

NOTES ON THE ACCOUNTS

23. RESERVES

Group	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 1999	1,398,527	962,825	1,293,986	—	8,467	341,663	4,005,468
Diminution in value prior to transfer to properties under development	—	(195,433)	(238,862)	—	—	—	(434,295)
Reclassification	—	(775,585)	775,585	—	—	—	—
Revaluation surplus	—	1,000	—	6,924	—	—	7,924
Net deficit on revaluation charged to the profit and loss account	—	7,193	—	—	—	—	7,193
Realisation of revaluation reserve	—	—	(64,552)	—	—	—	(64,552)
Realisation of inter-company profits	—	—	—	—	(511)	—	(511)
Profit for the year	—	—	—	—	—	121,140	121,140
Dividends	—	—	—	—	—	(99,757)	(99,757)
At 31 December 1999	<u>1,398,527</u>	<u>—</u>	<u>1,766,157</u>	<u>6,924</u>	<u>7,956</u>	<u>363,046</u>	<u>3,542,610</u>
At 1 January 2000	1,398,527	—	1,766,157	6,924	7,956	363,046	3,542,610
Diminution in value of properties under development (Note 13)	—	—	(42,586)	—	—	—	(42,586)
Revaluation deficit	—	—	—	(9,546)	—	—	(9,546)
Realisation of revaluation reserve	—	—	(133,094)	(6,431)	—	—	(139,525)
Realisation of inter-company profits	—	—	—	—	(2,352)	—	(2,352)
Profit for the year	—	—	—	—	—	126,613	126,613
Dividends	—	—	—	—	—	(99,757)	(99,757)
At 31 December 2000	<u>1,398,527</u>	<u>—</u>	<u>1,590,477</u>	<u>(9,053)</u>	<u>5,604</u>	<u>389,902</u>	<u>3,375,457</u>
Company							
At 1 January 1999	1,398,527	—	2,267,900	—	—	638,111	4,304,538
Realisation of revaluation reserve	—	—	(2,267,900)	—	—	—	(2,267,900)
Profit for the year	—	—	—	—	—	2,546,996	2,546,996
Dividends	—	—	—	—	—	(99,757)	(99,757)
At 31 December 1999	<u>1,398,527</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,085,350</u>	<u>4,483,877</u>
At 1 January 2000	1,398,527	—	—	—	—	3,085,350	4,483,877
Profit for the year	—	—	—	—	—	4,064	4,064
Dividends	—	—	—	—	—	(99,757)	(99,757)
At 31 December 2000	<u>1,398,527</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,989,657</u>	<u>4,388,184</u>

23. RESERVES

The distributable reserves of the Company at 31 December 2000 amounted to HK\$668,176,000 (1999: HK\$566,223,000), representing part of its retained profits at that date. The Company's other reserves are not distributable.

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

The investment property and other property revaluation reserves, securities revaluation reserve and other capital reserves have been set up and dealt with in accordance with the accounting policies adopted for the revaluation of investment properties and properties held for development and under development, and revaluation of securities (note 1) and other capital reserves arising on consolidation.

24. CAPITAL AND OTHER COMMITMENTS

(a) Capital commitments outstanding at 31 December 2000 not provided for in the accounts were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Contracted for	346,018	37,884
Authorised but not contracted for	—	293,622
	<u> </u>	<u> </u>

(b) At 31 December 2000, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK\$1,937,315,000 (1999: HK\$2,083,330,000), 50% of which was recoverable under the arrangement referred to in note 27.

(c) At 31 December 2000, the Group had commitments under operating leases to make payments in the next year as follows:

	Group			
	2000		1999	
	Properties	Vessels	Properties	Vessels
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases expiring within 1 year	789	—	914	689
Leases expiring after 1 year but within 5 years	1,410	—	1,096	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>2,199</u>	<u> </u>	<u>2,010</u>	<u>689</u>

25. RETIREMENT SCHEMES

On 1 December 2000, the Group established Mandatory Provident Fund Schemes (“MPF Schemes”) for employees not previously covered by any of the Group’s Occupational Retirement Schemes (“ORSO Schemes”). Members of the three ORSO Schemes, all defined benefit schemes, were given an option to join the MPF Schemes or to stay in the ORSO Schemes. Out of the total of 253 ORSO Schemes members, 89 members had elected to join the MPF Schemes.

