



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

商界展關懷
caring company 2003/04
Awarded by The Hong Kong Council of Social Service
香港社會服務理事會頒發



2003

Annual Report 年報



本公司獲香港社會服務聯會頒贈「商界展關懷」標誌，以表揚公司一直積極支持各類社會服務。

The Company has been awarded the "Caring Company" logo by the Hong Kong Council of Social Service, in recognition of the Company's continuous support of various social services.



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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

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

E-Mail : hkferry@hkf.com

HONG KONG STOCK EXCHANGE STOCK CODE

0050

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, FCILT*, aged 52, appointed on 1 July 1986, is the Chairman of the Company. Mr. Lam has over 30 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"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Henderson Investment, Wiselin, Max-mercan, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

Directors' & Senior Management's Profile *(Continued)*



Mr. Li Ning

Mr. Li Ning, BSc, MBA, aged 47, 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 XV of the Securities and Futures 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 57, 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 XV of the Securities and Futures 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"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), and Paillard Investment Limited ("Paillard"). Henderson Land, Henderson Investment, Pataca, Wiselin, Max-mercan, Kingslee, Henderson Development, Graf, Mount, and Paillard have discloseable interests under the provisions of Part XV of the Securities and Futures 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, FCI Arb, MCILT*, aged 69, 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 XV of the Securities and Futures Ordinance in the Company.



Mr. Leung Hay Man

Mr. Wong Man Kong, Peter, *BBS, JP, BSc, FCILT, MRINA*, aged 55, 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 1992 to 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 48, 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 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 69, appointed on 6 April 1974, is an Independent Non-Executive Director of the Company. He has over 37 years' experience in banking and investment.



**Dr. Wu Shu Chih,
Alex**

Dr. Wu Shu Chih, Alex, CBE, LLD, JP, aged 83, 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 a Non-Executive Director of a number of listed companies including Hong Kong Aircraft Engineering Company Limited, National Electronics (Holdings) Limited, Parliburg Holdings Limited, Hung Hing Printing Group Limited, K. Wah International Holdings Limited and Regal Hotels International Holdings 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. 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
Mr. Yuen Chi Ming, Rayman	General Manager – Travel Operation

SENIOR MANAGEMENT'S PROFILE

Dr. Ho Chi Shing, David, *DBA, MA, MBA, FCILT, MPIA, MIHT, MCI Arb*, aged 47, joined the Company in 1981 and has been the Group General Manager since 1996. He has over 23 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 Logistics and Transport. Dr. Ho was a member of the Hong Kong Port Operations Committee until February 2004. He is a member of the Safety Committee of Outward Bound Hong Kong, 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. Law Cho Wa, Richard, *MBA, FCCA, FHKSA, FCS, FCIS, MHKIoD*, aged 38, has been the Secretary of the Company since 1997. He joined the Company in 1992 and has over 16 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.

Mr. Leung Shu Keung, Brian, *BA, CFE, CBM* aged 42 is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 15 years of experience in accounting, auditing and management assurance.

Directors' & Senior Management's Profile *(Continued)*

Mr. Ling Chen Shen, Peter, *BSc, ACIB, MSNAME*, aged 53, 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 30 years of experience in banking, finance, China trade, ship repairs and general management.

Mr. Tse Chuen Chi, Pollux, *MBA, MHKSI*, aged 50, has been the Chief Financial Officer of the Company since 1992. He has over 23 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 50, joined the Company in 1993. He has been the General Manager of the Hotel Operation since 1996. He has over 31 years of extensive experience in hotel management.

Mr. Yuen Chi Ming, Rayman, *BBus, PD, PgD, MCILT*, aged 41, worked in a number of public utility companies before joining the Company in 1989. He has been the Deputy General Manager of the Ferry Operation since 1997. On 1 July 2003, Mr. Yuen has also been appointed the General Manager of the Travel Operation.



43-51A Tong Mi Road Development

This is a commercial/residential development with a total gross floor area of approximately 53,000 sq.ft., being 43,000 sq.ft. in residential and 10,000 sq.ft. in commercial use. The development comprises only one block and is divided into 92 residential units with an average size of about 470 sq.ft., plus a 2-storey commercial arcade. The foundation works have commenced in February 2004. It is anticipated that the project will be completed by the end of 2005.



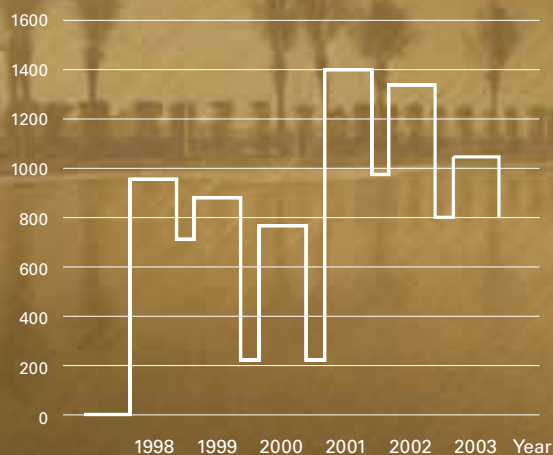


Financial Highlights

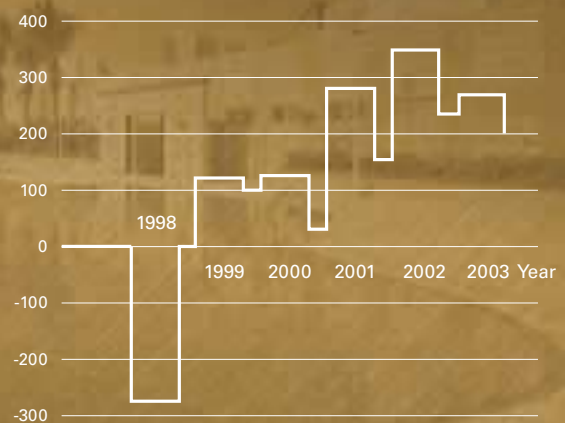
		2003	2002 (Restated)	Variance
Turnover	\$M	1,041	1,345	-22.6%
Profit attributable to shareholders	\$M	265	341	-22.3%
Dividends	\$M	100	100	-
Shareholders' funds	\$M	3,006*	3,060*	-1.8%
Basic earnings per share	Cent	74.3	95.8	-22.4%
Dividend per share	Cent	28.0	28.0	-
Dividend cover	Times	2.6	3.4	-23.5%
Return on equity	%	8.8*	11.1*	-20.7%
Net assets per share	\$	8.4*	8.6*	-2.3%

* 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 2003 amounted to HK\$264.6 million, representing a decrease of 22.4% from the consolidated profit after taxation of HK\$341.2 million in 2002. The profit per share was 74.3 cents for the year as compared to 95.8 cents in the previous year.

DIVIDENDS

The Board of Directors recommended a final dividend of 20 cents per share to shareholders whose names appear in the Register of Members on 29 April 2004. 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

With the Severe Acute Respiratory Syndrome ("SARS") epidemic coming under control in June 2003 and the mainland's policy to grant individuals travel permits to visit Hong Kong, the retail, catering, hotel and travel businesses of Hong Kong rebounded significantly in the second half of the year. Coupled with the establishment of the Closer Economic Partnership Arrangement, the proposal to build the new bridge to Zhuhai and Macau, and the solid implementation of the housing policy, Hong Kong witnessed the return of confidence, resulting in increased consumption as well as recovery of the residential property market.

