

1 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

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

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

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's balance sheet at cost less impairment losses (see note 1(k)).

(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.

Notes on the Accounts *(Continued)*

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

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 1(k)).

(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.

(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.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)***(e) Revenue recognition** *(Continued)**(iv) Ferry operations and related services*

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

(v) Travel business

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

(vi) Interest income

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

(vii) Dividends

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

(f) Investment properties

Investment 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.

Notes on the Accounts *(Continued)*

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Hotel properties

Hotel properties are stated at cost less impairment losses (see note 1(k)).

In accordance with normal practice in the hotel industry, no depreciation is provided on hotel properties held on leases with more than 20 years to run at the balance sheet date. It is the Group's policy to maintain the hotel properties in such condition that their value is not diminished by the passage of time so that any element of depreciation would be immaterial. Maintenance expenditure is charged to the profit and loss account in the year in which it is incurred.

(h) Properties held for development

Properties held for development are stated at cost less impairment losses (see note 1(k)). These properties are reclassified as properties under development when they are substantially ready for development.

(i) Properties under development

Properties under development for investment purposes are stated at carrying value less impairment losses (see note 1(k)). 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 1(e)(i) above.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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 1(k)).
- (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

(k) 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;
- properties held for development; 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 such 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).

Notes on the Accounts *(Continued)*

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) *Reversals of impairment losses*

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

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

(l) 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.

(m) 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.

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)***(n) 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.

(o) 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.

(p) 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.

Notes on the Accounts *(Continued)*

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

- (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.

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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

- (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.

(q) 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 depreciation policies, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy, as set out in note 1(k). Revenue arising from operating leases is recognised in accordance with the revenue recognition policies, as set out in note 1(e)(ii).

(ii) Operating lease charges

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

Notes on the Accounts *(Continued)*

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) 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.

(s) 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.

(t) 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.

(u) 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.

1 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(u)** **Segmental reporting** *(Continued)*

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.

(v) **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.

(w) **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)*

2 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property development and investment	696,980	804,302	–	–	696,980	804,302
Ferry, shipyard and related operations	148,678	132,262	1,727	1,525	146,951	130,737
Travel and hotel operations	163,088	114,268	89	604	162,999	113,664
Others	47,286	53,106	42,380	41,907	4,906	11,199
	<u>1,056,032</u>	<u>1,103,938</u>	<u>44,196</u>	<u>44,036</u>	<u>1,011,836</u>	<u>1,059,902</u>
Analysed by:						
Turnover					993,902	1,041,318
Other revenue					17,934	18,584
					<u>1,011,836</u>	<u>1,059,902</u>

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)

2 SEGMENTAL INFORMATION (Continued)

(b) Segmental result

	Segmental result		Elimination of inter-segment transactions		Consolidated result	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment (note c)	383,339	297,110	-	-	383,339	297,110
Ferry, shipyard and related operations (note d)	(5,064)	(27,289)	-	-	(5,064)	(27,289)
Travel and hotel operations	3,058	1,104	-	-	3,058	1,104
Others (note e)	19,782	5,199	-	-	19,782	5,199
	<u>401,115</u>	<u>276,124</u>	<u>-</u>	<u>-</u>	<u>401,115</u>	<u>276,124</u>
Share of results of associates					2,576	894
Profit from ordinary activities before taxation					403,691	277,018
Taxation					(10,625)	(12,363)
Profit attributable to shareholders					<u>393,066</u>	<u>264,655</u>

- (c) The segmental result of the property development and investment operations included surplus on revaluation of investment properties of HK\$75,186,000 (2003: deficit of HK\$2,499,000).
- (d) The segmental result of the ferry, shipyard and related operations included an impairment loss in respect of an oil barge of HK\$1,342,000 (2003: a total impairment losses in respect of the shipyard assets and an oil barge of HK\$19,032,000).
- (e) The segmental result of "Others" mainly comprises financial income, investment income and corporate expenses.