Contributions to the ORSO Schemes are made in accordance with recommendations of independent actuaries who value the schemes at regular intervals. Contributions to the MPF Schemes are based on 5% of the relevant income of the relevant staff and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines. Contributions payable to all schemes are charged to the profit and loss account. Retirement costs for the year were HK\$3,329,000 (1999: HK\$11,688,000).

The latest actuarial valuation of the Outdoor Staff Retirement Scheme was as at 30 November 2000. The market value of its assets was HK\$34.4 million, representing 440% of the scheme’s past service liabilities as at that date.

The latest actuarial valuation of the Office Staff Retirement Scheme was as at 30 November 2000. The market value of its assets was HK\$52.9 million, representing 149% of the scheme’s past service liabilities as at that date.

The latest actuarial valuation of the Group Staff Retirement Scheme was as at 30 April 2000. The market value of its assets was HK\$16.4 million, representing 194% of the scheme’s past service liabilities as at that date.

The above actuarial valuations were prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the Attained Age Method. The actuarial bases used included investment yield, salary escalation, expected retirement age, withdrawal rates and mortality rates.

In order to streamline the Group’s retirement schemes administration, the three ORSO Schemes were combined into one by transferring all the members and their relevant accrued rights of the Outdoor Staff and the Office Staff Retirement Schemes to the Group Staff Retirement Scheme in December 2000. With the consent of the trustees, the Outdoor Staff and the Office Staff Retirement Schemes were subsequently terminated in December 2000 and January 2001 respectively.

Based on actuarial valuations of the Outdoor Staff and the Office Staff Retirement Schemes as at 30 November 2000, the market value of their assets exceeded the aggregate past service liabilities to their relevant members. Upon the transfer of sums equivalent to the aggregate past service liabilities of the relevant members to the Group Staff Retirement Scheme or relevant MPF Schemes, the surpluses in the Outdoor Staff and the Office Staff Retirement Schemes amounting to approximately HK\$26 million and HK\$17 million respectively will be refunded to the Company. As the Outdoor Staff Retirement Scheme was terminated in December 2000, the surplus of approximately HK\$26 million was recognised in the consolidated profit and loss account as part of the gain on discontinuance of ferry operations.

26. CONTINGENT LIABILITIES

At 31 December 2000, there were contingent liabilities in respect of the following:

- (a) 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\$55 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. It is the Group’s intention based on legal advice to contest 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.
- (b) Guarantees given to banks by the Company in respect of banking facilities extended to certain subsidiaries amounting to HK\$600,000,000 (1999: HK\$801,285,000).

27. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In 1999, the Group entered into a development agreement (“the Agreement”) with Henderson Land Development Company Limited (“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 part of the redevelopment intended for domestic use of Kowloon Inland Lot No. 11127 (“the Property”).

At 31 December 2000, the Group had received two instalments totalling HK\$600 million (1999: HK\$202.5 million). The remaining balance of HK\$900 million will be received upon the fulfilment by the Group of the conditions set out in the Agreement.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the domestic portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$61 million for the year ended 31 December 2000 (1999: HK\$18 million). As at 31 December 2000, an amount of HK\$37 million (1999: HK\$18 million) remained unpaid and was included in debtors and prepayments.

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. No fee had been charged to the Group as at 31 December 2000. However, an amount of HK\$15.7 million (1999: HK\$Nil) was charged by the main contractor during the year for the superstructure work of the development. As at 31 December 2000, an amount of HK\$11.2 million remained unpaid and was included in creditors and accrued charges.

27. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

HL through its subsidiaries beneficially owns 64.28% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

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

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

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of the change in segment analysis by operating activities, details of which have been set out in note 3.