

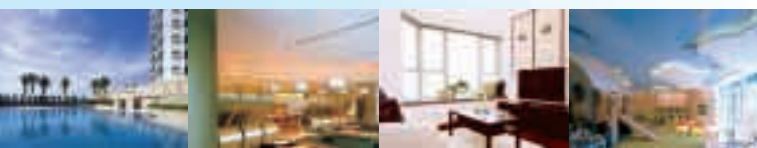


HONG KONG FERRY (HOLDINGS) CO. LTD.
香港小輪（集團）有限公司

2002

Annual Report 年報

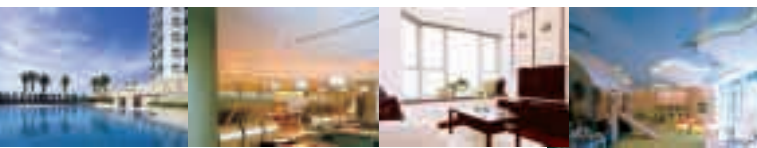




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Corporate Information

BOARD OF DIRECTORS

* Mr. Colin K. Y. Lam (*Chairman*)

Mr. Norman H. C. Ho

Mr. Michael Y. L. Kan

Mr. Eddie Y. C. Lau

Dr. Lee Shau Kee

Mr. Leung Hay Man

* Mr. Li Ning

Mr. Peter M. K. Wong

Dr. Alex S. C. Wu

* *Executive Director*

Independent Non-executive Director

COMPANY SECRETARY

Mr. Richard C. W. Law

AUDITORS

KPMG

PRINCIPAL BANKERS

Mizuho Corporate Bank, Limited

The Hongkong and Shanghai Banking

Corporation Limited

UFJ Bank Limited



REGISTERED OFFICE

98 Tam Kon Shan Road

Ngau Kok Wan

North Tsing Yi

New Territories

Hong Kong

Telephone : (852) 2394 4294

Facsimile : (852) 2786 9001

Internet : <http://www.hkf.com>

E-Mail : hkferry@hkf.com

REGISTRARS

Standard Registrars Limited

G/F, BEA Harbour View Centre

56 Gloucester Road

Wanchai, Hong Kong

Directors' & Senior Management's Profile

DIRECTORS

The current Directors of the Company are as follows:

Executive directors

Mr. Colin K.Y. Lam (*Chairman*)

Mr. Li Ning

Non-executive directors

Mr. Eddie Y.C. Lau

Dr. Lee Shau Kee

Mr. Leung Hay Man

Mr. Peter M.K. Wong

Independent non-executive directors

Mr. Norman H.C. Ho

Mr. Michael Y.L. Kan

Dr. Alex S.C. Wu

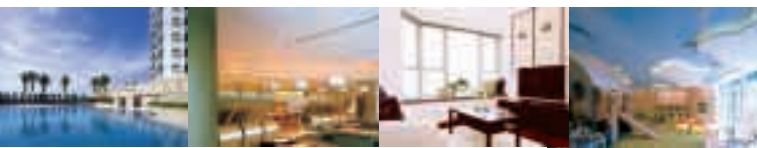
DIRECTORS' PROFILE

The details of the Directors are as follows:



Mr. Lam Ko Yin, Colin
(Chairman)

Mr. Lam Ko Yin, Colin, BSc(Hon), ACIB, MBIM, FCIT, aged 51, appointed on 1 July 1986, is the Chairman of the Company. Mr. Lam has over 29 years' experience in banking and property development. He is also the Vice-Chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited ("Henderson Investment"), an Executive Director of Henderson China Holdings Limited and Henderson Cyber Limited as well as a Director of The Hong Kong and China Gas Company Limited, Miramar Hotel and Investment Company, Limited, Wiselin Investment Limited ("Wiselin"), Max-mercan Investment Limited ("Max-mercan"), Henderson Development Limited ("Henderson Development"), Hopkins (Cayman) Limited ("Hopkins") and Rimmer (Cayman) Limited ("Rimmer"). Henderson Land, Henderson Investment, Wiselin, Max-mercan, Henderson Development, Hopkins and Rimmer have discloseable interests under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance in the Company.



Directors' & Senior Management's Profile (Continued)



Mr. Li Ning

Mr. Li Ning, BSc, MBA, aged 46, appointed on 20 October 1989, is an Executive Director of the Company. He is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited ("Henderson Investment"). Both Henderson Land and Henderson Investment have discloseable interests under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance in the Company. Mr. Li is the son-in-law of Dr. Lee Shau Kee, a Director of the Company.



**Mr. Lau Yum Chuen,
Eddie**

Mr. Lau Yum Chuen, Eddie, aged 56, appointed on 5 May 1988, is a Non-Executive Director of the Company. He has over 30 years of experience in banking, finance and investment. He is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited ("Henderson Investment") and a Director of Miramar Hotel and Investment Company, Limited. Both Henderson Land and Henderson Investment have discloseable interests under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance in the Company.



Dr. Lee Shau Kee

Dr. Lee Shau Kee, DBA(Hon), DSocSc(Hon), LLD(Hon), aged 75, appointed on 15 December 1981, is a Non-Executive Director of the Company. He has been engaged in property development in Hong Kong for more than 45 years. He is the founder and the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited ("Henderson Investment"). He is also the Chairman of The Hong Kong and China Gas Company Limited, Miramar Hotel and Investment Company, Limited and Henderson Cyber Limited, the Vice-Chairman of Sun Hung Kai Properties Limited, as well as a Director of Henderson China Holdings Limited, The Bank of East Asia, Limited, Pataca Enterprises Limited ("Pataca"), Wiselin Investment Limited ("Wiselin"), Max-mercan Investment Limited ("Max-mercan"), Kingslee S.A. ("Kingslee"), Henderson Development Limited ("Henderson Development"). Henderson Land, Henderson Investment, Pataca, Wiselin, Max-mercan, Kingslee and Henderson Development have discloseable interests under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance in the Company. Dr. Lee is the father-in-law of Mr. Li Ning, a Director of the Company.

Directors' & Senior Management's Profile (Continued)

Mr. Leung Hay Man, FRICS, FHKIS, FCIArb, MCIT, aged 68, appointed on 15 December 1981, is a Non-Executive Director of the Company. Mr. Leung is also a Director of Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited ("Henderson Investment") and The Hong Kong and China Gas Company Limited. Both Henderson Land and Henderson Investment have discloseable interests under the provisions of Part II of the Securities (Disclosure of Interests) Ordinance in the Company.



Mr. Leung Hay Man

Mr. Wong Man Kong, Peter, JP, BSc, FCIT, MRINA, aged 54, appointed on 9 March 1992, is a Non-Executive Director of the Company. Mr. Wong was the President & Chief Executive Officer of the Company from 1 January 1992 to 31 December 1995. Mr. Wong has over 30 years of industrial, commercial and public service experience, having served as Managing Director of Chung Wah Shipbuilding & Engineering (Holdings) Company Limited, a Director of First Pacific Bank and Kowloon-Canton Railway Corporation and a member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He was also a member of the Hong Kong Special Administrative Region Preparatory Committee in 1996/1997 and a member of the Election Committee of the Second Chief Executive of the Hong Kong Special Administrative Region in 2002. He is currently serving as a deputy to the National People's Congress of the People's Republic of China. Currently he holds directorship of Glorious Sun Enterprises Limited, China Travel International Investment H.K. Limited and Sung Hung Kai & Company Limited.

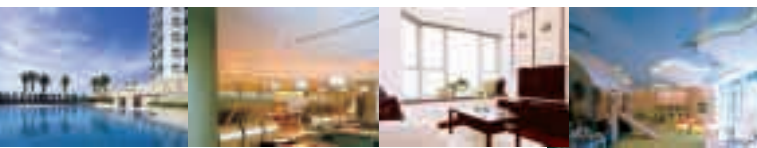


**Mr. Wong Man Kong,
Peter**

Mr. Ho Hau Chong, Norman, BA, ACA, FHKSA, aged 47, appointed on 28 March 1995, is an Independent Non-Executive Director of the Company. Mr. Ho is an Executive Director of Honorway Investments Limited and Tak Hung (Holdings) Company Limited and has over 20 years of experience in management and property development. He is also a Director of Lee Hing Development Company Limited, CITIC Pacific Limited and a few other listed companies.



**Mr. Ho Hau Chong,
Norman**



Directors' & Senior Management's Profile (Continued)



**Mr. Kan Yuet Loong,
Michael**

Mr. Kan Yuet Loong, Michael, JP, BSc, MBA, aged 68, appointed on 6 April 1974, is an Independent Non-Executive Director of the Company. He has over 36 years' experience in banking and investment.