Chairman's Statement *(Continued)*



During the year under review, the Group has repeatedly adjusted the sale price of residential units of Metro Harbour View in line with market conditions. A total of 680 units has been sold. Profit from sale of residential units of Metro Harbour View remained the primary source of income for the year.

Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

During the year, the Group recorded an operating profit of HK\$291.7 million from the sale of residential units of Metro Harbour View based on the stage of completion of the development. Properties sold during the year amounted to approximately HK\$1,158 million, comprising 680 residential units and representing a decrease of about 12% when compared with last year. The accumulated total of residential units sold was about 2,200, leaving a

balance of unsold units of approximately 1,300. The entire development of Metro Harbour View, including the commercial arcade, has been completed in the second half of the year. Phase I and Phase II residential units have been handed over to purchasers in May and November 2003 respectively.

222 Tai Kok Tsui Road

The property, with a site area of about 36,000 sq.ft., will be developed as a residential-cum-commercial project with a total gross floor area of approximately 320,000 sq.ft., comprising approximately 270,000 sq.ft. for residential use and approximately 50,000 sq.ft. for non-residential use. The Company has recently accepted the land premium offer of approximately HK\$390 million from the Lands Department. As the site is already vacant, construction will soon begin.



Chairman's Statement *(Continued)*



43-51A Tong Mi Road

The Group acquired the site of area approximately 6,000 sq.ft. in October 2003. It will be developed into a residential-cum-commercial building with a total gross floor area of approximately 53,000 sq.ft. The total investment of this project will amount to around HK\$125 million. It is anticipated that the project will be completed by the end of 2005. The foundation works have already commenced in February 2004.



6 Cho Yuen Street, Yau Tong

In spite of the fact that the rental market for industrial property remained soft, the average occupancy of the Kingsford Industrial Centre for the year increased to over 90%. Rental income for the year increased by 3.6% to HK\$8.5 million as 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 with a total gross floor area of approximately 160,000 sq.ft.

Chairman's Statement *(Continued)*

Ferry, shipyard and related operations

The business of the harbour cruise operation has seen a gradual recovery, boosted by the travel policy governing mainlanders to Hong Kong, but the business of the shipyard operation continued to shrink. The Ferry, Shipyard and Related Operations recorded a decrease in turnover of 4.1% in comparison with last year. Including the impairment loss over the shipyard assets of HK\$17.8 million taken up as in the interim accounts, the operating loss of the Ferry, Shipyard and Related Operations for the year amounted to HK\$27.3 million, against the loss of HK\$68.4 million last year.

Travel and hotel operations

Despite the impact of SARS, the Travel and Hotel Operations recorded only a minor decrease in turnover of 1.7% in comparison with last year. Turnover for the second half of the year increased by about 20.7% when compared with the same period last year. The Travel and Hotel Operations recorded a profit from operation of HK\$3.5 million for the second half of the year, resulting in a net profit from operation of HK\$1.1 million for the year, representing a decrease of 71.0% from HK\$3.8 million last year.

PROSPECTS

Since the PRC Government implemented a series of measures to bolster Hong Kong's economy last year, which include the relaxation of the policy to grant travel permits to Hong Kong, the Closer Economic Partnership Arrangement, and the recent opening up of the Renminbi business to banks in Hong Kong, etc, the local economy and the investment sentiments have improved dramatically.

The substantial liquidity brought into Hong Kong by incoming visitors as well as the increase in economic activities have resulted in an expansion in local money supply. Real consumption also saw a rebound in the third quarter last year – the first time in two years. The relief from deflation will be favorable to the economy and the property market in Hong Kong.

It is expected that the sale price of residential units of Metro Harbour View and the rental income from Metro Harbour Plaza will continue to improve. However, as the number of residential units unsold amounts only to 1,300, the income from the sale of residential units in this project in the future will be relatively less as compared to the total of previous years. As the local economy gradually recovers, your Group will continue to look for future investment opportunities.

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 last year.

Colin K. Y. Lam
Chairman

Hong Kong, 12 March 2004

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.

REVIEW OF RESULTS

The Group's turnover for the year amounted to HK\$1,041 million, representing a decrease of 22.6% when compared to that recorded in the previous year. The decrease in turnover was mainly attributed to a decrease in sale of residential units of Metro Harbour View in current year.

Profit from operations, which decreased by 22.8% to HK\$276.1 million comparing to that recorded in the previous year, was mainly derived from the profit realized from the sale of residential units of Metro Harbour View of HK\$291.7 million. An impairment loss of HK\$17.8 million on the shipyard assets and a revaluation deficit on investment properties of HK\$2.5 million were recorded for the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2003, shareholders' fund of the Group showed a decrease of 1.8% against the restated amount for 2002 and amounted to HK\$3,006 million. Such decrease mainly represented the net effect of the profit realized from the sale of the residential units of Metro Harbour View for the year and the elimination of part of the other property revaluation reserve against the revaluation deficit in respect of the commercial arcade of Metro Harbour View.

There was no change as to the capital structure of the Group during the year. As of 31 December 2003,

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.

There was no material acquisition and disposal of subsidiary and associate during the year. However, an additional amount of HK\$41.9 million was advanced to an associate who provides mortgage loans to buyers of residential units of Metro Harbour View.

Current assets of the Group were recorded at HK\$2,072 million as compared to the current liabilities of HK\$418 million as of 31 December 2003. Current ratio of the Group increased from 3.3 as of 31 December 2002 to 5.0 as of 31 December 2003, mainly attributed to the realization of deposits received from the pre-sale of residential units of Metro Harbour View to revenue for the year.

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowing as at 31 December 2003, 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.

Management Discussion and Analysis *(Continued)*

FUTURE PLANS FOR MATERIAL INVESTMENTS

Subsequent to the balance sheet date, the Group has accepted an offer from the Lands Department of a land exchange of the piece of land known as Kowloon Inland Lot No. 6698 for a new lot to be known as Kowloon Inland Lot No. 11159, subject to certain terms and conditions including the payment of a premium of approximately HK\$390 million and an administrative fee of HK\$145,000. Pursuant to the development proposal, the site will be developed into a residential-cum-commercial complex with a total gross floor area of approximately 320,000 sq.ft., comprising approximately 270,000 sq.ft. for residential use and approximately 50,000 sq.ft. for non-residential use. It is estimated that the total investment in the development will amount to about HK\$750 million which will mainly be financed by the Group's internal resources.

CONTINGENT LIABILITIES

Contingent liabilities of the Group as at 31 December 2003 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 at 31 December 2003, the number of employees of the Group was about 360 (2002: 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 scheme, training programmes and educational subsidies. Total employees' costs for the year amounted to HK\$74.0 million, represented a decrease of 8.0% as compared to that recorded in the previous year.

Report of the Directors

The directors have pleasure in submitting their report and audited accounts for the year ended 31 December 2003.

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 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	52.4%
Five largest suppliers in aggregate	60.4%

Henderson Land Development Company Limited ("HL"), through its subsidiaries, was the Group's largest supplier during the financial year. As at 31 December 2003, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 2003 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 2003, 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 26 to 79.

An interim dividend of 8 cents per share was paid on 16 October 2003. The directors now recommend a final dividend of 20 cents per share to shareholders whose names appear in the Register of Members on 29 April 2004.

CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK\$11,810 (2002: HK\$3,325).

FIXED ASSETS

During the year, the Group has written down the value of the shipyard assets at Tsing Yi by HK\$17,818,000 (2002: HK\$62,127,000) to HK\$181,140,000 (2002: HK\$204,603,000). Other movements in fixed assets are set out in note 12 on the accounts.

