Notes to the Financial Statements

Note 1 Significant Accounting Policies

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and certain fixed assets.

b) Basis of consolidation

(i) The consolidated financial statements include the audited financial statements of the Company and all its subsidiaries made up to 31st December each year.

(ii) Results of subsidiaries acquired or disposed of during the year are included from the dates of acquisition or up to the dates of disposal respectively. All material inter-company transactions have been eliminated on consolidation.

c) Goodwill or capital reserve

Goodwill or capital reserve arising on consolidation represents the excess or deficit of cost of investment over the fair value of the attributable net assets of subsidiaries, associates and jointly controlled entities at the respective acquisition dates. Goodwill is charged to reserve in the year in which it arises. In calculating the profit or loss on disposal of interests in subsidiaries, associates and jointly controlled entities, attributable goodwill previously eliminated against reserve will be reinstated.

d) Subsidiaries

A company is a subsidiary if more than 50% of the issued voting capital is held long-term or if the composition of the board of directors is controlled by the Group. The results of subsidaries are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in subsidiaries are carried at cost less provision for any permanent diminution in value.

e) Associates

An associate is an enterprise, other than a subsidiary or a joint venture, in which the Group's interest is held long-term and has significant influence including participation in financial and operation policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in associates are stated at cost less provision for any permanent diminution in value.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and at least one other party undertake an economic activity which is subject to joint control and none of the parties involved unilaterally has control over the economic activity.

(i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long-term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

The consolidated profit and loss account reflects the Group's share of the post-acquisition results of operations of the jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the jointly controlled entities. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in jointly controlled entities are stated at cost less provision for any permanent diminution in value.

(ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers is recognised in the balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

g) Revenue recognition

Major categories of revenue are recognised in the financial statements on the following bases:

Revenue from the sale of fuel is recognised upon delivery to the customer. Revenues from ship passenger operations are recognised upon the departure of each trip of vessel. Revenues from club operations and repairing services are recognised upon provision of services. Management fees, rental income, subsidies from travel services and interest income are recognised on the accrual basis. Dividend income is recognised when the right to receive payment is established. Revenue and profit from sale of completed properties are recognised upon execution of the sale agreements. Revenue and profit on properties under development are recognised under a percentage of completion method when construction has progressed beyond the preliminary stages. The percentage used being the proportion of construction costs incurred at the balance sheet date to estimated total construction costs. Profit recognised on this basis is limited to the amount of sale proceeds received.

h) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work has been completed and are intended to be held for long-term rental income generating purposes. Investment properties are stated at their open market values based on an annual professional valuation at the balance sheet date. Surpluses arising on revaluations are credited to the investment property revaluation reserve account and deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter taken to the profit and loss account on a portfolio basis. Any subsequent revaluation surpluses are credited to the profit and loss account to the extent of the deficits previously charged. On disposal of an investment property, related revaluation surpluses or deficits previously taken to the revaluation reserve account are transferred to the profit and loss account.

(ii) Other assets

Land and buildings are stated at cost or directors' valuation less depreciation. Surplus on revaluation is transferred to capital reserve account. The Group has placed reliance on the provision as permitted by paragraph 72 of SSAP 17 and therefore regular revaluations on land and buildings stated at valuation are not made.

Vessels and other fixed assets are stated at cost less depreciation and provision for diminution in value, where appropriate.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets. Where in the opinion of the directors the recoverable amounts of the assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows.

The gain or loss arising from the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserve.

(iii) Depreciation

No amortisation or depreciation is provided on investment properties with an unexpired lease of over 20 years or property held on freehold since the valuation takes into account the state of each building at the date of valuation. Investment properties with an unexpired lease of 20 years or less are depreciated over the remaining term of the lease.

Land held on long-term, medium-term or short-term lease is amortised over the unexpired term of the lease. Buildings are depreciated on a straight line basis over 50 years or the remaining term of the lease, if shorter.

Vessels and other fixed assets are depreciated over their anticipated useful lives on a straight line basis as follows:

	Annual rates
Vessels and pontoons	5% – 16.7%
Other assets	2.5% – 33.3%

i) Investments in securities

Investments in securities are long-term investments other than subsidiaries, associates and jointly controlled entities and are accounted for as follows:

Investments in securities are classified as held-to-maturity securities and investment securities and are recognised as assets from the date on which the Group is bound by the contract which gives rise to them.