**Dr. Wu Shu Chih,
Alex**

Dr. Wu Shu Chih, Alex, CBE, LLD, JP, aged 82, appointed on 24 April 1976, is an Independent Non-Executive Director of the Company. He was a member of the Legislative Council, the Vice-Chairman of the Hong Kong Stock Exchange and a member of the Advisory Committee of the Securities and Futures Commission. He is the Chairman of Fidelity Management Limited and the Vice-Chairman of Dai Nippon Printing Company (Hong Kong) Limited and a Non-Executive Director of a number of listed companies including Hong Kong Aircraft Engineering Company Limited, National Electronics (Holdings) Limited, Parliburg Holdings Limited and Hung Hing Printing Group Limited. He is also the Life Honorary President of Hong Kong Printers Association. Dr. Wu was appointed a Hong Kong Affairs Adviser in April 1995 and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region in November 1996.

Directors' & Senior Management's Profile (Continued)

SENIOR MANAGEMENT

The Senior Management of the Company is as follows:

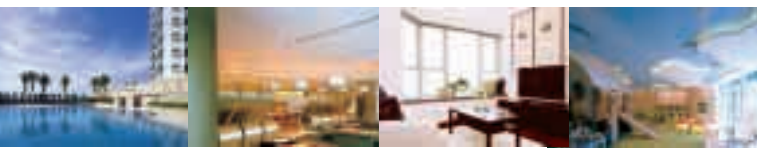
Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Mr. Lai Yu Hung, Francis	General Manager – Travel Operation
Mr. Law Cho Wa, Richard	Company Secretary and Group Accounting Manager
Mr. Leung Shu Keung, Brian	Internal Audit Manager
Mr. Ling Chen Shen, Peter	General Manager – Shipyard Operation and General Manager – Planning & Marketing
Mr. Tse Chuen Chi, Pollux	Chief Financial Officer
Mr. Wong Kam On, Frandie	General Manager – Hotel Operation

SENIOR MANAGEMENT'S PROFILE

Dr. Ho Chi Shing, David, DBA, MA, MBA, FCIT, MPIA, MIHT, MCI Arb, aged 46, joined the Company in 1981 and has been the Group General Manager since 1996. He has over 22 years of experience in ferry operations. Dr. Ho was appointed as a member of the Provisional Local Vessel Advisory Committee since 1991, representing the ferry industry. He is a Director of The Shipowners' Mutual Protection & Indemnity Association (Luxemburg) and a Council Member of the Chartered Institute of Transport. Dr. Ho is a member of the Hong Kong Port Operations Committee, a member of the Safety Committee of Hong Kong Outward Bound School, a member of the Maritime Services Training Board and the Vice-Chairman of the Transport Logistics Training Board of The Vocational Training Council. He is also an Alternate Member of the General Committee and the Vice-Chairman of Group 21 of Federation of Hong Kong Industries. Besides, he is an adjunct lecturer of the Faculty of Business, City University of Hong Kong.

Mr. Lai Yu Hung, Francis, aged 44, joined the Company in 1977 and has been the General Manager of the Travel Operation since 1993. He has more than 26 years of experience in travel business. Mr. Lai was the Chairman of the Hong Kong Association of Registered Tour Co-ordinators and is the Vice-Chairman of Hong Kong Outbound Tour Operators' Association Limited. He is also an Ordinary Council member of Hong Kong Association of China Travel Organizers Limited, Executive Committee member of the International Chinese Tourist Association and the Federation of Hong Kong Chinese Travel Agents Limited and a member of the Consumer Relations Committee of the Travel Industry Council of Hong Kong. He also acts as an Advisory Board member of Foundation Certificate Course in Tour Guiding Skills organized by the Hong Kong Productivity Council.

Mr. Law Cho Wa, Richard, MBA, FCCA, FHKSA, FCS, FCIS, MHKIoD, aged 37, has been the Secretary of the Company since 1997. He joined the Company in 1992 and has over 15 years of experience in accounting, auditing, corporate advisory services and company secretarial practice. He is also the Accounting Manager of the Group. Mr. Law is an Independent Non-Executive Director of Capital Publications Limited, a company listed in the GEM board of The Stock Exchange of Hong Kong Limited.



Directors' & Senior Management's Profile (Continued)

Mr. Leung Shu Keung, Brian, BA, CFE, CBM aged 41 is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 14 years of experience in accounting, auditing and management assurance.

Mr. Ling Chen Shen, Peter, BSc, ACIB, MSNAME, aged 52, joined the Company in 1995. He has been the General Manager of the Planning & Marketing Department, and the Director and General Manager of the Shipyard Operation since 1996. He has over 29 years of experience in banking, finance, China trade, ship repairs and general management.

Mr. Tse Chuen Chi, Pollux, MBA, aged 49, has been the Chief Financial Officer of the Company since 1992. He has over 22 years of experience in accounting, corporate finance and corporate development in Hong Kong and overseas.

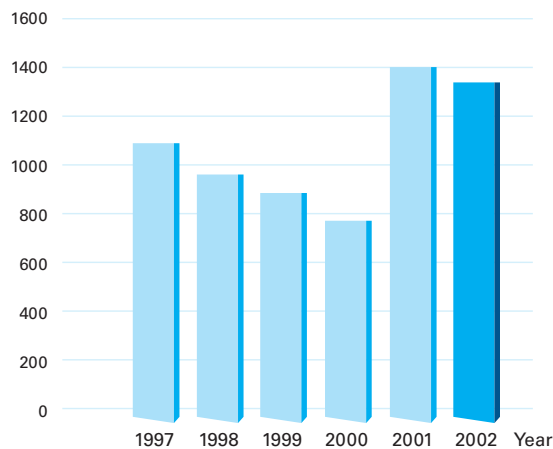
Mr. Wong Kam On, Frandie, CHA, CRDE, MBIM, MIMGT, MHCIMA, aged 49, joined the Company in 1993. He has been the General Manager of the Hotel Operation since 1996. He has over 30 years of extensive experience in hotel management.

Financial Highlights

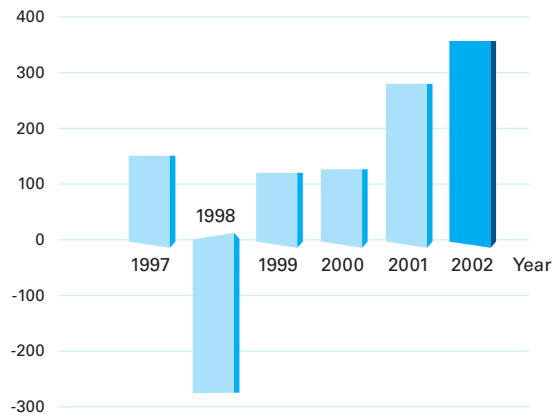
		2002	2001	Variance
Turnover	\$M	1,345	1,403	-4.1%
Profit attributable to shareholders	\$M	358	282	27.0%
Dividends	\$M	100	100	-
Shareholders' funds	\$M	3,042*	2,912*	4.5%
Basic earnings per share	\$	1.01	0.79	27.8%
Dividend per share	Cent	28.0	28.0	-
Dividend cover	Times	3.6	2.8	28.6%
Return on equity	%	11.8*	9.7*	21.6%
Net assets per share	\$	8.5*	8.2*	3.7%

* These items have been affected by property revaluation.

Group Turnover
\$ Million



**Group Profit/
(Loss) After Taxation**
\$ Million





Chairman's Statement

I have pleasure in presenting to the shareholders my report on the operations of the Group for the year.

BUSINESS RESULT

The Group's consolidated profit after taxation for the year ended 31 December 2002 amounted to HK\$358.4 million, representing an increase of 27% from the consolidated profit after taxation of HK\$281.9 million in 2001. The profit per share was HK\$1.01 for the year as compared to HK\$0.79 in the previous year.

DIVIDENDS

The Board of Directors recommended a final dividend of 20 cents per share. This dividend, together with the interim dividend of 8 cents per share already paid, will make a total distribution of 28 cents for the full year.

BUSINESS REVIEW

The Group's profit from operations for the year was mainly derived from the pre-sale of residential units of Metro Harbour View, the redevelopment at 8 Fuk Lee Street, Tai Kok Tsui, Kowloon (formerly named 201 Tai Kok Tsui Road).



Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

During the year, the Group recorded an operating profit of HK\$426 million from the pre-sale of residential units of Metro Harbour View based on the stage of completion of the development. Phase I of the development has been completed while Phase II is in satisfactory progress. About 730 residential units and 190 car park spaces were sold during the year, making up to an accumulated total residential units sold of approximately 1,600. The softened residential property market has rendered the sales of residential units in the second half of the year below forecast.

Chairman's Statement (Continued)

222 Tai Kok Tsui Road

The site is at present vacant and ready for development. Construction will begin if an agreement can be reached over the land premium with the Government.

