Notes on the Accounts

1 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using 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 were expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice ("SSAP") 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"), the Group adopted a new policy for deferred tax as set out in note 2(o)(iii).

As a result of the adoption of this accounting policy, the Group's profit for the year has been decreased by HK$6,561,000 (2002: HK$17,142,000) and the Group's net assets as at 31 December 2003 have been increased by HK$11,533,000 (2002: HK$18,094,000).

The 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 as disclosed in the consolidated statement of changes in equity.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (which includes 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.

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 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 impairment losses (see note 2(j)).

(e) Revenue recognition

Provided it is probable that the economic benefits 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:

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Revenue recognition *(Continued)*

(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.

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

Investment property with an unexpired lease term of more than 20 years is 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.

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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).

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

Notes on the Accounts *(Continued)*

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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income Tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(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).

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Leased assets *(Continued)*

(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.

(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.

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

Notes on the Accounts *(Continued)*

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	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**804,302**	1,089,071	**–**	–	**804,302**	1,089,071
Ferry, shipyard and related operations	**132,262**	139,928	**1,525**	1,962	**130,737**	137,966
Travel and hotel operations	**114,268**	115,645	**604**	31	**113,664**	115,614
Others *(note e)*	**53,106**	56,883	**41,907**	42,920	**11,199**	13,963
	1,103,938	1,401,527	**44,036**	44,913	**1,059,902**	1,356,614
Analysed by:						
Turnover					**1,041,318**	1,345,066
Other revenue					**18,584**	11,548
					1,059,902	1,356,614

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	
	2003	2002	**2003**	2002	**2003**	2002 (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment *(note c)*	**297,110**	414,776	**–**	–	**297,110**	414,776
Ferry, shipyard and related operations *(note d)*	**(27,289)**	(209,461)	**–**	(141,100)	**(27,289)**	(68,361)
Travel and hotel operations	**1,104**	3,769	**–**	–	**1,104**	3,769
Others *(note e)*	**5,199**	7,378	**–**	–	**5,199**	7,378
	276,124	216,462	**–**	(141,100)	**276,124**	357,562
Share of results of associates					**894**	1
Profit from ordinary activities before taxation					**277,018**	357,563
Taxation					**(12,363)**	(16,329)
Profit attributable to shareholders					**264,655**	341,234

(c) The segmental result of the property development and investment operations included deficit on revaluation of investment properties of HK$2,499,000 (2002: HK$16,835,000).

(d) The segmental result of the ferry, shipyard and related operations included a total impairment losses in respect of the shipyard assets and an oil barge of HK$19,032,000 (2002: HK$62,127,000).

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

Notes on the Accounts *(Continued)*

3 SEGMENTAL INFORMATION *(Continued)*

(f) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2003	2002 (Restated)	**2003**	2002	**2003**	2002 (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**2,212,396**	2,525,138	**–**	–	**2,212,396**	2,525,138
Ferry, shipyard and related operations	**221,049**	253,415	**–**	–	**221,049**	253,415
Travel and hotel operations	**81,644**	75,379	**–**	–	**81,644**	75,379
Others	**908,392**	958,701	**–**	–	**908,392**	958,701
Total assets	**3,423,481**	3,812,633	**–**	–	**3,423,481**	3,812,633

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2003	2002 (Restated)	**2003**	2002	**2003**	2002 (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**359,619**	700,612	**–**	–	**359,619**	700,612
Ferry, shipyard and related operations	**21,216**	18,948	**–**	–	**21,216**	18,948
Travel and hotel operations	**23,697**	24,394	**–**	–	**23,697**	24,394
Others	**13,163**	8,532	**–**	–	**13,163**	8,532
Total liabilities	**417,695**	752,486	**–**	–	**417,695**	752,486

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	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**64**	50	**–**	–	**87,548**	129,246
Ferry, shipyard and related operations	**9,159**	12,711	**19,032**	62,127	**1,320**	162
Travel and hotel operations	**375**	397	**–**	–	**1,249**	310
Others	**449**	478	**–**	–	**82**	69
	10,047	13,636	**19,032**	62,127	**90,199**	129,787

