

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, 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 significant 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.

(c) Basis of consolidation

- (i) 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 intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is charged to reserves in the year in which it arises. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill or capital reserve which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(d) Interest in subsidiaries

A subsidiary 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.

Interest in subsidiaries in the Company's balance sheet is stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(e) Interest in associates

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

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an interest 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.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

(f) Fixed assets

(i) Investment properties

Investment properties are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. Surpluses arising on revaluation are credited on a portfolio basis to the profit and loss account to the extent of any deficit arising on revaluation previously charged to the profit and loss account and are thereafter taken to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

No depreciation is provided for investment properties as all investment properties are either freehold or held under leases with unexpired terms of more than 20 years and the valuation takes into account the state of each property at the date of valuation.

(ii) Land and buildings

No amortisation is provided on freehold land. Leasehold land is amortised by equal instalments over the remaining periods of the relevant leases.

Buildings are depreciated on a straight-line basis over the shorter of 50 years and the unexpired terms of the leases.

(iii) Land use rights

Land use rights are included under land and buildings and are amortised over the period of entitlement.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(f) Fixed assets (Continued)

(iv) Other fixed assets

Other fixed assets are stated at cost less depreciation. Depreciation is calculated to write off the cost of other fixed assets on a straight-line basis at the following rates:

Furniture and fixtures	10% – 20% per annum
Computer hardware and software	20% per annum
Motor vehicles	25% per annum

(v) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is firstly set off against any previous revaluation surpluses and thereafter to the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their net present value.

(vi) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the profit and loss account for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(g) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 1(f) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(h) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment 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 investment revaluation reserve to the profit and loss account.
- (iii) Transfers from the investment 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.
- (iv) 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 investment revaluation reserve in respect of that security.

(i) 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 goods
Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.
- (ii) Rental income
Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease.
- (iii) Servicing fee income
Fees for servicing the mortgage portfolio under the mortgage servicing rights acquired are recognised as income when the related mortgagor payments are received.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(i) Revenue recognition (Continued)

(iv) Dividends

Dividends from subsidiaries are recognised when proposed.

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted securities is recognised when the shareholder's right to receive payment is established. This is taken to be, for interim dividends, when the directors declare such a dividend and for final dividends, when the shareholders at the general meeting approve the dividends proposed by the directors.

(v) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

(vi) Interest income

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

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Purchased mortgage servicing rights

Costs of purchased mortgage servicing rights and the related acquisition costs, which do not exceed the future estimated net cash flows related to the mortgage servicing portfolio, are capitalised. The amount capitalised is amortised in proportion to, and over the period of, the estimated future net servicing income.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(l) Deferred taxation

Deferred taxation is 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 are expected with reasonable probability to crystallise in the foreseeable future.

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

(m) 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 denominated 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.

The accounts of subsidiaries and associates denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereon are dealt with in reserves.

(n) Open foreign exchange, futures and option contracts

Open foreign exchange, futures and option contracts are valued at market contract prices quoted at the balance sheet date. Unrealised profits or losses on open contracts are dealt with in the profit and loss account.

(o) Operating leases

Rentals payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(p) 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.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

2. Turnover

The principal activities of the Group are operation of department stores and property investments. The Group ceased its mortgage servicing business, which were carried out in the United States of America, with effect from 1st January, 2000 (Note 3). The principal activities and other particulars of the principal subsidiaries are set out on pages 59 to 64.

