

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (HKSA). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and certain fixed assets.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice (SSAP) 12 "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax.

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 profit or loss, which were expected with reasonable probability to crystallise in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exception. The new accounting policy has been applied retrospectively, and accordingly comparative amounts for the financial year 2002 have been restated. The Group's opening retained profits as at 1 January 2003 and 1 January 2002 have been decreased by HK\$20,574,000 and HK\$16,046,000 respectively and the Group's opening investment property revaluation reserve as at 1 January 2002 has been decreased by HK\$3,834,000. The effect of the change is an increase in taxation of HK\$6,352,000 (2002: HK\$16,132,000) being charged to the consolidated profit and loss account. In addition, interests in associates and minority interests as at 31 December 2003 were decreased by HK\$23,927,000 and HK\$18,340,000 (as at 31 December 2002: HK\$21,523,000 and HK\$25,509,000) respectively.

b) Basis of consolidation

- (i) The consolidated financial statements include the audited financial statements of the Company and all its subsidiaries made up to 31 December each year.
- (ii) Results of subsidiaries acquired or disposed of during the year are included from the dates of acquisition or up to the dates of disposal respectively. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

Note 1 **Significant Accounting Policies** *(Continued)*

c) Goodwill or negative goodwill

Goodwill or negative goodwill arising on consolidation represents the excess or deficit of cost of acquisition of subsidiaries, associates and jointly controlled entities over the Group's share of the fair value ascribed to the identifiable assets and liabilities acquired at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its estimated useful life not exceeding 20 years. In respect of subsidiaries, goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses. In respect of associates and jointly controlled entities, cost of goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of interests in associates or jointly controlled entities.

Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. In respect of subsidiaries, any negative goodwill not yet recognised in the consolidated profit and loss account is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as goodwill. In respect of associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

All goodwill and negative goodwill arising from earlier acquisitions before 1 January 2001 continued to be held in reserve and no reinstatement has been made.

On disposal of interests in subsidiaries, associates and jointly controlled entities, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement in reserve is included in the calculation of the profit and loss on disposal.

d) Subsidiaries

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in subsidiaries are stated at cost less any impairment losses.

Note 1 Significant Accounting Policies *(Continued)*

e) Associates

The consolidated profit and loss account reflects the Group's share of the post-acquisition results of its associates for the year, including any amortisation of goodwill or negative goodwill charged or credited during the year. In the consolidated balance sheet, interests in associates are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the associates. 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, interests in associates are stated at cost less any impairment losses.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and at least one other party undertake an economic activity which is subject to joint control and none of the parties involved unilaterally has control over the economic activity.

(i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

The consolidated profit and loss account reflects the Group's share of the post-acquisition results of its jointly controlled entities for the year, including any amortisation of goodwill or negative goodwill charged or credited during the year. In the consolidated balance sheet, interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the jointly controlled entities. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in jointly controlled entities are stated at cost less any impairment losses.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Note 1 Significant Accounting Policies *(Continued)*

f) Joint ventures *(Continued)*

(ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

g) Revenue recognition

Major categories of revenue are recognised in the financial statements on the following bases:

Revenues from ship passenger operations are recognised upon the departure of each trip of vessel. Revenue from the sale of fuel is recognised upon delivery to the customer. Revenues from club operations and repairing services are recognised upon provision of services. Management fees, rental income, subsidies from travel services and interest income are recognised on the accrual basis. Dividend income is recognised when the right to receive payment is established. Revenue and profit from sale of completed properties are recognised upon completion of the sale agreements. Revenue and profit on properties under development are recognised under a percentage of completion method when construction has progressed beyond the preliminary stages, the percentage used being the proportion of construction costs incurred at the balance sheet date to estimated total construction costs. Profit recognised on this basis is limited to the amount of sale proceeds received.

h) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed and are intended to be held for long-term rental income generating purposes. Investment properties are stated at their open market values based on an annual professional valuation at the balance sheet date. Surpluses arising on revaluations are credited to the investment property revaluation reserve account and deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account on a portfolio basis. Any subsequent revaluation surpluses are credited to the profit and loss account to the extent of the deficits previously charged. On disposal of an investment property, related revaluation surpluses or deficits previously taken to the revaluation reserve account are transferred to the profit and loss account.

Note 1 Significant Accounting Policies *(Continued)*

h) Fixed assets *(Continued)*

(ii) Other assets

Land and buildings are stated at cost or directors' valuation less accumulated depreciation and any accumulated impairment losses. Surplus on revaluation is transferred to capital reserve account. The Group has placed reliance on the provision as permitted by SSAP 17 and therefore regular revaluations on land and buildings stated at valuation are not made. Vessels and other fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

The gain or loss arising from the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserve.

(iii) Depreciation

No amortisation or depreciation is provided on investment properties with an unexpired lease of over 20 years or property held on freehold since the valuation takes into account the state of each building at the date of valuation.

Land held on long-term or medium-term lease is amortised over the unexpired term of the lease. Buildings are depreciated on a straight line basis over 50 years or the remaining term of the lease, if shorter.

Vessels and other fixed assets are depreciated over their anticipated useful lives on a straight line basis as follows:

	Annual rates
Vessels and pontoons	5% - 16.7%
Other assets	6.7% - 33.3%

Note 1 **Significant Accounting Policies** *(Continued)*

i) Investment securities

Investment securities are securities which are intended to be held on a continuing basis, and which are held for an identified long-term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose.

Investment securities are recognised as assets from the date on which the Group is bound by the contract which gives rise to them and are included in the balance sheet at cost less provision for impairment loss which is other than temporary. Such provision is determined for each investment individually. Provisions are recognised as an expense immediately and are written back to the profit and loss account when the circumstances and events that lead to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back is limited to the amount of the write-downs or write-offs.

The profit or loss on disposal is accounted for in the period in which the disposal occurs as the difference between the sale proceeds and the carrying amount of the investments.

j) Properties under development

Properties under development for long-term purposes are shown as fixed assets and are stated at cost less any accumulated impairment losses. No depreciation is provided on properties under development. Properties under development are included under current assets when they are developed for sale and are stated at cost less provision for any anticipated losses. Cost includes cost of land and development, construction expenditure incurred and attributable finance costs capitalised during the development period.

k) Convertible guaranteed bonds

Convertible guaranteed bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs, including the premium payable upon the final redemption of the convertible guaranteed bonds, are recognised in the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the convertible guaranteed bonds for each accounting period.

