations	4.50% – 9.00%	4.75% – 6.00%
Expected return on plan assets	4.29% – 9.00%	4.00% – 8.00%
Future salary increases	3.00% – 4.00%	3.00% – 5.00%
Interest credited on plan accounts	5.00% – 6.00%	5.00% – 6.00%

| Notes to the Accounts

20 Pension obligations (continued)

(a) Defined benefit plans (continued)

The amount recognised in the consolidated balance sheet is determined as follows:

	2003 HK\$ millions	2002 HK\$ millions
Present value of defined benefit obligations	8,282	6,878
Fair value of plan assets	6,339	4,814
Deficit	1,943	2,064
Unrecognised actuarial loss	(637)	(806)
Unrecognised liabilities on initial adoption of SSAP 34	(346)	(563)
Net defined benefit plan obligations	960	695

Fair value of plan assets of HK\$6,339 million (2002 – HK\$4,814 million) includes investments in the Company's shares with a fair value of HK\$34 million (2002 – HK\$37 million).

The amount recognised in the consolidated profit and loss account is as follows:

	2003 HK\$ millions	2002 HK\$ millions
Current service cost	523	360
Past service cost	13	–
Amortisation of unrecognised liabilities on initial adoption of SSAP 34	65	92
Interest cost	398	311
Expected return on plan assets	(378)	(333)
Net actuarial loss recognised	48	10
Total expense	669	440
Less: expense capitalised	(17)	(11)
Total, included in staff costs	652	429

The actual gain on plan assets in 2003 was HK\$698 million (2002 – loss of HK\$477 million).

There is no immediate requirement for the Group to fund the deficit between the fair value of defined benefit plan assets and the present value of the defined benefit plan obligations disclosed as at 31 December 2003. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. The realisation of the deficit is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. Funding requirements of the Group's major defined benefit plans are detailed below.

20 Pension obligations (continued)

(a) Defined benefit plans (continued)

The Group operates two principal plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. A formal independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 30 June 2001 reported a funding level of 99% of the accrued actuarial liabilities on an ongoing basis. The employers' annual contributions were adjusted to fully fund the plan as advised by the independent actuaries. The valuation used the aggregate cost method and the main assumptions in the valuation are an investment return of 8.5% per annum and salary increases of 6.5%. The valuation was performed by Tian Keat Aun, a Fellow of The Institute of Actuaries, of Watson Wyatt Hong Kong Limited. The funding of the plan will be reassessed based upon the results of next formal actuarial valuation to be completed by 30 June 2004 in accordance with the requirements of ORSO. The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2003 this plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements. During the year, forfeited contributions totalling HK\$35 million (2002 – HK\$30 million) were used to reduce the current year's level of contributions and HK\$5 million was available at 31 December 2003 (2002 – HK\$7 million) to reduce future years' contributions.

The Group operates three contributory defined benefit plans in the United Kingdom for its ports division, of which the Port of Felixstowe Pension Plan is the principal plan. The plans are all final salary in nature. On the assumptions adopted at the last formal actuarial valuation using the projected unit method at 1 January 2001, the ratio of assets to liabilities for the Felixstowe Scheme was 92%. The sponsoring employer's contributions have been increased from 2001 to fund the deficit over the employees' remaining expected future working lives. The main assumptions in the valuation are an investment return of 6.0% per annum in respect of past service liabilities, pensionable salary increases of 4.0% per annum and pension increases of 2.5% per annum. The valuation was performed by Graham Mitchell, a Fellow of the Institute of Actuaries, of Watson Wyatt LLP. A valuation of the Felixstowe plan is currently being undertaken with an effective date of 1 January 2004, the results of which will be available during 2004. These will have an impact on the employer's contributions from that point.

The Group's defined benefit pension plan for its retail operations in the United Kingdom was assumed on acquisition of a subsidiary company in 2002 and is not open to new entrants. The first formal valuation for funding purposes was carried out at 31 March 2003. On the assumptions adopted at the valuation using the projected unit method, the ratio of actual asset value to the target asset value being funded for past service benefits was 61%. The sponsoring employer's contributions have been increased from April 2003 to fund the deficit over a period of 12 years. The main assumptions in the valuation are an investment return of 5.5% to 6.5% per annum and pensionable salary increases of 4% per annum. The valuation was performed by Chris Norden, a Fellow of the Institute of Actuaries, of Hewitt Bacon & Woodrow Limited. The funding of the plan will be reviewed within three years of the last formal valuation.

