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 ("SSAPs") 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 34 "Employee benefits"

In prior years, retirement benefit costs were charged to the profit and loss account based on actuarial determinations of contributions payable in that year, using the attained age method.

With effect from 1 January 2002, in order to comply with SSAP 34, the Group adopted a new accounting policy for defined benefit retirement plans as set out in note 2(m).

As a result of the adoption of this accounting policy, the Group's profit for the year has been decreased by HK$819,000 and the net assets as at 31 December 2002 have been increased by HK$4,723,000. The effect of adopting the new accounting policy has been adjusted to the opening balance of retained profits for the year. No restatement of the comparative information has been made.

(b) SSAP 10 "Accounting for investments in associates"

With effect from 1 January 2002, the Group adopted the equity method of accounting for the investments in associates as set out in note 2(d).

In prior years, the equity method of accounting for associates was not adopted as the results and net assets of these associates were not material to the Group. The investments in associates were previously recorded at cost less provision made and included in non-current financial assets. This change in accounting policy has no significant impact on the Group's net assets as at 31 December 2001 and 2002 nor the Group's profit for the year ended 31 December 2001 and 2002.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable SSAPs 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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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(j)).

(d) Associates

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

Investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost less any impairment losses (see note 2(j)).

(e) Revenue recognition

Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(i) Sale of properties

When properties under development for sale are sold before the development is completed and the occupation permit is obtained, 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. Deposits and instalments received not yet recognised as revenue are included in the balance sheet under deposits received.

Revenue arising from the sale of completed properties are recognised upon the signing of the sale and purchase agreement.

(ii) 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.

(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.

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(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 is 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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Hotel properties

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

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.

(h) Properties under development

Properties under development for investment purposes are stated at carrying value less impairment losses (see note 2(j)). 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(e)(i) above.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) 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(j)).

(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 and ship lift	30 to 40 years
– Others	4 to 10 years

(j) 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;
– investments in subsidiaries and associates; and
– properties under development held for investment.

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).

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(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.

(k) Inventories

(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.

(iii) Work in progress are construction and repairing in progress at the balance sheet date and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

(l) 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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(n) 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 are dealt with in the profit and loss account.

(o) 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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) 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(i). Impairment losses are accounted for in accordance with the accounting policy, as set out in note 2(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(e)(ii).

(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.

(q) 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.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Deferred interest income

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, the differences between the sale prices with and without such terms are treated as deferred income and is released to the profit and loss account on a straight line basis over the interest-free period.

(s) 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.

(t) 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 balances and 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.

(u) 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 other entities.

(v) Cash and cash equivalents

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

3 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 "Property development and investment", "Ferry, shipyard and related operations", and "Travel and hotel operations".

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

(a) Segmental revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Property development and investment *(note c)*	**1,089,071**	1,128,321	**–**	–	**1,089,071**	1,128,321
Ferry, shipyard and related operations	**139,928**	156,430	**1,962**	1,804	**137,966**	154,626
Travel and hotel operations	**115,645**	117,995	**31**	2	**115,614**	117,993
Others *(note e)*	**56,883**	50,354	**42,920**	45,261	**13,963**	5,093
	1,401,527	1,453,100	**44,913**	47,067	**1,356,614**	1,406,033
Analysed by:						
Turnover					**1,345,066**	1,402,697
Other revenue					**11,548**	3,336
					1,356,614	1,406,033

Turnover represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

Notes on the Accounts *(Continued)*

3 SEGMENTAL INFORMATION (Continued)

(b) Segmental result

	Segmental result		Elimination of inter-segment transactions		Consolidated result	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Continuing operations						
Property development and investment *(note c)*	**414,776**	419,017	**–**	142,916	**414,776**	276,101
Ferry, shipyard and related operations *(note d)*	**(209,461)**	12,904	**(141,100)**	–	**(68,361)**	12,904
Travel and hotel operations	**3,769**	4,958	**–**	–	**3,769**	4,958
Others *(note e)*	**7,378**	(4,274)	**–**	–	**7,378**	(4,274)
	216,462	432,605	**(141,100)**	142,916	**357,562**	289,689
Discontinuing operation						
Passenger ferry operation	**–**	7,012	**–**	–	**–**	7,012
	216,462	439,617	**(141,100)**	142,916	**357,562**	296,701
Share of results of associates					**1**	–
Profit from ordinary activities before taxation					**357,563**	296,701
Taxation					**813**	(14,775)
Profit attributable to shareholders					**358,376**	281,926

(c) The segmental result of the property development and investment operations included deficit on revaluation of investment properties of HK$16,835,000 (2001: HK$29,000,000).