6 Cho Yuen Street, Yau Tong

The average occupancy of the Kingsford Industrial Centre is still maintained at above 80%. Since the opening of the MTR Tseung Kwan O Line in August 2002, the industrial property market in Yau Tong area has gone steady. But due to the weakened market rental for industrial property, rental income for the year was decreased by 20% to HK\$8.2 million when compared with last year.

The Group is negotiating with the Government over the land premium for the change in land use to residential/commercial use.

Ferry, Shipyard and Related Operations

Taken into account an impairment loss of HK\$62.1 million on the shipyard assets, the operating loss of the Ferry, Shipyard and Related Operations for the year amounted to HK\$68.4 million against a profit of HK\$12.9 million in last year, which previously included a surplus from the termination of the retirement schemes. The Ferry, Shipyard and Related Operations recorded a decrease in total turnover of 12% in comparison with last year.

Travel and Hotel Operations

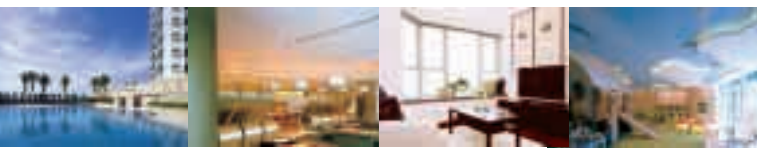
Owing to the weak consumer market, the Travel and Hotel Operations recorded a minor decrease in turnover of 2% in comparison with last year. In addition, the gross margin of the hotel package and the ship ticketing businesses shrank. As a result, the profit from operation of the Travel and Hotel Operations dropped to HK\$3.8 million, representing a decrease of 22% from HK\$4.9 million in last year.

PROSPECTS

It is likely become clear in the near future whether there will be war or reconciliation in the Middle East. If the United States were to embark on a war with Iraq, oil price may fluctuate more violently. Pending the outcome of the war, capital investments in general will be delayed and consumers around the world will be more cautious in spending, casting a shadow over the global economy.

In Hong Kong, despite the sluggish consumer market and the high unemployment rate, the economy is undergoing a restructuring. Hong Kong is moving towards an economic integration with the Pearl River Delta. With the benefits of low interest rate and high economic growth in the mainland, the outlook on the local economy will improve.





Chairman's Statement (Continued)

The Government in last November announced a set of new housing policies, acknowledging that the property sector, closely interwoven with every single aspect of life, has been a major pillar of the economy, and together with the construction industry, accounted for 14% of the Gross Domestic Product. With a view to restore the public's confidence in the property market, the government introduced nine measures, namely, the suspension of all scheduled land auctions, the coordination of railway-related property developments, the formulation of a Public Rental Housing construction programme, the cessation of sale of flats under the Home Ownership Scheme, the review of the Home Assistance Loan Scheme, the suspension of the Flat for Sale Scheme, the termination of the Tenants Purchase Scheme, the revision of tenancy control legislation, and the removal of anti-speculation measures. The above measures will result in a decrease in supply and an increase in demand and will have a favourable impact on the property market in the medium to long term. In addition, the newly announced investor immigration program for investors of HK\$6.5 million, the policy to attract professionals from the mainland and overseas, and the new measures to facilitate travel of businessmen between Hong Kong and China all help to stimulate the demand for

property and hotel accommodation. These favourable factors will gradually be reflected in the property prices in Hong Kong.

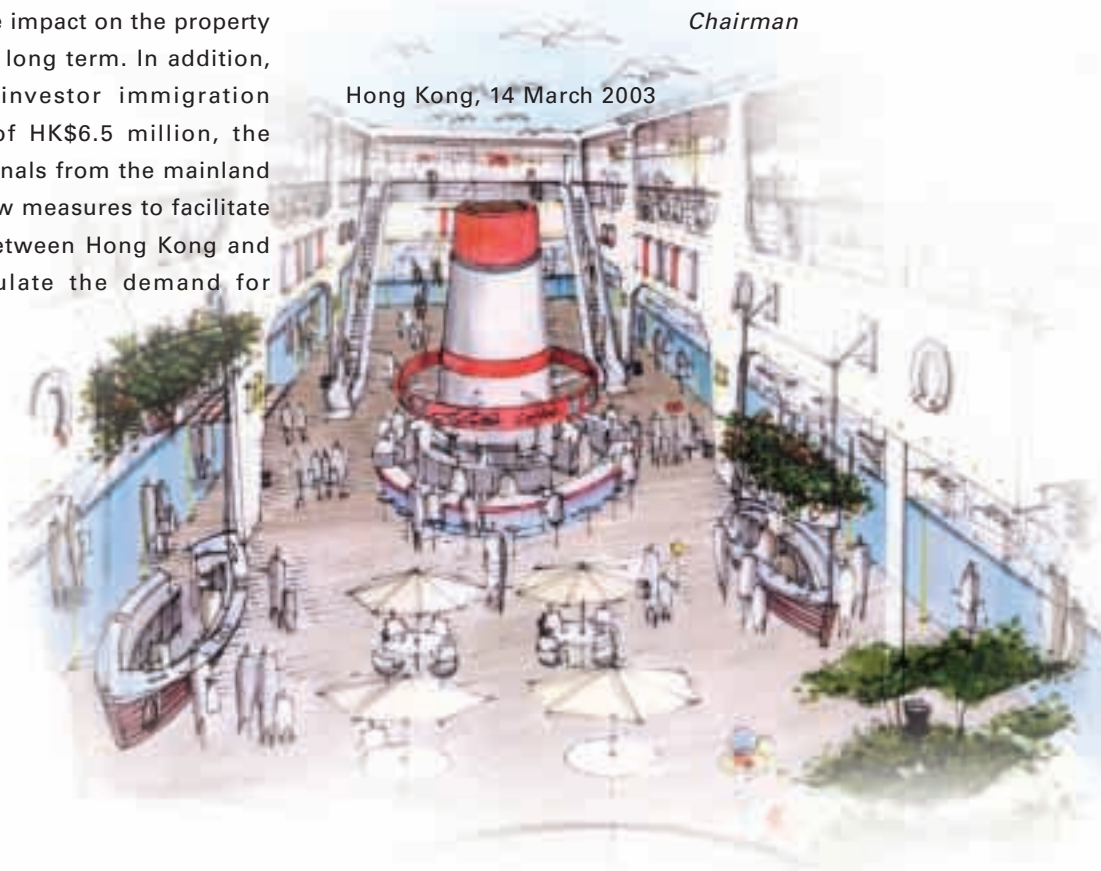
The sale of the residential units of Metro Harbour View will continue to be the major source of income for the Group. In addition, the completion of the arcade of the Metro Harbour View, "Metro Harbour Plaza", later this year will enhance the recurrent income base of the Group in the coming years.

ACKNOWLEDGEMENT

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the past year.

Colin K. Y. Lam
Chairman

Hong Kong, 14 March 2003



Management Discussion and Analysis

The following comments should be read in conjunction with the Audited Consolidated Financial Statements of the Company and the related notes on the accounts.

RESULTS OF OPERATIONS

Total turnover of the Group for the year amounted to HK\$1,345 million, representing a decrease of 4.1% as compared to that recorded in the previous year. The decrease in total turnover was attributed to the net effect of the increase in sale of residential units of Metro Harbour View in the year under review and the non-recurring disposal of the rights to 50% of the sales proceeds of the domestic portion of Metro Harbour View in the previous year.

Profit from operations, which increased by 20.5% to HK\$357.6 million comparing to that recorded in the previous year, was mainly attributed to the profit realized of HK\$426 million from the sale of residential units of Metro Harbour View. An impairment loss of HK\$62.1 million on the shipyard assets and a deficit of HK\$16.8 million on revaluation of investment properties were recorded for the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2002, shareholders' fund of the Group showed an increase of 4.5% from that recorded in 2001 and amounted to HK\$3,042 million. Such increase was mainly attributed to the profit realized from the sale of the residential units of Metro Harbour View during the year.

There was no change as to the capital structure of the Group during the year. As of 31 December 2002, the Group had no borrowing. Funding for the Group's activities in the year under review was mainly generated from the sale of the residential units of Metro Harbour View.

During the year, there was no material acquisition and disposal of subsidiary and associated company. But a total amount of about HK\$181 million was advanced to an associated company who provides mortgage loans to buyers of residential units of Metro Harbour View.

Current assets of the Group were recorded at HK\$2,471 million as compared to the current liabilities of HK\$752 million as of 31 December 2002. Current ratio of the Group decreased from 8.9 as of 31 December 2001 to 3.3 as of 31 December 2002, mainly attributed to the substantial increase in construction costs payable in respect of Metro Harbour View and deposits received from sale of the residential units thereof.