The Group's defined benefit pension plans for its ports and retail operations in the Netherlands are guaranteed contracts undertaken by insurance companies to provide defined benefit pensions in return for actuarially agreed contributions. The risk of providing past pension benefits is underwritten by the insurance companies. The Group does not carry funding risk relating to past service. The funding rate to provide current year benefits varies in accordance with annual actuarial calculations.

| Notes to the Accounts

20 Pension obligations (continued)

(b) Defined contribution plans

The Group's costs in respect of defined contribution plans for the year amounted to HK\$400 million (2002 – HK\$156 million). Forfeited contributions totalling HK\$1 million (2002 – HK\$4 million) were used to reduce the current year's level of contributions and HK\$1 million was available at 31 December 2003 (2002 – HK\$1 million) to reduce future years' contributions.

21 Minority interests

	2003 HK\$ millions	2002 HK\$ millions
Equity interests	34,127	33,837
Loans – interest free	5,736	6,660
Loans – interest bearing	5,885	1,099
	45,748	41,596

The loans are unsecured and have no fixed terms of repayment.

22 Share capital

	2003 Number of shares	2002 Number of shares	2003 HK\$ millions	2002 HK\$ millions
Authorised:				
Ordinary shares of HK\$0.25 each	5,500,000,000	5,500,000,000	1,375	1,375
7-1/2% cumulative redeemable participating preference shares of HK\$1 each	402,717,856	402,717,856	403	403
			1,778	1,778
Issued and fully paid:				
Ordinary shares	4,263,370,780	4,263,370,780	1,066	1,066

The Company does not have an option scheme for the purchase of ordinary shares in the Company.

23 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to Earnings before interest, taxation, depreciation and amortisation (“EBITDA”)

	2003 HK\$ millions	2002 HK\$ millions
Profit before taxation	10,550	18,702
Interest and other finance costs, Company and subsidiary companies	7,715	5,262
Interest and other finance costs, share of associated companies and jointly controlled entities	1,853	1,831
Depreciation and amortisation, Company and subsidiary companies	12,619	5,636
Depreciation and amortisation, share of associated companies and jointly controlled entities	5,106	4,097
Other non-cash items included in profit on disposal of investments and provisions	3,111	(384)
Release of provisions and others	(7,081)	(1,871)
EBITDA	33,873	33,273

(b) Changes in working capital

	2003 HK\$ millions	2002 HK\$ millions
Increase in stocks	(3,165)	(678)
Increase in debtors and prepayments	(1,522)	(6,419)
Increase in creditors	5,167	11,186
Other non-cash items	(1,567)	(122)
	(1,087)	3,967

| Notes to the Accounts

23 Notes to consolidated cash flow statement (continued)

(c) Purchase of subsidiary companies

	2003 HK\$ millions	2002 HK\$ millions
Net assets acquired (excluding cash and cash equivalents):		
Fixed assets	1,665	9,872
Interests in joint ventures	–	142
Stocks	–	3,832
Debtors	(17)	2,246
Bank and other loans	(233)	(3,395)
Creditors and taxation	(1,023)	(5,386)
Deferred taxation	(370)	43
Goodwill	497	6,262
Minority interests	(63)	241
Loans from minority interests	(188)	(22)
	268	13,835
Less: Investments amount just held prior to purchase	(3)	(3,419)
	265	10,416
Discharged by:		
Cash payment	295	7,624
Less: Cash and cash equivalents purchased	(30)	1,264
Total net cash consideration	265	8,888
Deferred consideration	–	1,528
Total consideration	265	10,416

The effect of the acquisition of subsidiaries on the Group's results is immaterial for the reporting year.

23 Notes to consolidated cash flow statement (continued)

(d) Disposal of subsidiary companies

	2003 HK\$ millions	2002 HK\$ millions
Net assets disposed of (excluding cash and cash equivalents):		
Fixed assets	724	1,049
Associated companies	–	13
Interests in joint ventures	–	1,596
Stocks	54	13
Debtors	463	(378)
Bank and other loans	(19)	(47)
Creditors and taxation	(421)	(1,348)
Goodwill	1,390	127
Minority interests	57	(457)
	2,248	568
Provision for warranties and guarantees on disposal	802	–
Profit on disposal	1,691	726
	4,741	1,294
Less: Investments amount retained subsequent to disposal	(7)	(280)
	4,734	1,014
Satisfied by:		
Cash consideration	4,783	1,130
Less: Cash and cash equivalents sold	(49)	(116)
Total net cash consideration	4,734	1,014

The effect of the disposal of subsidiaries on the Group's results is immaterial for the reporting year and preceding year.