Included in the segmental revenue and segmental result of the property development and investment operations for the year 2001 were also the proceeds, being the third and final instalment, from the disposal of the right to 50% of the sales proceeds of the residential portion of the redevelopment referred to in note 29 of HK$900,000,000 and the profits derived from the subject disposal of HK$296,034,000 respectively.

(d) The segmental result of the ferry, shipyard and related operations included impairment loss in respect of the shipyard assets of HK$62,127,000. In 2001, the impairment loss of the shipyard property of HK$41,224,000 was included in the segmental result of property development and investment.

3 SEGMENTAL INFORMATION (Continued)

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

(f) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Property development and investment	**2,525,138**	2,516,413	**–**	–	**2,525,138**	2,516,413
Ferry, shipyard and related operations	**253,415**	478,427	**–**	142,916	**253,415**	335,511
Travel and hotel operations	**75,379**	76,137	**–**	–	**75,379**	76,137
Others	**940,607**	215,733	**–**	–	**940,607**	215,733
Total assets	**3,794,539**	3,286,710	**–**	142,916	**3,794,539**	3,143,794

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Property development and investment	**700,612**	170,315	**–**	–	**700,612**	170,315
Ferry, shipyard and related operations	**19,563**	25,171	**–**	–	**19,563**	25,171
Travel and hotel operations	**24,394**	24,485	**–**	–	**24,394**	24,485
Others	**7,917**	12,121	**–**	–	**7,917**	12,121
Total liabilities	**752,486**	232,092	**–**	–	**752,486**	232,092

The "Others" segment mainly comprises financial assets, tax recoverable and tax payable.

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

	Depreciation		Impairment loss		Capital expenditure incurred	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**50**	8,312	**–**	41,224	**129,246**	70,665
Ferry, shipyard and related operations	**12,711**	14,577	**62,127**	3,195	**162**	260
Travel and hotel operations	**397**	446	**–**	–	**310**	217
Others	**478**	474	**–**	–	**69**	29
	13,636	23,809	**62,127**	44,419	**129,787**	71,171

4 INCOME

	2002	2001
	HK$'000	*HK$'000*
Other revenue		
Management fee income	**2,881**	2,103
Rental income	**2,586**	1,017
Other interest income	**6,081**	216
	11,548	3,336
Other net income		
Profit on sale of investment property	**1,535**	–
Profit on sale of fixed assets	**1,838**	3,016
Other ferry income	**264**	71
Commission and rebates	**1,142**	1,451
Bad debts recovered	**1,238**	–
Deposit forfeited	**745**	–
Sundry income	**5,376**	6,847
Surplus from termination of staff retirement schemes	**–**	21,685
Profit on sale of listed investments	**–**	194
Profit on disposal of a subsidiary	**–**	301
	12,138	33,565

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2002 HK$'000	2001 HK$'000
(a)	**Finance cost:**		
	Interest on bank advances and other borrowings repayable within five years	–	25,785
	Other borrowing costs	–	12
		–	25,797
	Less: Borrowing costs capitalised into properties under development	–	(25,797)
		–	–

The borrowing costs for the year ended 31 December 2001 had been capitalised at a rate of 4.56% – 7.5% per annum in respect of properties under development.

