

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (SSAPs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention as modified by the revaluation of investment properties, certain fixed assets and investments.

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 financial statements 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.

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.

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.

Note 1 Significant Accounting Policies *(Continued)*

c) Goodwill or negative goodwill *(Continued)*

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.

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.

Notes to the Financial Statements

Note 1 Significant Accounting Policies *(Continued)*

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.

(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.

Note 1 Significant Accounting Policies *(Continued)*

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 travel agency services 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. Revenue from sale of investments is recognised when the title to the investments is passed to the purchaser. 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.

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.

(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.

Notes to the Financial Statements

Note 1 Significant Accounting Policies (Continued)

h) Fixed assets (Continued)

(ii) Other assets (Continued)

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	5% - 33.3%

i) Investments

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.

Liquid funds which are investments in cash and cash equivalents and other investments are stated at fair value in the balance sheet. Changes in fair value are dealt with in the profit and loss account.

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.

Note 1 Significant Accounting Policies *(Continued)*

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.

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.

Notes to the Financial Statements

Note 1 Significant Accounting Policies *(Continued)*

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.

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.

Note 1 Significant Accounting Policies *(Continued)*

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.

Notes to the Financial Statements

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.

x) Comparatives

Where necessary, comparative figures have been restated to conform with changes in presentation in the current financial year.

Note 2 Turnover and Revenue

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Turnover		
Revenue from sale of properties	1,697,783	3,574,494
Revenue from ship passenger operations	1,535,487	1,243,385
Revenue from sale of fuel	14,335	9,246
Revenue from travel agency services	98,688	55,620
Rental income	133,277	118,836
Dividends from investments	120,759	17,216
Interest income from mortgage loans receivable	15,077	3,117
Management fees and others	133,724	129,332
	3,749,130	5,151,246
Other revenues		
Interest income	11,875	9,357
Claims received	55,175	2,359
Others	33,554	34,794
	100,604	46,510
	3,849,734	5,197,756

Note 3 Other Income

Other income includes HK\$88,220,000 being interest and redemption premium on convertible guaranteed bonds written back following their conversion as set out in note 23 to the financial statements.

Notes to the Financial Statements

Note 4 Operating Profit

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
After crediting:		
Interest income		
– listed investments	347	–
– unlisted investments	259	–
– others	26,346	18,978
Less: Amount capitalised in properties under development	–	(6,504)
	26,952	12,474
Rental income from investment properties	118,901	108,394
Less: Outgoings	(3,580)	(2,588)
	115,321	105,806
Surplus on revaluation of investment properties	–	35,024
Dividends from listed investments	52	–
Dividends from unlisted investments		
– STDM	115,518	16,845
– others	5,189	371
Profit on disposal of investment properties	565	–
Gain on repurchase of convertible guaranteed bonds	–	27
Net realised and unrealised holding gain on other investments		
– listed	2,083	–
– unlisted	14	–
After charging:		
Cost of inventories		
– properties	1,305,563	3,296,358
– others	387,381	296,770
	1,692,944	3,593,128
Staff costs excluding directors' remuneration	555,857	477,834
Depreciation		
– fixed assets held for use under operating leases	5,140	3,312
– other fixed assets	143,779	147,175
Amortisation of goodwill	4,208	3,186
Auditors' remuneration	3,312	3,097
Loss on disposal of fixed assets excluding investment properties	5,135	17,372
Minimum lease payments of properties under operating leases	2,904	3,269
Provident fund contribution	21,054	20,206

Note 5 Directors' and Senior Management's Remuneration

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Fees		
Executive directors	285	280
Independent non-executive directors	460	400
Non-executive directors	10	10
Other emoluments		
Salaries and allowances	22,721	13,095
Performance bonus	5,157	2,955
Company portion of provident fund contribution	1,031	618
	29,664	17,358

Other emoluments included allowances of HK\$230,000 (2003: HK\$200,000) paid to independent non-executive directors.

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

	Number of directors	
	2004	2003
HK\$0 - HK\$1,000,000	6	5
HK\$1,000,001 - HK\$1,500,000	2	1
HK\$1,500,001 - HK\$2,000,000	3	4
HK\$2,000,001 - HK\$2,500,000	0	1
HK\$3,500,001 - HK\$4,000,000	1	0
HK\$5,000,001 - HK\$5,500,000	1	0
HK\$5,500,001 - HK\$6,000,000	0	1
HK\$11,000,001 - HK\$11,500,000	1	0

No directors have waived remuneration in respect of the year ended 31 December 2004.