Management Discussion and Analysis (Continued)

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowing as of 31 December 2002, no gearing ratio of the Group, which was calculated on the basis of bank borrowing as a ratio of the Group's shareholders' funds, was shown. Assets of the Group had not been charged to any third parties in the year under review.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extend to the Group were denominated in Hong Kong Dollars. As a whole, the core operations of the Group can be considered as not exposed to foreign exchange rate risk to any significant extent.

CONTINGENT LIABILITIES

Contingent liabilities of the Group as of 31 December 2002 amounting to approximately HK\$76 million was in respect of a claim by the Hong Kong Government against the Company and a subsidiary in respect of the dispute over the reimbursement of certain costs for the proposed redevelopment of the ferry piers in Central District.

EMPLOYEES

As of 31 December 2002, the number of employees of the Group was about 400. The remuneration packages to employees were commensurable to the market trend and level of pay in the industry. Discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Report of the Directors

The directors have pleasure in submitting their report and audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Group are property development and investment, ferry and related businesses, travel business and hotel operation.

The analyses of the principal activities of the operations of the Company and its subsidiaries during the financial year are set out in note 3 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's purchases attributable to the major suppliers during the financial year is as follows:

	Percentage of the Group's total Purchases
The largest supplier	65.1%
Five largest suppliers in aggregate	68.8%

Henderson Land Development Company Limited ("HL"), through its subsidiaries, was the Group's largest supplier during the financial year. As at 31 December 2002, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, hereinafter referred to as the "Listing Rules") of the Company.

No analysis in respect of the Group's major customers is shown as the percentage of turnover attributable to the Group's five largest customers is less than 30%.

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2002 are set out in note 14 on the accounts.



Report of the Directors (Continued)

ACCOUNTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2002, the state of affairs of the Company and of the Group at that date and the related notes are set out in the accounts on pages 22 to 66.

An interim dividend of 8 cents per share was paid on 17 October 2002. The directors now recommend a final dividend of 20 cents per share to shareholders whose names appear in the Register of Members on 24 April 2003.

CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK\$3,325 (2001: HK\$3,035).

FIXED ASSETS

During the year, the Group has written down the value of the shipyard assets at Tsing Yi by HK\$62,127,000 (2001: HK\$41,224,000) to HK\$204,603,000 (2001: HK\$274,473,000). Movements in fixed assets are set out in note 12 on the accounts.

DIRECTORS

The directors during the financial year were:

Executive directors

Mr. Colin K.Y. Lam (*Chairman*)

Mr. Li Ning

Independent non-executive directors

Mr. Norman H.C. Ho

Mr. Michael Y.L. Kan

Dr. Alex S.C. Wu

Non-executive directors

Mr. Eddie Y.C. Lau

Dr. Lee Shau Kee

Mr. Leung Hay Man

Mr. Peter M.K. Wong

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Colin K.Y. Lam, Dr. Lee Shau Kee and Mr. Leung Hay Man retire by rotation and are eligible for re-election.

The non-executive directors have not been appointed for specific terms and they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's Articles of Association.

Report of the Directors (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 31 December 2002, the interests of the directors and chief executive in securities of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Personal interests <i>Number of shares</i>	Corporate interests <i>Number of shares</i>
Mr. Colin K.Y. Lam	150,000	–
Mr. Norman H.C. Ho	3,313,950	–
Mr. Michael Y.L. Kan	22,965	–
Mr. Eddie Y.C. Lau	–	–
Dr. Lee Shau Kee	7,799,220	110,363,090 <i>(see note 5 on page 18)</i>
Mr. Leung Hay Man	2,250	–
Mr. Li Ning	–	–
Mr. Peter M.K. Wong	1,151,000	–
Dr. Alex S.C. Wu	186,030	–

Other than as stated above, no director or chief executive held any interest, whether beneficial or non-beneficial, in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

INTERESTS IN CONTRACTS

Except for the "Connected Transactions" as disclosed in this Report, no other contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.



Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests in shares in the Company were recorded in the register required to be kept under section 16(1) of the SDI Ordinance:

Name of company	No. of shares in which interested
Henderson Investment Limited (<i>Note 1</i>)	108,588,090
Pataca Enterprises Limited (<i>Note 1</i>)	70,200,000
Wiselin Investment Limited (<i>Note 2</i>)	39,743,090
Max-mercan Investment Limited (<i>Note 2</i>)	39,743,090
Henderson Development Limited (<i>Note 3</i>)	108,588,090
Henderson Land Development Company Limited (<i>Note 3</i>)	108,588,090
Kingslee S.A. (<i>Note 3</i>)	108,588,090
Hopkins (Cayman) Limited (<i>Note 4</i>)	108,588,090
Rimmer (Cayman) Limited (<i>Note 4</i>)	108,588,090

Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 108,588,090 shares.

1. These 108,588,090 shares are beneficially owned by some of the subsidiaries of Henderson Investment Limited ("HI"). Of these 108,588,090 shares, 70,200,000 shares are owned by some of the subsidiaries of Pataca Enterprises Limited, which is itself a subsidiary of HI.
2. These 39,743,090 shares held by both Wiselin Investment Limited and Max-mercan Investment Limited refer to the same lot of shares. Wiselin Investment Limited, a subsidiary of Max-mercan Investment Limited which is a subsidiary of HI, beneficially owns 39,743,090 shares of which 38,388,090 shares constitute part of the said 108,588,090 shares.
3. These 108,588,090 shares are duplicated or included in the interests described in Notes 1 and 2. Henderson Development Limited ("HD") beneficially owns more than one-third of the issued share capital in Henderson Land Development Company Limited which is, in turn, the holding company of Kingslee S.A.. Kingslee S.A. has a controlling interest in HI.
4. These 108,588,090 shares are duplicated or included in the interests described in Notes 1, 2 and 3. Rimmer (Cayman) Limited as trustee of a discretionary trust holds a majority of units in a unit trust ("the Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owns all the issued ordinary shares which carry the voting rights in the share capital of HD.
5. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SDI Ordinance, Dr. Lee Shau Kee is taken to be interested in 110,363,090 shares (disclosed as "Corporate Interests" under "Directors' and Chief Executive's Interests in Securities" in this Report) which include the shares described in Notes 1, 2, 3 and 4 and additional shares which do not represent interests required to be disclosed for the purposes of sections 3 to 7 of the SDI Ordinance and therefore are not recorded in the register kept under section 16(1) of the SDI Ordinance as at 31 December 2002.

Report of the Directors (Continued)

RESERVES

Movements in reserves of the Company and of the Group during the year are set out in note 25 on the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, options, debentures or warrants of the Company or any other body corporate.

BANK OVERDRAFT

Particulars of bank overdraft of the Group as at 31 December 2002 is set out in note 21 on the accounts.

FINANCIAL SUMMARIES

The five years' summary of assets and liabilities and ten years' financial summary of the Group are set out on pages 67 to 69.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 70 to 71.

RETIREMENT SCHEMES

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement schemes are set out in note 17 on the accounts.

CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 29 on the accounts.



Report of the Directors (Continued)

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors have not been appointed for specific terms and are subject to retirement by rotation and re-election at the Annual General Meetings in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors and reports to the board of directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Colin K.Y. Lam

Chairman

Li Ning

Director

Hong Kong, 14 March 2003

Report of the Auditors



**Auditors' report to the shareholders of
Hong Kong Ferry (Holdings) Company Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 22 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 14 March 2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Note	2002		2001	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3(a)		1,345,066		1,402,697
Cost of sales			(814,950)		(978,393)
			530,116		424,304
Other revenue	3(a) & 4		11,548		3,336
Other net income	4		12,138		33,565
Selling and marketing expenses			(45,384)		(4,841)
Administrative expenses			(47,081)		(53,181)
Deficit on revaluation of investment properties	3(c) & 12		(16,835)		(29,000)
Impairment loss in respect of property, plant and equipment	3(d) & 12		(62,127)		(44,419)
Other operating expenses			(24,813)		(33,063)
Profit from operations	3(b)				
– Continuing operations			357,562		289,689
– Discontinuing operation			-		7,012
			357,562		296,701
Finance cost	5(a)		-		-
Share of results of associates			1		-
Profit from ordinary activities before taxation	5		357,563		296,701
Taxation	8(a)		813		(14,775)
Profit attributable to shareholders	3(b) & 9		358,376		281,926
Dividends attributable to the year	10(a)		99,757		99,757
Basic earnings per share (HK\$)	11		1.01		0.79

The notes on pages 30 to 66 form part of these accounts.