		2002 HK$'000	2001 HK$'000
(b)	**Staff cost:**		
	Increase in liability for defined benefit scheme *(note 17(a)(ii))*	2,435	1,732
	Contributions to Mandatory Provident Funds	2,075	1,947
	Retirement cost	4,510	3,679
	Salaries, wages and other benefits	75,963	80,756
		80,473	84,435
(c)	**Other items:**		
	Cost of inventories	653,947	202,824
	Auditors' remuneration	798	1,180
	Depreciation	13,636	23,809
	Operating lease charges in respect of		
	– premises	3,033	3,007
	– vessels	554	1,415
	Rental receivable from investment properties net of outgoings of HK$1,789,000 (2001: HK$1,878,000)	(5,643)	(7,860)
	Rental receivable from operating leases, other than those relating to investment properties, net of outgoings	(6,101)	(4,515)
	Interest income	(18,386)	(3,370)
	Dividend income from listed investments	(1,504)	(1,469)

Notes on the Accounts *(Continued)*

6 DIRECTORS' REMUNERATION

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

	2002	2001
	HK$'000	*HK$'000*
Fees		
– Executive directors	**150**	150
– Independent non-executive directors	**150**	150
– Other non-executive directors	**200**	200
	500	500

The remuneration of each of the nine (2001: ten) directors falls within the band of below HK$1,000,000.

7 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:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other emoluments	**6,306**	6,812
Retirement scheme contributions	**473**	483
	6,779	7,295

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

	2002	2001
HK$	***Number of individuals***	*Number of individuals*
1,000,000 or below	**1**	–
1,000,001–1,500,000	**3**	4
1,500,001–2,000,000	**–**	–
2,000,001–2,500,000	**1**	1

8 TAXATION

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

	2002 HK$'000	2001 HK$'000
Provision for Hong Kong profits tax for the year	**1,354**	1,516
(Over)/under provision in respect of prior years	**(236)**	25,976
	1,118	27,492
Deferred taxation *(note 23(a))*	**(1,948)**	(12,717)
	(830)	14,775
Share of taxation of associates	**17**	–
	(813)	14,775

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the year ended 31 December 2002 less relief for available tax losses where applicable at 16% (2001: 16%).

(b) Tax recoverable in the balance sheets represents:

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Provision for Hong Kong profits tax for the year	**1,103**	1,380	**–**	–
Provisional profits tax paid	**(1,686)**	(3,336)	**(32)**	–
	(583)	(1,956)	**(32)**	–
Balance of profits tax recoverable relating to prior years	**(1,517)**	(3,560)	**–**	–
	(2,100)	(5,516)	**(32)**	–

Notes on the Accounts *(Continued)*

8 TAXATION (Continued)

(c) Tax payable in the balance sheets represents:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision for Hong Kong profits tax for the year	**251**	136	**–**	–
Provisional profits tax paid	**(206)**	(373)	**–**	(373)
	45	(237)	**–**	(373)
Balance of profits tax provision relating to prior years	**190**	818	**–**	396
	235	581	**–**	23

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a profit of HK$43,473,000 (2001: a loss of HK$1,176,510,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2002	2001
	HK$'000	*HK$'000*
Amount of consolidated profit/(loss) attributable to shareholders dealt with in the Company's accounts	**43,473**	(1,176,510)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**19,250**	28,000
Company's profit/(loss) for the year *(note 25)*	**62,723**	(1,148,510)

10 DIVIDENDS

(a) Dividends attributable to the year

	2002 HK$'000	2001 HK$'000
Interim dividend declared and paid of 8 cents per share (2001: 8 cents)	**28,503**	28,503
Final dividend proposed after the balance sheet date of 20 cents per share (2001: 20 cents)	**71,254**	71,254
	99,757	99,757

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

	2002 HK$'000	2001 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 20 cents per share (2001: 20 cents)	**71,254**	71,254

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK$358,376,000 (2001: HK$281,926,000) and 356,273,883 (2001: 356,273,883) ordinary shares in issue during the year.

There was no potential dilution of earnings per share during 2001 and 2002.