Among the five highest paid individuals in the Group, four (2003: four) 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\$3,486,000 (2003: HK\$3,442,000), performance bonus of HK\$419,000 (2003: HK\$76,000) and Company portion of provident fund contribution of HK\$161,000 (2003: HK\$159,000).

Directors' and senior management's remuneration disclosed above represents the amount paid to or receivable by the directors and senior management of the Company for the year and excludes the benefits derived or to be derived from the share options granted to them under the Company's share option schemes. Details of these benefits in kind are disclosed under Disclosure of Interests (section (d)) in the Report of the Directors on pages 39 to 42.

Notes to the Financial Statements

Note 6 Finance Costs

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Interest on bank loans and overdraft wholly repayable within 5 years	12,488	25,978
Interest on convertible guaranteed bonds	—	12,711
Provision for premium on redemption of convertible guaranteed bonds	—	19,441
Interest on loans from minority shareholders	1,865	18,832
Less: Amount capitalised in properties under development	(1,503)	(36,968)
	12,850	39,994

Note 7 Net Investment Loss

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Impairment loss on goodwill of subsidiaries	34,695	2,045
Impairment loss on goodwill of a jointly controlled entity	1,114	65,898
Impairment loss on investments	12,734	—
Profit on disposal of a subsidiary	—	(29,671)
	48,543	38,272

Note 8 Taxation

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Current tax – Hong Kong		
Tax for the year	93,832	15,691
Benefit of previously unrecognised tax losses and deductible temporary differences	(37,806)	(9,748)
(Over)/under-provision in respect of prior years	(468)	104
	55,558	6,047
Current tax – Overseas		
Tax for the year	7,622	4,684
Benefit of previously unrecognised tax losses and deductible temporary differences	(1,722)	–
Over-provision in respect of prior years	(2,774)	(3,189)
	3,126	1,495
Deferred tax		
Origination and reversal of temporary differences	14,580	10,585
Benefit of previously unrecognised tax losses and deductible temporary differences	(700)	(4,329)
Transfer of previously charged deferred tax to investment property revaluation reserve account	–	(4,464)
Effect of change in tax rate	–	3,652
	13,880	5,444
Other taxes – Overseas		
Taxation charged to revenues and others	1,722	3,513
Taxation attributable to the Company and its subsidiaries	74,286	16,499
Share of taxation attributable to associates	8,855	2,824
Share of taxation attributable to jointly controlled entities	1,793	2,297
	84,934	21,620

Hong Kong profits tax is provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

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

Notes to the Financial Statements

Note 8 Taxation (Continued)

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Profit before taxation	909,896	320,953
Tax at the applicable tax rate of 17.5% (2003: 17.5%)	159,232	56,166
Tax effect of net (income)/expenses that are not (taxable)/deductible in determining taxable profit	(23,255)	2,224
Tax effect of capital gain on realisation of assets	(5,259)	(50,453)
Tax effect of adjustments on investment properties	1,509	(540)
Tax effect of utilisation of previously unrecognised tax losses and deductible temporary differences	(42,992)	(22,611)
Tax effect of unrecognised tax losses and deductible temporary differences in the year	10,688	39,179
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	(14,269)	(3,513)
Over-provision in respect of prior years	(2,442)	(1,533)
Income tax expense for the year	83,212	22,571
Transfer of previously charged deferred tax to investment property revaluation reserve account	—	(4,464)
Other taxes	1,722	3,513
Total tax expense	84,934	21,620

Note 8 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)	Tax losses (HK\$'000)	Others (HK\$'000)	Total (HK\$'000)
Group					
At 1 January 2003	(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)
Charge to profit and loss account for the year	63	6,076	8,892	284	15,315
At 31 December 2004	(356)	(22,424)	(11,090)	(55)	(33,925)
Company					
At 1 January 2003	(171)				
Charge to profit and loss account for the year	32				
Effect of change in tax rate	(16)				
At 31 December 2003	(155)				
Charge to profit and loss account for the year	11				
At 31 December 2004	(144)				

Notes to the Financial Statements

Note 8 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)	Total (HK\$'000)
Group				
At 1 January 2003	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
Charge/(credit) to profit and loss account for the year	(9,044)	—	7,609	(1,435)
Charge to equity for the year	—	6,773	—	6,773
At 31 December 2004	59,413	12,024	37,256	108,693
Company				
At 1 January 2003	171			
Credit to profit and loss account for the year	(32)			
Effect of change in tax rate	16			
At 31 December 2003	155			
Credit to profit and loss account for the year	(11)			
At 31 December 2004	144			