The profit or loss on disposal is accounted for in the period in which the disposal occurs as the difference between the sale proceeds and the carrying amount of the investments.

(i) Held-to-maturity securities

Held-to-maturity securities are investments in debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at amortised cost less any provisions for impairment loss. Held-to-maturity securities, with the maturity dates within twelve months of the balance sheet date, are classified as current assets.

Provisions are made and recognised immediately as an expense when carrying amounts are not expected to be fully recovered, but are written back to the profit and loss account when the circumstances and events that lead to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back is limited to the amount of the write-downs or write-offs.

(ii) Investment securities

Investment securities are securities which are intended to be held on a continuing basis, and which are held for an identified long-term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose.

Investment securities are included in the balance sheet at cost less provision for diminution in value which is other than temporary. Such provision is determined for each investment individually. Provisions are recognised as an expense immediately and are written back to the profit and loss account when the circumstances and events that lead to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back is limited to the amount of the write-downs or write-offs.

j) Properties for / under development

Properties held for / under development for long-term purposes are shown as fixed assets and are stated at cost less provision for any permanent diminution in value. No depreciation is provided on properties held for / under development. Properties held for / under development are included under current assets when they are developed for sale and are stated at cost less provision for any anticipated losses. Cost includes cost of land and development, construction expenditure incurred and attributable finance costs capitalised during the development period.

k) Stock of completed properties

Completed properties remaining unsold at year end are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by management estimates based on prevailing market conditions.

l) Convertible guaranteed bonds

Convertible guaranteed bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs, including the premium payable upon the final redemption of the convertible guaranteed bonds, are recognised in the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the convertible guaranteed bonds for each accounting period.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, comprising purchase cost from suppliers, is determined on first-in-first-out basis and on the weighted average method. In the case of work-in-progress, cost comprises direct material, labour and overheads attributable to bringing the work-in-progress to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

n) Trade debtors

Provision is made against trade debtors to the extent that they are considered to be doubtful. Trade debtors in the balance sheet are stated net of such provision.

o) Cash equivalents

Cash equivalents are defined as short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

p) Deferred items

Deferred items comprise reimbursement of the reinstatement cost and compensation received from the SAR Government and are credited to the profit and loss account on the same basis as the related assets are depreciated and amortised.

q) Deferred tax

Deferred tax is provided using the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

r) Operating leases

Rental income and expenses under operating leases are credited or charged to the profit and loss account on a straight line basis over the terms of the leases.

s) Capitalisation of borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the construction or production of assets which necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of such borrowing costs begins when construction or production activities commence and ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate for the year is based on the cost of the related borrowings less related interest income.

t) Foreign currencies

Monetary assets and liabilities in foreign currencies and the financial statements of overseas subsidiaries, associates and joint ventures are translated into Hong Kong dollars at approximately the market rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Exchange differences arising from translation of financial statements of overseas subsidiaries, associates and joint ventures are dealt with as a movement in reserve. All other exchange differences are included in the determination of operating profit.

u) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Note 2 Turnover and Revenue

The Group is principally engaged in the businesses of properties development and investment, shipping and related services, hospitality, property management and other investments.

	Group	
(HK$'000)	**2000**	1999
Turnover		
Revenue from presold properties under development	**1,712,498**	1,599,988
Revenue from ship passenger operations	**1,373,469**	1,114,823
Revenue from sale of fuel	**7,704**	23,677
Revenue from club operations	**44,695**	–
Interest income	**52,385**	46,450
Rental income	**22,502**	22,455
Dividends from unlisted investments	**14,693**	7,970
Management fees and others	**68,032**	67,831
	3,295,978	2,883,194
Other revenues		
Compensation received in respect of a property joint venture project in Mainland China	**–**	33,071
Claims received	**1,009**	14,899
Others	**37,762**	9,954
	38,771	57,924
Total	**3,334,749**	2,941,118

The consolidated turnover by segment is shown in Group Financial Review Section on pages 32 to 35.