Consolidated Balance Sheet

as at 31 December 2002

	Note	2002		2001	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	12				
– Investment properties			132,500		150,500
– Property, plant and equipment			281,312		356,470
			413,812		506,970
Interest in associates	15		184,681		3,580
Properties under development					
– held for investment	13		676,089		546,909
Other non-current assets	16		49,173		44,749
			1,323,755		1,102,208
Current assets					
Completed properties for sale		313,703		–	
Properties under development					
– held for sale	13	861,931		1,524,380	
Inventories	18	13,693		16,248	
Debtors and prepayments	19	383,260		321,851	
Tax recoverable	8(b)	2,100		5,516	
Cash and cash equivalents	20	896,097		173,591	
		2,470,784		2,041,586	
Current liabilities					
Bank overdraft	21	951		984	
Creditors and accrued charges	22	560,577		227,744	
Deposits received		189,888		–	
Tax payable	8(c)	235		581	
		751,651		229,309	
Net current assets			1,719,133		1,812,277
Total assets less current liabilities			3,042,888		2,914,485
Non-current liability					
Deferred taxation	23		(835)		(2,783)
NET ASSETS			3,042,053		2,911,702

Consolidated Balance Sheet (Continued)

as at 31 December 2002

		2002		2001	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES					
Share capital	24		356,274		356,274
Reserves	25		2,685,779		2,555,428
			<u>3,042,053</u>		<u>2,911,702</u>

Approved and authorised for issue by the board of directors on 14 March 2003.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 30 to 66 form part of these accounts.

Balance Sheet

as at 31 December 2002

	Note	2002		2001	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Property, plant and equipment	12		3,407		4,978
Interest in subsidiaries	14		3,511,870		3,552,271
Interest in associates	15		2,998		3,076
Other non-current assets	16		2,862		240
			<u>3,521,137</u>		<u>3,560,565</u>
Current assets					
Other debtors and prepayments	19	8,748		7,820	
Tax recoverable	8(b)	32		–	
Cash and cash equivalents	20	307		610	
		<u>9,087</u>		<u>8,430</u>	
Current liabilities					
Amounts due to subsidiaries		17,812		18,101	
Creditors and accrued charges		6,490		10,719	
Tax payable	8(c)	–		23	
		<u>24,302</u>		<u>28,843</u>	
Net current liabilities			<u>(15,215)</u>		<u>(20,413)</u>
Total assets less current liabilities			<u>3,505,922</u>		<u>3,540,152</u>
Non-current liability					
Deferred taxation	23		(220)		(707)
NET ASSETS			<u>3,505,702</u>		<u>3,539,445</u>

Balance Sheet (Continued)

as at 31 December 2002

		2002		2001	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES					
Share capital	24		356,274		356,274
Reserves	25		3,149,428		3,183,171
			<u>3,505,702</u>		<u>3,539,445</u>

Approved and authorised for issue by the board of directors on 14 March 2003.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 30 to 66 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2002

	<i>Note</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Shareholders' equity at 1 January			
– as previously stated		2,911,702	3,015,889
– prior year adjustment arising from change in accounting policy in respect of employee benefits	<i>1(a) & 25</i>	5,542	
– as restated		2,917,244	
Loss not recognised in the consolidated profit and loss account			
– deficit on revaluation of equity securities		(101)	(2,072)
Profit for the year		358,376	281,926
Net transfer to consolidated profit and loss account from reserves	<i>13 & 25</i>	(133,709)	(284,284)
Dividends approved and paid during the year		(99,757)	(99,757)
Shareholders' equity at 31 December		<u>3,042,053</u>	<u>2,911,702</u>

The notes on pages 30 to 66 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Note	2002		2001 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities					
Profit from ordinary activities before taxation			357,563		296,701
Adjustments for:					
Depreciation		13,636		23,809	
Impairment loss of fixed assets		62,127		44,419	
Profit on disposal of a subsidiary		-		(301)	
Profit on sale of fixed assets		(3,373)		(3,016)	
Deficit on revaluation of investment properties		16,835		29,000	
Interest income		(14,460)		(3,370)	
Dividend income		(1,504)		(1,469)	
Share of results of associates		(1)		-	
Realisation of inter-company profits		(5)		(5)	
Profit on sale of listed investments		-		(194)	
			73,255		88,873
Operating profit before changes in working capital			430,818		385,574
Increase in completed properties for sale		(313,703)		-	
Decrease in properties under development – held for sale		528,745		537,976	
Decrease in employee benefits surplus		819		-	
Decrease in inventories		2,555		3,887	
Increase in debtors and prepayments		(60,702)		(214,644)	
Increase in creditors and accrued charges		332,833		97,550	
Increase in deposits received		189,888		-	
			680,435		424,769
Cash generated from operations			1,111,253		810,343
Profits tax paid		(4,099)		(17,333)	
Profits tax refunded		6,051		10,850	
			1,952		(6,483)
Net cash from operating activities			1,113,205		803,860

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2002

	Note	2002		2001 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing activities					
Interest received		13,753		3,383	
Purchase of fixed assets		(607)		(786)	
Payment for properties under development – held for investment		(129,180)		(70,385)	
(Increase)/decrease in advances to investee companies		(180,919)		1,290	
Receipts from disposal of a subsidiary		-		2,872	
Receipts from sale of fixed assets		4,540		3,033	
Receipts from sale of listed investments		-		848	
Receipts from sale of unlisted investment		-		1,303	
Dividends received		1,504		1,469	
Net cash used in investing activities			(290,909)		(56,973)
Financing activities					
Repayment of bank loans		-		(600,000)	
Dividends paid		(99,757)		(99,757)	
Net cash used in financing activities			(99,757)		(699,757)
Increase in cash and cash equivalents			722,539		47,130
Cash and cash equivalents at 1 January			172,607		125,477
Cash and cash equivalents at 31 December	20		895,146		172,607

The notes on pages 30 to 66 form part of these accounts.

Notes on the Accounts

1 CHANGES IN ACCOUNTING POLICIES

The effects of the adoption of the applicable new or revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”) on the results and financial position of the Company and the Group are as follows:

(a) SSAP 34 “Employee benefits”

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

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

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

(b) SSAP 10 “Accounting for investments in associates”

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

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

2 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the accounts

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

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

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (see note 2(j)).

(d) Associates

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

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

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

(e) Revenue recognition

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

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(i) Sale of properties

When properties under development for sale are sold before the development is completed and the occupation permit is obtained, pre-sale revenue and profit are recognised based on the stage of completion of the development. The stage of completion of the development is established by reference to the percentage of costs incurred to date as compared to the estimated total cost to completion (with due allowance for contingencies). For the purpose of calculating this percentage, land cost and interest capitalised have been excluded. The profits so recognised are restricted to the amount of instalments received. Deposits and instalments received not yet recognised as revenue are included in the balance sheet under deposits received.

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

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Sale of goods

Revenue is recognised when goods are delivered to customers. This is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

(iv) Ferry operations and related services

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

(v) Travel business

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

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition (Continued)

(vi) Interest income

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

(vii) Dividends

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

(f) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified valuers.

Changes arising on the revaluation of investment properties are generally dealt with in reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the profit and loss account.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the profit and loss account for the year.

When an investment property is substantially ready for redevelopment, it is reclassified as properties under development and any revaluation surplus relating thereto is transferred to "other property revaluation reserve".

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years since the valuation takes into account the state of each property at the date of valuation.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Hotel properties

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

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

(h) Properties under development

Properties under development for investment purposes are stated at carrying value less impairment losses (see note 2(j)). Properties under development for sale are stated at the lower of carrying value and net realisable value. Carrying value includes amounts transferred from properties held for development and investment properties, premium paid for land and other development costs, including any related borrowing costs and, solely in the case of properties under development which have been sold prior to completion, the attributable profit less sales revenue recognised to date on the pre-sale. Any subsequent reduction in carrying value is firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

Net realisable value represents the estimated selling price as determined by reference to prevailing market conditions, less the estimated costs to be incurred in completing and selling the property.

When properties under development for investment purposes are completed, they will be transferred to investment properties and the revaluation surplus relating thereto will be transferred to the investment property revaluation reserve.

When properties under development for sale are completed, they will be transferred to completed properties for sale; the revaluation surplus relating thereto will be credited to the profit and loss account upon sale of the properties.

When a development property is sold in advance of completion, the revaluation surplus relating to the pre-sold portion is credited to the profit and loss account by reference to the stage of completion as mentioned in note 2(e)(i) above.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Fixed assets and depreciation

- (i) Fixed assets other than investment properties and hotel properties are stated in the balance sheet at cost less aggregate depreciation and impairment losses (see note 2(j)).
- (ii) Depreciation is provided at rates calculated to write off the cost of fixed assets, other than investment properties and hotel properties, over their estimated useful lives on a straight line basis as follows:

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Ferry vessels and other crafts	8 to 15 years
Machinery, furniture and other fixed assets	
– Dry dock and ship lift	30 to 40 years
– Others	4 to 10 years

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries and associates; and
- properties under development held for investment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Reversals of impairment losses

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

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

(k) Inventories

- (i) Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.
- (ii) Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.
- (iii) Work in progress are construction and repairing in progress at the balance sheet date and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

(l) Other investments in securities

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the securities revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the securities revaluation reserve to the profit and loss account.
- (ii) Transfers from the securities revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the securities revaluation reserve in respect of that security.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(o) Deferred taxation

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership are classified as operating leases.