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	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Deferred tax assets recognised	(3,295)	(6,510)	—	—
Deferred tax liabilities recognised	78,063	60,625	—	—
	74,768	54,115	—	—

Note 8 Taxation (Continued)

d) Deferred tax assets unrecognised

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

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Tax losses	241,897	409,443	97,441	66,330
Deductible temporary differences	13,686	14,034	—	—
	255,583	423,477	97,441	66,330

Included in the unrecognised tax losses of the Group are losses of HK\$20,987,000 (2003: HK\$19,711,000) 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 9 Dividends

	Group and Company	
	2004 (HK\$'000)	2003 (HK\$'000)
2003 final dividend of HK 3.5 cents on 70,209,670 shares issued upon conversion of convertible guaranteed bonds and on 3,130,435 shares issued upon exercise of share options (2003: nil)	2,567	—
Interim dividend of HK 4.5 cents on 2,078,982,762 shares (2003: HK 1.5 cents on 1,942,433,910 shares)	93,554	29,137
Proposed final dividend of HK 6.5 cents on 2,080,026,240 shares (2003: HK 3.5 cents on 1,942,433,910 shares)	135,202	67,985
	231,323	97,122

Notes to the Financial Statements

Note 10 Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$503,197,000 (2003: HK\$327,164,000) and the weighted average number of 2,027,033,564 shares (2003: 1,942,433,910 shares) in issue during the year. The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$503,197,000 (2003: HK\$327,164,000) and the weighted average number of 2,115,339,365 shares (2003: 1,955,156,107 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	
	2004 (HK\$'000)	2003 (HK\$'000)	2004	2003
Profit/number of shares for the purpose of basic earnings per share	503,197	327,164	2,027,033,564	1,942,433,910
Effect of dilutive potential ordinary shares				
- share options	—	—	41,922,249	12,722,197
- convertible guaranteed bonds	—	—	46,383,552	—
Profit/number of shares for the purpose of diluted earnings per share	503,197	327,164	2,115,339,365	1,955,156,107

Note 11 Fixed Assets

Group

	Investment properties (HK\$'000)	Land and buildings (HK\$'000)	Vessels and pontoons (HK\$'000)	Other assets (HK\$'000)	Total (HK\$'000)
Cost or valuation					
At 1 January 2004	2,525,204	1,066,838	1,940,604	721,226	6,253,872
Exchange adjustment	676	—	—	1	677
Additions/transfers	1,967	—	5,628	22,814	30,409
Cost adjustments	(4,203)	—	—	—	(4,203)
Disposals/transfers	(4,918)	—	(38,253)	(15,531)	(58,702)
Surplus on revaluation	237,633	—	—	—	237,633
At 31 December 2004	2,756,359	1,066,838	1,907,979	728,510	6,459,686
Amortisation and depreciation					
At 1 January 2004	—	232,600	1,149,466	582,411	1,964,477
Charge for the year	—	6,710	87,578	54,631	148,919
Written back on disposal	—	—	(35,436)	(12,687)	(48,123)
At 31 December 2004	—	239,310	1,201,608	624,355	2,065,273
Net book value					
At 31 December 2004	2,756,359	827,528	706,371	104,155	4,394,413
At 31 December 2003	2,525,204	834,238	791,138	138,815	4,289,395

Notes to the Financial Statements

Note 11 Fixed Assets (Continued)

Company

	Other assets (HK\$'000)
Cost	
At 1 January 2004	3,544
Additions	333
Disposals	(101)
At 31 December 2004	3,776
Depreciation	
At 1 January 2004	2,535
Charge for the year	389
Written back on disposal	(92)
At 31 December 2004	2,832
Net book value	
At 31 December 2004	944
At 31 December 2003	1,009

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 2004 is as follows:

	Held in Hong Kong		Held outside Hong Kong		Total (HK\$'000)
	(long lease) (HK\$'000)	(medium lease) (HK\$'000)	(medium lease) (HK\$'000)	(freehold) (HK\$'000)	
Investment properties					
Based on 2004 professional valuation	239,000	2,051,894	369,465	96,000	2,756,359
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 2004 by Savills (Hong Kong) Limited and Chesterton Petty Limited, independent professional valuers.

Note 11 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\$115,098,000 (2003: HK\$59,672,000) and the related accumulated depreciation charges were HK\$97,484,000 (2003: HK\$51,857,000).

