

Notes on the Accounts

1 CHANGES IN ACCOUNTING POLICIES

The effects of the adoption of the applicable new or revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") on the results and financial position of the Company and the Group are as follows:

(a) SSAP 9 (revised) "Events after the balance sheet date"

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) "Events after the balance sheet date", the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in case of interim dividends) or approved by the shareholders (in case of final dividends).

As a result of this new accounting policy, the Company's and the Group's net assets at 31 December 2001 have been increased by HK\$52,004,000 (2000: HK\$43,254,000) and HK\$71,254,000 (2000: HK\$71,254,000) respectively. There is no impact on the Group's profit attributable to shareholders for the years presented. This new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior years.

(b) SSAP 17 (revised) "Property, plant and equipment"

The adoption of SSAP 17 (revised) has resulted in the portion of the Group's "properties under development" previously transferred from "property, plant and equipment" being restated at cost less provision for diminution in value. In prior years, these properties were stated at carrying value less provision for diminution in value. This change has been accounted for retrospectively by adjusting the opening balances of "properties under development" and "other property revaluation reserve" and restating comparatives.

(c) SSAP 28 "Provisions, contingent liabilities and contingent assets"

In prior years, an annual provision based on the projected maintenance cost of hotel properties for the next five years under the planned maintenance scheme was charged to the profit and loss account. With effect from 1 January 2001, the Group adopted the accounting policy as set out in note 2(o) in order to comply with SSAP 28 "Provisions, contingent liabilities and contingent assets".

The financial impact of adopting SSAP 28 is immaterial and therefore neither adjustment to the opening balance of retained profits nor restatement of comparative information has been made.

1 CHANGES IN ACCOUNTING POLICIES

- (d) The changes in accounting policies described in (a) and (b) above had the following impact on the opening balances of “properties under development”, “other property revaluation reserve” and “retained profits” of the Group at 1 January 2000 and 1 January 2001:

	Properties under development		Other property revaluation reserve	Retained profits
	Held for investment	Held for sale		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January 2000 as previously reported	618,590	3,249,921	1,766,157	363,046
Impact of adopting SSAP 9 (revised)	-	-	-	71,254
Impact of adopting SSAP 17 (revised)	(177,029)	(674,687)	(851,716)	-
Balance at 1 January 2000 as restated	<u>441,561</u>	<u>2,575,234</u>	<u>914,441</u>	<u>434,300</u>
Balance at 1 January 2001 as previously reported	653,553	2,956,941	1,590,477	389,902
Impact of adopting SSAP 9 (revised)	-	-	-	71,254
Impact of adopting SSAP 17 (revised)	(177,029)	(610,067)	(787,096)	-
Balance at 1 January 2001 as restated	<u>476,524</u>	<u>2,346,874</u>	<u>803,381</u>	<u>461,156</u>

Notes on the Accounts

2 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 HKSA, 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 investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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 are carried in the Company's balance sheet at cost less any impairment losses (see note 2(i)).

(d) Revenue recognition

(i) Sale of properties under development

Revenue from the sale of the entitlement right to the proceeds from the prospective sale of the Group's properties is recognised upon the fulfilment of the conditions stipulated in the relevant sales agreement.

(ii) Pre-sale of properties

When properties under development for sale are sold before the development is completed, pre-sale revenue and profit are recognised based on the stage of completion of the development. The stage of completion of the development is established by reference to the percentage of costs incurred to date as compared to the estimated total cost to completion (with due allowance for contingencies). For the purpose of calculating this percentage, land cost and interest capitalised have been excluded. The profits so recognised are restricted to the amount of instalments received.

2 PRINCIPAL ACCOUNTING POLICIES

(d) Revenue recognition

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) 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.

(v) Ferry operations and related services

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

(vi) Travel business

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

(vii) Interest income

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

(viii) Dividends

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

Notes on the Accounts

2 PRINCIPAL ACCOUNTING POLICIES

(e) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value 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.

(f) Hotel properties

Hotel properties are stated at cost less impairment losses (see note 2(i)).

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. Maintenance expenditure is charged to the profit and loss account in the year in which it is incurred.

2 PRINCIPAL ACCOUNTING POLICIES

(g) 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 and, solely in the case of properties under development which have been sold prior to completion, the attributable profit less sales revenue recognised to date on the pre-sale. Any subsequent reduction in carrying value is firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

Net realisable value represents the estimated selling price as determined by reference to prevailing market conditions, less the estimated costs to be incurred in completing and selling the property.

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 a development property is sold in advance of completion, the revaluation surplus relating to the pre-sold portion is credited to the profit and loss account by reference to the stage of completion as mentioned in note 2(d)(ii) above.

(h) Fixed assets and depreciation

- (i) Fixed assets other than investment properties and hotel properties are stated in the balance sheet at cost less aggregate depreciation and impairment losses (see note 2(i)).
- (ii) Depreciation is provided at rates calculated to write off the cost of fixed assets, other than investment properties 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

Notes on the Accounts

2 PRINCIPAL ACCOUNTING POLICIES

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased :

- property, plant and equipment ; and
- investments in subsidiaries.