Notes to the Accounts

23 Notes to consolidated cash flow statement (continued)

(e) Analysis of changes in financing during the year

	Bank and other loans	Minority interests	Total
	HK\$ millions	HK\$ millions	HK\$ millions
At 1 January 2003, as previously reported	179,397	41,536	220,933
Prior year adjustment	–	60	60
At 1 January 2003, as restated	179,397	41,596	220,993
New loans	124,913	6,384	131,297
Repayment of loans	(46,871)	(2,136)	(49,007)
Issue of shares by subsidiary companies to minorities	–	430	430
Net cash flows from financing activities	78,042	4,678	82,720
Minority interests in profit	–	(1,336)	(1,336)
Dividends payable to minority shareholders	–	(3,056)	(3,056)
Minority interests in exchange reserve	–	2,615	2,615
Minority interests in revaluation reserve	–	(51)	(51)
Exchange translation differences	9,606	994	10,600
Purchase of minority interests	–	(145)	(145)
Relating to subsidiary companies acquired	233	396	629
Relating to subsidiary companies disposed of	(19)	57	38
At 31 December 2003	267,259	45,748	313,007
At 1 January 2002, as previously reported	146,417	36,900	183,317
Prior year adjustment	–	(88)	(88)
At 1 January 2002, as restated	146,417	36,812	183,229
New loans	51,641	1,489	53,130
Repayment of loans	(25,220)	(307)	(25,527)
Issue of shares by subsidiary companies to minorities	–	1,413	1,413
Net cash flows from financing activities	26,421	2,595	29,016
Minority interests in profit	–	2,007	2,007
Dividends payable to minority shareholders	–	(1,398)	(1,398)
Minority interests in exchange reserve	–	1,477	1,477
Minority interests in revaluation reserve	–	2	2
Exchange translation differences	3,211	777	3,988
Relating to subsidiary companies acquired	3,395	(219)	3,176
Relating to subsidiary companies disposed of	(47)	(457)	(504)
At 31 December 2002	179,397	41,596	220,993

24 Contingent liabilities

The holding company, Hutchison Whampoa Limited, and its subsidiaries provide guarantees in respect of bank and other borrowing facilities utilised by its associated companies and jointly controlled entities as follows:

	2003 Total	2002 Total
	HK\$ millions	HK\$ millions
To associated companies		
Other businesses	1,204	335
To jointly controlled entities		
Property businesses	5,041	4,982
Telecommunication businesses	5,648	5,079
Other businesses	1,300	1,300
	11,989	11,361

At 31 December 2003 the Group had contingent liabilities in respect of guarantees related to contracts for the procurement of 3G handsets of HK\$11,592 million (2002 – HK\$14,116 million), procurement of 3G infrastructure of HK\$2,425 million (2002 – HK\$2,036 million), and other guarantees of HK\$5,005 million (2002 – HK\$2,103 million) mainly for property businesses and performance guarantees.

| Notes to the Accounts

25 Commitments

Outstanding Group commitments not provided for in the accounts at 31 December 2003 are as follows:

Capital commitments

1. Contracted for:

- i. Container terminals, Hong Kong – HK\$339 million (2002 – HK\$474 million)
- ii. Container terminals, Mainland China – HK\$530 million (2002 – HK\$4,030 million)
- iii. Container terminals, others – HK\$901 million (2002 – HK\$953 million)
- iv. Telecommunications, 3G – HK\$11,327 million (2002 – HK\$20,676 million)
- v. Telecommunications, 2G and others – HK\$2,454 million (2002 – HK\$1,834 million)
- vi. Investment properties in Hong Kong – HK\$267 million (2002 – HK\$212 million)
- vii. Investment in China Joint Venture – HK\$501 million (2002 – nil)
- viii. Other fixed assets – HK\$552 million (2002 – HK\$1,960 million)
- ix. Other investments – HK\$4,949 million (2002 – HK\$2,905 million)

2. Authorised but not contracted for:

The Group, as part of its annual budget process, estimates future capital expenditures and these budgeted amounts are shown below. These estimates are subject to a rigorous authorisation process before the expenditure is committed.