Note 12 Subsidiaries

	Company	
	2004 (HK\$'000)	2003 (HK\$'000)
Unlisted shares, at cost	20,100	20,100
Amounts due by subsidiaries less provision	3,372,393	4,983,206
Amounts due to subsidiaries	(933,763)	(901,340)
	2,458,730	4,101,966

Particulars regarding the principal subsidiaries are set out on pages 98 to 99.

Note 13 Associates

	Company	
	2004 (HK\$'000)	2003 (HK\$'000)
Unlisted shares, at cost	678	678
Amount due by an associate less provision	454	1,954
	1,132	2,632

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Share of net assets	333,007	300,584
Amounts due by associates less provision	295,132	291,507
Amounts due to associates	(2,846)	(2,846)
	292,286	288,661
	625,293	589,245

Particulars regarding the principal associates are set out on pages 98 to 99.

Notes to the Financial Statements

Note 14 Joint Ventures

a) Jointly controlled entities

	Company	
	2004 (HK\$'000)	2003 (HK\$'000)
Capital contribution, at cost	7,803	4,972

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Share of net assets	14,191	17,111
Goodwill, unamortised	—	1,672
Amounts due by jointly controlled entities	31,670	35,218
	45,861	54,001

In view of the continual losses incurred by a jointly controlled entity, the directors are of the opinion that goodwill in the sum of HK\$1,114,000 (2003: 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 (2003: HK\$558,000).

Note 14 Joint Ventures (Continued)

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	
	2004 (HK\$'000)	2003 (HK\$'000)
Assets		
Fixed assets	290,520	287,000
Inventories	—	154,772
Sale proceeds of properties held by stakeholders	—	662,194
Debtors and deposits	4,441	31,569
Cash and bank balances	20,474	18,572
	315,435	1,154,107
Liabilities		
Creditors and accrued charges	131,885	328,955
Deferred tax liabilities	5,842	—
Taxation payable	14,442	—
	152,169	328,955

Particulars regarding principal joint ventures are set out on pages 98 to 99.

Notes to the Financial Statements

Note 15 Investments

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Investment securities				
Listed equity securities in Hong Kong, at cost less impairment losses	4,694	4,694	—	—
Unlisted equity securities, at cost less impairment losses	828,228	840,962	234,723	234,723
	832,922	845,656	234,723	234,723
Other investments				
Listed equity securities in Hong Kong, at market value	23,895	—	—	—
Listed securities outside Hong Kong, at market value				
- equity securities	2,211	—	—	—
- debt securities	19,767	—	—	—
Unlisted debt securities, at fair value	27,226	—	—	—
	73,099	—	—	—
Others				
Listed liquid fund outside Hong Kong, at market value	57,890	—	—	—
Club debentures, at cost	140	140	—	—
Amounts due by investee companies	28,190	28,190	125	125
	86,220	28,330	125	125
	992,241	873,986	234,848	234,848

At the balance sheet date, the market value of listed investment securities amounted to HK\$5,021,000 (2003: HK\$7,903,000).

Note 15 Investments (Continued)

Analysis of the carrying value of investments is as follows:

	Investment securities		Other investments		Others		Total	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Group								
Current assets	—	—	19,767	—	57,890	—	77,657	—
Non-current assets	832,922	845,656	53,332	—	28,330	28,330	914,584	873,986
	832,922	845,656	73,099	—	86,220	28,330	992,241	873,986
Company								
Non-current assets	234,723	234,723	—	—	125	125	234,848	234,848

Note 16 Goodwill

	Group (HK\$'000)
Cost	
At 1 January 2004 and 31 December 2004	44,134
Amortisation and impairment loss	
At 1 January 2004	5,231
Amortisation for the year	4,208
Impairment loss recognised in the year	34,695
At 31 December 2004	44,134
Carrying amount	
At 31 December 2004	—
At 31 December 2003	38,903

In view of the subsidiaries' financial performances, the directors are of the opinion that the carrying amount of goodwill amounting to HK\$34,695,000 (2003: 2,045,000) 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.

Notes to the Financial Statements

Note 17 Inventories

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Properties	349,609	1,761,229
Spare parts	98,343	102,914
Others	3,249	2,548
	451,201	1,866,691

The carrying amounts of properties held for use in operating leases were HK\$31,336,000 (2003: HK\$28,119,000).