DIRECTORS

The directors of the Company 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

Report of the Directors *(Continued)*

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Li Ning, Mr. Peter M.K. Wong and Dr. Alex S.C. Wu 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.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

At 31 December 2003, the interests of the directors in securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executives' interests in long and short positions maintained under section 352 of the SFO were as follows:

Long Position

	THE COMPANY		
	Personal Interests <i>Number of Shares</i>	Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
Mr. Lam Ko Yin, Colin	150,000	–	–
Mr. Ho Hau Chong, Norman	3,313,950	–	–
Mr. Kan Yuet Loong, Michael	22,965	–	–
Mr. Lau Yum Chuen, Eddie	–	–	–
Dr. Lee Shau Kee	7,799,220	111,636,090 <i>(Note 5 on page 22)</i>	–
Mr. Leung Hay Man	2,250	–	–
Mr. Li Ning	–	–	111,636,090 <i>(Note 6 on page 22)</i>
Mr. Wong Man Kong, Peter	1,151,000	–	–
Dr. Wu Shu Chih, Alex	186,030	–	–

Report of the Directors *(Continued)*

	2OK COMPANY LIMITED	
	Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
Dr. Lee Shau Kee <i>(Note 1)</i>	5	–
Mr. Li Ning <i>(Note 2)</i>	–	5

Notes:

- These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owns the remaining 50% interest) are beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited (“HLD”). Henderson Development Limited (“HD”) beneficially owns more than one-third of the issued share capital in HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold 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. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in these 5 shares in 2OK Company Limited.
- By virtue of the SFO, Mr. Li Ning is taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li’s spouse is one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

Other than as stated above, no directors or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares, (in respect of positions held pursuant to equity derivatives) underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2003.

INTEREST 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 AND OTHERS

At 31 December 2003, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under section 336 of the SFO were as follows:

	No. of shares in which interested
Substantial Shareholders	
Henderson Investment Limited <i>(Note 1)</i>	111,636,090
Pataca Enterprises Limited <i>(Note 1)</i>	70,200,000
Wiselin Investment Limited <i>(Note 2)</i>	41,436,090
Max-mercan Investment Limited <i>(Note 2)</i>	41,436,090
Henderson Development Limited <i>(Note 3)</i>	111,636,090
Henderson Land Development Company Limited <i>(Note 3)</i>	111,636,090
Kingslee S.A. <i>(Note 3)</i>	111,636,090
Hopkins (Cayman) Limited <i>(Note 4)</i>	111,636,090
Rimmer (Cayman) Limited <i>(Note 4)</i>	111,636,090
Riddick (Cayman) Limited <i>(Note 4)</i>	111,636,090
Dr. Lee Shau Kee <i>(Note 5)</i>	119,435,310
Mr. Li Ning <i>(Note 6)</i>	111,636,090
Persons other than Substantial Shareholders	
Graf Investment Limited <i>(Note 1)</i>	23,400,000
Mount Sherpa Limited <i>(Note 1)</i>	23,400,000
Paillard Investment Limited <i>(Note 1)</i>	23,400,000

Report of the Directors (Continued)

Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 111,636,090 shares.

1. These 111,636,090 shares are beneficially owned by some of the subsidiaries of Henderson Investment Limited ("HI"). Of these 111,636,090 shares, 70,200,000 shares are owned by some of the subsidiaries (viz, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, each of which owns 23,400,000 shares) of Pataca Enterprises Limited, which is itself a subsidiary of HI.
2. These 41,436,090 shares held by Wiselin Investment Limited and in which Max-mercan Investment Limited is taken to be interested 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 41,436,090 shares all of which constitute part of the said 111,636,090 shares.
3. These 111,636,090 shares are duplicated 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 111,636,090 shares are duplicated in the interests described in Notes 1, 2 and 3. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold 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, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in 111,636,090 shares, which are duplicated in the interests described in Notes 1, 2, 3 and 4.
6. By virtue of the SFO, Mr. Li Ning is taken to be interested in these 111,636,090 shares as Mr. Li's spouse is one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 111,636,090 shares are duplicated in the interests described in Notes 1, 2, 3 and 4.

Save as disclosed above, each of the aforesaid shareholders does not have any interest or short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company that are discloseable under the requirement of the SFO.

RESERVES

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

Report of the Directors *(Continued)*

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 2003 are 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 80 to 82.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 83 to 84.

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 the 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. Audit committee meetings were held twice during the financial year.

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, 12 March 2004

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 26 to 79 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 12 March 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Note	2003 HK\$'000	2002 (Restated) HK\$'000
Turnover	3(a)	1,041,318	1,345,066
Cost of sales		(654,557)	(814,950)
		386,761	530,116
Other revenue	3(a) & 4	18,584	11,548
Other net income	4	18,731	12,138
Selling and marketing expenses		(50,066)	(45,384)
Administrative expenses		(43,855)	(47,081)
Deficit on revaluation of investment properties	3(c) & 12(a)	(2,499)	(16,835)
Impairment loss in respect of property, plant and equipment	3(d) & 12	(19,032)	(62,127)
Other operating expenses		(32,500)	(24,813)
Profit from operations	3(b)	276,124	357,562
Share of results of associates		894	1
Profit from ordinary activities before taxation	5 & 8(b)	277,018	357,563
Taxation	8(a)	(12,363)	(16,329)
Profit attributable to shareholders	3(b) & 9	264,655	341,234
Dividends attributable to the year	10(a)	99,757	99,757
Basic earnings per share (cent)	11	74.3	95.8

The notes on pages 34 to 79 form part of these accounts.

Consolidated Balance Sheet

as at 31 December 2003

	Note	2003		2002 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	12				
– Investment properties			740,800		132,500
– Property, plant and equipment			254,456		281,312
			995,256		413,812
Interest in associates	15		227,503		184,681
Properties under development					
– held for investment	13		14,872		676,089
Other non-current assets	16		102,079		49,173
Deferred tax assets	23(c)		11,533		18,094
			1,351,243		1,341,849
Current assets					
Completed properties for sale			826,523		313,703
Properties under development					
– held for sale	13		61,636		861,931
Inventories	18		8,081		13,693
Debtors and prepayments	19		275,642		383,260
Tax recoverable	23(a)		1,891		2,100
Cash and cash equivalents	20		898,465		896,097
			2,072,238		2,470,784
Current liabilities					
Bank overdraft	21		527		951
Creditors and accrued charges	22		410,782		560,577
Deposits received			–		189,888
Tax payable	23(b)		6,386		235
			417,695		751,651
Net current assets			1,654,543		1,719,133
Total assets less current liabilities			3,005,786		3,060,982
Non-current liability					
Deferred taxation	23(c)		–		(835)
NET ASSETS			3,005,786		3,060,147

Consolidated Balance Sheet (Continued)

as at 31 December 2003

	Note	2003		2002 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES					
Share capital	24		356,274		356,274
Reserves	25		2,649,512		2,703,873
			<u>3,005,786</u>		<u>3,060,147</u>

Approved and authorised for issue by the board of directors on 12 March 2004.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 34 to 79 form part of these accounts.