If any of the convertible guaranteed bonds are repurchased and cancelled prior to the bondholders' redemption date, any such redemption premium previously provided in respect of the convertible guaranteed bonds repurchased will be taken to the profit and loss account. The gain or loss on repurchase of convertible guaranteed bonds is recognised in the profit and loss account.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. In respect of unsold properties, cost is determined by apportionment of the total development costs, including land and development cost, construction expenditure incurred and finance costs capitalised, attributable to the unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions. In respect of other inventories, cost, comprising purchase cost from suppliers, is determined on first-in-first-out basis and on 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.

Note 1 Significant Accounting Policies *(Continued)*

m) Trade debtors

Provision is made against trade debtors to the extent that they are considered to be doubtful. Trade debtors in the balance sheet are stated net of such provision.

n) 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.

o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Note 1 **Significant Accounting Policies** *(Continued)*

p) Operating leases

Rental income and expenses under operating leases are credited or charged to the profit and loss account on a straight line basis over the terms of the leases. Contingent rental income and expenses are credited or charged to the profit and loss account in the financial year in which they are earned or incurred.

q) Capitalisation of borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate for the year is based on the cost of the related borrowings less related interest income.

r) Foreign currencies

Monetary assets and liabilities in currencies other than Hong Kong dollars and the balance sheets of subsidiaries, associates and joint ventures established outside Hong Kong, which are expressed in currencies other than Hong Kong dollars, are translated into Hong Kong dollars at approximately the market rates of exchange ruling at the balance sheet date. Transactions in currencies other than Hong Kong dollars during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. The profit and loss accounts of subsidiaries, associates and joint ventures established outside Hong Kong, which are expressed in currencies other than Hong Kong dollars, are translated into Hong Kong dollars at the weighted average exchange rates during the year. Exchange differences arising from translation of financial statements of subsidiaries, associates and joint ventures are dealt with as a movement in reserve. All other exchange differences are included in the determination of operating profit.

s) Employee benefits

- (i) Cost of accumulating compensated absences is recognised as an expense in the profit and loss account and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.
- (ii) Obligations for contributions to defined contribution retirement plans, including contributions payable under the Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

t) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Note 1 Significant Accounting Policies *(Continued)*

u) Impairment of assets

At each balance sheet date, assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss, representing the difference between the carrying amount and the recoverable amount, is recognised in the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the disposal of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years and credited to the profit and loss account.

v) Share options

Options granted to directors and employees over the Company's shares are recognised in the balance sheet at the time when the options are exercised. Share capital is credited at par for each share issued upon the exercise of options, with share premium credited at the excess of net proceeds received over total share capital credited.

w) Segment 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.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's principal activities and the Group's management structure and internal financial reporting system.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment revenues, expenses, results, assets and liabilities are determined before intra-group balances and transactions and are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are within a single segment. Inter-segment pricing is determined on an arm's length basis.

Segment capital expenditure is the total costs incurred during the year to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate revenues, expenses and assets, interest-bearing loans, borrowings and taxation.

Note 2 Turnover and Revenue

The Group is principally engaged in the businesses of property development, investment and management, shipping and related services, hospitality and investment holding.

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Turnover		
Revenue from sale of properties	3,574,494	3,337,967
Revenue from ship passenger operations	1,243,385	1,376,461
Revenue from sale of fuel	9,246	7,323
Revenue from club operations	18,145	27,917
Rental income	118,836	100,544
Dividends from unlisted investments	17,216	25,174
Interest income from mortgage loans receivable	3,117	1,127
Management fees and others	166,807	138,175
	5,151,246	5,014,688
Other revenues		
Interest income	9,357	20,649
Claims received	2,359	12,239
Others	34,794	32,078
	46,510	64,966
	5,197,756	5,079,654

Note 3 Operating Profit

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
After crediting:		
Interest income	18,978	32,196
Less: Amount capitalised in properties under development	(6,504)	(10,420)
	12,474	21,776
Rental income from investment properties	108,394	94,659
Less: Outgoings	(2,588)	(3,083)
	105,806	91,576
Surplus on revaluation of investment properties	35,024	–
Dividends from unlisted investments		
– STDM	16,845	18,331
– others	371	6,843
Gain on repurchase of convertible guaranteed bonds	27	6,444
After charging:		
Cost of inventories	3,593,128	3,238,737
Staff costs	477,834	505,699
Depreciation		
– fixed assets held for use under operating leases	3,312	2,946
– other fixed assets	147,175	149,455
Amortisation of goodwill	3,186	–
Auditors' remuneration	3,097	3,072
Deficit on revaluation of investment properties	–	35,024
Loss on disposal of fixed assets	17,372	923
Minimum lease payments of properties under operating leases	3,269	5,743
Provident fund contribution	20,206	20,519

Note 4 Directors' and Senior Management's Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance is as follows:

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Directors' remuneration		
Fees		
Executive directors	280	280
Independent non-executive directors	400	400
Non-executive directors	10	10
Other emoluments		
Salaries and allowances	16,050	14,528
Company portion of provident fund contribution	618	618
	17,358	15,836

Other emoluments included allowances of HK\$200,000 (2002: HK\$200,000) paid to independent non-executive directors.

The number of directors whose remuneration fell within the following bands is as follows:

Specified bands of directors' remuneration	Number of directors	
	2003	2002
HK\$0 - HK\$1,000,000	5	5
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	4	3
HK\$2,000,001 - HK\$2,500,000	1	2
HK\$4,000,001 - HK\$4,500,000	0	1
HK\$5,500,001 - HK\$6,000,000	1	0

No directors have waived remuneration in respect of the year ended 31 December 2003.

Among the five highest paid individuals in the Group, four (2002: all) are directors of the Company and the details of their remuneration have already been disclosed above. The remuneration of the remaining individual during the year not included above was salaries and allowances of HK\$3,518,000 and Company portion of provident fund contribution of HK\$159,000.

Note 5 Finance Costs

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Interest on bank loans and overdraft		
- wholly repayable within 5 years	25,978	82,470
Interest on other loans		
- wholly repayable within 5 years	-	4,123
Interest on convertible guaranteed bonds	12,711	16,788
Provision for premium on redemption of convertible guaranteed bonds	19,441	25,832
Interest on loans from minority shareholders	18,832	52,349
Less: Amount capitalised in properties under development	(36,968)	(80,163)
	39,994	101,399

Note 6 Net Investment (Loss)/Gain

Net investment loss comprises profit on disposal of a subsidiary of HK\$29,671,000, impairment loss on goodwill of a jointly controlled entity of HK\$65,898,000 and impairment loss on goodwill of a subsidiary of HK\$2,045,000. Net investment gain for 2002 comprises profit on disposal of an associate of HK\$177,828,000, impairment loss on investment of HK\$100,000,000 and impairment loss on goodwill of a jointly controlled entity of HK\$6,307,000.