Group turnover comprises the invoiced value of goods sold to customers less returns, income from property investments and mortgage servicing fee income, and may be analysed by principal activities and geographical locations as follows:

	2000	1999
	\$'000	\$'000
By principal activities:		
Continuing operations:		
Department stores	1,510,712	1,374,606
Property investments	322,484	351,869
	<u>1,833,196</u>	<u>1,726,475</u>
Discontinued operations:		
Mortgage servicing (<i>Note 3</i>)	–	14,088
	<u>1,833,196</u>	<u>1,740,563</u>
By geographical locations:		
Hong Kong	1,573,574	1,456,888
The People's Republic of China	84,572	79,055
Australia	145,319	162,652
United States of America	25,333	36,453
Others	4,398	5,515
	<u>1,833,196</u>	<u>1,740,563</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

3. Mortgage servicing

Management has decided to cease the Group's operation of the mortgage servicing and origination business with effect from 1st January, 2000. Provisions have been made in the accounts for the year ended 31st December, 1999 to reduce the value of the assets of such business to their then estimated recoverable amounts. Additional provision has been made during the year for the decline in such recoverable amounts and the costs for the orderly disposal of such business.

The revenue and operating loss from mortgage servicing and origination business, and the amounts reported in the comparative period were as follows:

	2000	1999
	\$'000	\$'000
Turnover	–	14,088
Other revenue	–	17,621
Other net losses	–	(2,323)
Mortgage servicing costs	–	(14,258)
Other operating expenses	–	(8,791)
	<hr/>	<hr/>
Profit from operations	–	6,337
Finance cost	–	(7,056)
Provision for decline in value of assets of mortgage servicing and origination business	–	(79,170)
Loss on cessation of mortgage servicing and origination business	(14,398)	–
	<hr/>	<hr/>
	(14,398)	(79,889)
Share of losses of associates	–	(13,323)
	<hr/>	<hr/>
Loss from ordinary activities before taxation	(14,398)	(93,212)
Taxation	–	16,626
	<hr/>	<hr/>
Loss from ordinary activities after taxation	(14,398)	(76,586)
Minority interests	–	22,727
	<hr/>	<hr/>
Loss attributable to shareholders	<u>(14,398)</u>	<u>(53,859)</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

4. Income

	2000	1999
	\$'000	\$'000
Other revenue		
Dividend and interest income from securities		
– listed	7,246	8,795
– unlisted	1,872	2,102
Restaurant operation income	7,355	11,577
Hotel revenue	14,653	17,860
Other interest income	15,200	33,069
Others	5,638	10,969
	<u>51,964</u>	<u>84,372</u>
	<u>51,964</u>	<u>84,372</u>
Other net (losses)/gains		
Net loss on disposal of fixed assets	(1,841)	(488)
Net exchange (loss)/gain	(16,343)	1,997
Net realised gain on trading securities	6,179	3,391
Net realised gain on disposal of non-trading securities (note)	10,484	–
Net gain on futures and forex dealings	–	314
Net unrealised (loss)/gain on trading securities	(10,301)	18,016
Net (charge)/write back of impairment loss on non-trading securities	(5,289)	3,201
	<u>(17,111)</u>	<u>26,431</u>
	<u>(17,111)</u>	<u>26,431</u>

Note: Net realised gain on disposal of non-trading securities include a surplus of \$11,037,000 (1999: \$Nil) transferred from investment revaluation reserve previously recognised.

5. Profit from ordinary activities before taxation

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

	2000	1999
	\$'000	\$'000
(a) Finance cost		
Interest on bank advances and other borrowings repayable within five years	89,760	104,219
Finance charges on obligations under finance leases	114	159
	<u>89,874</u>	<u>104,378</u>
	<u>89,874</u>	<u>104,378</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

5. Profit from ordinary activities before taxation (Continued)

	2000	1999
	\$'000	\$'000
(b) Other items		
Cost of inventories	1,069,250	987,034
Staff costs	207,829	210,185
Operating lease charges		
– rentals on land and buildings	136,767	138,108
Depreciation and amortisation		
– owned assets	73,963	55,161
– assets held under finance lease	725	725
Auditors' remuneration		
– current year	2,245	3,396
– previous year	(196)	(517)
Rentals receivable from investment properties net of direct outgoings of \$60,203,000 (1999: \$55,505,000)	(260,954)	(295,121)

Profit from operations is analysed by principal activities and geographical locations as follows:

	2000	1999
	\$'000	\$'000
By principal activities:		
Continuing operations:		
Department stores	(165,413)	(151,286)
Property investments (<i>note (a)</i>)	295,945	312,061
Interest income	15,200	20,172
Others	(12,570)	13,978
	133,162	194,925
Finance cost	(89,874)	(97,322)
	43,288	97,603
Discontinued operations:		
Mortgage servicing (<i>note (b)</i>)	(14,398)	(79,889)
	28,890	17,714
By geographical locations:		
Hong Kong	(32,088)	32,434
The People's Republic of China	(22,915)	(24,875)
Australia	69,400	77,148
United States of America	(315)	(69,897)
Others	14,808	2,904
	28,890	17,714

Notes:

- (a) Profit from operations contributed from property investments includes net rental income receivable of \$73,928,000 (1999: \$49,739,000) from the department stores operation.
- (b) Interest income and interest expense directly related to the mortgage servicing business were included in this category for the year ended 31st December, 1999.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

6. Taxation

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

	Group	
	2000	1999
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	19,051	19,584
Overprovision in respect of prior years	(5,696)	(751)
Profits Tax refund relating to prior years	—	(2,977)
	13,355	15,856
Overseas tax charge/(credit)	2,267	(16,110)
Deferred taxation (<i>note 25</i>)	8,030	14,989
	23,652	14,735
Share of associates' taxation	26,579	26,383
	50,231	41,118

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the balance sheets represents:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	19,051	19,584	—	—
Provisional Profits Tax paid	(10,636)	(17,165)	—	—
	8,415	2,419	—	—
Balance of Profits Tax refundable relating to prior years	(259)	(259)	(259)	(259)
Overseas taxation recoverable	(3,352)	(22,852)	—	—
	4,804	(20,692)	(259)	(259)

7. Profit attributable to shareholders

The profit attributable to shareholders includes a loss of \$66,276,000 (1999: loss of \$117,325,000) which has been dealt with in the accounts of the Company.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

8. Appropriations

	2000	1999
	\$'000	\$'000
Interim dividend: Nil		
(1999: 4 cents) per share	–	11,813
Proposed final dividend of 9 cents		
(1999: 4 cents) per share	26,579	11,813
	26,579	23,626

9. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of \$50,280,000 (1999: \$44,401,000) divided by 295,326,000 shares (1999: 295,326,000 shares) in issue during the year.

10. Emoluments of directors, five highest paid individuals and employees

(a) Emoluments of directors

(i) The aggregate emoluments of the directors are as follows:

	2000	1999
	\$'000	\$'000
Fees	420	560
Salaries, allowances and benefits in kind	5,144	5,400
Contributions to pension schemes	93	85
Discretionary bonuses	153	72
	5,810	6,117

(ii) The emoluments of the directors are within the following bands:

\$	Number of directors	
	2000	1999
0 – 500,000	7	5
500,001 – 1,000,000	2	2
1,500,001 – 2,000,000	1	–
2,000,001 – 2,500,000	–	2
2,500,001 – 3,000,000	1	–
	11	9

(iii) Included in the emoluments of directors are emoluments of \$383,000 (1999: \$290,000) received by the independent non-executive directors.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

10. Emoluments of directors, five highest paid individuals and employees (Continued)

(b) Emoluments of five highest paid individuals

- (i) The five highest paid individuals in the Group include two (1999: two) directors whose emoluments are shown in (a)(i) above. The emoluments of the other three (1999: three) individuals who comprise the five highest paid individuals are:

	2000	1999
	\$'000	\$'000
Salaries, allowances and benefits in kind	5,518	6,239
Contributions to pension schemes	195	84
Discretionary bonuses	244	401
	5,957	6,724
	5,957	6,724

- (ii) The above emoluments are analysed as follows:

\$	Number of individuals	
	2000	1999
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	1	1
	3	3
	3	3

(c) Employees' emoluments

The aggregate emoluments of all employees of the Group are as follows:

	2000	1999
	\$'000	\$'000
Salaries, allowances and benefits in kind	194,808	195,639
Contributions to pension schemes	11,839	12,056
Severance payments	296	1,005
Discretionary bonuses	886	1,485
	207,829	210,185
	207,829	210,185

11. Pension schemes

The Group operates Mandatory Provident Fund ("MPF") and a number of MPF exempted defined contribution schemes ("MPF exempted schemes"). Contributions by the Group to the schemes applicable to each year are charged to the profit and loss account for the year. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the relevant employees' salaries which is dependent on their length of service with the Group. The assets of the schemes are held separately from those of the Group in independently administered funds. Forfeited contributions in the MPF are used to reduce the Group's future contributions. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total pension cost of the year was \$11,932,000 (1999: \$12,141,000).

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

12. Fixed assets

(a) The Group

	Land and buildings \$'000	Other assets \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:					
At 1st January, 2000	829,560	552,880	1,382,440	4,063,647	5,446,087
Exchange adjustments	542	2,557	3,099	(266,493)	(263,394)
Additions	120	64,953	65,073	6,003	71,076
Disposals	–	(53,459)	(53,459)	–	(53,459)
Surplus on revaluation	–	–	–	72,639	72,639
	830,222	566,931	1,397,153	3,875,796	5,272,949
	830,222	566,931	1,397,153	3,875,796	5,272,949
Aggregate depreciation and amortisation:					
At 1st January, 2000	99,979	332,451	432,430	–	432,430
Exchange adjustments	534	1,454	1,988	–	1,988
Charge for the year	17,293	57,395	74,688	–	74,688
Written back on disposals	–	(49,912)	(49,912)	–	(49,912)
	117,806	341,388	459,194	–	459,194
	117,806	341,388	459,194	–	459,194
Net book value:					
At 31st December, 2000	712,416	225,543	937,959	3,875,796	4,813,755
At 31st December, 1999	729,581	220,429	950,010	4,063,647	5,013,657

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

12. Fixed assets (Continued)

(a) The Group (Continued)

The analysis of cost or valuation of the fixed assets of the Group are as follows:

	At cost, less provision \$'000	At professional valuation in 2000 \$'000	At directors' valuation in 1981 \$'000	Total \$'000
Land and buildings				
Leasehold land and buildings				
– held under long lease				
in Hong Kong	210,459	–	150,263	360,722
– held under medium term				
lease in Hong Kong	443,401	–	–	443,401
– held under medium term				
lease outside Hong Kong	15,157	–	–	15,157
Freehold land and buildings outside				
Hong Kong	10,942	–	–	10,942
Investment properties				
Long lease				
– in Hong Kong	–	1,608,000	–	1,608,000
– outside Hong Kong	–	90,901	–	90,901
Medium term lease in Hong Kong	–	306,401	–	306,401
Freehold outside Hong Kong	–	1,870,494	–	1,870,494
Other fixed assets	566,931	–	–	566,931
	<u>1,246,890</u>	<u>3,875,796</u>	<u>150,263</u>	<u>5,272,949</u>

(b) In preparing these accounts, advantage has been taken of the provisions set out in paragraph 72 of Statement of Standard Accounting Practice 2.117 “Property, Plant and Equipment” (“SSAP 17”) issued by the Hong Kong Society of Accountants, with the effect that land and buildings have not been revalued to fair value at the balance sheet date.

(c) The carrying amount of land and buildings that would have been included in the accounts had the assets been carried at cost less accumulated depreciation is as follows:

	Group	
	2000 \$'000	1999 \$'000
Cost	764,802	764,140
Accumulated depreciation	(99,874)	(82,266)
Net book value	<u>664,928</u>	<u>681,874</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

12. Fixed assets (Continued)

- (d) Investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis at 31st December, 2000. Investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers, Jones Lang LaSalle Advisory Limited, Registered Valuers, CB Richard Ellis (V) Pty Ltd, Certified Practising Valuers, or Bolton & Baer, Licensed Real Estate Appraisers, on an open market value basis at 31st December, 2000.
- (e) The net book value of fixed assets of the Group includes an amount of \$Nil (1999: \$2,900,000) in respect of assets held under finance leases.
- (f) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.