Balance Sheet

as at 31 December 2003

	Note	2003		2002	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Property, plant and equipment	12		266		3,407
Interest in subsidiaries	14		2,869,297		3,511,870
Interest in associates	15		2,976		2,998
Other non-current assets	16		2,948		2,862
			<u>2,875,487</u>		<u>3,521,137</u>
Current assets					
Other debtors and prepayments	19	10,485		8,748	
Tax recoverable	23(a)	–		32	
Cash and cash equivalents	20	377,872		307	
			<u>388,357</u>		<u>9,087</u>
Current liabilities					
Amounts due to subsidiaries		42,348		17,812	
Creditors and accrued charges		5,888		6,490	
			<u>48,236</u>		<u>24,302</u>
Net current assets/(liabilities)			<u>340,121</u>		<u>(15,215)</u>
Total assets less current liabilities			<u>3,215,608</u>		<u>3,505,922</u>
Non-current liability					
Deferred taxation	23(c)		–		(220)
NET ASSETS			<u>3,215,608</u>		<u>3,505,702</u>

Balance Sheet (Continued)

as at 31 December 2003

	Note	2003		2002	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES					
Share capital	24		356,274		356,274
Reserves	25		2,859,334		3,149,428
			<u>3,215,608</u>		<u>3,505,702</u>

Approved and authorised for issue by the board of directors on 12 March 2004.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 34 to 79 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2003

		2003	2002
	<i>Note</i>	HK\$'000	(Restated) HK\$'000
Shareholders' equity at 1 January			
– as previously stated		3,042,053	2,917,244
– prior year adjustment in respect of deferred tax	1 & 25	18,094	35,236
– as restated		3,060,147	2,952,480
Profit/(loss) not recognised in the consolidated profit and loss account			
– surplus/(deficit) on revaluation of equity securities	25	20,632	(101)
– deficit on revaluation of investment properties	12(a) & 25	(28,075)	–
– deficit on revaluation of properties under development for investment	13 & 25	(98,914)	–
Profit for the year		264,655	341,234
Net transfer to consolidated profit and loss account from reserves	13 & 25	(112,902)	(133,709)
Dividends approved and paid during the year		(99,757)	(99,757)
Shareholders' equity at 31 December		<u>3,005,786</u>	<u>3,060,147</u>

The notes on pages 34 to 79 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Note	2003		2002 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities					
Profit from ordinary activities					
before taxation			277,018		357,563
Adjustments for:					
Depreciation		10,047		13,636	
Impairment loss of fixed assets		19,032		62,127	
Profit on sale of investment					
properties and other fixed assets		(7,655)		(3,373)	
Deficit on revaluation of					
investment properties		2,499		16,835	
Interest income		(10,285)		(14,460)	
Dividend income		(1,329)		(1,504)	
Share of results of associates		(894)		(1)	
Realisation of inter-company profits	25	(18)		(5)	
Realisation of revaluation reserve	25	(106,052)		(133,704)	
Profit on sale of investments		(978)		-	
			(95,633)		(60,449)
Operating profit before changes					
in working capital					
			181,385		297,114
Increase in completed properties for sale		(512,820)		(313,703)	
Decrease in properties under					
development – held for sale		800,295		662,449	
Decrease in employee benefits surplus		287		819	
Decrease in inventories		5,612		2,555	
Decrease/(increase) in debtors and					
prepayments		106,845		(60,702)	
(Decrease)/increase in creditors and					
accrued charges		(149,795)		332,833	
(Decrease)/increase in deposits received		(189,888)		189,888	
			60,536		814,139
Cash generated from operations					
			241,921		1,111,253
Profits tax paid		(820)		(4,099)	
Profits tax refunded		548		6,051	
			(272)		1,952
Net cash from operating activities					
			241,649		1,113,205

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2003

	Note	2003		2002 (Restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing activities					
Interest received		11,058		13,753	
Purchase of fixed assets		(3,008)		(607)	
Payment for purchase of investments		(72,544)		–	
Payment for properties under development – held for investment		(87,191)		(129,180)	
Increase in advances to investee companies		(41,933)		(180,919)	
Receipts from sale of investment properties and other fixed assets		13,206		4,540	
Receipts from sale of investments		39,983		–	
Dividends received		1,329		1,504	
Net cash used in investing activities			(139,100)		(290,909)
Financing activities					
Dividends paid		(99,757)		(99,757)	
Net cash used in financing activities			(99,757)		(99,757)
Increase in cash and cash equivalents			2,792		722,539
Cash and cash equivalents at 1 January			895,146		172,607
Cash and cash equivalents at 31 December	20		897,938		895,146

The notes on pages 34 to 79 form part of these accounts.

Notes on the Accounts

1 CHANGE IN ACCOUNTING POLICY

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

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

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior years as disclosed in the consolidated statement of changes in equity.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the accounts

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

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

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

(d) Associates

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

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

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

(e) Revenue recognition

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

(i) Sale of properties

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

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Revenue recognition *(Continued)*

(ii) Rental income from operating leases

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

(iii) Sale of goods

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

(iv) Ferry operations and related services

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

(v) Travel business

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

(vi) Interest income

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

(vii) Dividends

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

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

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

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

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

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

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

(g) Hotel properties

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

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

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Properties under development

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

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

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

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

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

(i) Fixed assets and depreciation

(i) Fixed assets other than investment properties and hotel properties are stated in the balance sheet at cost less aggregate depreciation and impairment losses (see note 2(j)).

(ii) Depreciation is provided at rates calculated to write off the cost of fixed assets, other than investment properties and hotel properties, over their estimated useful lives on a straight line basis as follows:

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

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

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

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Inventories

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

(l) Other investments in securities

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

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

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

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

(n) Translation of foreign currencies

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income Tax *(Continued)*

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

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

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

(p) Leased assets

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

(i) Assets held for use in operating leases

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

Notes on the Accounts (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Leased assets (Continued)

(ii) Operating lease charges

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

(q) Provisions and contingent liabilities

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

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

(r) Deferred interest income

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

(s) Borrowing costs

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

Notes on the Accounts *(Continued)*

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Segmental reporting

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

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

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

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

(u) Related parties

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

(v) Cash and cash equivalents

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION

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

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

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

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

(a) Segmental revenue

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

Turnover represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

(b) Segmental result

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

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

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

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

(f) Segmental balance sheet

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

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

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

Notes on the Accounts (Continued)

3 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

	Depreciation		Impairment loss		Capital expenditure incurred	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment	64	50	-	-	87,548	129,246
Ferry, shipyard and related operations	9,159	12,711	19,032	62,127	1,320	162
Travel and hotel operations	375	397	-	-	1,249	310
Others	449	478	-	-	82	69
	<u>10,047</u>	<u>13,636</u>	<u>19,032</u>	<u>62,127</u>	<u>90,199</u>	<u>129,787</u>

4 INCOME

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

Notes on the Accounts (Continued)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

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

Notes on the Accounts (Continued)

6 DIRECTORS' REMUNERATION

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

	2003	2002
	HK\$'000	HK\$'000
Fees		
– Executive directors	150	150
– Independent non-executive directors	150	150
– Other non-executive directors	200	200
	500	500

The remuneration of each of the nine (2002: nine) directors falls within the band of below HK\$1,000,000.

7 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

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

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

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

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

Notes on the Accounts (Continued)

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

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

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

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

Notes on the Accounts *(Continued)*

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

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

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

Notes on the Accounts (Continued)

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

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

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

10 DIVIDENDS

(a) Dividends attributable to the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of 8 cents per share (2002: 8 cents)	28,503	28,503
Final dividend proposed after the balance sheet date of 20 cents per share (2002: 20 cents)	71,254	71,254
	<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

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

Notes on the Accounts (Continued)

11 BASIC EARNINGS PER SHARE

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

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

12 FIXED ASSETS

Group

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

Notes on the Accounts (Continued)

12 FIXED ASSETS (Continued)

Company

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

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

Notes on the Accounts (Continued)

12 FIXED ASSETS (Continued)

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

Group

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

Company

	2003 HK\$'000	2002 HK\$'000
Medium term lease	<u>266</u>	<u>283</u>

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

The carrying amounts of investment properties of the Group held for use in operating leases were HK\$740,800,000 (2002: HK\$132,500,000).