Notes on the Accounts *(Continued)*

12 FIXED ASSETS

Group

	Property, plant and equipment						
	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	Total HK$'000
Cost or valuation:							
At 1 January 2002	63,761	229,030	338,270	266,865	897,926	150,500	1,048,426
Additions	–	–	–	607	607	–	607
Disposals	–	–	(195,139)	(1,028)	(196,167)	(1,165)	(197,332)
Revaluation deficit	–	–	–	–	–	(16,835)	(16,835)
At 31 December 2002	63,761	229,030	143,131	266,444	702,366	132,500	834,866
Representing:							
Cost	63,761	229,030	143,131	266,444	702,366	–	702,366
Valuation	–	–	–	–	–	132,500	132,500
	63,761	229,030	143,131	266,444	702,366	132,500	834,866
Aggregate depreciation:							
At 1 January 2002	–	84,301	326,856	130,299	541,456	–	541,456
Charge for the year	–	3,826	3,559	6,251	13,636	–	13,636
Impairment loss	–	32,584	–	29,543	62,127	–	62,127
Written back on disposal	–	–	(195,138)	(1,027)	(196,165)	–	(196,165)
At 31 December 2002	–	120,711	135,277	165,066	421,054	–	421,054
Net book value:							
At 31 December 2002	63,761	108,319	7,854	101,378	281,312	132,500	413,812
At 31 December 2001	63,761	144,729	11,414	136,566	356,470	150,500	506,970

12 FIXED ASSETS (Continued)

Company

	Property, plant and equipment		
	Leasehold land and buildings HK$'000	Ferry vessels and other crafts HK$'000	Total HK$'000
Cost:			
At 1 January 2002	475	150,297	150,772
Transfer to subsidiaries	–	(61,221)	(61,221)
At 31 December 2002	475	89,076	89,551
Aggregate depreciation:			
At 1 January 2002	183	145,611	145,794
Charge for the year	9	1,561	1,570
Transfer to subsidiaries	–	(61,220)	(61,220)
At 31 December 2002	192	85,952	86,144
Net book value:			
At 31 December 2002	283	3,124	3,407
At 31 December 2001	292	4,686	4,978

(a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK$132,500,000 as at 31 December 2002 (2001: HK$150,500,000) on an open market value basis.

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

	Group		Company	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Medium term lease	**304,580**	358,990	**283**	292

Notes on the Accounts *(Continued)*

12 FIXED ASSETS (Continued)

(c) 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$132,500,000 (2001: HK$150,500,000).

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

	2002 **HK$'000**	2001 HK$'000
Within 1 year	**5,223**	5,308
After 1 year but within 5 years	**25**	453
	5,248	5,761

13 PROPERTIES UNDER DEVELOPMENT

	2002 **HK$'000**	2001 HK$'000
At 1 January	**2,071,289**	2,823,398
Additions	**567,640**	291,751
Attributable profit	**418,369**	56,875
Proceeds receivable	**(1,071,871)**	(215,084)
Release of other property revaluation reserve	**(133,704)**	(284,518)
Disposal of interest in properties under development for sale	**–**	(601,133)
Transfer to completed properties for sale	**(313,703)**	–
At 31 December	**1,538,020**	2,071,289
Analysis of properties under development:		
For sale	**861,931**	1,524,380
For investment	**676,089**	546,909
	1,538,020	2,071,289

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

14 INTEREST IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	**166,888**	167,278
Amounts due from subsidiaries	**4,916,623**	5,003,417
Less: Impairment loss	**(1,571,641)**	(1,618,424)
	3,511,870	3,552,271

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

	Issued HK$	Ordinary share capital % held by the Company	Ordinary share capital % held by a subsidiary	Principal activities
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

Notes on the Accounts *(Continued)*

14 INTEREST IN SUBSIDIARIES (Continued)

		Ordinary share capital		
	Issued	% held by the Company	% held by a subsidiary	Principal activities
	HK$			
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.

15 INTEREST IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**3**	3
Share of net assets	**190**	8	**–**	–
Amounts due from associates	**190,961**	10,042	**9,465**	9,543
	191,151	10,050	**9,468**	9,546
Less: Provision	**(6,470)**	(6,470)	**(6,470)**	(6,470)
	184,681	3,580	**2,998**	3,076

All of the associates are incorporated and operate in Hong Kong.