4 INCOME

	2003	2002
	HK$'000	*HK$'000*
Other revenue		
Management fee income	**2,554**	2,881
Rental income	**1,594**	2,586
Other interest income	**14,436**	6,081
	18,584	11,548
Other net income		
Profit on sale of investment properties	**6,034**	1,535
Profit on sale of listed investment	**220**	–
Profit on sale of unlisted investment	**757**	–
Profit on sale of fixed assets	**1,621**	1,838
Other ferry income	**220**	264
Commission and rebates	**541**	1,142
Bad debts recovered	**4,949**	1,238
Deposit forfeited	**1,487**	745
Sundry income	**2,902**	5,376
	18,731	12,138

Notes on the Accounts *(Continued)*

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003	2002
	HK$'000	*HK$'000*
(a) Staff cost:		
Increase in liability for defined benefit scheme *(note 17(a)(ii))*	**1,837**	2,435
Contributions to Mandatory Provident Funds	**1,815**	2,075
Retirement cost	**3,652**	4,510
Salaries, wages and other benefits	**70,346**	75,963
	73,998	80,473
(b) Other items:		
Cost of inventories	**497,840**	653,947
Auditors' remuneration	**870**	798
Depreciation	**10,047**	13,636
Operating lease charges in respect of		
– premises	**2,970**	3,033
– vessels	**628**	554
Rental receivable from investment properties net of outgoings of HK$3,419,000 (2002: HK$1,789,000)	**(4,855)**	(5,643)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings	**(2,019)**	(6,101)
Interest income	**(19,555)**	(18,386)
Dividend income from listed investments	**(1,329)**	(1,504)

Notes on the Accounts *(Continued)*

6 DIRECTORS' REMUNERATION

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

	2003 **HK$'000**	2002 *HK$'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 (2002: nine) directors falls within the band of below HK$1,000,000.

7 INDIVIDUALS WITH THE 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:

	2003 **HK$'000**	2002 *HK$'000*
Salaries and other emoluments	**5,972**	6,306
Retirement scheme contributions	**486**	473
	6,458	6,779

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

HK$	**2003** **Number of individuals**	2002 *Number of individuals*
1,000,000 or below	**2**	1
1,000,001–1,500,000	**2**	3
1,500,001–2,000,000	**–**	–
2,000,001–2,500,000	**1**	1

Notes on the Accounts *(Continued)*

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	2003	2002 (Restated)
	HK$'000	*HK$'000*
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**6,625**	1,354
Under/(over) provision in respect of prior years	**7**	(236)
	6,632	1,118
Deferred tax		
Origination and reversal of temporary differences	**7,344**	15,194
Effect of increase in tax rate on deferred tax balances at 1 January	**(1,618)**	–
	5,726	15,194
Share of taxation of associates	**5**	17
	12,363	16,329

During the year, a provision of Hong Kong profits tax in the amount of HK$6,133,000 has been made in the accounts of a subsidiary in respect of its estimated assessable profits for the year notwithstanding that the subsidiary has made a claim for losses in prior years in respect of certain expenditure incurred, which is currently under dispute by the Inland Revenue Department. The directors believe that there are grounds to contest the assessment by taking into account the advice received from professional advisers.

In 2003, the Hong Kong profits tax rate applicable to the Group's operations in Hong Kong has been increased from 16% to 17.5%. Accordingly, the provision for Hong Kong profits tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year.

Notes on the Accounts *(Continued)*

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003 HK$'000	2002 HK$'000
Profit before tax	**277,018**	357,563
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**48,264**	57,110
Tax effect of non-deductible expenses	**1,561**	2,089
Tax effect of non-taxable revenue	**(2,205)**	(2,512)
Tax effect of current year's tax losses not recognised	**7,223**	23,538
Tax effect of prior year's unrecognised tax losses utilised this year	**(7,850)**	(249)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**(1,618)**	–
Under/(over) provision in prior years	**7**	(236)
Over/(under) provision in current year	**239**	(5)
Tax effect of excess of balancing charge over profit on disposal	**163**	–
Tax effect of excess of profit on disposal over balancing charge	**(1,094)**	(233)
Tax effect of temporary differences on fixed assets	**(3,481)**	10,850
Tax effect of intra-group transactions	**(28,846)**	(74,023)
Actual tax expense	**12,363**	16,329

Notes on the Accounts *(Continued)*

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a loss of HK$200,837,000 (2002: a profit of HK$43,473,000) which has been dealt with in the accounts of the Company.