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

	2003 HK\$'000	2002 HK\$'000
Within 1 year	<u>4,990</u>	5,223
After 1 year but within 5 years	<u>1,275</u>	25
	<u>6,265</u>	<u>5,248</u>

Notes on the Accounts (Continued)

13 PROPERTIES UNDER DEVELOPMENT

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

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

14 INTEREST IN SUBSIDIARIES

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

Notes on the Accounts (Continued)

14 INTEREST IN SUBSIDIARIES (Continued)

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

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

Notes on the Accounts (Continued)

14 INTEREST IN SUBSIDIARIES (Continued)

	Ordinary share capital			Principal activities
	Issued HK\$	% held by the Company	% held by subsidiaries	
Pico International Limited	6,000,000	100	–	Investment holding
Hong Kong Ferry Finance Company Limited	2	100	–	Group financing
Thommen Limited	20	100	–	Investment holding
Lenfield Limited	2	100	–	Property development
HKF Property Investment Limited	2	100	–	Property investment
Join Galaxy Limited	2	–	100	Property investment
Henfield Enterprises Limited	390,000	100	–	Investment holding

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

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

Notes on the Accounts (Continued)

15 INTEREST IN ASSOCIATES

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

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

16 OTHER NON-CURRENT ASSETS

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

Notes on the Accounts (Continued)

16 OTHER NON-CURRENT ASSETS (Continued)

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

17 EMPLOYEE BENEFITS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement scheme which covers about 29% of the Group's employees. The scheme is administered by independent trustees with their assets held separately from those of the Group.

The scheme is funded by contributions from the Group in accordance with an independent actuary's recommendations based on annual actuarial valuations. The latest independent valuation of the scheme was at 31 December 2003 and was prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement scheme were fully covered by the plan assets held by the trustees.

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Present value of wholly or partly funded obligations	(31,177)	(35,229)	(27,362)	(30,572)
Fair value of plan assets	36,241	41,006	31,768	35,155
Net unrecognised actuarial gains	(628)	(1,054)	(1,572)	(1,834)
	<u>4,436</u>	<u>4,723</u>	<u>2,834</u>	<u>2,749</u>

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

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

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	4,723	5,542	2,749	3,291
Contributions paid to the scheme	1,550	1,616	1,521	1,601
Expense recognised in the profit and loss account (note 5(a))	(1,837)	(2,435)	(1,436)	(2,143)
At 31 December	<u>4,436</u>	<u>4,723</u>	<u>2,834</u>	<u>2,749</u>

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(a) Defined benefit retirement plan (Continued)

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

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

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

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

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

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

Notes on the Accounts (Continued)

17 EMPLOYEE BENEFITS (Continued)

(b) Defined contribution retirement plan

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

18 INVENTORIES

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

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

19 DEBTORS AND PREPAYMENTS

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

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

Notes on the Accounts (Continued)

19 DEBTORS AND PREPAYMENTS (Continued)

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

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

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

20 CASH AND CASH EQUIVALENTS

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

Notes on the Accounts (Continued)

21 BANK OVERDRAFT

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

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

22 CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges (2002: except for HK\$114,060,000 mainly represented by retention money payable) are expected to be settled within one year.

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Due within 1 month or on demand	238,733	353,591
Due after 6 months but within 12 months	105,210	-
Due after 12 months	-	114,060
	<u>343,943</u>	<u>467,651</u>

23 INCOME TAX IN THE BALANCE SHEETS

(a) Tax recoverable in the balance sheets represents:

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

Notes on the Accounts *(Continued)*

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

(b) Tax payable in the balance sheet represents:

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

Notes on the Accounts (Continued)

23 INCOME TAX IN THE BALANCE SHEETS (Continued)

(c) Deferred tax assets and liabilities recognised:

(i) Group

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

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

Notes on the Accounts (Continued)

23 INCOME TAX IN THE BALANCE SHEETS (Continued)

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

(ii) Company

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

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

Notes on the Accounts (Continued)

23 INCOME TAX IN THE BALANCE SHEETS (Continued)

(d) Deferred tax assets not recognised

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

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

Notes on the Accounts (Continued)

24 SHARE CAPITAL

	Number of shares		Nominal value	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Authorised:				
Ordinary shares of HK\$1 each	<u>550,000,000</u>	<u>550,000,000</u>	<u>550,000</u>	<u>550,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1 each	<u>356,273,883</u>	<u>356,273,883</u>	<u>356,274</u>	<u>356,274</u>

There was no movement in share capital during the years 2002 and 2003.

Notes on the Accounts (Continued)

25 RESERVES

Group

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002							
– as previously reported	1,398,527	518,863	–	(10,886)	5,599	648,867	2,560,970
– prior year adjustment in respect of deferred tax (note 23(c)(i))	–	–	–	–	–	35,236	35,236
– as restated	1,398,527	518,863	–	(10,886)	5,599	684,103	2,596,206
Dividend approved in respect of the previous financial year	–	–	–	–	–	(71,254)	(71,254)
Revaluation deficit	–	–	–	(101)	–	–	(101)
Realisation of revaluation reserve	–	(133,704)	–	–	–	–	(133,704)
Realisation of inter-company profits	–	–	–	–	(5)	–	(5)
Profit for the year	–	–	–	–	–	341,234	341,234
Interim dividend paid	–	–	–	–	–	(28,503)	(28,503)
At 31 December 2002	<u>1,398,527</u>	<u>385,159</u>	<u>–</u>	<u>(10,987)</u>	<u>5,594</u>	<u>925,580</u>	<u>2,703,873</u>
At 1 January 2003							
– as previously reported	1,398,527	385,159	–	(10,987)	5,594	907,486	2,685,779
– prior year adjustment in respect of deferred tax (note 23(c)(i))	–	–	–	–	–	18,094	18,094
– as restated	1,398,527	385,159	–	(10,987)	5,594	925,580	2,703,873
Dividend approved in respect of the previous financial year	–	–	–	–	–	(71,254)	(71,254)
Reclassification	–	(33,929)	33,929	–	–	–	–
Revaluation (deficit)/surplus	–	(98,914)	(28,075)	20,632	–	–	(106,357)
Realisation of revaluation reserve	–	(106,052)	(5,854)	(978)	–	–	(112,884)
Realisation of inter-company profits	–	–	–	–	(18)	–	(18)
Profit for the year	–	–	–	–	–	264,655	264,655
Interim dividend paid	–	–	–	–	–	(28,503)	(28,503)
At 31 December 2003	<u>1,398,527</u>	<u>146,264</u>	<u>–</u>	<u>8,667</u>	<u>5,576</u>	<u>1,090,478</u>	<u>2,649,512</u>

Notes on the Accounts (Continued)

25 RESERVES (Continued)

Company

	Share premium	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002	1,398,527	1,787,935	3,186,462
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Profit for the year	–	62,723	62,723
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2002	<u>1,398,527</u>	<u>1,750,901</u>	<u>3,149,428</u>
At 1 January 2003	1,398,527	1,750,901	3,149,428
Dividend approved in respect of the previous financial year	–	(71,254)	(71,254)
Loss for the year	–	(190,337)	(190,337)
Interim dividend paid	–	(28,503)	(28,503)
At 31 December 2003	<u>1,398,527</u>	<u>1,460,807</u>	<u>2,859,334</u>

The distributable reserves of the Company at 31 December 2003 amounted to HK\$909,894,000 (2002: HK\$1,051,496,000), representing part of its retained profits at that date. The Company's other reserves are not distributable. After the balance sheet date the directors proposed a final dividend of 20 cents per share (2002: 20 cents), amounting to HK\$71,254,000 (2002: HK\$71,254,000). This dividend has not been recognised as a liability at the balance sheet date.