Other particulars of the associates are as follows:

	% of equity interest held by		
	The Company	Subsidiaries	Principal activities
2OK Company Limited	–	50	Financing
Celelight Company Limited	33.34	–	Trading of fuel oil
Authian Estates Limited	–	50	Property investment

16 OTHER NON-CURRENT ASSETS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current financial assets	**44,450**	44,749	**113**	240
Employee benefits *(note 17)*	**4,723**	–	**2,749**	–
	49,173	44,749	**2,862**	240
Non-current financial assets are analysed as follows:				
Non-trading securities				
Unlisted shares	**113**	113	**113**	113
Advances to investee companies less provision	**–**	199	**–**	127
	113	312	**113**	240
Listed shares				
– in Hong Kong	**43,778**	43,556	**–**	–
– outside Hong Kong	**559**	881	**–**	–
	44,337	44,437	**–**	–
	44,450	44,749	**113**	240
Market value of listed shares at 31 December	**44,337**	44,437	**–**	–

17 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement scheme which covers about 33% of the Group's employees. The scheme is administered by independent trustees with their assets held separately from those of the Group.

The scheme is funded by contributions from the Group in accordance with an independent actuary's recommendations based on annual actuarial valuations. The latest independent valuation of the scheme was at 31 December 2002 and was prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement scheme were fully covered by the plan assets held by the trustees.

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

(i) The amounts recognised in the balance sheets are as follows:

	Group 2002 HK$'000	Company 2002 HK$'000
Present value of wholly or partly funded obligations	(35,229)	(30,572)
Fair value of plan assets	41,006	35,155
Net unrecognised actuarial losses	(1,054)	(1,834)
	4,723	2,749

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Movements in the net assets recognised in the balance sheets are as follows:

	Group 2002 HK$'000	Company 2002 HK$'000
At 1 January (restated)	5,542	3,291
Contributions paid to the scheme	1,616	1,601
Expense recognised in the profit and loss account *(note 5(b))*	(2,435)	(2,143)
At 31 December	4,723	2,749

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

(iii) Expense recognised in the consolidated profit and loss account is as follows:

	2002 HK$'000
Current service cost	2,161
Interest cost	2,287
Expected return on plan assets	(2,013)
	2,435

The expense is recognised in the following line items in the consolidated profit and loss account:

	2002 HK$'000
Cost of sales	162
Selling and marketing expenses	9
Administrative expenses	2,264
	2,435
Actual return on plan assets	309

(iv) The principal actuarial assumptions used as at 31 December 2002 are as follows:

	2002
Discount rate at 31 December	5%
Expected rate of return on plan assets	5%
Future salary increases	3%

(b) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement scheme. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employers and their employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contribution subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF Scheme vest immediately.

Notes on the Accounts *(Continued)*

18 INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Trading stocks	**906**	1,030
Spare parts and consumables	**5,208**	7,489
Work in progress	**7,579**	7,729
	13,693	16,248

The amount of spare parts and consumables carried at net realisable value is HK$4,966,000 (2001: HK$7,344,000).

19 DEBTORS AND PREPAYMENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors	**358,333**	305,477	**–**	–
Other debtors and prepayments	**24,927**	16,374	**8,748**	7,820
	383,260	321,851	**8,748**	7,820

All of the debtors and prepayments except for HK$57,727,000 (2001: HK$21,149,000) of which HK$48,419,000 (2001: HK$12,717,000) are relating to retention money recoverable are expected to be recovered within one year.

Included in debtors and prepayments are trade debtors (excluding retention money recoverable and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**300,355**	286,304
1 to 3 months overdue	**6,460**	4,736
More than 3 months overdue but less than 12 months overdue	**894**	1,356
More than 12 months overdue	**–**	364
	307,709	292,760

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.

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks and other financial institutions	**881,391**	157,136	**–**	–
Cash at bank and in hand	**14,706**	16,455	**307**	610
Cash and cash equivalents in the balance sheet	**896,097**	173,591	**307**	610
Bank overdraft *(note 21)*	**(951)**	(984)		
Cash and cash equivalents in the cash flow statement	**895,146**	172,607		

21 BANK OVERDRAFT

At 31 December 2002, unsecured bank overdraft is repayable as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 year or on demand	**951**	984

22 CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges except for HK$114,060,000 (2001: HK$29,959,000), mainly represented by retention money payable, are expected to be settled within one year.