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

	2003	2002
	HK$'000	*HK$'000*
Amount of consolidated profit attributable to shareholders dealt with in the Company's accounts	**(200,837)**	43,473
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**10,500**	19,250
Company's (loss)/profit for the year *(note 25)*	**(190,337)**	62,723

10 DIVIDENDS

(a) Dividends attributable to the year

	2003	2002
	HK$'000	*HK$'000*
Interim dividend declared and paid of 8 cents per share (2002: 8 cents)	**28,503**	28,503
Final dividend proposed after the balance sheet date of 20 cents per share (2002: 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

	2003	2002
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 20 cents per share (2002: 20 cents)	**71,254**	71,254

Notes on the Accounts *(Continued)*

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK$264,655,000 (2002 (restated): HK$341,234,000) and 356,273,883 (2002: 356,273,883) ordinary shares in issue during the year.

There was no dilutive potential ordinary shares in existence during the years 2002 and 2003.

12 FIXED ASSETS

Group

	Property, plant and equipment						
	Hotel properties	Leasehold land and buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total	Investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:							
At 1 January 2003	63,761	229,030	143,131	266,444	702,366	132,500	834,866
Additions	–	703	1,129	1,176	3,008	–	3,008
Transfer from properties under development *(note 13)*	–	–	–	–	–	649,494	649,494
Disposals	–	(870)	(25,778)	(1,130)	(27,778)	(10,620)	(38,398)
Revaluation deficit *(note a)*	–	–	–	–	–	(30,574)	(30,574)
At 31 December 2003	63,761	228,863	118,482	266,490	677,596	740,800	1,418,396
Representing:							
Cost	63,761	228,863	118,482	266,490	677,596	–	677,596
Valuation	–	–	–	–	–	740,800	740,800
	63,761	228,863	118,482	266,490	677,596	740,800	1,418,396
Aggregate depreciation:							
At 1 January 2003	–	120,711	135,277	165,066	421,054	–	421,054
Charge for the year	–	2,813	2,182	5,052	10,047	–	10,047
Impairment loss	–	9,367	1,214	8,451	19,032	–	19,032
Written back on disposal	–	(870)	(25,038)	(1,085)	(26,993)	–	(26,993)
At 31 December 2003	–	132,021	113,635	177,484	423,140	–	423,140
Net book value:							
At 31 December 2003	63,761	96,842	4,847	89,006	254,456	740,800	995,256
At 31 December 2002	63,761	108,319	7,854	101,378	281,312	132,500	413,812

Notes on the Accounts *(Continued)*

12 FIXED ASSETS *(Continued)*

Company

	Property, plant and equipment		
	Leasehold land and buildings	Ferry vessels and other crafts	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2003	475	89,076	89,551
Transfer to subsidiaries	(12)	(89,073)	(89,085)
Disposal	–	(3)	(3)
At 31 December 2003	463	–	463
Aggregate depreciation:			
At 1 January 2003	192	85,952	86,144
Charge for the year	9	1,417	1,426
Transfer to subsidiaries	(4)	(87,366)	(87,370)
Written back on disposal	–	(3)	(3)
At 31 December 2003	197	–	197
Net book value:			
At 31 December 2003	266	–	266
At 31 December 2002	283	3,124	3,407

(a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK$740,800,000 as at 31 December 2003 (2002: HK$132,500,000) on an open market value basis. Of the revaluation deficit of HK$30,574,000, HK$28,075,000 has been taken to the investment property revaluation reserve and HK$2,499,000 has been charged to the consolidated profit and loss account.