Note 18 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. Subject to negotiation, credit is only available for major customers with well-established trading records. The ageing analysis of trade debtors is as follows:

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
0 - 30 days	91,907	81,165
31 - 60 days	27,795	25,541
61 - 90 days	2,025	5,208
over 90 days	15,890	45,083
	137,617	156,997

The ageing analysis of trade creditors is as follows:

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
0 - 30 days	189,964	445,771
31 - 60 days	761	9,795
61 - 90 days	550	4,974
over 90 days	708	1,800
	191,983	462,340

Note 19 Provision for Employee Benefits

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

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
At 1 January	24,521	28,700	3,196	2,594
Additions through acquisition of subsidiaries	—	138	—	—
Net amount provided/(used) during the year	4,260	(2,648)	4,034	741
Amount paid during the year	(841)	(1,669)	(43)	(139)
At 31 December	27,940	24,521	7,187	3,196

Note 20 Share Capital

	2004		2003	
	Number of shares	(HK\$'000)	Number of shares	(HK\$'000)
Authorised				
Ordinary shares of HK\$0.25 each				
At 1 January and 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	1,942,433,910	485,608
Conversion of convertible guaranteed bonds	127,390,540	31,848	—	—
Exercise of share options	10,201,790	2,551	—	—
At 31 December	2,080,026,240	520,007	1,942,433,910	485,608

Notes to the Financial Statements

Note 21 Share Option Schemes

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), whereby the board of directors of the Company may grant share options to eligible persons, including directors and employees of the Company, to subscribe for ordinary shares in the Company. Details of the share option schemes are disclosed under Disclosure of Interests (section (d)) in the Report of the Directors on pages 39 to 42.

Details of the share options are as follows:

For the year ended 31 December 2004

Date of grant	Exercise price	Number of share options				At 31 December 2004	Note
		At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year		
a) The 1993 share option scheme							
24 March 1995	HK\$3.35	5,401,791	—	(5,401,791)	—	—	
3 January 2000	HK\$1.15	25,669,565	—	(4,799,999)	—	20,869,566	(i)
		31,071,356	—	(10,201,790)	—	20,869,566	
b) The 2002 share option scheme							
25 May 2004	HK\$3.15	—	112,454,870	—	—	112,454,870	(i)
8 July 2004	HK\$3.95	—	918,800	—	—	918,800	(ii)
22 September 2004	HK\$4.20	—	5,000,000	—	—	5,000,000	(i)
		—	118,373,670	—	—	118,373,670	
		31,071,356	118,373,670	(10,201,790)	—	139,243,236	

Note 21 Share Option Schemes (Continued)

For the year ended 31 December 2003

Date of grant	Exercise price	Number of share options				At 31 December 2003	Note
		At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year		
The 1993 share option scheme							
10 June 1993	HK\$4.98	31,204,819	—	—	(31,204,819)	—	
24 March 1995	HK\$3.35	5,401,791	—	—	—	5,401,791	(i)
3 January 2000	HK\$1.15	25,669,565	—	—	—	25,669,565	(iii)
		62,276,175	—	—	(31,204,819)	31,071,356	

Notes:

- (i) The share options outstanding at 31 December 2004 and 31 December 2003 are granted to directors and exercisable during a period of 10 years commencing on the date of each grant.
- (ii) The share options outstanding at 31 December 2004 are granted to employees and exercisable during a period of 5 years commencing on the date of each grant.
- (iii) 24,000,001 share options outstanding at 31 December 2003 are granted to directors and exercisable during a period of 10 years commencing on the date of each grant. The remaining 1,669,564 share options are granted to employees and exercisable during a period of 5 years commencing on the date of each grant.

Notes to the Financial Statements

Note 22 Reserves

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Capital reserve account				
At 1 January	47,823	113,650	—	—
Transfer from profit and loss account	—	21	—	—
Released upon disposal of a subsidiary	(3,680)	—	—	—
Released upon realisation of assets	—	(55,958)	—	—
Released upon reclassification of assets	—	(6,070)	—	—
Transfer to investment property revaluation reserve account upon reclassification of assets	—	(3,820)	—	—
At 31 December	44,143	47,823	—	—
Investment property revaluation reserve account				
At 1 January	13,150	—	—	—
Surplus on revaluation	188,482	49,605	—	—
Released upon disposal of investment properties	(257)	—	—	—
Reversal of deficit on revaluation previously charged to profit and loss account	—	(35,024)	—	—
Reversal of deferred tax previously charged to profit and loss account	—	(4,464)	—	—
Deferred tax charged for the year	(6,773)	(787)	—	—
Transfer from capital reserve account	—	3,820	—	—
At 31 December	194,602	13,150	—	—
Share premium account				
At 1 January	3,795,658	3,795,658	3,795,658	3,795,658
Conversion of convertible guaranteed bonds	264,972	—	264,972	—
Exercise of share options	21,065	—	21,065	—
Expenses on issue of shares	(204)	—	(204)	—
At 31 December	4,081,491	3,795,658	4,081,491	3,795,658