(i) *Assets held for use in operating leases*

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(i). Impairment losses are accounted for in accordance with the accounting policy, as set out in note 2(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(e)(ii).

(ii) *Operating lease charges*

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

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when (i) the Company or the Group has a legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Deferred interest income

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

(s) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(t) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segmental revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(u) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(v) Cash and cash equivalents

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.

Inter-segment pricing is based on similar terms as those available to other external parties.

The Group is currently organized into three main operating segments, namely "Property development and investment", "Ferry, shipyard and related operations", and "Travel and hotel operations".

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

(a) Segmental revenue

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

3 SEGMENTAL INFORMATION (Continued)

(b) Segmental result

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

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

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

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

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

(f) **Segmental balance sheet**

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

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

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

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

4 INCOME

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

Notes on the Accounts (Continued)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 HK\$'000	2001 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	–	25,785
Other borrowing costs	–	12
	–	25,797
Less: Borrowing costs capitalised into properties under development	–	(25,797)
	–	–
	–	–
The borrowing costs for the year ended 31 December 2001 had been capitalised at a rate of 4.56% – 7.5% per annum in respect of properties under development.		
(b) Staff cost:		
Increase in liability for defined benefit scheme (note 17(a)(ii))	2,435	1,732
Contributions to Mandatory Provident Funds	2,075	1,947
Retirement cost	4,510	3,679
Salaries, wages and other benefits	75,963	80,756
	80,473	84,435
(c) Other items:		
Cost of inventories	653,947	202,824
Auditors' remuneration	798	1,180
Depreciation	13,636	23,809
Operating lease charges in respect of		
– premises	3,033	3,007
– vessels	554	1,415
Rental receivable from investment properties net of outgoings of HK\$1,789,000 (2001: HK\$1,878,000)	(5,643)	(7,860)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings	(6,101)	(4,515)
Interest income	(18,386)	(3,370)
Dividend income from listed investments	(1,504)	(1,469)

Notes on the Accounts (Continued)

6 DIRECTORS' REMUNERATION

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees		
– Executive directors	150	150
– Independent non-executive directors	150	150
– Other non-executive directors	200	200
	500	500

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

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments is a director of the Company. The emoluments of the five highest paid employees are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other emoluments	6,306	6,812
Retirement scheme contributions	473	483
	6,779	7,295

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

<i>HK\$</i>	2002 <i>Number of individuals</i>	2001 <i>Number of individuals</i>
1,000,000 or below	1	–
1,000,001–1,500,000	3	4
1,500,001–2,000,000	–	–
2,000,001–2,500,000	1	1

Notes on the Accounts (Continued)

8 TAXATION

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

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

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

(b) Tax recoverable in the balance sheets represents:

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

Notes on the Accounts (Continued)

8 TAXATION (Continued)

(c) Tax payable in the balance sheets represents:

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

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

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

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

Notes on the Accounts (Continued)

10 DIVIDENDS

(a) Dividends attributable to the year

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

(b) Dividends attributable to the previous financial year, approved and paid during the year

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

11 BASIC EARNINGS PER SHARE

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

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

Notes on the Accounts (Continued)

12 FIXED ASSETS

Group

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

Notes on the Accounts (Continued)

12 FIXED ASSETS (Continued)

Company

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

- (a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$132,500,000 as at 31 December 2002 (2001: HK\$150,500,000) on an open market value basis.
- (b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

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

Notes on the Accounts (Continued)

12 FIXED ASSETS (Continued)

- (c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to two years. None of the leases includes contingent rentals.

The carrying amounts of investment properties of the Group held for use in operating leases were HK\$132,500,000 (2001: HK\$150,500,000).

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

	2002 HK\$'000	2001 HK\$'000
Within 1 year	5,223	5,308
After 1 year but within 5 years	25	453
	<u>5,248</u>	<u>5,761</u>

13 PROPERTIES UNDER DEVELOPMENT

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

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

Notes on the Accounts (Continued)

14 INTEREST IN SUBSIDIARIES

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

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

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

Notes on the Accounts (Continued)

14 INTEREST IN SUBSIDIARIES (Continued)

	Ordinary share capital			Principal activities
	Issued HK\$	% held by the Company	% held by a subsidiary	
Hong Kong Ferry Finance Company Limited	2	100	–	Group financing
Thommen Limited	20	100	–	Investment holding
Lenfield Limited	2	100	–	Property development
HKF Property Investment Limited	2	100	–	Property investment

All the subsidiaries listed above are incorporated in Hong Kong.

Except for HYFCO Travel Agency Limited which operates outbound tours in the Mainland China and Macau, all the other subsidiaries operate in Hong Kong.

15 INTEREST IN ASSOCIATES

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

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

Other particulars of the associates are as follows:

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

Notes on the Accounts (Continued)

16 OTHER NON-CURRENT ASSETS

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

17 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

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

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

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

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

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

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

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

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

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

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

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

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

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

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

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

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

(b) Defined contribution retirement plan

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

Notes on the Accounts (Continued)

18 INVENTORIES

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

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

19 DEBTORS AND PREPAYMENTS

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

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

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

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

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

Notes on the Accounts (Continued)

20 CASH AND CASH EQUIVALENTS

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

21 BANK OVERDRAFT

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

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

22 CREDITORS AND ACCRUED CHARGES

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

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

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

Notes on the Accounts (Continued)

23 DEFERRED TAXATION

(a) Movement in deferred taxation is as follows:

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

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

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

Notes on the Accounts (Continued)

24 SHARE CAPITAL

	Number of shares		Nominal value	
	2002	2001	2002 HK\$'000	2001 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 2001 and 2002.

25 RESERVES

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group						
At 1 January 2001	1,398,527	803,381	(9,053)	5,604	461,156	2,659,615
Dividend approved in respect of the previous financial year	-	-	-	-	(71,254)	(71,254)
Revaluation deficit	-	-	(2,072)	-	-	(2,072)
Realisation of revaluation reserve	-	(284,518)	239	-	-	(284,279)
Realisation of inter-company profits	-	-	-	(5)	-	(5)
Profit for the year	-	-	-	-	281,926	281,926
Interim dividend paid	-	-	-	-	(28,503)	(28,503)
At 31 December 2001	<u>1,398,527</u>	<u>518,863</u>	<u>(10,886)</u>	<u>5,599</u>	<u>643,325</u>	<u>2,555,428</u>
At 1 January 2002						
- as previously reported	1,398,527	518,863	(10,886)	5,599	643,325	2,555,428
- prior year adjustment in respect of employee benefits (note 17(a)(iii))	-	-	-	-	5,542	5,542
- as restated	<u>1,398,527</u>	<u>518,863</u>	<u>(10,886)</u>	<u>5,599</u>	<u>648,867</u>	<u>2,560,970</u>
Dividend approved in respect of the previous financial year	-	-	-	-	(71,254)	(71,254)
Revaluation deficit	-	-	(101)	-	-	(101)
Realisation of revaluation reserve	-	(133,704)	-	-	-	(133,704)
Realisation of inter-company profits	-	-	-	(5)	-	(5)
Profit for the year	-	-	-	-	358,376	358,376
Interim dividend paid	-	-	-	-	(28,503)	(28,503)
At 31 December 2002	<u>1,398,527</u>	<u>385,159</u>	<u>(10,987)</u>	<u>5,594</u>	<u>907,486</u>	<u>2,685,779</u>

Notes on the Accounts (Continued)

25 RESERVES (Continued)

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
Company			
At 1 January 2001	1,398,527	3,032,911	4,431,438
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Loss for the year	–	(1,148,510)	(1,148,510)
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2001	<u>1,398,527</u>	<u>1,784,644</u>	<u>3,183,171</u>
At 1 January 2002			
– as previously reported	1,398,527	1,784,644	3,183,171
– prior year adjustment in respect of employee benefits (note 17(a) (ii))	–	3,291	3,291
– as restated	1,398,527	1,787,935	3,186,462
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Profit for the year	–	62,723	62,723
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2002	<u>1,398,527</u>	<u>1,750,901</u>	<u>3,149,428</u>

The distributable reserves of the Company at 31 December 2002 amounted to HK\$1,051,496,000 (2001: HK\$733,271,000), representing part of its retained profits at that date. The Company's other reserves are not distributable. After the balance sheet date the directors proposed a final dividend of 20 cents per share (2001: 20 cents), amounting to HK\$71,254,000 (2001: HK\$71,254,000). This dividend has not been recognised as a liability at the balance sheet date.