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) 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.

2 PRINCIPAL ACCOUNTING POLICIES

(j) Inventories

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

(k) Other investments in securities

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the securities revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the securities revaluation reserve to the profit and loss account.
- (ii) Transfers from the securities revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the securities revaluation reserve in respect of that security.

(l) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

(m) Deferred taxation

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

Notes on the Accounts

2 PRINCIPAL ACCOUNTING POLICIES

(n) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership are classified as operating leases.

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

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

(ii) *Operating lease charges*

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

(o) Provisions and contingent liabilities

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

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

2 PRINCIPAL ACCOUNTING POLICIES

(p) Borrowing costs

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

(q) Segmental reporting

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segmental revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, and are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

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

(r) Related parties

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

(s) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents include advances from banks repayable within three months from the date of the advance.

Notes on the Accounts

3 DISCONTINUED OPERATIONS

There was no operation discontinued during the year.

Passenger ferry operations

On 2 November 1999 and 14 January 2000, the Group entered into sales and purchase agreements with an independent third party for the transfer of its passenger ferry operation licence and the disposal of its ferry vessels and other related assets for a cash consideration of HK\$167 million. The transactions were completed on 15 January 2000.

The revenue and profit from operations attributable to the disposed ferry operations are disclosed in note 4 on the accounts.

Wholesale operation

On 31 August 2000, the Group terminated its wholesale operation in Hong Kong. The revenue and loss from operations attributable to the ceased wholesale operation are disclosed in note 4 on the accounts.

4 SEGMENTAL INFORMATION

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

Inter-segment pricing is based on similar terms as those available to other external parties.

The Group is currently organized into three main operating segments, namely (i) Property development and investment, (ii) Ferry, shipyard and related operations, and (iii) Travel and hotel operations.

The segmental information for the year about these business segments is presented below:

(a) Segmental revenue

	Total revenue		Inter-segment revenue		Revenue from external customers	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Continuing operations						
Property development and investment (note c)	1,128,321	412,733	-	3,350	1,128,321	409,383
Ferry, shipyard and related operations	156,430	203,937	1,804	10,257	154,626	193,680
Travel and hotel operations	117,995	125,063	2	172	117,993	124,891
Others (note d)	50,354	99,001	45,261	82,410	5,093	16,591
	1,453,100	840,734	47,067	96,189	1,406,033	744,545
Discontinued operations						
Passenger ferry operations	-	10,548	-	-	-	10,548
Wholesale operation	-	32,728	-	166	-	32,562
	-	43,276	-	166	-	43,110
	1,453,100	884,010	47,067	96,355	1,406,033	787,655
Analysed by:						
Turnover					1,402,697	776,525
Other revenue					3,336	11,130
					1,406,033	787,655

Notes on the Accounts

4 SEGMENTAL INFORMATION

(b) Segmental result

	Segmental result		Inter-segment transactions		Consolidated result	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Continuing operations						
Property development and investment (note c)	419,017	102,416	(142,916)	-	276,101	102,416
Ferry, shipyard and related operations	12,904	15,592	-	-	12,904	15,592
Travel and hotel operations	4,958	6,718	-	-	4,958	6,718
Others (note d)	(4,274)	4,064	-	-	(4,274)	4,064
	432,605	128,790	(142,916)	-	289,689	128,790
Discontinued operations						
Passenger ferry operations (note 5)	7,012	4,437	-	-	7,012	4,437
Wholesale operation	-	(4,539)	-	-	-	(4,539)
	7,012	(102)	-	-	7,012	(102)
	439,617	128,688	(142,916)	-	296,701	128,688
Finance cost					-	(101)
Profit from ordinary activities before taxation					296,701	128,587
Taxation					(14,775)	(1,974)
Profit attributable to shareholders					281,926	126,613

4 SEGMENTAL INFORMATION

- (c) Included in the segmental revenue and segmental result of the property development and investment operations were the proceeds, being the third and final instalment, from the disposal of the right to 50% of the sales proceeds of the domestic portion of the redevelopment referred to in note 29 of HK\$900,000,000 (2000: HK\$397,500,000) and the profits derived from the subject disposal of HK\$296,034,000 (2000: HK\$133,088,000) respectively.

The segmental result of the property development and investment operations also included impairment loss in respect of the shipyard property of HK\$41,224,000 (2000: HK\$Nil) and deficit on revaluation of investment properties of HK\$29,000,000 (2000: HK\$19,638,000).

- (d) The "Others" segmental result mainly comprises financial income, investment income and corporate expenses.