13. Interest in subsidiaries

	Company	
	2000 \$'000	1999 \$'000
Unlisted shares, at cost	2,801,991	2,801,991
Amounts due from subsidiaries	1,631,836	1,631,051
Dividends receivable	17,490	–
	<u>4,451,317</u>	<u>4,433,042</u>
Amounts due to subsidiaries	(17,710)	(5,824)
	<u>4,433,607</u>	<u>4,427,218</u>
Provision for losses	(361,373)	(276,773)
	<u>4,072,234</u>	<u>4,150,445</u>

Details of the principal subsidiaries are set out on pages 59 to 64.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

14. Interest in associates

	Group	
	2000	1999
	\$'000	\$'000
Unlisted shares		
Share of net assets other than goodwill	356,616	393,262
Discount on acquisition	—	(1,683)
	356,616	391,579
Amounts due from associates less provision	13,152	10,965
	369,768	402,544

- (a) Details of the principal associates are set out on page 65.
- (b) Additional information in respect of the Group's material associate, WL Investments Limited, extracted from its audited accounts, is given as follows:

	2000	1999
	\$'000	\$'000
Operating results		
Turnover	8,533,116	6,991,817
Profit before taxation	147,760	125,849
Profit after taxation	91,209	69,881
	42,868	32,844
Group's share of profit after taxation attributable to the material associate		
Non-current assets	977,690	987,278
Current assets*	1,318,131	1,174,384
	2,295,821	2,161,662
Total assets		
Current liabilities	1,007,410	928,778
Non-current liabilities	504,933	553,575
	1,512,343	1,482,353
Total liabilities		
Net assets	783,478	679,309
	368,235	319,275
Group's share of net assets attributable to the material associate		

* Current assets comprise mainly inventories of motor vehicles.

At the balance sheet date, the Group has an equity interest of 50% in WL Investments Limited ("WL") Group. Due to the existence of a phantom stock plan for the benefit of the WL Group's key employees, the Group's effective share of the results and net assets of the WL Group is 47%.

- (c) The Group disposed of its entire interest in an associate, Seiyu Holdings Pte Ltd ("Seiyu Holdings") during the year for a consideration of \$65.5 million, resulting in a net profit on disposal of \$12.6 million. Seiyu Holdings is incorporated in Singapore and the principal activity of which is investment holding. Prior to the disposal, the Group held 30% equity interest in Seiyu Holdings.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

15. Purchased mortgage servicing rights

	Group	
	2000	1999
	\$'000	\$'000
Cost at 1st January	143,546	146,798
Exchange adjustment	–	468
Write-off and disposals on cessation of mortgage servicing and origination business/disposals (<i>note 3</i>)	(143,546)	(3,720)
Cost at 31st December	–	143,546
Accumulated amortisation at 1st January	137,398	130,557
Exchange adjustment	–	416
Amortisation for the year	–	6,425
Write-back on cessation of mortgage servicing and origination business (<i>note 3</i>)	(137,398)	–
Accumulated amortisation at 31st December	–	137,398
Net book value at 31st December	–	6,148

Purchased mortgage servicing rights represented the rights acquired by a subsidiary for the servicing of mortgage loan portfolios in the United States, which included collecting mortgagor payments, accumulating escrow funds for payment of insurance and taxes and disbursing the funds as such payments fall due, maintaining records relating to the loans and handling delinquency problem. Escrow funds held in trust by the subsidiary, amounting to approximately \$46,561,000 at 31st December, 1999 were placed with banks on non-interest bearing accounts and had been excluded from the balance sheet.