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

Other property revaluation reserve and securities revaluation reserve have been set up and dealt with in accordance with the accounting policies adopted for the revaluation of investment properties, properties under development and revaluation of securities (note 2).

Included in other capital reserves of the Group was negative goodwill of HK\$4,020,000 which arose on acquisition of subsidiaries prior to 1 January 2000. There was no movement in the balance during the years 2001 and 2002.

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

Notes on the Accounts (Continued)

26 OPERATING LEASE COMMITMENTS

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

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 1 year	1,459	2,357
After 1 but within 5 years	2,365	365
	3,824	2,722

27 CAPITAL AND OTHER COMMITMENTS

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

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracted for	92,749	241,835

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

28 CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

A statement of claim was filed at the High Court of Hong Kong by the Secretary for Justice, representing the Hong Kong Government, against The Hongkong and Yaumati Ferry Company Limited ("HYF"), a wholly-owned subsidiary of the Company, and the Company in November 1999. The claim was for the sum of approximately HK\$76 million and other extra expenses in respect of a dispute over the reimbursement of certain costs incurred by the Hong Kong Government on the implementation of certain piling design to cater for the proposed redevelopment of the re-provided ferry piers in Central into new commercial and residential premises, which proposed redevelopment was not pursued due to high premium requested by the Government Lands Department. Based on legal advice, the Group is contesting this claim. The directors are of the opinion that there are grounds for HYF and the Company to resist the claim.

Notes on the Accounts (Continued)

28 CONTINGENT LIABILITIES (Continued)

In addition, HYF and the Company have made a counterclaim against the Government for the sum of approximately HK\$284 million, being costs relating to the redevelopment of the Central piers. Therefore, except for legal costs which have been incurred and charged to the profit and loss account, no provision for the claim or related legal cost to be incurred has been made in the accounts.

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HL") as the development and sales manager (the "Project Manager") for the redevelopment of the Kowloon Inland Lot No. 11127 (the "Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the residential portion of the redevelopment. A net amount of HK\$407,000 was credited to the Group for the year after adjusting for the fee overcharged in prior year. In 2001, a total fee of HK\$13,951,000 had been charged to the Group. As at 31 December 2002, an amount of HK\$12,565,000 (2001: HK\$13,951,000) payable to the Project Manager was included in creditors and accrued charges.

In 1999, the Group entered into a development agreement (the "Agreement") with HL and two wholly-owned subsidiaries of HL ("HL Sub"), whereby HL Sub acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment. During the years from 1999 to 2001, the Group had received all the instalments under the Agreement totalling HK\$1,500,000,000.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$372,979,000 for the year ended 31 December 2002 (2001: HK\$186,871,000). As at 31 December 2002, an amount of HK\$196,439,000 (2001: HK\$68,472,000) remained unpaid and was included in debtors and prepayments.

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. An amount of HK\$40,053,000 (2001: HK\$14,237,000) had been charged to the Group for the year. In accordance with the prime cost contract entered with the Group, an amount of HK\$841,019,000 (2001: HK\$283,889,000) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2002, an amount of HK\$437,363,000 (2001: HK\$116,900,000) remained unpaid and was included in creditors and accrued charges.

In November 2001, the Group appointed another wholly-owned subsidiary of HL as the estate manager of the Property (except for the commercial arcade) for a term of two years from the issuance of the first occupation permit at the remuneration of 10% of the total annual expenditures (excluding the remuneration itself and expenditure of a kind not incurred annually) reasonably and necessarily incurred in the good and efficient management of the Property and the buildings thereon (except for the commercial arcade).

Notes on the Accounts (Continued)

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

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

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

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

- (a) that the terms of the deed and the Ongoing Connected Transactions are:
 - (i) in the ordinary and usual course of business of the owners of the Property;
 - (ii) conducted either (A) on normal commercial terms (which expression will be applied with reference to transactions of a similar nature and to be made by similar entities); or (B) if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into either (A) in accordance with the terms of the deed governing the Ongoing Connected Transactions; or (B) where there are no such agreements, on terms no less favourable than those available to or from independent third parties;
- (b) the aggregate annual value for the Ongoing Connected Transactions for each financial year in question shall not exceed the higher of HK\$10 million or 3% of the consolidated net tangible assets value of the Group as disclosed in its latest published audited accounts;
- (c) the independent non-executive directors of the Company will review the Ongoing Connected Transactions annually and confirm in the Company's annual report for each financial year in question that the Ongoing Connected Transactions have been conducted in the manner as stated in conditions (a) and (b) above;

Notes on the Accounts (Continued)

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

- (d) the auditors of the Company shall review the Ongoing Connected Transactions annually and confirm in a letter (the "Letter") to the directors of the Company (a copy of which is to be provided to the Stock Exchange), stating whether:
- (i) the Ongoing Connected Transactions have received the approval of the Company's board (including the independent non-executive directors);
 - (ii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the deed governing the Ongoing Connected Transactions or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
 - (iii) the aggregate values of the Ongoing Connected Transactions for each financial year in question have not exceeded the limit set out in condition (b) above;

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

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

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

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

As at 31 December 2002, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

Dr. Lee Shau Kee, a director of the Company, is interested in the above transactions as a substantial shareholder of HL.

The above transactions constituted connected transactions as defined in the Listing Rules and in respect of which the Group had complied with relevant requirements under Chapter 14 of the Listing Rules.

Notes on the Accounts (Continued)

30 COMPARATIVE FIGURES

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

Five Years' Summary of Assets and Liabilities

Year	1998	1999	2000	2001 (Restated)	2002
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Fixed assets	1,946	799	605	507	413
Interest in associates	–	–	–	4*	185
Properties under development	–	3,017	2,823	2,071	1,538
Investments	74	86	54	45*	49
Current assets	<u>1,563</u>	<u>231</u>	<u>284</u>	<u>517</u>	<u>1,609</u>
Total assets	3,583	4,133	3,766	3,144	3,794
Liabilities	<u>444</u>	<u>1,015</u>	<u>750</u>	<u>232</u>	<u>752</u>
Net assets employed	<u><u>3,139</u></u>	<u><u>3,118</u></u>	<u><u>3,016</u></u>	<u><u>2,912</u></u>	<u><u>3,042</u></u>

* These items have been restated as a result of changes in accounting policies as set out in note 1(b).



Ten Years' Financial Summary

Year		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Turnover	HK\$M	1,035	1,125	1,173	1,280	1,094	964	889	777	1,403	1,345
Profit/(loss) attributable to shareholders	HK\$M	100	130	356 [#]	151	152	(275) [#]	121	127	282	358
Dividends	HK\$M	81	122	132	132	132	100	100	100	100	100
Shareholders' funds	HK\$M	2,052 [*]	4,152 [*]	3,853 [*]	4,357 [*]	4,181 [*]	3,139 [*]	3,118 [*]	3,016 [*]	2,912 [*]	3,042[*]
Basic earnings/(loss) per share [@] (adjusted)	Cent	41.2	47.2	99.9 [#]	42.3	42.7	(77.2) [#]	34.0	35.5	79.1	100.6
Dividend per share [@] (adjusted)	Cent	31.8	37.0	37.0	37.0	37.0	28.0	28.0	28.0	28.0	28.0
Dividend cover	Times	1.2	1.1	2.7 [#]	1.1	1.2	–	1.2	1.3	2.8	3.6
Return/(loss) on equity	%	4.9 [*]	3.1 [*]	9.2 ^{**}	3.5 [*]	3.6 [*]	(8.8) ^{**}	3.9 [*]	4.2 [*]	9.7 [*]	11.8[*]
Net assets per share [@] (adjusted)	HK\$	9.3 [*]	11.7 [*]	10.8 [*]	12.2 [*]	11.7 [*]	8.8 [*]	8.8 [*]	8.5 [*]	8.2 [*]	8.5[*]

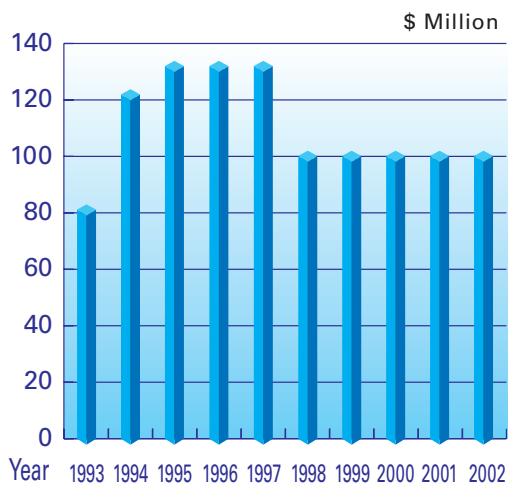
* These items have been affected by property revaluation.

These items have been affected by exceptional item.