Note 22 Reserves (Continued)

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Capital redemption reserve account				
At 1 January and 31 December	5,019	5,019	5,019	5,019
Exchange reserve account				
At 1 January	975	1,940	—	—
Exchange translation differences	394	(965)	—	—
At 31 December	1,369	975	—	—
Profit and loss account				
At 1 January	2,012,083	1,782,062	817,979	802,726
Profit for the year	503,197	327,164	134,034	112,375
	2,515,280	2,109,226	952,013	915,101
Transfer to capital reserve account	—	(21)	—	—
Dividends	(231,323)	(97,122)	(231,323)	(97,122)
At 31 December	2,283,957	2,012,083	720,690	817,979
	6,610,581	5,874,708	4,807,200	4,618,656

At the balance sheet date, goodwill and negative goodwill included in the capital reserve account amounted to HK\$34,121,000 and HK\$6,519,000 (2003: HK\$34,121,000 and HK\$10,199,000) respectively.

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\$720,690,000 (2003: HK\$817,979,000).

The consolidated profit attributable to shareholders includes a profit of HK\$134,034,000 (2003: HK\$110,973,000) which has been dealt with in the accounts of the Company.

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 2004	2,091,727	208,287	(16,057)	2,283,957
Retained profits/(losses) at 31 December 2003	1,868,255	158,034	(14,206)	2,012,083

Notes to the Financial Statements

Note 23 Long-term Borrowings

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Bank loans repayable within a period		
Not exceeding 1 year	784,329	68,850
More than 1 year but not exceeding 2 years	145,099	662,450
More than 2 years but not exceeding 5 years	350,324	496,450
Less: Current portion included in current liabilities	(784,329)	(68,850)
	495,423	1,158,900
Other loans repayable within a period		
More than 5 years	5,000	5,000
Convertible guaranteed bonds		
Not exceeding 1 year	—	296,820
Less: Current portion included in current liabilities	—	(296,820)
	—	—
	500,423	1,163,900
Represented by:		
Bank loans (Note a)	1,279,752	1,227,750
Other loans (Note b)	5,000	5,000
Convertible guaranteed bonds (Note c)	—	296,820
Less: Current portion included in current liabilities	(784,329)	(365,670)
	500,423	1,163,900

Note 23 Long-term Borrowings (Continued)

Notes:

- a) Bank loans to the extent of HK\$295,252,000 (2003: HK\$312,000,000) are secured by charges on certain vessels of the Group of HK\$514,567,000 (2003: HK\$567,345,000).

The balance is secured by corporate guarantee of the Company. Bank loans to the extent of HK\$482,752,000 (2003: HK\$530,750,000) are repayable by instalments.

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

- 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 carried interest at 4.25% per annum payable annually in arrear. The bonds were guaranteed by the Company and listed on the Luxembourg Stock Exchange. Each holder of the bonds had 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 would be redeemed on 27 July 2004 at 132.5% of their principal amount plus accrued interest. Provision for the redemption premium payable was made in the accounts so as to provide a constant periodic rate of charge over the term of the bonds.

During the year, all convertible guaranteed bonds with an aggregate principal amount of US\$38.3 million were converted into 127,390,540 ordinary shares of the Company at HK\$0.25 each.

Note 24 Minority Interests and Loans

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Share of equity	1,671,753	1,349,804
Loans from minority shareholders	1,576,084	2,608,461
	3,247,837	3,958,265

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\$24,141,000 (2003: HK\$779,694,000) is interest bearing at HIBOR + 0.58% while the balance is non-interest bearing.

Notes to the Financial Statements

Note 25 Consolidated Cash Flow Statement

a) Acquisition of interests in subsidiaries

	2004 (HK\$'000)	2003 (HK\$'000)
Net assets acquired		
Fixed assets	—	3,964
Trade & other debtors, deposits and prepayments	—	23,340
Cash and bank balances	—	19,870
Trade & other creditors, deposits and accrued charges	—	(17,175)
Provision for employee benefits	—	(138)
	—	29,861
Interests in jointly controlled entities originally held by the Group	—	(55,019)
	—	(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
Cash flow on acquisition of interests in subsidiaries	—	19,870

Note 25 Consolidated Cash Flow Statement (Continued)

b) Disposal of interests in subsidiaries

	2004 (HK\$'000)	2003 (HK\$'000)
Net assets disposed of		
Associates	—	312,342
Cash and bank balances	176	—
Trade & other creditors, deposits and accrued charges	—	(13)
Minority interests	(79)	—
	97	312,329
Realisation of capital reserve	(3,680)	—
	(3,583)	312,329
Profit on disposal	3,680	29,671
	97	342,000
Satisfied by		
Cash consideration	97	342,000
Consideration received	97	342,000
Cash and cash equivalents disposed of	(176)	—
Cash flow on disposal of interests in subsidiaries	(79)	342,000

The effect on the Group's results from the disposal of subsidiaries is immaterial for the years ended 31 December 2004 and 2003.