Notes on the Accounts *(Continued)*

12 FIXED ASSETS *(Continued)*

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

Group

	2003		2002	
	Fixed assets	**Completed properties for sale**	Fixed assets	Completed properties for sale
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Medium term lease	**901,403**	**826,523**	304,580	313,703

Company

	2003	2002
	HK$'000	*HK$'000*
Medium term lease	**266**	283

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to three 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$740,800,000 (2002: HK$132,500,000).

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

	2003	2002
	HK$'000	*HK$'000*
Within 1 year	**4,990**	5,223
After 1 year but within 5 years	**1,275**	25
	6,265	5,248

Notes on the Accounts *(Continued)*

13 PROPERTIES UNDER DEVELOPMENT

	2003 HK$'000	2002 HK$'000
At 1 January	**1,538,020**	2,071,289
Additions	**396,056**	567,640
Attributable profit	**193,544**	418,369
Proceeds receivable	**(601,339)**	(1,071,871)
Release of other property revaluation reserve	**(106,052)**	(133,704)
Revaluation deficit in properties under development for investment	**(98,914)**	–
Transfer to completed properties for sale	**(595,313)**	(313,703)
Transfer to investment properties *(note 12)*	**(649,494)**	–
At 31 December	**76,508**	1,538,020
Analysis of properties under development:		
For sale	**61,636**	861,931
For investment	**14,872**	676,089
	76,508	1,538,020

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

14 INTEREST IN SUBSIDIARIES

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	**166,888**	166,888
Amounts due from subsidiaries	**4,474,206**	4,916,623
Less: Impairment loss	**(1,771,797)**	(1,571,641)
	2,869,297	3,511,870

Notes on the Accounts *(Continued)*

14 INTEREST IN SUBSIDIARIES *(Continued)*

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

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

Notes on the Accounts *(Continued)*

14 INTEREST IN SUBSIDIARIES *(Continued)*

	Ordinary share capital Issued *HK$*	% held by the Company	% held by subsidiaries	Principal activities
Pico International Limited	6,000,000	100	–	Investment holding
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
Join Galaxy Limited	2	–	100	Property investment
Henfield Enterprises Limited	390,000	100	–	Investment holding

All the subsidiaries listed above are incorporated in Hong Kong except for Henfield Enterprises Limited which is incorporated in the British Virgin Islands.

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 *(Continued)*

15 INTEREST IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**3**	3
Share of net assets	**1,079**	190	**–**	–
Amounts due from associates	**232,894**	190,961	**9,443**	9,465
	233,973	191,151	**9,446**	9,468
Less: Provision	**(6,470)**	(6,470)	**(6,470)**	(6,470)
	227,503	184,681	**2,976**	2,998

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	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current financial assets	**97,643**	44,450	**114**	113
Employee benefits *(note 17)*	**4,436**	4,723	**2,834**	2,749
	102,079	49,173	**2,948**	2,862

Notes on the Accounts *(Continued)*

16 OTHER NON-CURRENT ASSETS *(Continued)*

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Non-current financial assets comprises:				
Non-trading securities				
Unlisted shares	**114**	113	**114**	113
Unlisted equity linked securities	**45,840**	–	**–**	–
	45,954	113	**114**	113
Listed shares				
– in Hong Kong	**51,032**	43,778	**–**	–
– outside Hong Kong	**657**	559	**–**	–
	51,689	44,337	**–**	–
	97,643	44,450	**114**	113
Market value of listed shares at 31 December	**51,689**	44,337	**–**	–

17 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement scheme which covers about 29% 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 2003 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		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Present value of wholly or partly funded obligations	**(31,177)**	(35,229)	**(27,362)**	(30,572)
Fair value of plan assets	**36,241**	41,006	**31,768**	35,155
Net unrecognised actuarial gains	**(628)**	(1,054)	**(1,572)**	(1,834)
	4,436	4,723	**2,834**	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		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**4,723**	5,542	**2,749**	3,291
Contributions paid to the scheme	**1,550**	1,616	**1,521**	1,601
Expense recognised in the profit and loss account *(note 5(a))*	**(1,837)**	(2,435)	**(1,436)**	(2,143)
At 31 December	**4,436**	4,723	**2,834**	2,749