(e) **Segmental balance sheet**

	Segmental assets		Inter-segment elimination		Total assets	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Property development and investment	2,516,413	3,381,669	-	-	2,516,413	3,381,669
Ferry, shipyard and related operations	478,427	121,087	142,916	-	335,511	121,087
Travel and hotel operations	76,137	73,466	-	-	76,137	73,466
Others	215,733	190,095	-	-	215,733	190,095
Total assets	3,286,710	3,766,317	142,916	-	3,143,794	3,766,317

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Property development and investment	170,315	679,131	-	-	170,315	679,131
Ferry, shipyard and related operations	25,171	36,082	-	-	25,171	36,082
Travel and hotel operations	24,485	25,247	-	-	24,485	25,247
Others	12,121	9,968	-	-	12,121	9,968
Total liabilities	232,092	750,428	-	-	232,092	750,428

The "Others" segment mainly comprises financial assets, tax recoverable, interest-bearing loans, borrowings and tax payable.

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4 SEGMENTAL INFORMATION

(f) Other segmental information

	Depreciation		Impairment loss		Capital expenditure incurred	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment	8,312	14,173	41,224	-	70,665	35,405
Ferry, shipyard and related operations	14,577	9,352	3,195	-	260	9,777
Travel and hotel operations	446	331	-	-	217	464
Others	474	563	-	-	29	628
	23,809	24,419	44,419	-	71,171	46,274

5 INCOME

	2001	2000
	HK\$'000	HK\$'000
Other revenue		
Management fee income	2,103	9,877
Rental income	1,017	1,050
Other interest income	216	203
	3,336	11,130
Other net income		
Surplus from termination of staff retirement schemes	21,685	-
Gain on discontinuance of passenger ferry operations	-	5,616
Profit on sale of listed investments	194	5,939
Profit on disposal of a subsidiary	301	-
Profit on sale of fixed assets	3,016	330
Other ferry income	71	277
Sundry income	8,298	8,548
	33,565	20,710

Included in other net income was HK\$21,685,000 (2000: HK\$26,565,000 included in gain on discontinuance of passenger ferry operations) which represented the surplus arising from termination of the Company's "Office Staff Retirement Scheme" and "Outdoor Staff Retirement Scheme".

5 INCOME

Out of the total amount, a sum of HK\$7,012,000 (2000: HK\$26,565,000) was attributable to staff in connection with the passenger ferry operation which was discontinued in January 2000. This sum was included in "Passenger ferry operation" under discontinued operations in note 4(b). The remaining balance of the surplus was included in the "Ferry, shipyard and related operations" segment.

The gain on disposal of discontinued operation in 2000, amounting to HK\$5,616,000, represents the profit realised upon the disposals of the vessels, office building, depot and related assets, plus the surplus recoverable from the termination of the Outdoor Staff Retirement Scheme less redundancy payments made to the staff of the operation.

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	25,785	52,263
Other borrowing costs	12	1,573
	25,797	53,836
Less: Borrowing costs capitalised into properties under development	(25,797)	(53,735)
	-	101

The borrowing costs have been capitalised at a rate of 4.56% – 7.5% per annum (2000: 6.56% – 9.5% per annum) in respect of properties under development.

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6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2001 HK\$'000	2000 <i>HK\$'000</i>
(b) Other items:		
Cost of inventories	202,824	116,168
Staff costs including retirement costs of HK\$3,679,000 (2000: HK\$3,329,000)	84,435	131,782
Auditors' remuneration	1,180	1,456
Depreciation	23,809	24,419
Operating lease charges in respect of		
– Premises	3,007	2,413
– Vessels	1,415	2,273
Rental receivable from investment properties net of outgoings of HK\$1,878,000 (2000: HK\$5,101,000)	(7,860)	(4,904)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings	(4,515)	(3,283)
Interest income	(3,370)	(7,202)
Dividend income from listed investments	(1,469)	(1,609)
Profit on sale of fixed assets		
– Continuing operations	(3,016)	(330)
– Discontinued operations	–	(5,230)
	—————	—————

7 DIRECTORS' REMUNERATION

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

	2001 HK\$'000	2000 <i>HK\$'000</i>
Fees		
– Executive directors	150	150
– Independent non-executive directors	150	150
– Other non-executive directors	200	250
	—————	—————
	500	550
	—————	—————

The remuneration of each of the ten (2000: eleven) directors falls within the band of below HK\$1,000,000.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments is a director of the Company. The emoluments of the five highest paid employees are as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Salaries and other emoluments	6,812	7,245
Retirement scheme contributions	483	382
	<u>7,295</u>	<u>7,627</u>

The emoluments of the five individuals with the highest emoluments are within the following bands:

<i>HK\$</i>	2001 Number of individuals	2000 Number of individuals
1,000,001 – 1,500,000	4	3
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	1
	<u>1</u>	<u>1</u>

9 TAXATION**(a) Taxation in the consolidated profit and loss account represents:**

	2001 HK\$'000	2000 <i>HK\$'000</i>
Provision for Hong Kong profits tax for the year	1,516	13,035
Under/(over) provision in respect of prior years	25,976	(61)
	<u>27,492</u>	<u>12,974</u>
Deferred taxation (<i>note 22(a)</i>)	(12,717)	(11,000)
	<u>14,775</u>	<u>1,974</u>

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the year ended 31 December 2001 less relief for available tax loss where applicable at 16% (2000: 16%).