16. Non-trading securities

	Group	
	2000	1999
	\$'000	\$'000
Equity securities		
Listed		
– in Hong Kong, at market value	–	21,484
– outside Hong Kong, at market value	18,212	23,501
	18,212	44,985
Unlisted	107,146	60,121
	125,358	105,106

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

17. Trading securities

	Group	
	2000 \$'000	1999 \$'000
Debt securities		
– listed outside Hong Kong, at market value	108,941	85,664
– unlisted	–	49,417
	108,941	135,081
Equity securities		
Listed		
– in Hong Kong, at market value	51,168	70,117
– outside Hong Kong, at market value	22,739	24,001
	73,907	94,118
	182,848	229,199

18. Inventories

Of the total inventories of \$86,317,000 (1999: \$64,353,000), the amount of inventories carried at net realisable value is \$46,845,000 (1999: \$35,216,000). A general provision of \$3,326,000 (1999: \$2,993,000) has also been made against the inventories at the balance sheet date.

19. Debtors, deposits and prepayments

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Trade and other debtors, net of provision for doubtful debts	30,800	120,783	–	–
Deposits and prepayments	101,545	88,534	212	342
	132,345	209,317	212	342
	132,345	209,317	212	342

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

19. Debtors, deposits and prepayments (Continued)

- (a) The ageing analysis of trade and other debtors, net of provisions for doubtful debts is as follows:

	Group	
	2000	1999
	\$'000	\$'000
Current	28,629	27,085
1 to 3 months overdue	1,370	2,181
More than 3 months overdue	801	709
	30,800	29,975
Debtors relating to mortgage servicing and origination business	–	90,808
	30,800	120,783

Debts are normally due within 30 days from the date of billing.

- (b) All debtors, deposits and prepayments, apart from certain rental deposits of \$33,118,000 (1999: \$38,440,000), are expected to be recovered within one year.

20. Cash and cash equivalents

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Deposits with banks	257,879	274,754	14	–
Cash at bank and in hand	79,734	88,355	263	338
	337,613	363,109	277	338

21. Creditors and accrued charges

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Trade and other creditors	291,371	254,119	–	–
Accrued charges	73,601	77,330	7,036	7,363
	364,972	331,449	7,036	7,363

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

21. Creditors and accrued charges (Continued)

The ageing analysis of trade and other creditors is as follows:

	Group	
	2000 \$'000	1999 \$'000
Amounts not yet due	212,829	179,430
On demand or overdue for less than 1 month	67,141	54,234
1 month to 3 months overdue	5,249	4,674
3 months to 12 months overdue	6,152	8,458
	291,371	246,796
Creditors relating to mortgage servicing and origination business	–	7,323
	291,371	254,119

22. Non-current interest-bearing bank loans

	Group	
	2000 \$'000	1999 \$'000
Bank loans and overdrafts (<i>note 23</i>)		
– secured	1,115,627	1,607,126
– unsecured	2,167	732
	1,117,794	1,607,858
Amounts due within 1 year included under current liabilities	(140,481)	(403,534)
	977,313	1,204,324

23. Bank loans and overdrafts

At 31st December, 2000, the bank loans and overdrafts of the Group were repayable as follows:

	Group	
	2000 \$'000	1999 \$'000
Within 1 year or on demand	140,481	403,534
After 1 year but within 2 years	13,797	13,759
After 2 years but within 5 years	14,922	27,590
Over 5 years	948,594	1,162,975
	977,313	1,204,324
	1,117,794	1,607,858

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

23. Bank loans and overdrafts (Continued)

At 31st December, 2000, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of \$1,620,970,000 (1999: \$1,929,715,000) granted to the Group:

	Group	
	2000	1999
	\$'000	\$'000
Land and buildings	115,216	117,049
Investment properties	3,477,448	3,657,613
Purchased mortgage servicing rights	–	6,148
Trading securities	103,634	125,333
Accounts receivable	–	88,154
Cash at bank	28,269	63,656
	3,724,567	4,057,953

24. Obligations under finance leases

At 31st December, 1999, the Group had obligations under finance leases repayable within one year amounted to HK\$1,510,000. The amount was fully repaid during the year.