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Due within 1 month or on demand	**353,591**	150,854
Due after 12 months	**114,060**	29,959
	467,651	180,813

Notes on the Accounts *(Continued)*

23 DEFERRED TAXATION

(a) Movement in deferred taxation is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**2,783**	15,500	**707**	15,000
Transfer to the profit and loss account *(note 8(a))*	**(1,948)**	(12,717)	**(487)**	(14,293)
At 31 December	**835**	2,783	**220**	707

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

	2002		2001	
	Provided	**Potential liabilities unprovided**	Provided	Potential liabilities unprovided
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Group				
Depreciation allowances in excess of related depreciation	**28,585**	**–**	28,991	–
Future benefit of tax losses	**(27,750)**	**(140,096)**	(26,208)	(120,875)
	835	**(140,096)**	2,783	(120,875)
Company				
Depreciation allowances in excess of related depreciation	**494**	**–**	744	–
Future benefit of tax losses	**(274)**	**–**	(37)	–
	220	**–**	707	–

24 SHARE CAPITAL

	Number of shares		Nominal value	
	2002	2001	**2002**	2001
			HK$'000	*HK$'000*
Authorised:				
Ordinary shares of HK$1 each	**550,000,000**	550,000,000	**550,000**	550,000
Issued and fully paid:				
Ordinary shares of HK$1 each	**356,273,883**	356,273,883	**356,274**	356,274

There was no movement in share capital during 2001 and 2002.

25 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 2001	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	1,398,527	518,863	(10,886)	5,599	643,325	2,555,428
At 1 January 2002						
– as previously reported	1,398,527	518,863	(10,886)	5,599	643,325	2,555,428
– prior year adjustment in respect of employee benefits *(note 17(a)(ii))*	–	–	–	–	5,542	5,542
– as restated	1,398,527	518,863	(10,886)	5,599	648,867	2,560,970
Dividend approved in respect of the previous financial year	–	–	–	–	(71,254)	(71,254)
Revaluation deficit	–	–	(101)	–	–	(101)
Realisation of revaluation reserve	–	(133,704)	–	–	–	(133,704)
Realisation of inter-company profits	–	–	–	(5)	–	(5)
Profit for the year	–	–	–	–	358,376	358,376
Interim dividend paid	–	–	–	–	(28,503)	(28,503)
At 31 December 2002	1,398,527	385,159	(10,987)	5,594	907,486	2,685,779

Notes on the Accounts *(Continued)*

25 RESERVES (Continued)

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
Company			
At 1 January 2001	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)
At 31 December 2001	1,398,527	1,784,644	3,183,171
At 1 January 2002			
– as previously reported	1,398,527	1,784,644	3,183,171
– prior year adjustment in respect of employee benefits (note 17(a) (ii))	–	3,291	3,291
– as restated	1,398,527	1,787,935	3,186,462
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Profit for the year	–	62,723	62,723
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2002	1,398,527	1,750,901	3,149,428

The distributable reserves of the Company at 31 December 2002 amounted to HK$1,051,496,000 (2001: HK$733,271,000), 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 (2001: 20 cents), amounting to HK$71,254,000 (2001: HK$71,254,000). This dividend has not been recognised as a liability at the balance sheet date.

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 2001 and 2002.

Included in the retained profits of the Group is a loss of HK$6,288,000 (2001:HK$6,271,000), being the accumulated losses attributable to associates.

26 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:

	2002	2001
	HK$'000	*HK$'000*
Within 1 year	**1,459**	2,357
After 1 but within 5 years	**2,365**	365
	3,824	2,722

27 CAPITAL AND OTHER COMMITMENTS

(a) Capital commitments outstanding at 31 December 2002 not provided for in the accounts are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted for	**92,749**	241,835

(b) At 31 December 2002, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK$500,321,000 (2001: HK$1,353,697,000), 50% of which was recoverable under the arrangement referred to in note 29.