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9 TAXATION

A provision of HK\$26,050,000 has been made for probable tax liabilities in respect of disputes with the Inland Revenue Department regarding the deductibility of depreciation allowances on certain fixed assets of the Company for the years of assessment from 1995/96 to 2000/01, resulting in a reduction of tax recoverable of HK\$23,824,000. The relevant deferred tax provision of HK\$15,000,000 previously made in respect of the depreciation allowances in dispute was transferred to the profit and loss account during the year.

(b) Tax recoverable in the balance sheets represents:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	1,380	9,039	-	9,000
Provisional profits tax paid	(3,336)	(478)	-	-
	<u>(1,956)</u>	<u>8,561</u>	<u>-</u>	<u>9,000</u>
Balance of profits tax recoverable relating to prior years	(3,560)	(37,669)	-	(34,120)
	<u>(5,516)</u>	<u>(29,108)</u>	<u>-</u>	<u>(25,120)</u>

(c) Tax payable in the balance sheets represents:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	136	3,996	-	-
Provisional profits tax paid	(373)	(1,255)	(373)	-
	<u>(237)</u>	<u>2,741</u>	<u>(373)</u>	<u>-</u>
Balance of profits tax provision relating to prior years	818	423	396	-
	<u>581</u>	<u>3,164</u>	<u>23</u>	<u>-</u>

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a loss of HK\$1,176,510,000 (2000(restated): a loss of HK\$23,936,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Amount of consolidated loss attributable to shareholders dealt with in the Company's accounts	(1,176,510)	(23,936)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	28,000	17,115
Loss for the year (<i>note 24</i>)	<u>(1,148,510)</u>	<u>(6,821)</u>

11 DIVIDENDS**(a) Dividends attributable to the year**

	2001 HK\$'000	2000 <i>HK\$'000</i>
Interim dividend declared and paid of 8 cents per share (2000: 8 cents)	28,503	28,503
Final dividend proposed after the balance sheet date of 20 cents per share (2000: 20 cents)	71,254	71,254
	<u>99,757</u>	<u>99,757</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 HK\$'000	2000 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 20 cents per share (2000: 20 cents)	71,254	71,254

Notes on the Accounts

12 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$281,926,000 (2000: HK\$126,613,000) and 356,273,883 (2000: 356,273,883) ordinary shares in issue during the year.

There was no potential dilution of earnings per share during 2000 and 2001.

13 FIXED ASSETS

Group

	Property, plant and equipment						Total HK\$'000
	Hotel properties HK\$'000	Leasehold land and buildings HK\$'000	Ferry vessels and other crafts HK\$'000	Machinery, furniture and others HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	
Cost or valuation:							
At 1 January 2001	63,761	229,500	563,134	267,483	1,123,878	179,500	1,303,378
Additions	-	173	-	613	786	-	786
Disposals	-	(643)	(221,875)	(1,231)	(223,749)	-	(223,749)
Disposal of a subsidiary	-	-	(2,989)	-	(2,989)	-	(2,989)
Revaluation deficit	-	-	-	-	-	(29,000)	(29,000)
At 31 December 2001	63,761	229,030	338,270	266,865	897,926	150,500	1,048,426
Representing:							
Cost	63,761	229,030	338,270	266,865	897,926	-	897,926
Valuation	-	-	-	-	-	150,500	150,500
	63,761	229,030	338,270	266,865	897,926	150,500	1,048,426
Aggregate depreciation:							
At 1 January 2001	-	39,324	537,421	121,342	698,087	-	698,087
Charge for the year	-	4,395	9,238	10,176	23,809	-	23,809
Impairment loss (note a)	-	41,224	3,195	-	44,419	-	44,419
Written back on disposal	-	(642)	(221,871)	(1,219)	(223,732)	-	(223,732)
Disposal of a subsidiary	-	-	(1,127)	-	(1,127)	-	(1,127)
At 31 December 2001	-	84,301	326,856	130,299	541,456	-	541,456
Net book value:							
At 31 December 2001	63,761	144,729	11,414	136,566	356,470	150,500	506,970
At 31 December 2000	63,761	190,176	25,713	146,141	425,791	179,500	605,291

13 FIXED ASSETS

Company

	Property, plant and equipment			
	Leasehold land and buildings HK\$'000	Ferry vessels and other crafts HK\$'000	Machinery, furniture and others HK\$'000	Total HK\$'000
Cost:				
At 1 January 2001	212,845	338,672	197,684	749,201
Transfer to subsidiaries	(212,370)	(188,375)	(197,666)	(598,411)
Disposals	–	–	(18)	(18)
At 31 December 2001	475	150,297	–	150,772
Aggregate depreciation:				
At 1 January 2001	24,064	332,421	59,634	416,119
Charge for the year	2,833	1,562	5,429	9,824
Impairment loss (<i>note (a)</i>)	41,224	–	–	41,224
Transfer to subsidiaries	(67,938)	(188,372)	(65,045)	(321,355)
Written back on disposal	–	–	(18)	(18)
At 31 December 2001	183	145,611	–	145,794
Net book value:				
At 31 December 2001	292	4,686	–	4,978
At 31 December 2000	188,781	6,251	138,050	333,082

- (a) The recoverable amount of the leasehold land and buildings at Tsing Yi Town Lot No. 102 was ascertained by reference to a valuation carried out as at 29 August 2001. An impairment in value of HK\$41,224,000 was recognised in the profit and loss account.
- (b) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$150,500,000 as at 31 December 2001 (2000: HK\$179,500,000) on an open market value basis.