Note 7 Taxation

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

	2003 (HK\$'000)	(Restated) 2002 (HK\$'000)
Current tax - Hong Kong		
Tax for the year	15,691	41,448
Benefit of previously unrecognised tax losses and deductible temporary differences	(9,748)	(1,662)
Under/(over)- provision in respect of prior years	104	(13,189)
	6,047	26,597
Current tax - Overseas		
Tax for the year	4,684	4,523
Over-provision in respect of prior years	(3,189)	(6,440)
	1,495	(1,917)
Deferred tax		
Origination and reversal of temporary differences	10,585	10,248
Benefit of previously unrecognised tax losses and deductible temporary differences now recognised	(4,329)	–
Transfer of deferred tax previously charged (to)/from investment property revaluation reserve account	(4,464)	3,834
Effect of change in tax rate	3,652	–
	5,444	14,082
Other taxes - Overseas		
Taxation charged to revenues and others	3,513	952
Taxation attributable to the Company and its subsidiaries	16,499	39,714
Share of taxation attributable to associates	2,824	1,162
Share of taxation attributable to jointly controlled entities	2,297	–
	21,620	40,876

Hong Kong profits tax is provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year.

Overseas taxation is calculated at rates of tax applicable in their respective jurisdictions.

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of financial statements for the year ended 31 December 2003.

Note 7 Taxation (Continued)

b) The reconciliation between tax expense and accounting profit of the Group in the financial statements is as follows:

	2003 (HK\$'000)	2002 (HK\$'000)
Profit before taxation	320,953	568,713
Tax at the applicable tax rate of 17.5% (2002: 16%)	56,166	90,994
Tax effect of net expenses/(income) that are not deductible/(taxable) in determining taxable profit	2,224	(8,425)
Tax effect of capital gain on realisation of assets	(50,453)	(29,404)
Tax effect of cost adjustments on investment properties	(540)	–
Tax effect of utilisation of previously unrecognised tax losses and deductible temporary differences	(22,611)	(2,983)
Tax effect of unrecognised tax losses and deductible temporary differences in the year	39,179	18,510
Effect on opening deferred tax balances resulting from change in tax rate	3,652	–
Effect of different tax rates of subsidiaries, associates and jointly controlled entities operating in other jurisdictions	(3,513)	(13,246)
Over-provision in respect of prior years	(1,533)	(19,986)
Income tax expense for the year	22,571	35,460
Transfer of deferred tax previously charged (to)/from investment property revaluation reserve account	(4,464)	3,834
Deferred tax charged on revaluation of properties	–	630
Other taxes	3,513	952
Total tax expense	21,620	40,876

Note 7 Taxation (Continued)

c) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the balance sheets and the movement during the year are as follows:

Deferred tax assets

	Depreciation in excess of related depreciation allowances (HK\$'000)	Unrealised intra- group profit (HK\$'000)	Provision (HK\$'000)	Tax losses (HK\$'000)	Others (HK\$'000)	Total (HK\$'000)
Group						
At 1 January 2002						
- as originally stated	-	-	-	-	-	-
- effect of adopting SSAP 12 (revised)	(391)	(30,851)	(1,323)	(31,259)	-	(63,824)
- as restated	(391)	(30,851)	(1,323)	(31,259)	-	(63,824)
Charge/(credit) to profit and loss account for the year	(38)	3,858	1,323	8,356	(295)	13,204
At 31 December 2002	(429)	(26,993)	-	(22,903)	(295)	(50,620)
Charge/(credit) to profit and loss account for the year	50	1,024	-	5,068	(17)	6,125
Effect of change in tax rate	(40)	(2,531)	-	(2,147)	(27)	(4,745)
At 31 December 2003	(419)	(28,500)	-	(19,982)	(339)	(49,240)
Company						
At 1 January 2002						
- as originally stated	-					
- effect of adopting SSAP 12 (revised)	(187)					
- as restated	(187)					
Charge to profit and loss account for the year	16					
At 31 December 2002	(171)					
Charge to profit and loss account for the year	32					
Effect of change in tax rate	(16)					
At 31 December 2003	(155)					

Note 7 Taxation (Continued)**c) Deferred tax assets and liabilities recognised** (Continued)**Deferred tax liabilities**

	Depreciation allowances in excess of related depreciation (HK\$'000)	Revaluation of properties (HK\$'000)	Clawback of capital allowances of properties (HK\$'000)	Profit recognised in respect of properties under development for sale prior to completion (HK\$'000)	Total (HK\$'000)
Group					
At 1 January 2002					
- as originally stated	19,802	–	–	38,905	58,707
- effect of adopting SSAP 12 (revised)	57,589	3,834	15,771	(38,905)	38,289
- as restated	77,391	3,834	15,771	–	96,996
Charge/(credit) to profit and loss account for the year	(7,477)	630	3,891	–	(2,956)
At 31 December 2002	69,914	4,464	19,662	–	94,040
Charge/(credit) to profit and loss account for the year	(8,011)	–	8,142	–	131
Charge to equity for the year	–	787	–	–	787
Effect of change in tax rate	6,554	–	1,843	–	8,397
At 31 December 2003	68,457	5,251	29,647	–	103,355

Company

At 1 January 2002	
- as originally stated	–
- effect of adopting SSAP 12 (revised)	187
- as restated	187
Credit to profit and loss account for the year	(16)
At 31 December 2002	171
Credit to profit and loss account for the year	(32)
Effect of change in tax rate	16
At 31 December 2003	155

Note 7 Taxation (Continued)

c) Deferred tax assets and liabilities recognised (Continued)

Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.

	Group		Company	
	2003 (HK\$'000)	(Restated) 2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Deferred tax assets recognised	(6,510)	(12,683)	–	–
Deferred tax liabilities recognised	60,625	56,103	–	–
	54,115	43,420	–	–

d) Deferred tax assets unrecognised

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Tax losses	409,443	262,459	66,330	45,527
Deductible temporary differences	14,034	74,567	–	–
	423,477	337,026	66,330	45,527

Included in the unrecognised tax losses of the Group are losses of HK\$19,711,000 (2002: HK\$13,560,000) that will expire within five years from the balance sheet date. Other tax losses and deductible temporary differences of the Group and the tax losses of the Company may be carried forward indefinitely.