- i. Container terminals, Hong Kong – HK\$1,061 million (2002 – HK\$1,181 million)
- ii. Container terminals, Mainland China – HK\$3,046 million (2002 – HK\$3,099 million)
- iii. Container terminals, others – HK\$2,920 million (2002 – HK\$2,971 million)
- iv. Telecommunications, 3G – HK\$21,478 million (2002 – HK\$23,701 million)
- v. Telecommunications, 2G and others – HK\$6,861 million (2002 – HK\$3,116 million)
- vi. Investment properties in Hong Kong – HK\$478 million (2002 – HK\$723 million)
- vii. Investment properties outside Hong Kong – HK\$685 million (2002 – nil)
- viii. Other fixed assets – HK\$4,668 million (2002 – HK\$4,666 million)
- ix. Other investments – HK\$3,449 million (2002 – HK\$1,225 million)

Operating lease commitments – future aggregate minimum lease payments for land and buildings leases

Established businesses

1. In the first year – HK\$3,537 million (2002 – HK\$2,917 million)
2. In the second to fifth years inclusive – HK\$8,469 million (2002 – HK\$7,481 million)
3. After the fifth year – HK\$10,874 million (2002 – HK\$8,527 million)

3G businesses

1. In the first year – HK\$1,060 million (2002 – HK\$672 million)
2. In the second to fifth years inclusive – HK\$3,674 million (2002 – HK\$2,362 million)
3. After the fifth year – HK\$9,502 million (2002 – HK\$6,950 million)

Operating lease commitments – future aggregate minimum lease payments for other assets

Established businesses

1. In the first year – HK\$331 million (2002 – HK\$318 million)
2. In the second to fifth years inclusive – HK\$729 million (2002 – HK\$841 million)
3. After the fifth year – HK\$1,278 million (2002 – HK\$1,433 million)

3G businesses

1. In the first year – HK\$66 million (2002 – HK\$56 million)
2. In the second to fifth years inclusive – HK\$31 million (2002 – HK\$79 million)
3. After the fifth year – nil (2002 – nil)

26 Related parties transactions

The Group has entered into joint ventures with Cheung Kong (Holdings) Limited, a substantial shareholder of the Company, to undertake various, mainly property, projects. At 31 December 2003, included in associated companies and interests in joint ventures on the balance sheet is a total amount of HK\$19,943 million (2002 – HK\$21,094 million) representing equity contributions to and the net amount due from these related entities. The Group had guaranteed bank and other borrowing facilities of HK\$5,041 million (2002 – HK\$3,298 million) for the benefit of these same entities.

27 Legal Proceedings

Other than the disputes with CIRtel described below, the Group is not engaged in any material litigation or arbitration proceeding, and no material litigation or claim is known by the Group to be pending or threatened against it.

CIRtel Arbitration

Hutchison 3G Italia SpA (“H3G Italia”) and Hutchison International Limited (“HIL”) are currently involved in arbitration proceedings pending before the International Chamber of Commerce for the resolution of a dispute with its joint venture partner CIRtel as to whether CIRtel is in breach of its funding obligations under the H3G Italia shareholders’ agreement in demanding the repayment of a €373.2 million shareholder loan from CIRtel to H3G Italia, being CIRtel’s pro rata contribution to finance the acquisition of a 3G national network license in Italy and H3G Italia’s initial working capital. HIL and H3G Italia initiated the arbitration proceedings, pursuant to the terms of the shareholders’ agreement to seek a ruling that CIRtel is required to irrevocably commit to provide the disputed amount of funding to the joint venture. Final submission by the parties were concluded in October 2003. The arbitration tribunal has not yet issued its judgement.

| Notes to the Accounts

28 Subsequent events

In March 2004, Vanda Systems & Communications Holdings Limited (“Vanda”), an information technology solution company listed on The Stock Exchange of Hong Kong, agreed to purchase 100% of Hutchison Global Communications Investments Limited (“HGC”) and 100% of PowerCom Network Hong Kong Limited, an innovative provider of broadband services that can be accessed through power sockets. The merged entity changed its name to Hutchison Global Communications Holdings Limited (“HGC Holdings”). The total consideration received by the Group on disposal of HGC was HK\$7,100 million, satisfied by the issuance of new HGC Holdings shares valued at HK\$3,900 million and convertible notes valued at HK\$3,200 million. Subsequently, the Group sold a portion of its new HGC Holdings shares by way of a share placement and realised a profit of approximately HK\$1,300 million. As a result, the Group’s stake in HGC Holdings has been increased from 37% to approximately 53%.