Notes on the Accounts *(Continued)*

2 SEGMENTAL INFORMATION *(Continued)*

(f) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment	2,276,265	2,212,396	–	–	2,276,265	2,212,396
Ferry, shipyard and related operations	210,686	221,049	–	–	210,686	221,049
Travel and hotel operations	80,532	81,644	–	–	80,532	81,644
Others	996,338	908,392	–	–	996,338	908,392
Total assets	3,563,821	3,423,481	–	–	3,563,821	3,423,481

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment	256,206	359,619	–	–	256,206	359,619
Ferry, shipyard and related operations	19,796	21,216	–	–	19,796	21,216
Travel and hotel operations	25,016	23,697	–	–	25,016	23,697
Others	18,623	13,163	–	–	18,623	13,163
Total liabilities	319,641	417,695	–	–	319,641	417,695

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

Notes on the Accounts (Continued)

2 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

	Depreciation		Impairment loss		Capital expenditure incurred	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property development and investment	101	64	–	–	557,015	87,548
Ferry, shipyard and related operations	9,164	9,159	1,342	19,032	6,016	1,320
Travel and hotel operations	548	375	–	–	516	1,249
Others	379	449	–	–	387	82
	<u>10,192</u>	<u>10,047</u>	<u>1,342</u>	<u>19,032</u>	<u>563,934</u>	<u>90,199</u>

3 INCOME

	2004 HK\$'000	2003 HK\$'000
Other revenue		
Management fee income	5,219	2,554
Rental income	1,984	1,594
Other interest income	10,731	14,436
	<u>17,934</u>	<u>18,584</u>
Other net income		
Profit on disposal of investment properties	1,769	6,034
Profit on disposal of listed investment	–	220
Profit on disposal of unlisted investment	18,000	757
Profit on disposal of fixed assets	272	1,621
Other ferry income	264	220
Commission and rebates	392	541
Bad debts recovered	–	4,949
Deposit forfeited	288	1,487
Income from sale of spare parts	2,049	1,418
Sundry income	3,484	1,484
	<u>26,518</u>	<u>18,731</u>

Notes on the Accounts *(Continued)*

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
(a) Staff cost:		
Increase in liability for defined benefit scheme <i>(note 16(a)(ii))</i>	1,440	1,837
Contributions to Mandatory Provident Funds	1,962	1,815
Retirement cost	3,402	3,652
Salaries, wages and other benefits	69,903	70,346
	73,305	73,998
(b) Other items:		
Cost of inventories	384,702	497,840
Auditors' remuneration	921	870
Depreciation	10,192	10,047
Operating lease charges in respect of		
– premises	3,092	2,970
– vessels	598	628
Rental receivable from investment properties net of outgoings of HK\$9,675,000 (2003: HK\$3,419,000)	(5,239)	(4,855)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings	(2,138)	(2,019)
Interest income	(14,216)	(19,555)
Dividend income from listed investments	(1,386)	(1,329)

Notes on the Accounts *(Continued)*

5 DIRECTORS' REMUNERATION

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees		
– Executive directors	150	150
– Independent non-executive directors	150	150
– Other non-executive directors	200	200
	<u>500</u>	<u>500</u>

The remuneration of each of the nine (2003: nine) directors falls within the band of below HK\$1,000,000.

6 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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other emoluments	6,440	5,972
Retirement scheme contributions	611	486
	<u>7,051</u>	<u>6,458</u>

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

<i>HK\$</i>	2004 <i>Number of individuals</i>	2003 <i>Number of individuals</i>
1,000,000 or below	1	2
1,000,001-1,500,000	3	2
1,500,001-2,000,000	–	–
2,000,001-2,500,000	<u>1</u>	<u>1</u>

Notes on the Accounts *(Continued)*

7 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	2004 HK\$'000	2003 HK\$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	4,900	6,625
(Over)/under provision in respect of prior years	(13)	7
	<u>4,887</u>	<u>6,632</u>
Deferred tax		
Origination and reversal of temporary differences	5,207	7,344
Effect of increase in tax rate on deferred tax balances at 1 January	–	(1,618)
	<u>5,207</u>	<u>5,726</u>
Share of taxation of associates	531	5
	<u>10,625</u>	<u>12,363</u>

During the year, a provision of Hong Kong profits tax in the amount of HK\$1,025,000 (2003: 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 had 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.

The provision for Hong Kong profits tax for 2004 is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year.