Note 8 Dividends

	Group and Company	
	2003 (HK\$'000)	2002 (HK\$'000)
Interim dividend of 1.5 HK cents on 1,942,433,910 shares (2002: 3.5 HK cents on 1,942,433,910 shares)	29,137	67,985
Proposed final dividend of 3.5 HK cents on 1,942,433,910 shares (2002: 3.5 HK cents on 1,942,433,910 shares)	67,985	67,985
2001 final dividend of 3.0 HK cents on 388,486,782 rights shares	–	11,655
	97,122	147,625

Note 9 Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$327,164,000 (2002: HK\$378,038,000, as restated) and the weighted average number of 1,942,433,910 shares (2002: 1,843,202,631 shares) in issue during the year. The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$327,164,000 (2002: HK\$378,038,000, as restated) and the weighted average number of 1,955,156,107 shares (2002: 1,846,842,345 shares) in issue after adjusting for the effects of all dilutive potential ordinary shares.

A reconciliation of profit attributable to shareholders and the weighted average number of shares used in calculating the basic earnings per share and the diluted earnings per share is as follows:

For the year ended 31 December

	Profit attributable to shareholders		Weighted average number of shares	
	2003 (HK\$'000)	(Restated) 2002 (HK\$'000)	2003	2002
Profit/number of shares for the purpose of basic earnings per share	327,164	378,038	1,942,433,910	1,843,202,631
Effect of dilutive potential ordinary shares - share options	–	–	12,722,197	3,639,714
Profit/number of shares for the purpose of diluted earnings per share	327,164	378,038	1,955,156,107	1,846,842,345

Note 10 Fixed Assets

Group

	Investment properties (HK\$'000)	Land and buildings (HK\$'000)	Properties under development (HK\$'000)	Vessels and pontoons (HK\$'000)	Other assets (HK\$'000)	Total (HK\$'000)
Cost or valuation						
At 1 January 2003	2,212,762	1,066,838	186,165	1,923,825	760,494	6,150,084
Exchange adjustment	(1,558)	–	–	–	(2)	(1,560)
Additions through acquisition of subsidiaries	–	–	–	–	4,859	4,859
Additions/transfers	258	–	81,073	16,779	13,802	111,912
Cost adjustments	(3,101)	–	–	–	–	(3,101)
Disposals/transfers	–	–	–	–	(57,927)	(57,927)
Reclassification	267,238	–	(267,238)	–	–	–
Surplus on revaluation	49,605	–	–	–	–	49,605
At 31 December 2003	2,525,204	1,066,838	–	1,940,604	721,226	6,253,872
Amortisation and depreciation						
At 1 January 2003	–	225,889	–	1,063,375	564,165	1,853,429
Exchange adjustment	–	–	–	–	(1)	(1)
Through acquisition of subsidiaries	–	–	–	–	895	895
Charge for the year	–	6,711	–	86,091	57,685	150,487
Written back on disposal	–	–	–	–	(40,333)	(40,333)
At 31 December 2003	–	232,600	–	1,149,466	582,411	1,964,477
Net book value						
At 31 December 2003	2,525,204	834,238	–	791,138	138,815	4,289,395
At 31 December 2002	2,212,762	840,949	186,165	860,450	196,329	4,296,655

Note 10 Fixed Assets *(Continued)***Company**

	Other assets (HK\$'000)
Cost	
At 1 January 2003	3,322
Additions	270
Disposals	(48)
At 31 December 2003	3,544
Depreciation	
At 1 January 2003	2,115
Charge for the year	460
Written back on disposal	(40)
At 31 December 2003	2,535
Net book value	
At 31 December 2003	1,009
At 31 December 2002	1,207

Other assets of the Group comprised mainly furniture, fixtures and repairable spare parts of vessels.

Analysis of cost and valuation of the Group's investment properties and land and buildings at 31 December 2003 is as follows:

	Held in Hong Kong		Held outside Hong Kong		Total
	(long lease)	(medium lease)	(medium lease)	(freehold)	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Investment properties					
Based on 2003 professional valuation	204,000	1,908,816	359,388	53,000	2,525,204
Land and buildings					
Based on directors' valuation in 1989	80,080	–	–	–	80,080
At cost	13,369	451,213	522,176	–	986,758
	93,449	451,213	522,176	–	1,066,838

All the investment properties are held for rental income under operating leases.

The investment properties were revalued on the open market value basis at 31 December 2003 by FPDSavills (Hong Kong) Limited and Chesterton Petty Limited, independent professional valuers.

Note 10 Fixed Assets (Continued)

All other assets are stated at cost less accumulated depreciation.

The gross carrying amounts of vessels held for use in operating lease were HK\$59,672,000 (2002: HK\$59,672,000) and the related accumulated depreciation charges were HK\$51,857,000 (2002: HK\$48,545,000).

Investment properties reclassified from properties under development included finance costs capitalised during the year of HK\$930,000 (2002: investment properties and properties under development included finance costs capitalised of HK\$1,926,000 and HK\$1,562,000 respectively).

Note 11 Subsidiaries

	Company	
	2003 (HK\$'000)	2002 (HK\$'000)
Unlisted shares, at cost	20,100	20,100
Amounts due by subsidiaries less provision	4,983,206	5,558,575
Amounts due to subsidiaries	(901,340)	(850,777)
	4,101,966	4,727,898

Particulars regarding the principal subsidiaries are set out on pages 87 to 89.

Note 12 Associates

	Company	
	2003 (HK\$'000)	2002 (HK\$'000)
Unlisted shares, at cost	678	678
Amount due by an associate less provision	1,954	1,954
	2,632	2,632

	Group	
	2003 (HK\$'000)	(Restated) 2002 (HK\$'000)
Share of net assets	300,584	275,549
Subordinated loans	–	49,957
Amounts due by associates less provision	291,507	616,320
Amounts due to associates	(2,846)	(2,851)
	288,661	663,426
	589,245	938,975

Particulars regarding the principal associates are set out on pages 87 to 89.