29 US dollar equivalents

The US dollar equivalents of the figures shown in the accounts have been translated at the rate of HK\$7.80 to US\$1.

30 Approval of accounts

The accounts set out on pages 74 to 124 were approved by the Board of Directors on 18 March 2004.

31 Earnings before interest expense and taxation (“EBIT”)

In accordance with the disclosure requirements of the Companies Ordinance of Hong Kong, EBIT is shown after crediting and charging the following items:

	2003 HK\$ millions	2002 HK\$ millions
Credits:		
Share of profits less losses of associated companies		
Listed	7,382	5,594
Unlisted	1,532	743
	8,914	6,337
Share of gross rental income from associated companies and jointly controlled entities	491	378
Gross rental income from investment properties of subsidiary companies	1,870	2,060
Less: intra group rental income	(271)	(286)
	1,599	1,774
Less: related outgoings	(40)	(31)
Net rental income of subsidiary companies	1,559	1,743
Dividend and interest income from managed funds and other investments		
Listed	2,498	3,496
Unlisted	149	372
Interest rate swap income	–	1,910
Charges:		
Depreciation and amortisation		
Fixed assets	9,454	5,489
Goodwill	425	147
Licences	2,185	–
Telecommunications customer acquisition costs	555	–
Operating leases		
Properties	6,450	3,650
Hire of plant and machinery	535	489
Auditors' remuneration	64	60

| Notes to the Accounts

32 Balance Sheet of the Company, Unconsolidated

In accordance with the disclosure requirements of the Companies Ordinance of Hong Kong, the balance sheet of the Company as at 31 December 2003 is set out as follows:

	2003	2002
	HK\$ millions	HK\$ millions
ASSETS		
Non-current assets		
Subsidiary companies		
Unlisted shares (note a)	728	728
Amounts due from subsidiary companies	51,415	50,956
	52,143	51,684
Current assets		
Other receivables	–	1
Dividends and other receivables from subsidiary companies	5,500	5,500
	5,500	5,501
Current liabilities		
Bank loans	–	2
Other payables and accruals	97	69
	97	71
Net current assets	5,403	5,430
Net assets	57,546	57,114
CAPITAL AND RESERVES		
Share capital (note 22)	1,066	1,066
Reserves (note b)	56,480	56,048
Shareholders' funds	57,546	57,114

FOK Kin-ning, Canning
Director

Frank John SIXT
Director

32 Balance Sheet of the Company, Unconsolidated (continued)

Notes:

- (a) Particulars regarding the principal subsidiary companies are set forth on pages 118 to 124.
- (b) Reserves

	Share premium HK\$ millions	Retained profit HK\$ millions	Total HK\$ millions
At 1 January 2003	28,359	27,689	56,048
2002 final dividend paid	–	(5,201)	(5,201)
2003 interim dividend paid	–	(2,174)	(2,174)
Profit for the year retained	–	7,807	7,807
At 31 December 2003	28,359	28,121	56,480
At 1 January 2002	28,359	27,271	55,630
2001 final dividend paid	–	(5,201)	(5,201)
2002 interim dividend paid	–	(2,174)	(2,174)
Profit for the year retained	–	7,793	7,793
At 31 December 2002	28,359	27,689	56,048

- (c) The Company does not have an option scheme for the purchase of ordinary shares in the Company.
- (d) Pursuant to the disclosure requirement of the Companies Ordinance of Hong Kong, the Company is required to disclose that it has guaranteed the borrowings of its finance and subsidiary companies which have been consolidated and included in the consolidated balance sheet of the Group. Of the consolidated debt included in Notes 16 and 17 totalling HK\$267,259 million (2002 – HK\$179,397 million), the Company has guaranteed a total of HK\$164,299 million (2002 – HK\$131,843 million) which has been borrowed in the name of subsidiary companies.
- (e) The Company provided guarantees in respect of the bank and other borrowing facilities utilised by the jointly controlled entities totalling to HK\$6,660 million (2002 – HK\$6,304 million). This amount has been included in the Group's contingent liabilities in Note 24.