25. Deferred taxation

	Group	
	2000	1999
	\$'000	\$'000
Balance at 1st January	32,527	16,527
Exchange adjustments	(4,261)	1,011
Amount charged to profit and loss account (<i>note 6(a)</i>)	8,030	14,989
Disposal on cessation of mortgage servicing and origination business (<i>note 3</i>)	(1,391)	–
	34,905	32,527

The provision for deferred tax is made in respect of timing differences on fixed assets to the extent that a liability is anticipated. The surplus arising on revaluation of investment properties situated in Hong Kong does not constitute a timing difference for tax purposes and the Group has no intention to dispose of its investment properties situated overseas which will give rise to significant tax liabilities. Accordingly, no deferred taxation has been provided on the revaluation surplus of these property interests.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

26. Share capital

	2000	1999
	\$'000	\$'000
Authorised:		
400,000,000 shares of \$0.1 each	<u>40,000</u>	<u>40,000</u>
Issued and fully paid:		
295,326,000 shares of \$0.1 each	<u>29,533</u>	<u>29,533</u>

27. Reserves

(a)

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Investment property revaluation reserve	1,441,511	1,373,592	–	–
Land and building revaluation reserve	204,249	204,249	–	–
Investment revaluation reserve	82,773	38,805	–	–
Exchange reserve	(167,679)	(76,308)	–	–
Other capital reserves	41,931	37,271	–	–
Contributed surplus	754,347	754,347	2,997,350	2,997,350
Retained profits	<u>2,085,296</u>	<u>2,061,595</u>	<u>1,012,484</u>	<u>1,105,339</u>
	<u>4,442,428</u>	<u>4,393,551</u>	<u>4,009,834</u>	<u>4,102,689</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

27. Reserves (Continued)

(a) (Continued)

	Group	
	2000	1999
	\$'000	\$'000
Investment property revaluation reserve		
Balance at 1st January	1,373,592	1,652,834
Surplus/(deficit) on revaluation after minority interests	71,641	(225,588)
Share of revaluation (deficit)/surplus of associates	(3,722)	11,587
Transfer to land and building revaluation reserve (<i>note (c)</i>)	–	(65,241)
Balance at 31st December	1,441,511	1,373,592
Land and building revaluation reserve		
Balance at 1st January	204,249	95,291
Transfer from investment property revaluation reserve and other capital reserve (<i>note (c)</i>)	–	136,466
Decline in value of recoverable amounts of land and building	–	(27,508)
Balance at 31st December	204,249	204,249
Investment revaluation reserve		
Balance at 1st January	38,805	28,019
Surplus on revaluation of non-trading securities	55,005	10,786
Transfer to the profit and loss account on disposal of non-trading securities	(11,037)	–
Balance at 31st December	82,773	38,805

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

27. Reserves (Continued)

(a) (Continued)

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Exchange reserve				
Balance at 1st January	(76,308)	(110,546)		
Exchange differences arising on consolidation	(91,371)	34,238		
	<u>(167,679)</u>	<u>(76,308)</u>		
Balance at 31st December	<u>(167,679)</u>	<u>(76,308)</u>		
Other capital reserves				
Balance at 1st January	37,271	105,002		
Transfer to land and building revaluation reserve (<i>note (c)</i>)	–	(71,225)		
Goodwill realised on liquidation of subsidiary	–	20		
Goodwill realised on cessation of mortgage servicing and origination business	1,194	–		
Goodwill arising on repurchase of shares by associates	–	(1,230)		
Share of increase in capital reserves of associates	3,466	4,704		
	<u>41,931</u>	<u>37,271</u>		
Balance at 31st December	<u>41,931</u>	<u>37,271</u>		
Contributed surplus				
Balance at 1st January and 31st December	<u>754,347</u>	<u>754,347</u>	<u>2,997,350</u>	<u>2,997,350</u>
Retained profits				
Balance at 1st January	2,061,595	2,040,820	1,105,339	1,246,290
Profit/(loss) attributable to shareholders	50,280	44,401	(66,276)	(117,325)
Dividends	(26,579)	(23,626)	(26,579)	(23,626)
	<u>2,085,296</u>	<u>2,061,595</u>	<u>1,012,484</u>	<u>1,105,339</u>
Balance at 31st December	<u>2,085,296</u>	<u>2,061,595</u>	<u>1,012,484</u>	<u>1,105,339</u>