Note 13 Joint Ventures**a) Jointly controlled entities**

	Company	
	2003 (HK\$'000)	2002 (HK\$'000)
Capital contribution, at cost	4,972	–
	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Share of net assets	17,111	23,005
Goodwill, unamortised	1,672	2,230
Amounts due by jointly controlled entities	35,218	47,779
	54,001	73,014

Following further acquisition of interest in an investee company, the said company was reclassified as a jointly controlled entity during the year. In view of the continual losses incurred by the said company, the directors are of the opinion that the goodwill in the sum of HK\$65,898,000 be considered to be impaired based on the directors' estimate of the inflow of economic benefits and charged to the consolidated profit and loss account.

The Group's share of results of jointly controlled entities included amortisation of goodwill of HK\$558,000 (2002: HK\$1,107,000).

b) Jointly controlled assets

At the balance sheet date, the aggregate amounts of assets and liabilities recognised in the financial statements relating to the Group's interests in jointly controlled assets are as follows:

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Assets		
Fixed assets	287,000	–
Properties under development	–	1,380,569
Inventories	154,772	–
Sale proceeds of properties held by stakeholders	662,194	780,846
Debtors and deposits	31,569	36,514
Cash and bank balances	18,572	28,507
	1,154,107	2,226,436
Liabilities		
Creditors and accrued charges	328,955	1,325,552

Particulars regarding principal joint ventures are set out on pages 87 to 89.

Note 14 Investments

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Investment securities				
Listed shares in Hong Kong, at cost less impairment losses	4,694	4,694	–	–
Unlisted shares, at cost less impairment losses	840,962	926,395	234,723	244,892
	845,656	931,089	234,723	244,892
Others				
Interest in joint venture in Mainland China, at cost less impairment losses	–	2,629	–	–
Club debentures, at cost	140	140	–	–
	140	2,769	–	–
Amounts due by investee companies	28,190	65,105	125	125
Amounts due to investee companies	–	(4,104)	–	(4,104)
	28,190	61,001	125	(3,979)
	873,986	994,859	234,848	240,913
Market value of listed shares	7,903	5,346	–	–

Note 15 Goodwill

	Group (HK\$'000)
Cost	
At 1 January 2003	–
Additions through acquisition of subsidiaries	44,134
At 31 December 2003	44,134
Amortisation and impairment loss	
At 1 January 2003	–
Amortisation for the year	3,186
Impairment losses recognised in the year	2,045
At 31 December 2003	5,231
Carrying amount	
At 31 December 2003	38,903
At 31 December 2002	–

In view of the subsidiaries' financial performances, the directors are of the opinion that the carrying amount of the goodwill amounting to HK\$2,045,000 (2002: nil) has been impaired and should not be carried forward in the financial statements. Accordingly, the amount has been recognised as an impairment loss based on the directors' estimate of the inflow of economic benefits and charged to the consolidated profit and loss account.

The amortisation periods adopted for goodwill are 5 to 10 years.

Note 16 Inventories

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Properties	1,761,229	3,306,621
Spare parts	102,914	123,132
Others	2,548	2,816
	1,866,691	3,432,569

The gross carrying amounts of properties held for use in operating leases were HK\$28,119,000 (2002: HK\$20,020,000).

Note 17 Trade Debtors and Creditors - Ageing Analysis

The Group maintains defined credit policies on its trade debtors, dependent on market requirements and businesses which they operate. The ageing analysis of trade debtors is as follows:

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
0 - 30 days	81,165	56,573
31 - 60 days	25,541	18,359
61 - 90 days	5,208	788
over 90 days	45,083	47,028
	156,997	122,748

The ageing analysis of trade creditors is as follows:

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
0 - 30 days	445,771	173,853
31 - 60 days	9,795	3,956
61 - 90 days	4,974	735
over 90 days	1,800	37,885
	462,340	216,429

Note 18 Provision for Employee Benefits

Provision for employee benefits represents cost of accumulating compensated absences that the Group expects to pay.

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
At 1 January	28,700	31,221	2,594	2,010
Additions through acquisition of subsidiaries	138	-	-	-
Net amount (used)/provided during the year	(2,648)	(1,577)	741	775
Amount paid during the year	(1,669)	(944)	(139)	(191)
At 31 December	24,521	28,700	3,196	2,594

Note 19 Share Capital

	2003		2002	
	Number of shares	(HK\$'000)	Number of shares	(HK\$'000)
Authorised				
Ordinary shares of HK\$0.25 each				
At 1 January	4,000,000,000	1,000,000	2,000,000,000	500,000
Increase in authorised share capital	-	-	2,000,000,000	500,000
At 31 December	4,000,000,000	1,000,000	4,000,000,000	1,000,000
Issued and fully paid				
Ordinary shares of HK\$0.25 each				
At 1 January	1,942,433,910	485,608	1,553,947,128	388,486
Shares issued under the rights issue	-	-	388,486,782	97,122
At 31 December	1,942,433,910	485,608	1,942,433,910	485,608

The Company had a share option scheme which was adopted on 18 May 1993 (the 1993 share option scheme) and terminated on 31 May 2002. A new share option scheme was adopted on 31 May 2002 (the 2002 share option scheme). During the year, no options to subscribe for ordinary shares in the Company were granted under the 2002 share option scheme.

Pursuant to the 1993 share option scheme, options to purchase ordinary shares in the Company were granted to eligible directors and employees. The options were granted at an exercise price equal to 80% of the average closing price of the existing shares of the Company on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of such options. The options granted under the 1993 share option scheme are exercisable within a period of 5 years for those granted to employees and a period of 10 years for those granted to directors from the date of grant. At 31 December 2003, the outstanding options under the 1993 share option scheme were:

Date of options granted	Exercise price	Number of share options
24 March 1995	HK\$3.35	5,401,791
3 January 2000	HK\$1.15	25,669,565

Other details of the share option schemes are also disclosed under Disclosure of Interests (section (d)) in the Report of the Directors on pages 37 to 39.