28 CONTINGENT LIABILITIES

At 31 December 2002, 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$76 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 (Continued)

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 sales 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 residential portion of the redevelopment. A net amount of HK$407,000 was credited to the Group for the year after adjusting for the fee overcharged in prior year. In 2001, a total fee of HK$13,951,000 had been charged to the Group. As at 31 December 2002, an amount of HK$12,565,000 (2001: HK$13,951,000) 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 residential portion of the redevelopment. During the years from 1999 to 2001, the Group had received all the instalments under the Agreement totalling HK$1,500,000,000.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK$372,979,000 for the year ended 31 December 2002 (2001: HK$186,871,000). As at 31 December 2002, an amount of HK$196,439,000 (2001: HK$68,472,000) 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$40,053,000 (2001: HK$14,237,000) had been charged to the Group for the year. In accordance with the prime cost contract entered with the Group, an amount of HK$841,019,000 (2001: HK$283,889,000) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2002, an amount of HK$437,363,000 (2001: HK$116,900,000) remained unpaid and was included in creditors and accrued charges.

In 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).

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of Metro Harbour View. HL through its subsidiaries beneficiary owned the remaining 50% equity interest in 2OK as at 31 December 2002. During the year, the Group received management and administrative fees in the total of HK$1,100,000 (2001: HK$ Nil) from 2OK. As at 31 December 2002, the Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation. The amount advanced by the Group totalling HK$180,996,000 (2001: HK$ Nil) is in proportion to the Group's equity interest in 2OK and is unsecured, interest-free and has no fixed repayment terms.

In December 2002, the Group appointed a wholly-owned subsidiary of HL, who was also the Project Manager responsible for the redevelopment of the Property, as the leasing and promotion agent of the commercial arcade of the Property for a term of two years and shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing ("the Ongoing Connected Transactions").

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted a conditional waiver to the Company in January 2003 from strict compliance with the disclosure requirements under Chapter 14 of the Listing Rules in connection with the Ongoing Connected Transactions on each occasion they arise. The waiver is granted subject to the following conditions:

(a) that the terms of the deed and the Ongoing Connected Transactions are:

   (i) in the ordinary and usual course of business of the owners of the Property;

   (ii) conducted either (A) on normal commercial terms (which expression will be applied with reference to transactions of a similar nature and to be made by similar entities); or (B) if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

   (iii) entered into either (A) in accordance with the terms of the deed governing the Ongoing Connected Transactions; or (B) where there are no such agreements, on terms no less favourable than those available to or from independent third parties;

(b) the aggregate annual value for the Ongoing Connected Transactions for each financial year in question shall not exceed the higher of HK$10 million or 3% of the consolidated net tangible assets value of the Group as disclosed in its latest published audited accounts;

(c) the independent non-executive directors of the Company will review the Ongoing Connected Transactions annually and confirm in the Company's annual report for each financial year in question that the Ongoing Connected Transactions have been conducted in the manner as stated in conditions (a) and (b) above;

Notes on the Accounts *(Continued)*

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(d) the auditors of the Company shall review the Ongoing Connected Transactions annually and confirm in a letter (the "Letter") to the directors of the Company (a copy of which is to be provided to the Stock Exchange), stating whether:

(i) the Ongoing Connected Transactions have received the approval of the Company's board (including the independent non-executive directors);

(ii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the deed governing the Ongoing Connected Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and

(iii) the aggregate values of the Ongoing Connected Transactions for each financial year in question have not exceeded the limit set out in condition (b) above;

Where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the Letter, the directors of the Company shall contact the Stock Exchange immediately; and

(e) details of the Ongoing Connected Transactions in each financial year will be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year together with a statement of opinion of the independent non-executive directors and the auditors of the Company referred to in conditions (c) and (d) above.

The Audit Committee, comprising of all independent non-executive Directors of the Company has reviewed and confirmed that the Ongoing Connected Transactions have been entered into by the Group in accordance with the waiver conditions granted by the Stock Exchange as stated in paragraphs (a) to (e) above.

The Auditors of the Company have also confirmed that the Ongoing Connected Transactions have been conducted in the manner as stated in paragraphs (d)(i) to (d)(iii) above.

As at 31 December 2002, 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

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of SSAP 15 (revised 2001) Cash Flow Statements. As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.