Notes on the Accounts

13 FIXED ASSETS

- (c) The analysis of the net book value of all the properties, which are all held in Hong Kong, is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Medium term lease	<u>358,990</u>	<u>433,437</u>	<u>292</u>	<u>188,781</u>

- (d) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to two years. None of the leases includes contingent rentals.

The carrying amounts of investment properties of the Group held for use in operating leases were HK\$150,500,000 (2000: HK\$179,500,000).

The Group's total future lease payments under non-cancellable operating leases are receivable as follows:

	2001 HK\$'000	2000 HK\$'000
Within 1 year	5,308	8,114
After 1 year but within 5 years	<u>453</u>	<u>1,875</u>
	<u>5,761</u>	<u>9,989</u>

14 PROPERTIES UNDER DEVELOPMENT

	2001 HK\$'000	2000 <i>HK\$'000</i>
At 1 January		
– as previously reported	3,610,494	3,868,511
– prior year adjustment (<i>notes 1(b) & (d)</i>)	(787,096)	(851,716)
	2,823,398	3,016,795
– as restated		
Additions	291,751	182,069
Attributable profit	56,875	–
Proceeds receivable	(215,084)	–
Disposals	(885,651)	(375,466)
At 31 December	<u>2,071,289</u>	<u>2,823,398</u>
Analysis of properties under development:		
For sale	1,524,380	2,346,874
For investment	546,909	476,524
	<u>2,071,289</u>	<u>2,823,398</u>

The above properties are situated in Hong Kong and held under medium-term leases.

15 INTEREST IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 <i>HK\$'000</i>
Unlisted shares, at cost	167,278	167,278
Amounts due from subsidiaries	5,003,417	4,644,683
Less: Impairment loss	(1,618,424)	(373,734)
	<u>3,552,271</u>	<u>4,438,227</u>

Notes on the Accounts

15 INTEREST IN SUBSIDIARIES

Details of principal subsidiaries, which materially affect the results or assets of the Group, are as follows:

	Ordinary share capital		Principal activities	
	Issued (HK\$)	% held by the Company		% held by a subsidiary
HYFCO Development Company Limited	12,000,030	100	–	Property investment
The Hong Kong Shipyard Limited	17,000,000	100	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2	100	–	Trading
HYFCO Estate Management & Agency Limited	25,000,000	100	–	Property management
HYFCO Properties Limited	21,700,000	100	–	Hotel investment
HYFCO Travel Agency Limited	3,500,000	100	–	Travel business
The Hongkong and Yaumati Ferry Company Limited	100,000,000	100	–	Ferry operations
Fine Time Development Limited	2	100	–	Property investment
Galaxy Hotel Management Company Limited	1,350,000	–	100	Floating restaurant business
Genius Star Development Limited	2	100	–	Property investment
Pico International Limited	6,000,000	100	–	Investment holding

15 INTEREST IN SUBSIDIARIES

	Ordinary share capital			Principal activities
	Issued (HK\$)	% held by the Company	% held by a subsidiary	
Hong Kong Ferry Finance Company Limited	2	100	–	Group financing
Thommen Limited	20	100	–	Investment holding
Lenfield Limited	2	100	–	Property development
HKF Property Investment Limited	2	100	–	Property investment

All the subsidiaries listed above are incorporated in Hong Kong.

Except for HYFCO Travel Agency Limited which operates outbound tours in the Mainland China and Macau, all the other subsidiaries operate in Hong Kong.

Notes on the Accounts

16 NON-CURRENT FINANCIAL ASSETS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-trading securities				
Unlisted shares	121	1,424	116	116
Advances to investee companies less provision	3,771	5,061	3,200	3,636
	<u>3,892</u>	<u>6,485</u>	<u>3,316</u>	<u>3,752</u>
Listed shares				
– in Hong Kong	43,556	46,096	–	–
– outside Hong Kong	881	828	–	–
	<u>44,437</u>	<u>46,924</u>	<u>–</u>	<u>–</u>
Total investments	<u>48,329</u>	<u>53,409</u>	<u>3,316</u>	<u>3,752</u>
Market value of listed shares at 31 December	<u>44,437</u>	<u>46,924</u>	<u>–</u>	<u>–</u>

Included in unlisted investments are interests in three companies, namely, Authian Estates Limited, 2OK Company Limited and Celelight Company Limited, all of which are incorporated in Hong Kong. The Group holds 50% of equity interest in Authian Estates Limited and 2OK Company Limited and one-third of equity interest in Celelight Company Limited. The equity method of accounting for these companies is not adopted as the results and net assets of these companies are not material to the Group.