Notes on the Accounts (Continued)

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

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

	2004 HK\$'000	2003 HK\$'000
Profit before tax	<u>403,691</u>	<u>277,018</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	70,530	48,264
Tax effect of non-deductible expenses	1,711	1,561
Tax effect of non-taxable revenue	(39,660)	(32,037)
Tax effect of current year's tax losses not recognised	3,770	7,223
Tax effect of prior year's unrecognised tax losses utilised this year	(23,510)	(7,850)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	(1,618)
(Over)/under provision in prior years	(13)	7
Over provision in current year	21	239
Tax effect of excess of balancing charge over profit on disposal of fixed assets	–	163
Tax effect of excess of profit on disposal of fixed assets over balancing charge	(327)	(1,094)
Tax effect of temporary differences on fixed assets	<u>(1,897)</u>	<u>(2,495)</u>
Actual tax expense	<u>10,625</u>	<u>12,363</u>

Notes on the Accounts *(Continued)*

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a profit of HK\$657,340,000 (2003: a loss of HK\$200,837,000) which has been dealt with in the accounts of the Company.

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

	2004 HK\$'000	2003 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's accounts	657,340	(200,837)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	7,750	10,500
Company's profit/(loss) for the year <i>(note 24)</i>	<u>665,090</u>	<u>(190,337)</u>

9 DIVIDENDS

(a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of 9 cents per share (2003: 8 cents)	32,065	28,503
Final dividend proposed after the balance sheet date of 24 cents per share (2003: 20 cents)	85,506	71,254
	<u>117,571</u>	<u>99,757</u>

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

Notes on the Accounts *(Continued)*9 **DIVIDENDS** *(Continued)***(b) Dividends attributable to the previous financial year, approved and paid during the year**

	2004	2003
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 20 cents per share (2003: 20 cents)	<u>71,254</u>	<u>71,254</u>

10 **BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share is based on a profit of HK\$393,066,000 (2003: HK\$264,655,000) and 356,273,883 (2003: 356,273,883) ordinary shares in issue during the year.

There was no dilutive potential ordinary shares in existence during the years 2003 and 2004.

Notes on the Accounts (Continued)

11 FIXED ASSETS

Group

	Property, plant and equipment					Investment properties	Properties held for development	Total
	Hotel properties	Leasehold land and buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At 1 January 2004	63,761	228,863	118,482	266,490	677,596	740,800	-	1,418,396
Additions	-	791	4,378	1,772	6,941	4,987	550,304	562,232
Transfer	-	(362)	-	-	(362)	-	214	(148)
Disposals	-	(367)	(2,915)	(3,943)	(7,225)	(2,988)	-	(10,213)
Revaluation surplus	-	-	-	-	-	87,701	-	87,701
At 31 December 2004	<u>63,761</u>	<u>228,925</u>	<u>119,945</u>	<u>264,319</u>	<u>676,950</u>	<u>830,500</u>	<u>550,518</u>	<u>2,057,968</u>
Representing:								
Cost	63,761	228,925	119,945	264,319	676,950	-	550,518	1,227,468
Valuation	-	-	-	-	-	830,500	-	830,500
	<u>63,761</u>	<u>228,925</u>	<u>119,945</u>	<u>264,319</u>	<u>676,950</u>	<u>830,500</u>	<u>550,518</u>	<u>2,057,968</u>
Aggregate depreciation:								
At 1 January 2004	-	132,021	113,635	177,484	423,140	-	-	423,140
Charge for the year	-	2,952	2,159	5,081	10,192	-	-	10,192
Transfer	-	(148)	-	-	(148)	-	-	(148)
Impairment loss	-	-	1,342	-	1,342	-	-	1,342
Written back on disposal	-	(332)	(2,914)	(3,922)	(7,168)	-	-	(7,168)
At 31 December 2004	<u>-</u>	<u>134,493</u>	<u>114,222</u>	<u>178,643</u>	<u>427,358</u>	<u>-</u>	<u>-</u>	<u>427,358</u>
Net book value:								
At 31 December 2004	<u>63,761</u>	<u>94,432</u>	<u>5,723</u>	<u>85,676</u>	<u>249,592</u>	<u>830,500</u>	<u>550,518</u>	<u>1,630,610</u>
At 31 December 2003	<u>63,761</u>	<u>96,842</u>	<u>4,847</u>	<u>89,006</u>	<u>254,456</u>	<u>740,800</u>	<u>-</u>	<u>995,256</u>