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

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

Included in other capital reserves of the Group was negative goodwill of HK\$4,020,000 which arose on acquisition of subsidiaries prior to 1 January 2000. There was no movement in the balance during the years 2002 and 2003.

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

Notes on the Accounts *(Continued)*

26 OPERATING LEASE COMMITMENTS

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

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

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

27 CAPITAL AND OTHER COMMITMENTS

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

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

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

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

Notes on the Accounts (Continued)

28 CONTINGENT LIABILITIES

At 31 December 2003, there were contingent liabilities in respect of the following:

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

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

29 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HL") as the development and sales manager (the "Project Manager") for the redevelopment of the Kowloon Inland Lot No. 11127 (the "Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the residential portion of the redevelopment. During the year, a total fee of HK\$8,314,000 was charged to the Group. In 2002, a net amount of HK\$407,000 was credited to the Group for the year after adjusting for the fee overcharged in prior year. As at 31 December 2003, an amount of HK\$18,000,000 (2002: HK\$12,565,000) payable to the Project Manager was included in creditors and accrued charges.

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

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$201,021,000 for the year ended 31 December 2003 (2002: HK\$372,979,000). As at 31 December 2003, an amount of HK\$129,702,000 (2002: HK\$196,439,000) remained unpaid and was included in debtors and prepayments.

Notes on the Accounts *(Continued)*

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

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. An amount of HK\$20,836,000 (2002: HK\$40,053,000) was charged to the Group for the year. In accordance with the prime cost contract entered with the Group, an amount of HK\$437,566,000 (2002: HK\$841,019,000) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2003, an amount of HK\$271,132,000 (2002: HK\$437,363,000) remained unpaid and was included in creditors and accrued charges.

In November 2001, the Group appointed another wholly-owned subsidiary of HL as the estate manager of the Property (except for the commercial arcade) for a term of two years from the issuance of the first occupation permit at the remuneration of 10% of the total annual expenditures (excluding the remuneration itself and expenditure of a kind not incurred annually) reasonably and necessarily incurred in the good and efficient management of the Property and the buildings thereon (except for the commercial arcade). An amount of HK\$229,000 (2002: HK\$Nil) was charged to the Group during the year. As at 31 December 2003, an amount of HK\$70,000 (2002: HK\$Nil) remained unpaid and was included in creditors and accrued charges.

In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of Metro Harbour View. HL through its subsidiaries beneficiary owned the remaining 50% equity interest in 2OK as at 31 December 2003. During the year, the Group received management and administrative fees in the total of HK\$330,000 (2002: HK\$1,100,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation. As at 31 December 2003, the amount advanced by the Group totalling HK\$222,950,000 (2002: HK\$180,996,000) is in proportion to the Group's equity interest in 2OK and is unsecured, interest-free and has no fixed repayment terms.

In December 2002, the Group appointed a wholly-owned subsidiary of HL, who was also the Project Manager responsible for the redevelopment of the Property, as the leasing and promotion agent of the commercial arcade of the Property for a term of two years at the remuneration of 5% of the monthly rental income from the commercial arcade of the Property and such agreement shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing ("the Ongoing Connected Transactions"). An amount of HK\$21,000 (2002: HK\$Nil) was charged to the Group for the year and was included in creditors and accrued charges.

Notes on the Accounts *(Continued)*

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

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

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

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

Notes on the Accounts *(Continued)*

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

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

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

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

As at 31 December 2003, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

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

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

30 POST BALANCE SHEET EVENT

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

31 COMPARATIVE FIGURES

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

Five Years' Summary of Assets and Liabilities

Year	1999	2000	2001	2002	2003
	<i>(Restated)</i>				
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Fixed assets	799	605	507	413	995
Interest in associates	–	–	4	185	228
Properties under development	3,017	2,823	2,071	1,538	77
Investments	86	54	45	49	102
Deferred tax assets	–	–	–	18*	12
Current assets	<u>231</u>	<u>284</u>	<u>517</u>	<u>1,609</u>	<u>2,010</u>
Total assets	4,133	3,766	3,144	3,812	3,424
Liabilities	<u>1,015</u>	<u>750</u>	<u>232</u>	<u>752</u>	<u>418</u>
Net assets employed	<u><u>3,118</u></u>	<u><u>3,016</u></u>	<u><u>2,912</u></u>	<u><u>3,060</u></u>	<u><u>3,006</u></u>

* These items have been restated as a result of change in accounting policy as set out in note 1.

Note:

Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred tax in 2003. Figures for the year 2002 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.

Ten Years' Financial Summary

Year		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Turnover	HK\$M	1,125	1,173	1,280	1,094	964	889	777	1,403	1,345	1,041
Profit/(loss) attributable to shareholders	HK\$M	130	356 [#]	151	152	(275) [#]	121	127	282	341 ^Δ	265
Dividends	HK\$M	122	132	132	132	100	100	100	100	100	100
Shareholders' funds*	HK\$M	4,152	3,853	4,357	4,181	3,139	3,118	3,016	2,912	3,060 ^Δ	3,006
Basic earnings/(loss) per share	Cent	47.2	99.9 [#]	42.3	42.7	(77.2) [#]	34.0	35.5	79.1	95.8 ^Δ	74.3
Dividend per share	Cent	37.0	37.0	37.0	37.0	28.0	28.0	28.0	28.0	28.0	28.0
Dividend cover	Times	1.1	2.7 [#]	1.1	1.2	–	1.2	1.3	2.8	3.4 ^Δ	2.6
Return/(loss) on equity*	%	3.1	9.2 [#]	3.5	3.6	(8.8) [#]	3.9	4.2	9.7	11.1 ^Δ	8.8
Net assets per share*	HK\$	11.7	10.8	12.2	11.7	8.8	8.8	8.5	8.2	8.6 ^Δ	8.4

* These items have been affected by property revaluation.

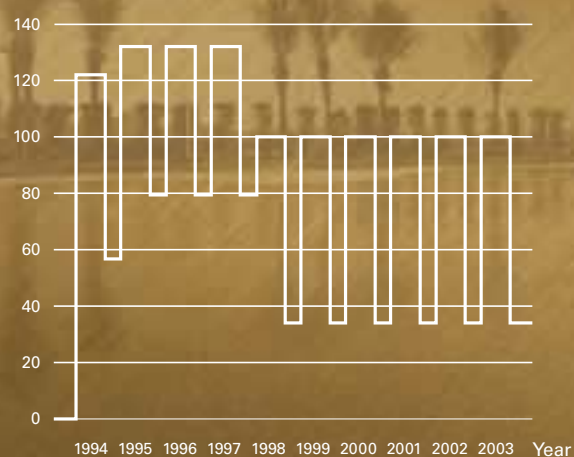
These items have been affected by exceptional item.