17 INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Trading stocks	1,030	2,856
Spare parts and consumables	7,489	12,417
Work in progress	7,729	4,862
	<u>16,248</u>	<u>20,135</u>

The amount of spare parts and consumables carried at net realisable value is HK\$7,344,000 (2000: HK\$12,178,000).

18 DEBTORS AND PREPAYMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated – notes 1 and 30)
Proceeds receivable from pre-sale of properties under development	215,084	–	–	–
Trade debtors	90,393	62,974	–	–
Other debtors and prepayments	16,374	45,066	7,820	11,264
	<u>321,851</u>	<u>108,040</u>	<u>7,820</u>	<u>11,264</u>

All of the debtors and prepayments except for HK\$21,149,000 (2000: HK\$8,207,000) are expected to be recovered within one year. Included in HK\$21,149,000 was retention money recoverable of HK\$12,717,000 (2000: HK\$Nil).

Included in debtors and prepayments are proceeds receivable from pre-sale of properties under development and trade debtors (excluding retention money recoverable and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current	286,304	35,949
1 to 3 months overdue	4,736	17,570
More than 3 months overdue but less than 12 months overdue	1,356	2,351
More than 12 months overdue	364	7,104
	<u>292,760</u>	<u>62,974</u>

Debts are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted.

Notes on the Accounts

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deposits with banks and other financial institutions	157,136	95,000	-	-
Cash at bank and in hand	16,455	31,936	610	444
	<u>173,591</u>	<u>126,936</u>	<u>610</u>	<u>444</u>

20 BANK LOANS AND OVERDRAFT

At 31 December 2001, the bank loans and overdraft were repayable as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within 1 year or on demand	<u>984</u>	<u>601,459</u>	<u>-</u>	<u>1,271</u>
These are analysed as follows:				
Unsecured bank overdraft	984	1,459	-	1,271
Bank loans (secured)	-	600,000	-	-
	<u>984</u>	<u>601,459</u>	<u>-</u>	<u>1,271</u>

The banking facilities were secured by pledging the shares in the subsidiaries which held the properties under development with an aggregate carrying value of HK\$2,823,398,000 (restated) as at 31 December 2000. The facilities were fully repaid in September 2001 and the charge had been released.

21 CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges except for HK\$29,959,000 (2000: HK\$Nil) are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following aging analysis:

	Group	
	2001 HK\$'000	2000 <i>HK\$'000</i>
Due within 1 month or on demand	150,854	38,168
Due after 1 month but within 3 months	–	39,157
Due after 3 months but within 6 months	–	3,768
Due after 12 months	29,959	–
	180,813	81,093

22 DEFERRED TAXATION

(a) Movement on deferred taxation is as follows:

	Group		Company	
	2001 HK\$'000	2000 <i>HK\$'000</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
Balance at 1 January	15,500	26,500	15,000	26,000
Transfer to the profit and loss account	(12,717)	(11,000)	(14,293)	(11,000)
Balance at 31 December	2,783	15,500	707	15,000

(b) Major components of deferred tax of the Group and the Company are set out below:

	Group			
	2001		2000	
	Provided HK\$'000	Potential liabilities unprovided HK\$'000	Provided <i>HK\$'000</i>	Potential liabilities unprovided <i>HK\$'000</i>
Depreciation allowances in excess of related depreciation	28,991	–	15,500	3,448
Future benefit of tax losses	(26,208)	(120,875)	–	(62,000)
	2,783	(120,875)	15,500	(58,552)

Notes on the Accounts

22 DEFERRED TAXATION

	Company			
	2001		2000	
	Provided HK\$'000	Potential liabilities unprovided HK\$'000	Provided HK\$'000	Potential liabilities unprovided HK\$'000
Depreciation allowances in excess of related depreciation	744	-	15,000	3,108
Future benefit of tax losses	(37)	-	-	-
	<u>707</u>	<u>-</u>	<u>15,000</u>	<u>3,108</u>

23 SHARE CAPITAL

	Number of shares		Nominal value	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Authorised:				
Ordinary shares of HK\$1 each	<u>550,000,000</u>	<u>550,000,000</u>	<u>550,000</u>	<u>550,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1 each	<u>356,273,883</u>	<u>356,273,883</u>	<u>356,274</u>	<u>356,274</u>

There was no movement in share capital during 2000 and 2001.