Notes on the Accounts *(Continued)*

17 EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

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

	2003 HK$'000	2002 HK$'000
Current service cost	2,074	2,161
Interest cost	1,727	2,287
Expected return on plan assets	(2,056)	(2,013)
Net actuarial losses recognised in the year	19	–
Losses on curtailment and settlements	73	–
	1,837	2,435

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

	2003 HK$'000	2002 HK$'000
Cost of sales	178	162
Selling and marketing expenses	13	9
Administrative expenses	1,646	2,264
	1,837	2,435
Actual return on plan assets	737	309

(iv) The principal actuarial assumptions used as at 31 December 2003 are as follows:

	2003	2002
Discount rate at 31 December	5%	5%
Expected rate of return on plan assets	5%	5%
Future salary increases		
– 2004	0%	3%
– 2005	1%	3%
– 2006	2%	3%
– 2007 and onwards	3%	3%

Notes on the Accounts *(Continued)*

17 EMPLOYEE BENEFITS *(Continued)*

(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.

18 INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trading stocks	**628**	906
Spare parts and consumables	**2,942**	5,208
Work in progress	**4,511**	7,579
	8,081	13,693

The amount of spare parts and consumables carried at net realisable value is HK$2,667,000 (2002: HK$4,966,000).

19 DEBTORS AND PREPAYMENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors	**248,318**	358,333	**–**	–
Other debtors and prepayments	**27,324**	24,927	**10,485**	8,748
	275,642	383,260	**10,485**	8,748

All of the debtors and prepayments except for HK$11,008,000 (2002: HK$57,727,000 of which HK$48,419,000 are relating to retention money recoverable) are expected to be recovered within one year.

Notes on the Accounts *(Continued)*

19 DEBTORS AND PREPAYMENTS *(Continued)*

Included in debtors and prepayments are trade debtors (excluding retention money recoverable of HK$44,722,000 (2002: HK$50,624,000) and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current	**198,032**	300,355
1 to 3 months overdue	**5,262**	6,460
More than 3 months overdue but less than 12 months overdue	**170**	894
More than 12 months overdue	**132**	–
	203,596	307,709

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	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks and other financial institutions	**886,053**	881,391	**377,531**	–
Cash at bank and in hand	**12,412**	14,706	**341**	307
Cash and cash equivalents in the balance sheet	**898,465**	896,097	**377,872**	307
Bank overdraft *(note 21)*	**(527)**	(951)		
Cash and cash equivalents in the cash flow statement	**897,938**	895,146		

21 BANK OVERDRAFT

At 31 December 2003, unsecured bank overdraft is repayable as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within 1 year or on demand	**527**	951

22 CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges (2002: except for HK$114,060,000 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	
	2003	2002
	HK$'000	*HK$'000*
Due within 1 month or on demand	**238,733**	353,591
Due after 6 months but within 12 months	**105,210**	–
Due after 12 months	**–**	114,060
	343,943	467,651

23 INCOME TAX IN THE BALANCE SHEETS

(a) Tax recoverable in the balance sheets represents:

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision for Hong Kong profits tax for the year	**340**	1,103	**–**	–
Provisional profits tax paid	**(686)**	(1,686)	**–**	(32)
	(346)	(583)	**–**	(32)
Balance of profits tax recoverable relating to prior years	**(1,545)**	(1,517)	**–**	–
	(1,891)	(2,100)	**–**	(32)

Notes on the Accounts *(Continued)*

23 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(b) Tax payable in the balance sheet represents:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**6,285**	251
Provisional profits tax paid	**(89)**	(206)
	6,196	45
Balance of profits tax provision relating to prior years	**190**	190
	6,386	235

Notes on the Accounts *(Continued)*

23 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(c) Deferred tax assets and liabilities recognised:

(i) *Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	Future benefit of tax losses	Intra-group interest capitalised in properties under development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:				
At 1 January 2002				
– as previously reported	28,991	(26,208)	–	2,783
– prior year adjustment *(note 25)*	–	(11,041)	(24,195)	(35,236)
– as restated	28,991	(37,249)	(24,195)	(32,453)
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	(406)	6,999	8,601	15,194
At 31 December 2002 (restated)	28,585	(30,250)	(15,594)	(17,259)
At 1 January 2003				
– as previously reported	28,585	(27,750)	–	835
– prior year adjustment *(note 25)*	–	(2,500)	(15,594)	(18,094)
– as restated	28,585	(30,250)	(15,594)	(17,259)
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	(19,575)	21,240	4,061	5,726
At 31 December 2003	9,010	(9,010)	(11,533)	(11,533)

Notes on the Accounts *(Continued)*

23 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(c) Deferred tax assets and liabilities recognised *(Continued)*:

(ii) ***Company***

	Depreciation allowances in excess of related depreciation	Future benefit of tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2002	744	(37)	707
Credited to the profit and loss account	(250)	(237)	(487)
At 31 December 2002	494	(274)	220
At 1 January 2003	494	(274)	220
Charged/(credited) to the profit and loss account	(494)	274	(220)
At 31 December 2003	–	–	–

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Represented by:				
Net deferred tax asset recognised on the balance sheet	**(11,533)**	(18,094)	**–**	–
Net deferred tax liability recognised on the balance sheet	**–**	835	**–**	220
	(11,533)	(17,259)	**–**	220

Notes on the Accounts *(Continued)*

23 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(d) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of deductible temporary differences and tax losses as certain tax losses have not yet been assessed by the Inland Revenue Department (see (iii) below), and the management are uncertain whether sufficient taxable profit will be available against which deductible temporary differences and the remaining tax losses can be utilised (see (i) and (ii) below). The deductible temporary differences and tax losses do not expire under current tax legislation.

	2003		2002	
	Deductible temporary difference/ tax loss *HK$'000*	**Deferred tax asset** *HK$'000*	Deductible temporary difference/ tax loss *HK$'000*	Deferred tax asset *HK$'000*
(i) Excess of tax written down values over accounting carrying values of certain fixed assets	**86,177**	**15,081**	2,913	466
(ii) Tax losses that have been assessed by the Inland Revenue Department	**764,054**	**133,710**	809,847	129,576
(iii) Tax losses that have not yet been assessed by the Inland Revenue Department	**182,635**	**31,961**	134,414	21,506
	946,689	**165,671**	944,261	151,082

Notes on the Accounts *(Continued)*

24 SHARE CAPITAL

	Number of shares		Nominal value	
	2003	2002	**2003**	2002
			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 the years 2002 and 2003.

Notes on the Accounts *(Continued)*

25 RESERVES

Group

	Share premium	Other property revaluation reserve	Investment property revaluation reserve	Securities revaluation reserve	Other capital reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002							
– as previously reported	1,398,527	518,863	–	(10,886)	5,599	648,867	2,560,970
– prior year adjustment in respect of deferred tax *(note 23(c)(i))*	–	–	–	–	–	35,236	35,236
– as restated	1,398,527	518,863	–	(10,886)	5,599	684,103	2,596,206
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	–	–	–	–	–	341,234	341,234
Interim dividend paid	–	–	–	–	–	(28,503)	(28,503)
At 31 December 2002	1,398,527	385,159	–	(10,987)	5,594	925,580	2,703,873
At 1 January 2003							
– as previously reported	1,398,527	385,159	–	(10,987)	5,594	907,486	2,685,779
– prior year adjustment in respect of deferred tax *(note 23(c)(i))*	–	–	–	–	–	18,094	18,094
– as restated	1,398,527	385,159	–	(10,987)	5,594	925,580	2,703,873
Dividend approved in respect of the previous financial year	–	–	–	–	–	(71,254)	(71,254)
Reclassification	–	(33,929)	33,929	–	–	–	–
Revaluation (deficit)/surplus	–	(98,914)	(28,075)	20,632	–	–	(106,357)
Realisation of revaluation reserve	–	(106,052)	(5,854)	(978)	–	–	(112,884)
Realisation of inter-company profits	–	–	–	–	(18)	–	(18)
Profit for the year	–	–	–	–	–	264,655	264,655
Interim dividend paid	–	–	–	–	–	(28,503)	(28,503)
At 31 December 2003	1,398,527	146,264	–	8,667	5,576	1,090,478	2,649,512