Notes on the Accounts (Continued)

11 FIXED ASSETS (Continued)

Company

	Leasehold land and buildings
	<i>HK\$'000</i>
Cost:	
At 1 January 2004	463
Additions	399,926
Transfer to subsidiary	<u>(400,304)</u>
At 31 December 2004	----- 85
Aggregate depreciation:	
At 1 January 2004	197
Charge for the year	5
Transfer to subsidiary	<u>(165)</u>
At 31 December 2004	----- 37
Net book value:	
At 31 December 2004	<u>48</u>
At 31 December 2003	<u>266</u>

- (a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$830,500,000 as at 31 December 2004 (2003: HK\$740,800,000) on an open market value basis. Of the revaluation surplus of HK\$87,701,000, HK\$12,515,000 has been taken to the investment property revaluation reserve and HK\$75,186,000 has been credited to the consolidated profit and loss account.

Notes on the Accounts *(Continued)*

11 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

	2004		2003	
	Fixed assets <i>HK\$'000</i>	Completed properties for sale <i>HK\$'000</i>	Fixed assets <i>HK\$'000</i>	Completed properties for sale <i>HK\$'000</i>
Medium term lease	<u>1,539,211</u>	<u>424,518</u>	<u>901,403</u>	<u>826,523</u>

Company

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Medium term lease	<u>48</u>	<u>266</u>

(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\$830,500,000 (2003: HK\$740,800,000).

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 1 year	<u>16,038</u>	4,990
After 1 year but within 5 years	<u>22,833</u>	<u>1,275</u>
	<u><u>38,871</u></u>	<u><u>6,265</u></u>

Notes on the Accounts (Continued)

12 PROPERTIES UNDER DEVELOPMENT

	2004 HK\$'000	2003 HK\$'000
At 1 January	76,508	1,538,020
Additions	8,751	396,056
Attributable profit	–	193,544
Proceeds receivable	–	(601,339)
Release of other property revaluation reserve	–	(106,052)
Revaluation deficit in properties under development for investment	–	(98,914)
Transfer to completed properties for sale	–	(595,313)
Transfer to investment properties	–	(649,494)
At 31 December	<u>85,259</u>	<u>76,508</u>
Analysis of properties under development:		
For sale	68,685	61,636
For investment	16,574	14,872
	<u>85,259</u>	<u>76,508</u>

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

13 INTEREST IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	166,888	166,888
Amounts due from subsidiaries	5,244,845	4,474,206
Less: Impairment loss	(1,578,221)	(1,771,797)
	<u>3,833,512</u>	<u>2,869,297</u>

Notes on the Accounts *(Continued)*

13 INTEREST IN SUBSIDIARIES *(Continued)*

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

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

Notes on the Accounts (Continued)

13 INTEREST IN SUBSIDIARIES (Continued)

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

14 INTEREST IN ASSOCIATES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–	3	3
Share of net assets	2,974	1,079	–	–
Amounts due from associates	222,218	232,894	9,443	9,443
	225,192	233,973	9,446	9,446
Less: Provision	(6,470)	(6,470)	(6,470)	(6,470)
	218,722	227,503	2,976	2,976

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

Other particulars of the associates are as follows:

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

Notes on the Accounts *(Continued)*

15 OTHER NON-CURRENT ASSETS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current financial assets	66,209	97,643	114	114
Employee benefits (<i>note 16 (a)</i>)	5,163	4,436	3,500	2,834
	71,372	102,079	3,614	2,948
Non-current financial assets comprises:				
Non-trading securities				
Unlisted shares	114	114	114	114
Unlisted equity linked securities	–	45,840	–	–
	114	45,954	114	114
Listed shares				
– in Hong Kong	65,642	51,032	–	–
– outside Hong Kong	453	657	–	–
	66,095	51,689	–	–
	66,209	97,643	114	114
Market value of listed shares at 31 December	66,095	51,689	–	–

16 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement scheme which covers about 26.6% 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 2004 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)

16 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Present value of wholly or partly funded obligations	(36,077)	(31,177)	(32,054)	(27,362)
Fair value of plan assets	41,070	36,241	36,652	31,768
Net unrecognised actuarial losses/(gains)	170	(628)	(1,098)	(1,572)
	<u>5,163</u>	<u>4,436</u>	<u>3,500</u>	<u>2,834</u>