24 RESERVES

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group						
At 1 January 2000						
– as previously reported	1,398,527	1,766,157	6,924	7,956	363,046	3,542,610
– prior year adjustments:						
– dividend proposed (<i>note 1(d)</i>)	–	–	–	–	71,254	71,254
– restatement of properties under development (<i>note 1(d)</i>)	–	(851,716)	–	–	–	(851,716)
– as restated	1,398,527	914,441	6,924	7,956	434,300	2,762,148
Dividend approved in respect of the previous financial year	–	–	–	–	(71,254)	(71,254)
Revaluation deficit	–	–	(9,546)	–	–	(9,546)
Realisation of revaluation reserve	–	(111,060)	(6,431)	–	–	(117,491)
Realisation of inter-company profits	–	–	–	(2,352)	–	(2,352)
Profit for the year	–	–	–	–	126,613	126,613
Interim dividend paid	–	–	–	–	(28,503)	(28,503)
At 31 December 2000	<u>1,398,527</u>	<u>803,381</u>	<u>(9,053)</u>	<u>5,604</u>	<u>461,156</u>	<u>2,659,615</u>
At 1 January 2001						
– as previously reported	1,398,527	1,590,477	(9,053)	5,604	389,902	3,375,457
– prior year adjustments:						
– dividend proposed (<i>note 1(d)</i>)	–	–	–	–	71,254	71,254
– restatement of properties under development (<i>note 1(d)</i>)	–	(787,096)	–	–	–	(787,096)
– as restated	1,398,527	803,381	(9,053)	5,604	461,156	2,659,615
Dividend approved in respect of the previous financial year	–	–	–	–	(71,254)	(71,254)
Revaluation deficit	–	–	(2,072)	–	–	(2,072)
Realisation of revaluation reserve	–	(284,518)	239	–	–	(284,279)
Realisation of inter-company profits	–	–	–	(5)	–	(5)
Profit for the year	–	–	–	–	281,926	281,926
Interim dividend paid	–	–	–	–	(28,503)	(28,503)
At 31 December 2001	<u>1,398,527</u>	<u>518,863</u>	<u>(10,886)</u>	<u>5,599</u>	<u>643,325</u>	<u>2,555,428</u>

Notes on the Accounts

24 RESERVES

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company			
At 1 January 2000			
– as previously reported	1,398,527	3,085,350	4,483,877
– prior year adjustments:			
– dividend proposed	–	71,254	71,254
– dividend income from subsidiaries	–	(17,115)	(17,115)
	<u>1,398,527</u>	<u>3,139,489</u>	<u>4,538,016</u>
– as restated	1,398,527	3,139,489	4,538,016
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Loss for the year	–	(6,821)	(6,821)
Interim dividend paid	–	(28,503)	(28,503)
	<u>1,398,527</u>	<u>3,032,911</u>	<u>4,431,438</u>
At 31 December 2000	<u>1,398,527</u>	<u>3,032,911</u>	<u>4,431,438</u>
At 1 January 2001			
– as previously reported	1,398,527	2,989,657	4,388,184
– prior year adjustments:			
– dividend proposed	–	71,254	71,254
– dividend income from subsidiaries	–	(28,000)	(28,000)
	<u>1,398,527</u>	<u>3,032,911</u>	<u>4,431,438</u>
– as restated	1,398,527	3,032,911	4,431,438
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Loss for the year	–	(1,148,510)	(1,148,510)
Interim dividend paid	–	(28,503)	(28,503)
	<u>1,398,527</u>	<u>1,784,644</u>	<u>3,183,171</u>
At 31 December 2001	<u>1,398,527</u>	<u>1,784,644</u>	<u>3,183,171</u>

The distributable reserves of the Company at 31 December 2001 amounted to HK\$733,271,000 (2000 (restated): HK\$711,430,000), representing part of its retained profits at that date. The Company's other reserves are not distributable. After the balance sheet date the directors proposed a final dividend of 20 cents per share (2000: 20 cents), amounting to HK\$71,254,000 (2000: HK\$71,254,000). This dividend has not been recognised as a liability at the balance sheet date.

24 RESERVES

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

Other property revaluation reserve and securities revaluation reserve have been set up and dealt with in accordance with the accounting policies adopted for the revaluation of investment properties, properties under development and revaluation of securities (note 2).

Included in other capital reserves of the Group was negative goodwill of HK\$4,020,000 which arose on acquisition of subsidiaries prior to 1 January 2000. There was no movement in the balance during the years 2000 and 2001.

25 OPERATING LEASE COMMITMENTS

The Group leases a number of retail outlets, offices and vessels under operating leases. The leases typically run for an initial period of two years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

The total future lease payments under non-cancellable operating leases are payable as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Within one year	2,357	1,733
After one but within five years	365	645
	<u>2,722</u>	<u>2,378</u>

26 CAPITAL AND OTHER COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2001 not provided for in the accounts were as follows:

	Group	
	2001 HK\$'000	2000 <i>HK\$'000</i>
Contracted for	<u>241,835</u>	<u>346,018</u>

- (b) At 31 December 2001, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK\$1,353,697,000 (2000: HK\$1,937,315,000), 50% of which was recoverable under the arrangement referred to in note 29.

Notes on the Accounts

27 RETIREMENT SCHEMES

In December 2000, the Group's three Occupational Retirement Schemes ("ORSO Schemes") were combined into one by transferring all the members and their relevant accrued rights of the Outdoor Staff and the Office Staff Retirement Schemes to the Group Staff Retirement Scheme. The Outdoor Staff and the Office Staff Retirement Schemes were terminated in December 2000 and January 2001 respectively.