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

27. Reserves (Continued)

- (b) The capital reserves, exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries, associates, foreign currency translation and the revaluation of investment properties and investments in securities (note 1).
- (c) The revaluation reserve on land and buildings arose when a portion of the properties under development completed in 1999 was determined to be used by the Group in department stores operation. The relevant portion of revaluation surpluses and deficits which had arisen on a portfolio basis in previous years had been transferred from the investment property revaluation reserve to the land and building revaluation reserve. Under paragraph 23 of SSAP 17, on the retirement or disposal of the property, such revaluation reserve will be transferred directly to retained profits and not recognised through the profit and loss account.
- (d) Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained profits, under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

- (e) The Group's share of the post acquisition accumulated reserves of associates is as follows:

	2000	1999
	\$'000	\$'000
Investment property revaluation reserve	51,238	54,960
Other capital reserves	25,064	21,599
Retained profits	188,703	97,508
	<u>265,005</u>	<u>174,067</u>

28. Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of \$1,198,091,000 (1999: \$1,391,357,000), of which \$1,034,266,000 (1999: \$1,268,963,000) were utilised at 31st December, 2000.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

29. Commitments

(a) Capital commitments

Group capital commitments at 31st December, 2000 not provided for in the accounts were as follows:

	2000	1999
	\$'000	\$'000
Authorised and contracted for	2,274	7,710
Authorised but not contracted for	—	46,343
	<u>2,274</u>	<u>54,053</u>

(b) Commitments under operating leases

At 31st December, 2000, the Group had commitments under operating leases relating to land and buildings to make payments in the next year as follows:

	2000	1999
	\$'000	\$'000
Leases expiring:		
Within 1 year	8,386	3,375
After 1 year but within 5 years	86,372	131,831
After 5 years	12,179	11,600
	<u>106,937</u>	<u>146,806</u>

30. Related party transactions

Material related party transactions are as follows:

- (a) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to \$3,165,000 (1999: \$3,689,000) during the year. The amounts had been fully settled by the balance sheet date.
- (b) The Company reimbursed a fellow subsidiary for the sharing of office space and facilities. Reimbursement payable to this fellow subsidiary amounted to \$144,000 (1999: \$240,000) during the year. The amount had been fully settled by the balance sheet date.
- (c) A fellow subsidiary, engaging in securities practice, deals in securities for certain subsidiaries of the Group. Commission of \$119,000 (1999: \$81,000) was payable to the fellow subsidiary during the year. The amounts due from the fellow subsidiary at 31st December, 2000 amounted to \$2,973,000 (1999: \$15,722,000).
- (d) Pursuant to an agreement between a subsidiary, which was engaged in mortgage servicing business in the United States, and its investee company, the investee company subserviced the loans for which the subsidiary owned the servicing rights. The subsidiary paid a fee to this investee company equal to the actual net operating expenses incurred by the investee company as a subservicer for the subsidiary, plus a negotiated profit. Total subservicing fees paid for in 1999 amounted to \$25,104,000. In 1999, the subsidiary purchased first mortgages from this investee company at par, plus accrued interest and advances, amounting to \$3,764,000.

NOTES ON THE ACCOUNTS

(Continued)

(Expressed in Hong Kong dollars)

31. Ultimate holding company

The directors consider the ultimate holding company at 31st December, 2000 to be Kee Wai Investment Company, Limited, which is incorporated in Hong Kong.