Δ These items have been restated as a result of change in accounting policy as set out in note 1.

Ten Years' Financial Summary *(Continued)*

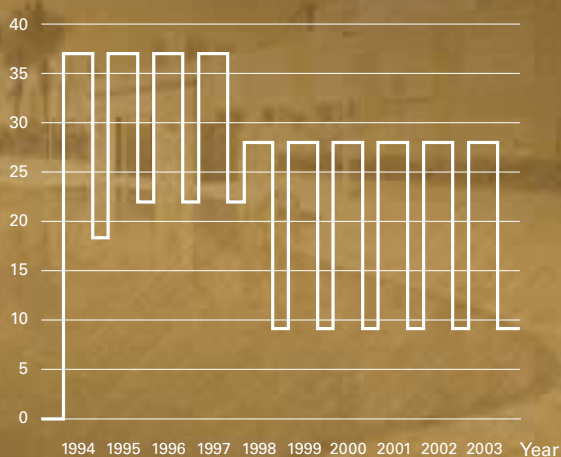
Dividends

\$ Million



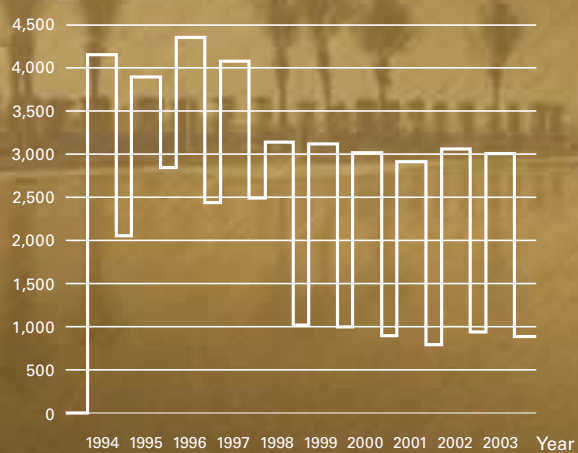
Dividend per share

Cent



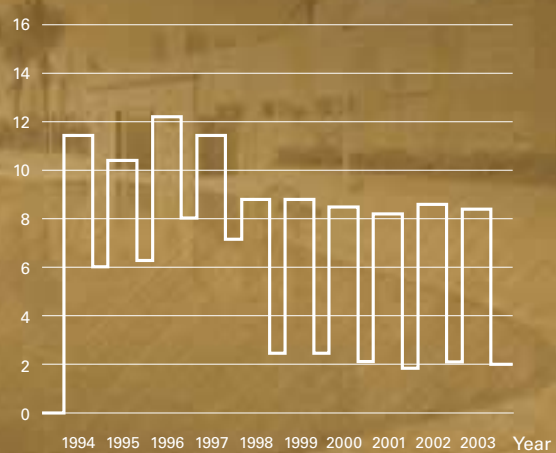
Shareholders' funds

\$ Million



Net assets per share

Dollar



Group Properties

1. Properties under development

Location	Lot No.	Site area (sq.m.)	Gross floor area (sq.m.)	Group's interest (%)	Intended use
43-51A Tong Mi Road Tai Kok Tsui	KIL 4281	558.34	4,974	100	Commercial and residential

2. Properties held for sale

Location	Lot No.	Gross floor area (sq.m.)	Group's interest (%)	Existing use
Metro Harbour View 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	67,273*	100**	Residential

3. Properties held for investment

Location	Lot No.	Gross floor area (sq.m.)	Lease expiry (year)	Existing use
Metro Harbour Plaza 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	22,923	2047	Commercial arcade
Kingsford Industrial Centre 6 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	22,949	2047	Industrial buildings
Leyburn Villa Cheung Sha	DD 332, Lot No. 695	670	2047	Residential
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos. 3039A, 3039RP & 3042 in DD 124 Hung Shui Kiu	1,912	2047	Godown

Group Properties *(Continued)*

4. Other properties

Location	Lot No.	Site area (sq.m.)	Lease expiry (year)	Group's interest (%)	Description
222 Tai Kok Tsui Road	KIL 6698	3,250	2033	100	Vacant land
98 Tam Kon Shan Road Ngau Kok Wan North Tsing Yi	Tsing Yi Town Lot No. 102	19,740	2047	100	Shipyards and office
Mui Wo	DD 2 Lot No. 648	7,544	2047	100	Hotel
Mui Wo	DD 2 Lot Nos. 614 RP, 619 Sec. B, C and RP	4,233	2047	100	Agricultural land
Mui Wo	DD 2 Lot Nos. 431-487, 569 and 635-637	28,617	2047	50	Agricultural land
Mui Wo	DD 2 Lot Nos 498-499, and 588-591	849	2047	100	Agricultural land

* The area represents gross floor area of unsold units as at 31 December 2003.

** Pursuant to the Agreement as mentioned in note 29 on the accounts, 50% of the sales proceeds that may be derived from the sale of residential units of the properties 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 at Miramar Ball Room, Penthouse, Hotel Miramar, 118 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Friday, 7 May 2004 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 2003.
- (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.
- (5) To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“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."

- (6) To consider as special business and, if thought fit, pass the following resolution as a Special Resolution:

"THAT

the Articles of Association of the Company be hereby amended as follows:

- (a) Article 2

- i) By deleting the definition of "associate" and substituting therefor the following:

"associate", in relation to any Director, shall have the same meaning as defined in Chapter 1 of the Listing Rules;

- ii) By adding the words "for Administration" after the words "the Chief Secretary" appearing at the end of the definition of "newspaper";

- iii) By adding the following definitions:

"business day" shall mean any day on which The Stock Exchange of Hong Kong Limited is open for the business of dealing in securities;

"clearing house" shall mean a recognized clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

"Director" shall mean a director of the Company;

"Listing Rules" shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time;

"officer" shall mean a director, manager or company secretary, as defined under the Companies Ordinance;

"subsidiary" shall have the same meaning as defined in Chapter 1 of the Listing Rules;

Notice of Annual General Meeting *(Continued)*

(b) Article 16

- i) By deleting the words “without payment”;
- ii) By deleting the words “within twenty-one days or within such shorter period as shall from time to time be prescribed by The Stock Exchange of Hong Kong Limited” and substituting therefor the words “within the relevant time limit as prescribed by the Companies Ordinance or as The Stock Exchange of Hong Kong Limited may from time to time determine, whichever is the shorter,”;
- iii) By deleting the words “HK\$2 (or such higher amount as may from time to time be permitted under the rules prescribed by The Stock Exchange of Hong Kong Limited)” and substituting therefor the words “such amount not higher than the relevant maximum amount as may be from time to time set out in the Listing Rules”; and
- iv) By adding the following sentence at the end of the Article:

“In this Article, “transfer” shall mean a transfer duly stamped and otherwise valid, and does not include such a transfer as the Company is for any reason entitled to refuse to register and does not register.”

(c) Articles 20 and 40(i)

By deleting the words “HK\$2 (or such higher amount as may from time to time be permitted under the rules prescribed by The Stock Exchange of Hong Kong Limited)” appearing in each of Articles 20 and 40(i) and substituting therefor the following words:

“such amount not higher than the relevant maximum amount as may be from time to time set out in the Listing Rules”.

(d) Article 43

By deleting the words “without charge” wherever they appear and substituting therefor the words “at a fee of such amount not higher than the relevant maximum amount as may be from time to time set out in the Listing Rules”.