Note 20 Reserves

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Capital reserve account				
At 1 January	113,650	130,302	–	–
Transfer from profit and loss account	21	–	–	–
Restatement of goodwill previously charged upon dilution of interests in subsidiaries	–	22,748	–	–
Released upon realisation of assets	(55,958)	(39,400)	–	–
Released upon reclassification of assets	(6,070)	–	–	–
Transfer to investment property revaluation reserve account upon reclassification of assets	(3,820)	–	–	–
At 31 December	47,823	113,650	–	–
Investment property revaluation reserve account				
At 1 January				
- as originally stated	–	8,758	–	–
- effect of adopting SSAP 12 (revised)	–	(3,834)	–	–
- as restated	–	4,924	–	–
Surplus/(deficit) on revaluation	49,605	(8,758)	–	–
Reversal of deficit on revaluation previously charged to profit and loss account	(35,024)	–	–	–
Transfer to taxation in profit and loss account	–	3,834	–	–
Reversal of deferred tax previously charged to profit and loss account	(4,464)	–	–	–
Deferred tax charged for the year	(787)	–	–	–
Transfer from capital reserve account	3,820	–	–	–
At 31 December	13,150	–	–	–
Share premium account				
At 1 January	3,795,658	3,510,565	3,795,658	3,510,565
Shares issued under the rights issue	–	291,365	–	291,365
Expenses on issuance of shares	–	(6,272)	–	(6,272)
At 31 December	3,795,658	3,795,658	3,795,658	3,795,658
Capital redemption reserve account				
At 1 January and 31 December	5,019	5,019	5,019	5,019

Note 20 Reserves (Continued)

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Exchange reserve account				
At 1 January	1,940	4,389	–	–
Exchange translation differences	(965)	(2,449)	–	–
At 31 December	975	1,940	–	–
Profit and loss account				
At 1 January				
- as originally stated	1,802,636	1,567,695	802,726	567,467
- effect of adopting SSAP 12 (revised)	(20,574)	(16,046)	–	–
- as restated	1,782,062	1,551,649	802,726	567,467
Profit for the year	327,164	378,038	112,375	382,884
	2,109,226	1,929,687	915,101	950,351
Transfer to capital reserve account	(21)	–	–	–
Dividends	(97,122)	(147,625)	(97,122)	(147,625)
At 31 December	2,012,083	1,782,062	817,979	802,726
	5,874,708	5,698,329	4,618,656	4,603,403

At the balance sheet date, goodwill and negative goodwill included in the capital reserve account amounted to HK\$34,121,000 and HK\$10,199,000 (2002: HK\$34,121,000 and HK\$10,199,000) respectively. The financial adjustments of SSAP 12 (revised) on goodwill, negative goodwill and business combinations arising from earlier acquisitions before 1 January 2002 were not practicable to determine.

At the balance sheet date, reserves of the Company available for distribution to shareholders, as calculated under Section 79B of the Companies Ordinance, amounted to HK\$817,979,000 (2002: HK\$802,726,000).

The profits/(losses) retained by the Group are analysed as follows:

	Company and subsidiaries (HK\$'000)	Associates (HK\$'000)	Jointly controlled entities (HK\$'000)	Total (HK\$'000)
Retained profits/(losses) at 31 December 2003	1,868,255	158,034	(14,206)	2,012,083
Retained profits/(losses) at 31 December 2002				
(restated)	1,673,240	136,812	(27,990)	1,782,062

Note 21 Long-term Borrowings

	Group	
	2003 (HK\$'000)	2002 (HK\$'000)
Bank loans repayable within a period		
Not exceeding 1 year	68,850	323,271
More than 1 year but not exceeding 2 years	662,450	121,593
More than 2 years but not exceeding 5 years	496,450	1,741,639
Less: Current portion included in current liabilities	(68,850)	(323,271)
	1,158,900	1,863,232
Other loans repayable within a period		
More than 5 years	5,000	5,000
Convertible guaranteed bonds		
Not exceeding 1 year	296,820	–
More than 1 year but not exceeding 2 years	–	308,460
Less: Current portion included in current liabilities	(296,820)	–
	–	308,460
	1,163,900	2,176,692
Represented by:		
Bank loans (Note a)	1,227,750	2,186,503
Other loans (Note b)	5,000	5,000
Convertible guaranteed bonds (Note c)	296,820	308,460
Less: Current portion included in current liabilities	(365,670)	(323,271)
	1,163,900	2,176,692

Notes:

- a) Bank loans to the extent of HK\$312,000,000 (2002: HK\$327,503,000) are secured by charges on certain vessels of the Group of HK\$567,345,000 (2002: HK\$622,257,000).

The balance is secured by corporate guarantee of the Company. Bank loans to the extent of HK\$530,750,000 (2002: HK\$577,503,000) are repayable by instalments.

- b) Other loans are unsecured and non-interest bearing.

Note 21 Long-term Borrowings *(Continued)*

c) In July 1999, a subsidiary issued US\$70 million convertible guaranteed bonds to finance the land premium and development costs of Cheung Sha Wan Shipyards redevelopment project. The bonds carry interest at 4.25% per annum payable annually in arrear. The bonds are guaranteed by the Company and listed on the Luxembourg Stock Exchange. Each holder of the bonds has the option to convert the bonds into shares of HK\$0.25 each of the Company at a conversion price of HK\$2.33 per share, subject to adjustment, with a fixed exchange rate of US\$1.00 = HK\$7.76 at any time between 27 July 1999 and 20 July 2004. Unless previously purchased and cancelled, redeemed or converted, the bonds will be redeemed on 27 July 2004 at 132.5% of their principal amount plus accrued interest. Provision for the redemption premium payable has been made in the accounts so as to provide a constant periodic rate of charge over the term of the bonds.

During the year, the subsidiary repurchased the convertible guaranteed bonds with an aggregate principal amount of US\$1.5 million (2002: US\$30.25 million) for a total consideration of HK\$14,274,000 (2002: HK\$271,329,000) and these bonds were then cancelled. An amount of HK\$2,634,000 (2002: HK\$36,589,000) representing the difference between the consideration paid and the principal amount of the bonds repurchased together with the redemption premium of these bonds previously provided of HK\$2,661,000 (2002: HK\$43,033,000) have been accounted for in the profit and loss account.

Note 22 Minority Interests and Loans

	Group	
	2003 (HK\$'000)	(Restated) 2002 (HK\$'000)
Share of equity	1,349,804	1,389,683
Loans from minority shareholders	2,608,461	3,250,569
	3,958,265	4,640,252

Loans from minority shareholders are unsecured and have no specific repayment terms. The Group has not provided any guarantee in favour of the minority shareholders in respect of the loans advanced. Amount to the extent of HK\$779,694,000 (2002: HK\$1,584,365,000) is interest bearing at HIBOR + 0.58% while the balance is non-interest bearing.