Notes to the Financial Statements

Note 25 Consolidated Cash Flow Statement (Continued)

c) Cash and cash equivalents

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

	2004 (HK\$'000)	2003 (HK\$'000)
Listed liquid fund	57,890	—
Time deposits	3,482,268	1,500,684
Cash and bank balances	390,393	113,488
	3,930,551	1,614,172
Time deposits with a maturity over three months	(750)	(36,000)
Cash and cash equivalents in the cash flow statement	3,929,801	1,578,172

Cash and cash equivalents at the balance sheet date include cash and bank balances of HK\$18,860,000 (2003: HK\$19,179,000) held by subsidiaries which are not freely remissible to the Group because of currency exchange restrictions.

d) Major non-cash transactions

During the year, all convertible guaranteed bonds with an aggregate principal amount of US\$38.3 million were converted into 127,390,540 ordinary shares of HK\$0.25 each of the Company at a conversion price of HK\$2.33 per share. The interest and redemption premium on convertible guaranteed bonds at the amount of HK\$88,220,000 were written back and credited to the profit and loss account.

Note 26 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 scheme, all staff were offered the choice of switching to the MPF scheme or staying in existing scheme. 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 a defined contribution fund scheme covering all qualified staff who elected not to switch to the MPF scheme. The Group and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis.

The assets held under the MPF scheme and the defined contribution fund scheme are managed by independent trustees. The Group's contributions charged to the profit and loss account for the year ended 31 December 2004 were HK\$21,054,000 (2003: HK\$20,206,000). Under the defined contribution fund scheme, 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\$20,459,000 (2003: HK\$18,018,000) were available to the Group to reduce the contributions to the scheme in future.

Note 27 Commitments

a) Capital commitments

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Contracted but not provided for				
Capital expenditure	32,337	30,457	—	—
Capital contribution to jointly controlled entities	6,368	9,650	6,368	9,198
	38,705	40,107	6,368	9,198
Authorised but not contracted for				
Capital expenditure	—	11,568	—	—

At the balance sheet date, the Group had an outstanding commitment of HK\$1,500 million for the acquisition of land development rights in respect of the property sites adjoining the Macau Tower in Nam Van, Macau as stated in item 7 of Connected Transactions in the Report of the Directors on page 35.

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Contracted but not provided for	16	1,468
Authorised but not contracted for	7	825
	23	2,293

b) Lease commitments

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Within one year	3,655	3,435
In the second to fifth year inclusive	5,151	1,943
Over five years	1,153	—
	9,959	5,378

The Group's operating leases are for terms ranging from 2 to 7 years.

Notes to the Financial Statements

Note 27 Commitments (Continued)

c) Future minimum lease payments receivable

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

	Group	
	2004 (HK\$'000)	2003 (HK\$'000)
Within one year	88,395	64,618
In the second to fifth year inclusive	148,899	132,037
Over five years	40,951	8,770
	278,245	205,425

The Group's operating leases are for terms ranging from 1 to 10 years.

Note 28 Contingent Liabilities

	Group		Company	
	2004 (HK\$'000)	2003 (HK\$'000)	2004 (HK\$'000)	2003 (HK\$'000)
Guarantees issued by the Company for credit facilities granted by third parties to subsidiaries	—	—	984,500	915,800
Guarantees issued by the Company for convertible guaranteed bonds issued by a subsidiary	—	—	—	296,820
Letters of credit outstanding	349	163	—	—

In addition to the above, the Group had provided guarantee to a third party in respect of the sum owing by a jointly controlled entity to the said third party under a license agreement. At the balance sheet date, the Group's share of such contingent liabilities amounted to HK\$845,000 (2003: nil).

