1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of certain properties and the marking to market of investments in non-trading securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. All material inter-company transactions and balances are eliminated on consolidation.

Goodwill arising on consolidation, representing the excess of the cost of investments in subsidiaries over the Group's share of the fair value of the separable net assets of the subsidiaries at the respective acquisition dates, is written off directly to capital reserves in the year in which it arises. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost of investments in subsidiaries is credited to capital reserves.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Revenue recognition

(i) Sale of properties under development

Revenue from the sale of properties under development is recognised upon the fulfilment of the conditions stipulated in the relevant sales agreements.

(ii) Rental income

Rental in respect of properties is recognised on an accruals basis evenly over the periods of the respective tenancies.

(iii) Sale of goods

Revenue is recognised when goods are delivered to customers. This is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

1. PRINCIPAL ACCOUNTING POLICIES

(e) Revenue recognition

(iv) Ferry operations and related services

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

(v) Travel Business

Revenue arising from the travel business is recognised on the completion date of the tours or when the relevant services are provided.

(vi) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(vii) Dividends

Dividend income from listed investments is recognised when the share price goes ex-dividend.

(f) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified valuers.

Changes arising on the revaluation of investment properties are generally dealt with in reserve. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the profit and loss account.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the profit and loss account for the year.

When an investment property is substantially ready for redevelopment, it is reclassified as properties under development and any revaluation surplus relating thereto transferred to “other property revaluation reserve”.

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

Hong Kong Ferry (Holdings) Co. Ltd.

1. PRINCIPAL ACCOUNTING POLICIES

(g) Hotel properties

In accordance with normal practice in the hotel industry, no depreciation is provided on hotel properties held on leases with more than 20 years to run at the balance sheet date. It is the Group's policy to maintain the hotel properties in such condition that their value is not diminished by the passage of time so that any element of depreciation would be immaterial. Routine maintenance expenditure is charged to the profit and loss account in the year in which it is incurred. In addition, an annual provision based on the projected maintenance cost for the next five years under the planned maintenance scheme is charged to the profit and loss account.

(h) Properties held for development

Properties held for development are carried at professional valuation. Surpluses arising on revaluation are credited to "other property revaluation reserve"; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account. These properties are reclassified as properties under development when they are substantially ready for development.

(i) Properties under development

Properties under development for investment purposes are stated at carrying value less provision for diminution in value. Properties under development for sale are stated at the lower of carrying value and net realisable value. Carrying value includes amounts transferred from properties held for development and investment properties, premium paid for land and other development costs, including any related borrowing costs. Any subsequent reduction in carrying value is firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

When properties under development for investment purposes are completed, they will be transferred to investment properties and the revaluation surplus relating thereto will be transferred to the investment property revaluation reserve.

When properties under development for sale are completed, they will be transferred to completed properties for sale; the revaluation surplus relating thereto will be credited to the profit and loss account upon sale of the properties.

When properties under development for sale are sold, revenue and the related costs are recognised after taking into account the outstanding risks and obligations of the Group under the relevant sales agreements.

1. PRINCIPAL ACCOUNTING POLICIES

(j) Fixed assets and depreciation

(i) Fixed assets other than investment properties, properties held for development and hotel properties are stated in the balance sheet at cost less aggregate depreciation.

(ii) Depreciation is provided at rates calculated to write off the cost of fixed assets, other than investment properties, properties held for development and hotel properties, over their estimated useful lives on a straight line basis as follows:

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Ferry vessels and other crafts	8 to 15 years
Machinery, furniture and other fixed assets	
Dry dock	40 years
Others	4 to 10 years

(iii) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically to determine whether they are in excess of their recoverable amounts. If the carrying amount exceeds the recoverable amount, the asset is written down to the recoverable amount. In assessing the recoverable amount, the expected cash flows generated by the fixed assets are not discounted to their present value.

(k) Inventories

Inventories principally include trading stocks, spare parts and consumables.

(i) Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(ii) Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

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