Note 23 Consolidated Cash Flow Statement

a) Acquisition of interests in subsidiaries

	2003 (HK\$'000)	2002 (HK\$'000)
Net assets acquired		
Fixed assets	3,964	62
Properties	–	337,661
Trade & other debtors, deposits and prepayments	23,340	22,484
Cash and bank balances	19,870	13,482
Trade & other creditors, deposits and accrued charges	(17,175)	(4,562)
Provision for employee benefits	(138)	–
	29,861	369,127
Interests in jointly controlled entities originally held by the Group	(55,019)	(369,127)
	(25,158)	–
Goodwill arising on acquisition	44,134	–
	18,976	–
Satisfied by		
Offset of amounts due by the vendors to the Group	18,976	–
Consideration paid	–	–
Cash and cash equivalents acquired	19,870	13,482
Cash flow on acquisition of interests in subsidiaries	19,870	13,482

The subsidiaries acquired during the year ended 31 December 2003 had loss before taxation of HK\$16,714,000 for the period between the dates of acquisition and the balance sheet date. The subsidiaries acquired had no significant impact on cash flows of the Group for 2003. The subsidiary acquired during the year ended 31 December 2002 had no significant impact on the Group's profit before taxation and cash flows.

b) Disposal of interest in a subsidiary

	2003 (HK\$'000)	2002 (HK\$'000)
Net assets disposed of		
Associates	312,342	–
Trade & other creditors, deposits and accrued charges	(13)	–
	312,329	–
Profit on disposal	29,671	–
	342,000	–
Satisfied by		
Cash consideration	342,000	–
Consideration received	342,000	–
Cash and cash equivalents disposed of	–	–
Cash flow on disposal of interest in a subsidiary	342,000	–

Note 23 Consolidated Cash Flow Statement *(Continued)***c) Cash and cash equivalents**

Cash and cash equivalents comprise time deposits, cash and bank balances. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2003 (HK\$'000)	2002 (HK\$'000)
Time deposits	1,500,684	809,510
Cash and bank balances	113,488	89,534
	1,614,172	899,044
Time deposits with a maturity over three months	(36,000)	–
Time deposits pledged to a bank	–	(1,200)
Cash and cash equivalents in the cash flow statement	1,578,172	897,844

Cash and cash equivalents at balance sheet date include cash and bank balances of HK\$19,179,000 (2002: HK\$17,936,000) held by subsidiaries which are not freely remissible to the Group because of currency exchange restrictions.

d) Major non-cash transactions

During the year, the major non-cash transactions of the Group are as follows:

- (i) The Group acquired certain subsidiaries at a total consideration of HK\$18,976,000. The consideration was settled by the way of setoff against the amounts due by the vendors to the Group.
- (ii) Interest in a jointly controlled entity at the carrying amount of HK\$34,007,000 was exchanged for 60.29% equity interests in two subsidiaries.
- (iii) Investment in an investee company at the carrying amount of HK\$93,205,000 was transferred to interest in a jointly controlled entity upon further acquisition of interest in the said investee company.

Note 24 Provident Fund Scheme

Pursuant to the Mandatory Provident Fund Schemes Ordinance, the Group has established a mandatory provident fund (MPF) scheme in December 2000. Since the Group has obtained exemption for its existing provident fund schemes, all staff were offered the choice of switching to the MPF scheme or staying in existing schemes. Where staff elected to join the MPF scheme, both the Group and staff are required to contribute 5% of the employees' relevant income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Apart from the MPF scheme, the Group has two defined contribution fund schemes covering all qualified staff who joined the Group before 2 August 2000 and elected not to switch to the MPF scheme. The Group and its employees are each required to make contributions to the schemes calculated at 5% of the employees' basic salaries on a monthly basis.

The assets held under the MPF scheme and other defined contribution fund schemes are managed by independent trustees. The Group's contributions charged to the profit and loss account for the year ended 31 December 2003 were HK\$20,206,000 (2002: HK\$20,519,000). Under the defined contribution fund schemes, no forfeitures of employer's contributions resulting from leaving scheme members were applied to reduce the Group's contributions for both years. At the balance sheet date, forfeited contributions of HK\$18,018,000 (2002: HK\$13,577,000) were available to the Group to reduce the contributions to the schemes in future.

Note 25 Commitments

a) Capital commitments

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Contracted but not provided for				
Capital expenditure	30,457	13,188	–	–
Capital contribution to jointly controlled entities	9,650	–	9,198	–
	40,107	13,188	9,198	–
Authorised but not contracted for				
Capital expenditure	11,568	24,511	–	–

In addition to the above, the Group's and the Company's share of capital commitments of a jointly controlled entity itself are as follows:

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Contracted but not provided for	1,468	–	–	–
Authorised but not contracted for	825	–	–	–
	2,293	–	–	–

b) Lease commitments

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

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Within one year	3,435	3,905	–	–
In the second to fifth year inclusive	1,943	3,154	–	–
	5,378	7,059	–	–

The Group's operating leases are for terms ranging from 2 to 3 years.

Note 25 Commitments *(Continued)***c) Future minimum lease payments receivable**

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Within one year	64,618	68,808	–	–
In the second to fifth year inclusive	132,037	158,131	–	–
Over five years	8,770	14,308	–	–
	205,425	241,247	–	–

The Group's operating leases are for terms ranging from 6 months to 9 years.

- d) At the balance sheet date, the Group had commitments under various contracts, entered into in the normal course of business, to complete property development projects at a total value of approximately HK\$30,420,000 (2002: HK\$687,122,000).

Note 26 Contingent Liabilities

	Group		Company	
	2003 (HK\$'000)	2002 (HK\$'000)	2003 (HK\$'000)	2002 (HK\$'000)
Guarantees issued by the Company for credit facilities granted by third parties to subsidiaries	–	–	915,800	1,998,500
Guarantees issued by the Company for convertible guaranteed bonds issued by a subsidiary	–	–	296,820	308,460
Letters of credit outstanding	163	930	–	–

Note 27 Related Party Transactions

- a) Details of significant related party transactions which were carried out on normal commercial terms and in the ordinary course of the Group's business are as follows:

	Note	2003 (HK\$'000)	2002 (HK\$'000)
Significant transactions with the STDM Group	(i)		
Dividend received from STDM		16,845	18,331
Ship tickets sold to the STDM Group		401,505	344,130
Discount and commission paid to the STDM Group for sale of ship tickets		32,076	43,112
Management and incentive fees received from STDM for management of hotels and Macau Tower Convention & Entertainment Centre (MTCEC)		31,262	24,593
Fuel purchased from the STDM Group in Macau for shipping operations		78,531	80,490
Income collected by the STDM Group for sale of ship tickets and related services in Macau		234,571	285,017
Amount reimbursed to the STDM Group for expenses incurred in respect of TurboJET operations in Macau		126,914	149,889
Costs and expenses incurred by the Group for management of MTCEC		17,988	111,524
Gross operating revenue of MTCEC collected for STDM		13,757	44,624
Charter hire income received from the STDM Group		20,176	106,726
Temporary advances from STDM		62,697	19,584
Significant transactions with China Travel Services (Hong Kong) Ltd. (CTSHK)	(ii)		
Commission paid to CTSHK for sale of ship tickets		22,170	25,243
Net income collected by CTSHK for sale of ship tickets and related services		110,578	138,880
Amount reimbursed by Shun Tak Shipping Co., Ltd. (STS), STDM and its associates for expenses and resources shared by them	(i)	41,191	37,709
Interest expenses paid to minority shareholders of a subsidiary		18,832	52,349
Insurance premium paid to an associate		46,084	27,733
Construction cost paid to a joint venture		257,861	405,022

Notes:

- (i) Dr. Stanley Ho, Dr. Cheng Yu Tung and Ms. Pansy Ho, directors of the Company, are directors of, and have beneficial interests in, STDM and STS. Ms. Daisy Ho, director of the Company, is a director of, and has beneficial interests in, STS. Mrs. Mok Ho Yuen Wing, Louise, director of the Company, is a director of, STDM and has beneficial interests in, STDM and STS. STDM and STS are substantial shareholders of the Company.
- (ii) CTSHK is a subsidiary of China Travel International Investment Hong Kong Limited which is a minority shareholder of a subsidiary.
- b) Certain related party transactions are also disclosed under Connected Transactions in the Report of the Directors on pages 31 to 35.
- c) Amounts due to/by subsidiaries, associates, joint ventures and minority shareholders are disclosed in notes 11 to 13 and 22 to the financial statements.

Note 28 Segment Information**Business segments****Group****2003**

	Shipping (HK\$'000)	Property (HK\$'000)	Hospitality (HK\$'000)	Investment and others (HK\$'000)	Eliminations (HK\$'000)	Consolidated (HK\$'000)
Turnover and revenue						
External turnover	1,273,274	3,741,396	119,215	17,361	–	5,151,246
Inter-segment turnover	11,204	1,884	–	–	(13,088)	–
Other revenues	15,241	3,426	17,121	1,365	–	37,153
	1,299,719	3,746,706	136,336	18,726	(13,088)	5,188,399
Segment results	49,030	374,430	6,506	4,795	–	434,761
Unallocated income						22,199
Unallocated expenses						(101,826)
Interest income						9,357
Operating profit						364,491
Finance costs						(39,994)
Net investment loss						(38,272)
Share of results of associates	–	8,026	32,256	2,032	–	42,314
Share of results of jointly controlled entities	(1,065)	6,233	(2,242)	(10,512)	–	(7,586)
Profit before taxation						320,953
Taxation						(21,620)
Minority interests						27,831
Net profit for the year						327,164
Assets						
Segment assets	1,705,214	8,043,209	653,737	928,472	(2,305)	11,328,327
Associates	–	266,240	320,636	2,369	–	589,245
Joint ventures	19,741	16,680	16,981	599	–	54,001
Unallocated assets						935,234
Total assets						12,906,807
Liabilities						
Segment liabilities	198,863	2,154,142	10,083	768	(2,305)	2,361,551
Unallocated liabilities						2,767,151
Total liabilities						5,128,702
Other information						
Capital expenditure	25,808	83,313	2,521	–		
Depreciation	138,117	3,709	5,206	2,995		
Amortisation of goodwill	–	–	1,140	2,046		
Surplus on revaluation of investment properties	–	35,024	–	–		

Note 28 Segment Information (Continued)

Business segments (Continued)

Group

2002 (Restated)

	Shipping (HK\$'000)	Property (HK\$'000)	Hospitality (HK\$'000)	Investment and others (HK\$'000)	Eliminations (HK\$'000)	Consolidated (HK\$'000)
Turnover and revenue						
External turnover	1,413,834	3,491,302	83,710	25,842	–	5,014,688
Inter-segment turnover	2,728	1,517	–	–	(4,245)	–
Other revenues	34,848	8,097	1,336	36	–	44,317
	1,451,410	3,500,916	85,046	25,878	(4,245)	5,059,005
Segment results						
Unallocated income						30,628
Unallocated expenses						(86,472)
Interest income						20,649
Operating profit						575,292
Finance costs						(101,399)
Net investment gain						71,521
Share of results of associates	–	4,669	19,294	(2,639)	–	21,324
Share of results of jointly controlled entities	–	17,209	(4,727)	(10,507)	–	1,975
Profit before taxation						568,713
Taxation						(40,876)
Minority interests						(149,799)
Net profit for the year						378,038
Assets						
Segment assets	1,669,278	10,805,568	608,562	998,233	(50)	14,081,591
Associates	–	587,883	347,846	3,246	–	938,975
Joint ventures	2,004	17,744	16,913	36,353	–	73,014
Unallocated assets						276,091
Total assets						15,369,671
Liabilities						
Segment liabilities	164,515	2,996,986	12,800	129	(50)	3,174,380
Unallocated liabilities						4,553,686
Total liabilities						7,728,066
Other information						
Capital expenditure	24,385	532,187	503,178	132		
Depreciation	140,366	4,768	6,677	184		
Amortisation of goodwill	–	–	–	–		
Deficit on revaluation of investment properties	–	35,024	–	–		

Note 28 Segment Information *(Continued)***Geographical segments****Group****2003**

	Hong Kong (HK\$'000)	Macau (HK\$'000)	Others (HK\$'000)	Consolidated (HK\$'000)
Turnover and revenue	4,483,614	616,196	88,589	5,188,399
Segment assets	10,161,191	2,199,889	545,727	12,906,807
Capital expenditure	109,337	2,507	68	
2002 (Restated)				
Turnover and revenue	4,294,528	676,492	87,985	5,059,005
Segment assets	11,904,158	2,525,417	940,096	15,369,671
Capital expenditure	206,696	507,739	345,687	

Note 29 Significant Subsequent Event

Subsequent to the balance sheet date and up to the date of this report, convertible guaranteed bonds with an aggregate principal amount of US\$13.66 million were converted into 45,490,910 ordinary shares of HK\$0.25 each at the conversion price of HK\$2.33 per share.

Note 30 Comparative Figures

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

Note 31 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 2 April 2004.