Note 29 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	2004 (HK\$'000)	2003 (HK\$'000)
Significant transactions with STD M Group	(i)		
Dividends received from STD M		115,518	16,845
Ship tickets sold to STD M Group		473,966	401,505
Discount granted to STD M Group on ship tickets purchased by STD M Group		23,698	20,075
Commission paid to STD M Group on ship tickets sold by STD M Group		15,744	12,001
Fees received from STD M for management of hotels and Macau Tower Convention & Entertainment Centre (MTCEC)		38,646	31,262
Fuel purchased from STD M Group for Macau shipping operations		126,063	78,531
Amount collected by STD M Group for sale of ship tickets and related services in Macau		315,447	234,571
Amount reimbursed to STD M Group for expenses incurred in respect of shipping operations in Macau		137,890	126,914
Amount reimbursed by STD M Group for staff expenses and administrative resources shared		28,821	25,887
Amount reimbursed by STD M for management of MTCEC		46,796	17,988
Gross operating revenue of MTCEC collected for STD M		4,118	13,757
Charter hire income received from STD M Group		—	20,176
Temporary advances from STD M		47,159	62,697
Significant transactions with China Travel Service (Hong Kong) Ltd. (CTSHK)	(ii)		
Commission paid to CTSHK for sale of ship tickets		27,901	22,170
Net income collected by CTSHK for sale of ship tickets and related services		138,575	110,578
Amount reimbursed by Shun Tak Shipping Co., Ltd. (STS) for staff expenses and administrative resources shared	(i)	192	12,777
Interest expenses paid to minority shareholders of a subsidiary		1,865	18,832
Insurance premium paid to an associate		31,553	46,084
Construction cost paid to a joint venture		24,160	257,861
Ship passengers handling fees received on behalf of a joint venture		19,166	—

Notes to the Financial Statements

Note 29 Related Party Transactions *(Continued)*

Notes:

- (i) Dr. Stanley Ho, Dato' 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. Mr. David Shum, director of the Company, has beneficial interests in STDM. 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 32 to 36.
- c) Amounts due to/by subsidiaries, associates, joint ventures and minority shareholders are disclosed in notes 12 to 14 and 24 to the financial statements.

Note 30 Segment Information

Business segments

Group

2004

	Transportation (HK\$'000)	Property (HK\$'000)	Hospitality (HK\$'000)	Investment and others (HK\$'000)	Eliminations (HK\$'000)	Consolidated (HK\$'000)
Turnover and revenue						
External turnover	1,577,307	1,895,492	153,123	123,208	—	3,749,130
Inter-segment turnover	9,569	1,600	7,070	—	(18,239)	—
Other revenues	72,523	3,921	430	11,855	—	88,729
	1,659,399	1,901,013	160,623	135,063	(18,239)	3,837,859
Segment results						
Unallocated income						17,122
Unallocated expenses						(77,973)
Interest income						11,875
Operating profit						885,708
Finance costs						(12,850)
Net investment loss						(48,543)
Share of results of associates	—	42,739	40,889	2,569	—	86,197
Share of results of jointly controlled entities	4,239	1,077	1,159	(7,091)	—	(616)
Profit before taxation						909,896
Taxation						(84,934)
Minority interests						(321,765)
Net profit for the year						503,197
Assets						
Segment assets	2,001,088	5,443,817	544,886	1,019,215	(2,156)	9,006,850
Associates	—	293,884	329,560	1,849	—	625,293
Joint ventures	22,010	16,765	7,086	—	—	45,861
Unallocated assets						2,827,685
Total assets						12,505,689
Liabilities						
Segment liabilities	236,665	893,018	51,368	744	(2,156)	1,179,639
Unallocated liabilities						2,388,507
Total liabilities						3,568,146
Other information						
Capital expenditure	16,330	7,445	5,724	101		
Depreciation	134,585	4,854	8,138	953		
Amortisation of goodwill	—	—	1,140	3,068		
Interest and redemption premium on convertible guaranteed bonds written back	—	88,220	—	—		

Notes to the Financial Statements

Note 30 Segment Information (Continued)

Business segments (Continued)

Group

2003

	Transportation (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						
Unallocated income	49,030	374,430	6,506	4,795	—	434,761
Unallocated expenses						22,199
Interest income						(101,826)
						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 30 Segment Information (Continued)

Geographical segments

Group

2004

	Hong Kong (HK\$'000)	Macau (HK\$'000)	Others (HK\$'000)	Consolidated (HK\$'000)
Turnover and revenue	2,826,278	885,927	125,654	3,837,859
Segment assets	9,786,095	2,166,101	553,493	12,505,689
Capital expenditure	23,595	1,103	5,235	

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	

Note 31 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 21 April 2005.