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	4,436	4,723	2,834	2,749
Contributions paid to the scheme	2,167	1,550	1,890	1,521
Expense recognised in the profit and loss account (note 4(a))	(1,440)	(1,837)	(1,224)	(1,436)
At 31 December	<u>5,163</u>	<u>4,436</u>	<u>3,500</u>	<u>2,834</u>

Notes on the Accounts *(Continued)*

16 EMPLOYEE BENEFITS *(Continued)*

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

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

	2004 HK\$'000	2003 HK\$'000
Current service cost	1,754	2,074
Interest cost	1,529	1,727
Expected return on plan assets	(1,839)	(2,056)
Net actuarial losses recognised in the year	39	19
(Gains)/losses on curtailment and settlements	(43)	73
	<u>1,440</u>	<u>1,837</u>

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

	2004 HK\$'000	2003 HK\$'000
Cost of sales	–	178
Selling and marketing expenses	114	13
Administrative expenses	1,248	1,646
Other operating cost	78	–
	<u>1,440</u>	<u>1,837</u>
Actual return on plan assets	<u>4,072</u>	<u>737</u>

(iv) The principal actuarial assumptions used as at 31 December 2004 are as follows:

	2004	2003
Discount rate at 31 December	4%	5%
Expected rate of return on plan assets	5%	5%
Future salary increases		
– 2004	–	0%
– 2005	1%	1%
– 2006	2%	2%
– 2007 and onwards	3%	3%

Notes on the Accounts (Continued)

16 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 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.

17 INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Trading stocks	934	628
Spare parts and consumables	2,002	2,942
Work in progress	1,992	4,511
	4,928	8,081

The amount of spare parts and consumables carried at net realisable value is HK\$1,580,000 (2003: HK\$2,667,000).

18 DEBTORS AND PREPAYMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade debtors	177,490	248,318	–	–
Other debtors and prepayments	21,167	27,324	1,243	10,485
	198,657	275,642	1,243	10,485

All of the debtors and prepayments (2003: except for HK\$11,008,000) are expected to be recovered within one year.

Notes on the Accounts *(Continued)*

18 DEBTORS AND PREPAYMENTS *(Continued)*

Included in debtors and prepayments are trade debtors (excluding retention money recoverable of HK\$11,167,000 (2003: HK\$44,722,000) and net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	161,667	198,032
1 to 3 months overdue	3,467	5,262
More than 3 months overdue but less than 12 months overdue	1,089	170
More than 12 months overdue	100	132
	<u>166,323</u>	<u>203,596</u>

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

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deposits with banks and other financial institutions	910,241	886,053	–	377,531
Cash at bank and in hand	11,476	12,412	567	341
Cash and cash equivalents in the balance sheet	<u>921,717</u>	898,465	<u>567</u>	<u>377,872</u>
Bank overdraft (<i>note 20</i>)	(149)	(527)		
Cash and cash equivalents in the cash flow statement	<u>921,568</u>	<u>897,938</u>		

Notes on the Accounts *(Continued)*

20 BANK OVERDRAFT

At 31 December 2004, unsecured bank overdraft is repayable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 1 year or on demand	<u>149</u>	<u>527</u>

21 CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges except for HK\$170,000 (2003: HK\$Nil), being retention money payable, are expected to be settled within one year.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Due within 1 month or on demand	226,016	238,733
Due after 3 months but within 6 months	297	–
Due after 6 months but within 12 months	–	105,210
Due after 12 months	<u>170</u>	–
	<u>226,483</u>	<u>343,943</u>

Notes on the Accounts *(Continued)*

22 INCOME TAX IN THE BALANCE SHEETS

(a) Tax recoverable in the balance sheet represents:

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong profits tax for the year	–	340
Provisional profits tax paid	<u>(151)</u>	<u>(686)</u>
	(151)	(346)
Balance of profits tax recoverable relating to prior years	<u>(1,561)</u>	<u>(1,545)</u>
	<u>(1,712)</u>	<u>(1,891)</u>

(b) Tax payable in the balance sheet represents:

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong profits tax for the year	4,900	6,285
Provisional profits tax paid	<u>(329)</u>	<u>(89)</u>
	4,571	6,196
Balance of profits tax provision relating to prior years	<u>6,323</u>	<u>190</u>
	<u>10,894</u>	<u>6,386</u>

Notes on the Accounts (Continued)

22 INCOME TAX IN THE BALANCE SHEETS (Continued)

(c) Deferred tax assets and liabilities recognised:

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

(i) Group

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	Future benefit of tax losses <i>HK\$'000</i>	Intra-group interest capitalised in properties under development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred tax arising from:				
At 1 January 2003	28,585	(30,250)	(15,594)	(17,259)
Charged/(credited) to the consolidated profit and loss account (note 7(a))	(19,575)	21,240	4,061	5,726
At 31 December 2003	<u>9,010</u>	<u>(9,010)</u>	<u>(11,533)</u>	<u>(11,533)</u>
At 1 January 2004	9,010	(9,010)	(11,533)	(11,533)
Charged/(credited) to the consolidated profit and loss account (note 7(a))	3,633	(3,633)	5,207	5,207
At 31 December 2004	<u>12,643</u>	<u>(12,643)</u>	<u>(6,326)</u>	<u>(6,326)</u>
			2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Represented by:				
Net deferred tax asset recognised on the balance sheet			<u>(6,326)</u>	<u>(11,533)</u>

Notes on the Accounts *(Continued)*

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

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

(ii) Company

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	Future benefit of tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	494	(274)	220
Charged/(credited) to the profit and loss account	(494)	274	(220)
At 31 December 2003	—	—	—
At 1 January 2004	—	—	—
Charged/(credited) to the profit and loss account	—	—	—
At 31 December 2004	—	—	—

Notes on the Accounts (Continued)

22 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 the management are uncertain whether sufficient taxable profit will be available against which deductible temporary differences and the tax losses can be utilised. The deductible temporary differences and tax losses do not expire under current tax legislation.

	2004		2003	
	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	69,721	12,201	86,177	15,081
(ii) Tax losses	832,011	145,602	946,689	165,671
	<u>901,732</u>	<u>157,803</u>	<u>1,032,866</u>	<u>180,752</u>

23 SHARE CAPITAL

	Number of shares		Nominal value	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Authorised:				
Ordinary shares of HK\$1 each	<u>550,000,000</u>	<u>550,000,000</u>	<u>550,000</u>	<u>550,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1 each	<u>356,273,883</u>	<u>356,273,883</u>	<u>356,274</u>	<u>356,274</u>

There was no movement in share capital during the years 2003 and 2004.

Notes on the Accounts (Continued)

24 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 2003	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	<u>1,398,527</u>	<u>146,264</u>	<u>–</u>	<u>8,667</u>	<u>5,576</u>	<u>1,090,478</u>	<u>2,649,512</u>
At 1 January 2004	1,398,527	146,264	–	8,667	5,576	1,090,478	2,649,512
Dividend approved in respect of the previous financial year	–	–	–	–	–	(71,254)	(71,254)
Revaluation surplus	–	–	12,515	14,406	–	–	26,921
Realisation of revaluation reserve	–	(70,655)	(1,787)	(5,840)	–	–	(78,282)
Realisation of inter-company loss	–	–	–	–	8	–	8
Profit for the year	–	–	–	–	–	393,066	393,066
Interim dividend paid	–	–	–	–	–	(32,065)	(32,065)
At 31 December 2004	<u>1,398,527</u>	<u>75,609</u>	<u>10,728</u>	<u>17,233</u>	<u>5,584</u>	<u>1,380,225</u>	<u>2,887,906</u>

Notes on the Accounts (Continued)

24 RESERVES (Continued)

Company

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
	<u>1,398,527</u>	<u>1,460,807</u>	<u>2,859,334</u>
At 31 December 2003	<u>1,398,527</u>	<u>1,460,807</u>	<u>2,859,334</u>
At 1 January 2004	1,398,527	1,460,807	2,859,334
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Profit for the year	–	665,090	665,090
Interim dividend paid	–	(32,065)	(32,065)
	<u>1,398,527</u>	<u>2,022,578</u>	<u>3,421,105</u>
At 31 December 2004	<u>1,398,527</u>	<u>2,022,578</u>	<u>3,421,105</u>

The distributable reserves of the Company at 31 December 2004 amounted to HK\$983,903,000 (2003: HK\$909,894,000), 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 24 cents per share (2003: 20 cents), amounting to HK\$85,506,000 (2003: 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 (see note 1).