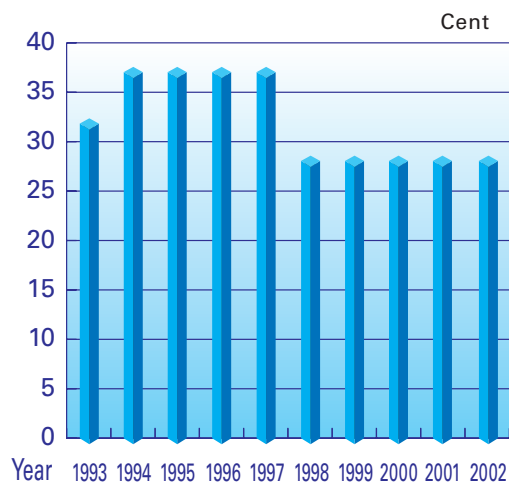
@ These items have been adjusted for the rights issue of shares in 1994.

Ten Years' Financial Summary (Continued)

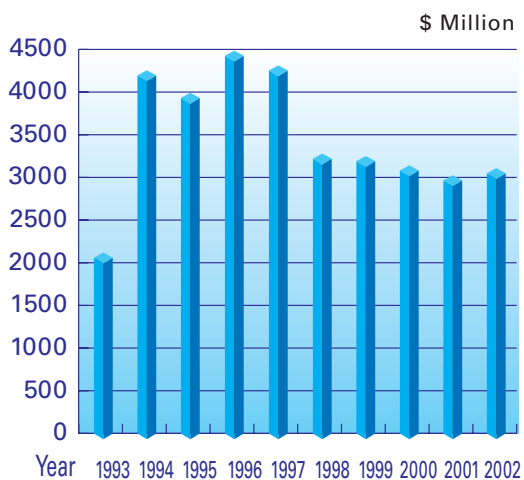
Dividends



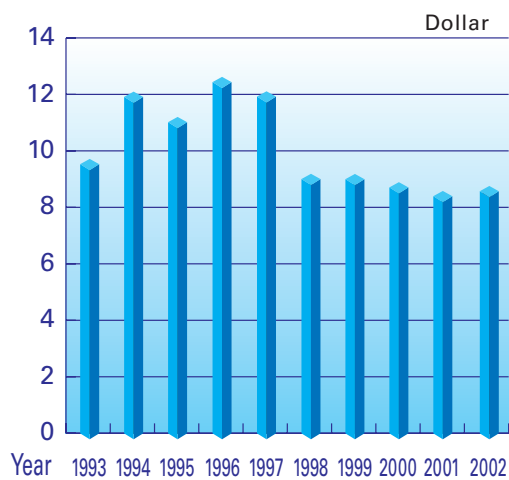
Dividend per share (Adjusted)



Shareholders' funds



Net assets per share (Adjusted)





Group Properties

Location	Lot No.	Lease expiry	Floor area (sq.m.)	Site area (sq.m.)	Equity	Description
Kowloon						
222 Tai Kok Tsui Road	KIL 6698	2033	–	3,250	100%	Vacant land
8 Fuk Lee Street	KIL 11127 RP	2047	–**	21,237	100%	Properties under development
6 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No.38*	2047	22,949	2,329	100%	Industrial buildings
New Territories						
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos.3039A, 3039RP & 3042 in DD124 Hung Shui Kiu*	2047	1,912	3,035	100%	Godown
98 Tam Kon Shan Road, Ngau Kok Wan, North Tsing Yi	Tsing Yi Town Lot No.102	2047	5,619	19,740	100%	Shipyard

Group Properties (Continued)

Location	Lot No.	Lease expiry	Floor area (sq.m.)	Site area (sq.m.)	Equity	Description
Lantau Island						
Cheung Sha	DD332 Lot No.695*	2047	1,199	–	100%	9 villa houses
Mui Wo	DD2 Lot No.648	2047	5,467	7,544	100%	Hotel
Mui Wo	DD2 Lot Nos. 614 RP, 619 Sec. B, C and RP	2047	–	4,233	100%	Agricultural land
Mui Wo	DD2 Lot Nos.431-487, 569 and 635-637	2047	–	28,617	50%	Agricultural land

* The properties at Cheung Sha, Yau Tong and Hung Shui Kiu are held for investment purposes.

** The development will provide a total gross floor area of approximately 191,135 sq.m.. It comprises two phases. Phase I has been completed and Phase II is expected to be completed by late 2003. Pursuant to the Agreement as mentioned in note 29 on the accounts, 50% of the sales proceeds that may be derived from the residential portion of the development was disposed of to a related party in 1999.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of the Company will be held on board the vessel, Harbour Cruise - Bauhinia, at the new Wan Chai Pier, Wan Chai, Hong Kong on Tuesday, 6 May 2003 at 12:00 noon for the following purposes:

- (1) To receive and consider the audited accounts and reports of the Directors and Auditors for the year ended 31 December 2002.
- (2) To declare a final dividend.
- (3) To re-elect Directors.
- (4) To re-appoint KPMG as Auditors and to authorize the Directors to fix their remuneration.

As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

- (5) **"THAT:**
 - (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase its own securities subject to the conditions set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby approved generally and unconditionally;
 - (b) the aggregate nominal amount of share capital which may be purchased by the Directors of the Company pursuant to the approval in paragraph (a) shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution and the said approval shall be limited accordingly; and
 - (c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of the Resolution until whichever is the earliest of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to be held; and

Notice of Annual General Meeting (Continued)

- (iii) the date upon which the authority set out in this Resolution is revoked or varied by way of ordinary resolution in any general meeting of the Company.”

By Order of the Board
Richard C.W. Law
Company Secretary

Hong Kong, 14 March 2003

Notes:

1. The register of members will be closed from Tuesday, 22 April 2003 to Thursday, 24 April 2003, both days inclusive during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars, Standard Registrars Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 17 April 2003.
2. A member entitled to attend and vote at the meeting is entitled to appoint proxies to attend and, on a poll, vote for him. A proxy need not be a member of the Company. Proxy forms together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's Registrars, Standard Registrars Limited at 28th Floor, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. With respect to item (5) above, the Directors wish to state that they have no immediate plan to repurchase any existing shares of the Company.
4. An explanatory statement containing further details regarding item (5) above will be sent to members together with the 2002 Annual Report.

Metro Harbour View

8 Fuk Lee Street

港灣豪庭

福利街8號



8 FUK LEE STREET REDEVELOPMENT (METRO HARBOUR VIEW)

This project (formerly named 201 Tai Kok Tsui Road redevelopment) is a commercial/residential development with a total gross floor area of approximately 1.95 million sq. ft., being 1.71 million sq. ft. in residential and 240,000 sq. ft. in commercial use. It is located at the intersection of Tai Kok Tsui Road and Fuk Lee Street in Tai Kok Tsui, Kowloon and within walking distance to the Price Edward Station and Olympic Station of the MTR, and the upcoming West Rail Nam Cheong Station.

The development consists of 10 blocks of residential buildings, divided into 3,520 residential units with an average size of about 490 sq. ft., plus a 2-storey commercial arcade and about 1,100 car parking spaces. Residents' facilities include swimming pool, indoor sport hall, gymnasium, bowling alley, rock climbing wall, kids' playroom and more.

Each phase of the development, Phase I and II, comprises 5 residential blocks with gross floor area of about 800,000 sq. ft. each. Phase I has been completed while superstructure construction works of Phase II is still in progress. Completion of Phase II is expected by late 2003. Sale/pre-sale of the residential units of both phases is in progress and an accumulated total of about 1,600 units have already been sold up to the end of 2002. The commercial arcade of the development, namely Metro Harbour Plaza is now available for letting and will open in mid 2003.



福利街八號重建項目 (港灣豪庭)

此項目(前稱大角咀道201號重建項目)乃一商住發展項目,總樓宇面積約為一百九十五萬平方呎,當中一百七十一萬平方呎作住宅用途及二十四萬平方呎作商業用途。該址位於九龍大角咀大角咀道及福利街交界,鄰近地下鐵路太子站及奧運站,以及未來西鐵南昌站。

該發展項目包括十幢住宅大廈,分為三千五百二十個住宅單位,每單位平均為四百九十平方呎,以及兩層商場及約一千一百個汽車泊位。住宅設施包括室外游泳池、室內運動場、健身室、保齡球場、攀石牆、兒童遊樂室及其他設施等。

該發展項目分第一期及第二期,各包括五幢住宅大廈,每期樓宇面積約八十萬平方呎。第一期經已完成而第二期上蓋建築正在進行中。預計第二期將於二零零三年尾完成。第一期及第二期之現樓及樓花現正發售中,截至二零零二年底已累計售出約一千六百伙。該發展項目之商場,即「港灣豪庭廣場」現正招租及將於二零零三年中開幕。



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