During the year, a total surplus of HK\$21,685,000 (2000: HK\$26,565,000) arising from termination of the Office Staff and the Outdoor Staff Retirement Schemes was recognised as other net income in the consolidated profit and loss account. Out of this amount, a sum of HK\$7,012,000 was attributable to staff in connection with the passenger ferry operation which was discontinued in January 2000. The sum was included in "Passenger ferry operations" under discontinued operations in note 4(b). The remaining balance of the surplus was included in the "Ferry, shipyard and related operations" segment. All surpluses were refunded to the Company in April 2001.

During the year, all employees of the Group were covered either by the Group Staff Retirement Scheme or the Mandatory Provident Fund Schemes ("MPF Schemes").

Contributions to the Group Staff Retirement Scheme are made in accordance with recommendations of independent actuaries who value the scheme at regular intervals. Contributions to the MPF Schemes are based on 5% of the relevant income of the relevant staff and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines. Contributions payable to all schemes are charged to the profit and loss account. Retirement costs for the year were HK\$3,679,000 (2000: HK\$3,329,000).

The latest actuarial valuation of the Group Staff Retirement Scheme was as at 1 December 2000. The market value of its assets was HK\$53.4 million, representing 130% of the scheme past service liabilities as at that date. The valuation was prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the Attained Age Method. The actuarial assumptions used included investment yield, salary escalation, expected retirement age, withdrawal rates and mortality rates.

28 CONTINGENT LIABILITIES

At 31 December 2001, there were contingent liabilities in respect of the following:

A statement of claim was filed at the High Court of Hong Kong by the Secretary for Justice, representing the Hong Kong Government, against The Hongkong and Yaumati Ferry Company Limited ("HYF"), a wholly-owned subsidiary of the Company, and the Company in November 1999. The claim was for the sum of approximately HK\$55 million and other extra expenses in respect of a dispute over the reimbursement of certain costs incurred by the Hong Kong Government on the implementation of certain piling design to cater for the proposed redevelopment of the re-provided ferry piers in Central into new commercial and residential premises, which proposed redevelopment was not pursued due to high premium requested by the Government Lands Department. Based on legal advice, the Group is contesting this claim. The directors are of the opinion that there are grounds for HYF and the Company to resist the claim.

28 CONTINGENT LIABILITIES

In addition, HYF and the Company have made a counterclaim against the Government for the sum of approximately HK\$284 million, being costs relating to the redevelopment of the Central piers. Therefore, except for legal costs which have been incurred and charged to the profit and loss account, no provision for the claim or related legal cost to be incurred has been made in the accounts.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HL") as the development and sale manager (the "Project Manager") for the redevelopment of the Kowloon Inland Lot No. 11127 (the "Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the domestic portion of the redevelopment. As at 31 December 2001, an amount of HK\$14 million (2000: HK\$Nil) payable to the Project Manager was included in creditors and accrued charges.

In 1999, the Group entered into a development agreement (the "Agreement") with HL and two wholly-owned subsidiaries of HL ("HL Sub"), whereby HL Sub acquired the right to 50% of any proceeds from the future sale of the part of the redevelopment intended for domestic use of the Property. At 31 December 2001, the Group had received all the instalments under the Agreement totalling HK\$1,500 million (2000: HK\$600 million).

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the domestic portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$186.9 million for the year ended 31 December 2001 (2000: HK\$61 million). As at 31 December 2001, an amount of HK\$68.5 million (2000: HK\$37 million) remained unpaid and was included in debtors and prepayments.

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. An amount of HK\$14.3 million (2000: HK\$Nil) had been charged to the Group as at 31 December 2001. In accordance with the prime cost contract entered with the Group, an amount of HK\$283.9 million (2000: HK\$15.7 million) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2001, an amount of HK\$116.9 million (2000: HK\$11.2 million) remained unpaid and was included in creditors and accrued charges.

On 25 April 2001, a wholly-owned subsidiary of the Company was awarded a sub-contract for the provision and assembly of a footbridge and related installation of a construction site at Hung Hom Bay Reclamation at a consideration of HK\$1,922,000 by the main contractor thereof. The main contractor is a company of which HL owns 50%. About 55% of the works have been completed and the remaining will be completed by May 2002. As at 31 December 2001, progress payments of HK\$0.7 million have been received and an amount of HK\$0.4 million was included in debtors and prepayments.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

On 5 November 2001, the Group appointed another wholly-owned subsidiary of HL as the estate manager of the Property (except for the commercial arcade) for a term of two years from the issuance of the first occupation permit at the remuneration of 10% of the total annual expenditures (excluding the remuneration itself and expenditure of a kind not incurred annually) reasonably and necessarily incurred in the good and efficient management of the Property and the buildings thereon (except for the commercial arcade).

As at 31 December 2001, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

Dr. Lee Shau Kee, a director of the Company, is interested in the above transactions as a substantial shareholder of HL.

The above transactions constituted connected transactions as defined in the Listing Rules and in respect of which the Group had complied with relevant requirements under Chapter 14 of the Listing Rules.

30 COMPARATIVE FIGURES

Certain comparative figures have been adjusted and reclassified as a result of the changes in accounting policies for properties under development and dividend and a change in segment analysis, details of which have been set out in notes 1 and 4 respectively.