Notice of Annual General Meeting *(Continued)*

- (e) By adding the following Article 84(C) immediately after Article 84(B):

“Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

- (f) Article 91A

- i) By deleting the words “a recognized clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance Chapter 420 of the Laws of Hong Kong” in the first sentence and substituting therefor the words “a clearing house”;
- ii) By deleting the words “recognized” before the words “clearing house (or its nominee)” appearing in the second sentence.

- (g) Article 95(C)

By adding the following sentence at the end of this Article:

“An alternate Director shall alone be responsible for his own acts and default and he shall not be deemed to be the agent of the director appointing him.”

- (h) Article 101(A)(vii)

By deleting the words “a special resolution” and substituting therefor the words “an ordinary resolution”.

- (i) Article 102(H)

By deleting Article 102(H) in its entirety and substituting therefor the following:

“(H) Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his associates is, to the knowledge of such

Notice of Annual General Meeting *(Continued)*

Director, materially interested, but this prohibition shall not apply to any of the following matters namely:

- i) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of them or obligations incurred or undertaken by him or any of them for the benefit of the Company or any of its subsidiaries;
- ii) any contract or arrangement for the giving by the Company or any of its subsidiaries of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- iii) any contract or arrangement by a Director or his associate(s) to subscribe for shares, debentures or other securities of the Company or any of its subsidiaries issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company or any class thereof or to the public or any section thereof and does not provide in respect of any Director or his associate(s) as such any privilege not accorded to any other members or debenture holders of the Company or any class thereof or to the public or any section thereof;
- iv) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- vi) any contract or arrangement concerning any other company (not being a company in which the Director and any of his associate(s) are in aggregate beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (as defined in paragraph (l) of this Article)) in which the Director or his associate(s) is/are interested directly or indirectly whether as a shareholder or an officer;

Notice of Annual General Meeting *(Continued)*

- vii) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or his associate(s), as such a privilege or advantage not accorded to the class of persons to which such scheme or fund relates;
- viii) any proposal concerning the adoption, modification or operation of any scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit."

(j) Article 107

By deleting the words "at least seven days before the date of the general meeting" at the end of the Article and substituting therefor the words "no earlier than the day after the despatch of the notice of the meeting appointed for such election and no later than seven days prior to the date of such meeting".

(k) Article 109

By deleting the words "special resolution" and substituting therefor the words "an ordinary resolution".

(l) Article 131

By deleting Article 131 in its entirety and substituting therefor the following Article:

"Any decision that may be made or any action that may be taken by the Directors or a committee of Directors at a meeting may be passed as a resolution of the Directors or the committee of Directors if such resolution is consented to in writing or by telex, telegram, cable, facsimile, electronic mail or other written electronic communication by all the directors, except such as are absent from Hong Kong or temporarily unable to act through ill-health or disability, of the Company (or their respective alternates, where appropriate) or all the members of the committee of Directors, as the case may be, without the need for any notice. Such written consent may be contained in one document or in several documents. Any resolution so passed shall be as valid and effectual as if the resolution had been passed at a meeting of the Directors or of the committee of Directors respectively duly convened and held."

Notice of Annual General Meeting *(Continued)*

(m) Article 168

- i) By adding the following words immediately after the words “in writing”, appearing in this Article:

“or by cable, telex or facsimile transmission message or electronic communication”;

- ii) By adding the following words immediately after the words “registered address as aforesaid” appearing in this Article:

“or, as the case may be, at the discretion of the Company by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic mail address as may be supplied by the member to the Company for the giving of notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the notice being duly received by the member”; and

- iii) By adding the following words immediately after the words “in a Chinese language newspaper” appearing in this Article:

“or, to the extent permitted by the Listing Rules and any applicable laws of Hong Kong from time to time, by publishing it on the website of the Company and giving to the member a notice stating that the notice or other document is available there (“notice of availability”). The notice of availability may be given to the member by any of the means set out above.

(n) Article 170

- i) By renumbering existing Article 170 as 170 (A);

- ii) By adding the following Articles 170(B) to 170(E)

“(B) Any notice if served or delivered in person, shall be deemed to have been served or delivered at the time of personal service or delivery, and in proving such service or delivery, a certificate in writing signed by the Secretary or other person appointed by the Board that the notice was so served or delivered shall be conclusive evidence thereof.

Notice of Annual General Meeting *(Continued)*

- (C) Any notice sent by telex, facsimile transmission or electronic mail shall be deemed to have been duly served upon the shareholders on the same day as transmitted. In proving such service or delivery, a certificate in writing signed by the Secretary or other person appointed by the Board as to the fact and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof.
- (D) Any notice if served by advertisement in newspapers in accordance with Article 168 shall be deemed to have been served on the day on which such notice is first published.
- (E) Any notice if sent or transmitted as an electronic communication shall be deemed to have been served or delivered at the time of the relevant despatch or transmission. A notice or document published on the Company's website shall be deemed to have been served or delivered on the day following that on which a notice of availability is sent to the entitled person. In proving such service or delivery, a certificate in writing signed by the Secretary or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof."

(o) Article 171

By adding the following words immediately before the words "or (until such an address has been so supplied)" appearing in this Article:

"or, as the case may be, at the discretion of the Company by transmitting it to such address or transmitting it to any telex or facsimile transmission number or electronic mail address as may be supplied by the personal representative of the deceased member, or trustee of the bankrupted member to the Company".

(p) Article 173

By adding the following words immediately before the words "in pursuance of these presents" appearing in this Article:

"or sent by telex, facsimile transmission or electronic mail".

Notice of Annual General Meeting *(Continued)*

(q) Article 180(A)

By deleting the words “(including any such liability as is mentioned in paragraph (c) of the proviso to Section 165 of the Companies Ordinance)” appearing in this Article.”

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

Hong Kong, 12 March 2004

Notes:

1. The register of members will be closed from Tuesday, 27 April 2004 to Thursday, 29 April 2004, 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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 26 April 2004.
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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. In relation to agenda item (3) in the Notice regarding re-election of Directors, Mr. Li Ning, Mr. Wong Man Kong, Peter and Dr. Wu Shu Chih, Alex shall retire at the forthcoming Annual General Meeting by rotation pursuant to the Articles of Association of the Company and, being eligible, offer themselves for re-election. The biographical details and interests in the shares of the Company of the said directors to be re-elected at the Annual General Meeting are set out in the “Directors and Senior Management’s Profile” and “Directors’ Interests in Securities” in the 2003 Annual Report.
4. 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.
5. As regards the special resolution of item (6) above, approval is being sought from the members to amend the Articles of Association of the Company in the light of enactment of the Securities and Futures Ordinance, the Companies (Amendment) Ordinance 2003 and the amended Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
6. An explanatory statement containing further details regarding items (5) and (6) above will be sent to members together with the 2003 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 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 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 of the two phases of the development comprises 5 residential blocks with gross floor area of about 800,000 sq.ft.. Both phases have been completed with the residential units handed over to purchasers in May and November 2003. An accumulated total of about 2,200 units have already been sold up to the end of 2003. The commercial arcade of the development, namely Metro Harbour Plaza has also been completed and is available for letting.

福利街八號重建項目（港灣豪庭）

此乃商住發展項目，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，及西鐵南昌站。

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。

該項目分兩期發展，每期包括五幢住宅大廈，而其樓宇面積約八十萬平方呎。第一及第二期之住宅單位經已完成並已於二零零三年五月及十一月入伙。截至二零零三年底累計已售出單位約二千二百伙。該發展項目之商場，即「港灣豪庭廣場」亦已完成並正招租。



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