Notes on the Accounts *(Continued)*

25 RESERVES *(Continued)*

Company

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	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
At 1 January 2003	1,398,527	1,750,901	3,149,428
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Loss for the year	–	(190,337)	(190,337)
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2003	1,398,527	1,460,807	2,859,334

The distributable reserves of the Company at 31 December 2003 amounted to HK$909,894,000 (2002: HK$1,051,496,000), 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 (2002: 20 cents), amounting to HK$71,254,000 (2002: 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 2002 and 2003.

Included in the retained profits of the Group is a loss of HK$5,399,000 (2002: HK$6,288,000), being the accumulated losses attributable to associates.

Notes on the Accounts *(Continued)*

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:

	2003	2002
	HK$'000	*HK$'000*
Within 1 year	**2,857**	1,459
After 1 but within 5 years	**1,644**	2,365
	4,501	3,824

27 CAPITAL AND OTHER COMMITMENTS

(a) Capital commitments outstanding at 31 December 2003 not provided for in the accounts are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contracted for	**5,186**	92,749

(b) There was no commitment for future development expenditure relating to properties under development for sale at 31 December 2003.

At 31 December 2002, the Group had commitments amounting to HK$500,321,000, 50% of which was recoverable under the arrangement referred to in note 29.

Notes on the Accounts *(Continued)*

28 CONTINGENT LIABILITIES

At 31 December 2003, 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.

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. During the year, a total fee of HK$8,314,000 was charged to the Group. In 2002, a net amount of HK$407,000 was credited to the Group for the year after adjusting for the fee overcharged in prior year. As at 31 December 2003, an amount of HK$18,000,000 (2002: HK$12,565,000) 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$201,021,000 for the year ended 31 December 2003 (2002: HK$372,979,000). As at 31 December 2003, an amount of HK$129,702,000 (2002: HK$196,439,000) remained unpaid and was included in debtors and prepayments.

Notes on the Accounts *(Continued)*

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

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$20,836,000 (2002: HK$40,053,000) was charged to the Group for the year. In accordance with the prime cost contract entered with the Group, an amount of HK$437,566,000 (2002: HK$841,019,000) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2003, an amount of HK$271,132,000 (2002: HK$437,363,000) 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). An amount of HK$229,000 (2002: HK$Nil) was charged to the Group during the year. As at 31 December 2003, an amount of HK$70,000 (2002: HK$Nil) remained unpaid and was included in creditors and accrued charges.

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 2003. During the year, the Group received management and administrative fees in the total of HK$330,000 (2002: HK$1,100,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation. As at 31 December 2003, the amount advanced by the Group totalling HK$222,950,000 (2002: HK$180,996,000) 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 at the remuneration of 5% of the monthly rental income from the commercial arcade of the Property and such agreement 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"). An amount of HK$21,000 (2002: HK$Nil) was charged to the Group for the year and was included in creditors and accrued charges.

Notes on the Accounts *(Continued)*

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 was 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;

(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

Notes on the Accounts *(Continued)*

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(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 2003, 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.

To the extent the above transactions constituted connected transactions as defined in the Listing Rules, the Group had complied with relevant requirements under Chapter 14 of the Listing Rules.

30 POST BALANCE SHEET EVENT

On 8 March 2004, the Company has accepted an offer of lease modification in respect of the piece of land located at 220–222 Tai Kok Tsui Road from the Lands Department, under which the Company shall surrender the old lot, known as Kowloon Inland Lot No. 6698 for the regrant of a new lot to be known as Kowloon Inland Lot No. 11159, subject to the terms and conditions contained therein, including the payment of a premium of approximately HK$390 million and an administrative fee of HK$145,000.

31 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of change in accounting policy for deferred taxation, details of which are set out in note 1.