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 2003 and 2004.

Included in the retained profits of the Group is a loss of HK\$3,504,000 (2003: HK\$5,399,000), being the accumulated losses attributable to associates.

Notes on the Accounts *(Continued)*

25 OPERATING LEASE COMMITMENTS

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

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

	2004	2003
	HK\$'000	HK\$'000
Within 1 year	3,063	2,857
After 1 but within 5 years	1,947	1,644
	5,010	4,501

26 CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 31 December 2004 not provided for in the Group's accounts are as follows:

	2004	2003
	HK\$'000	HK\$'000
Contracted for	69,721	5,186
Authorised but not contracted for	453,742	–
	523,463	5,186

27 CONTINGENT LIABILITIES

At 31 December 2004, 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 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 were 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.

28 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\$2,212,000 (2003: HK\$8,314,000) was charged to the Group. As at 31 December 2004, an amount of HK\$18,000,000 (2003: HK\$18,000,000) 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. No amount is recoverable from HL Sub in this regard for the year ended 31 December 2004 (2003: HK\$201,021,000). As at 31 December 2004, an amount of HK\$85,190,000 (2003: HK\$129,702,000) remained unpaid and was included in debtors and prepayments.

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. No amount (2003: HK\$20,836,000) had been charged to the Group for the year. In accordance with the prime cost contract entered with the Group, no amount (2003: HK\$437,566,000) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2004, an amount of HK\$175,282,000 (2003: HK\$271,132,000) remained unpaid and was included in creditors and accrued charges.

Notes on the Accounts *(Continued)*

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

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\$293,000 (2003: HK\$229,000) was charged to the Group during the year. As at 31 December 2004, an amount of HK\$72,000 (2003: HK\$70,000) 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 beneficially owned the remaining 50% equity interest in 2OK as at 31 December 2004. During the year, the Group received management and administrative fees in the total of HK\$495,000 (2003: HK\$330,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amount advanced with effect from 1 January 2004. During the year, the Group received interest amounted to HK\$4,586,000 (2003: HK\$Nil) from 2OK. As at 31 December 2004, the amount advanced by the Group totalling HK\$212,275,000 (2003: HK\$222,950,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

In December 2002, the Group appointed the Project Manager as the leasing and promotion agent of the commercial arcade of the Property for an initial 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\$312,000 (2003: HK\$21,000) was charged to the Group for the year. At 31 December 2004, an amount of HK\$238,000 (2003: HK\$21,000) was included in creditors and accrued charges.

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 prevailing at the time 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) entered into 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;

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

- (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

- (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 prevailing at the time 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 Independent Non-Executive Directors of the Company have 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) and (b) 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.

Notes on the Accounts *(Continued)*

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

Each of the applicable percentage ratios in respect of the aggregate annual value of the Ongoing Connected Transactions for the year ended 31 December 2004 is less than 0.1%. During the year, the Ongoing Connected Transactions are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.33 of the Listing Rules.

In September 2004, the Group appointed the Project Manager as the project and sales manager for the development of Nos. 43, 45, 47, 49, 51 and 51A Tong Mi Road, Kowloon, Hong Kong (the "TMR Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost, 0.5% of the gross proceeds of sale of the residential portion of the TMR Property (but excluding those sale effected by a third party sales agent) and other lump sum fees for supplementary services, subject to a total ceiling of HK\$2,752,000. During the year, a total fee of HK\$782,000 was charged to the Group and was included in creditors and accrued charges.

In September 2004, the Group also appointed another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the development of the TMR Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total ceiling of HK\$14,100,000. In accordance with the contract entered with the Group, an amount of HK\$1,706,250, of which HK\$648,000 being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and HK\$81,000 being the 5% fee, was charged by the main contractor during the year for the superstructure work of the development of the TMR Property and was included in creditors and accrued charges.

As at 31 December 2004, 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 Listing Rules) 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 or, on and after 31 March 2004, Chapter 14A of the Listing Rules.

29 COMPARATIVE FIGURES

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