

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. 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 and hotel 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 March 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 of subsidiaries acquired, is charged to capital reserve. The excess of the fair value of the Group's share 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 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) Investments 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.

Investments in subsidiaries in the Company's balance sheet are 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Associates

An associate is an entity 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 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. Goodwill arising on the acquisition of an associate, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is charged to capital reserve. The excess of the Group's share of the fair value of the separable net assets acquired over the cost of investments is credited to capital reserve.

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 associate, 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.

On disposal of an associate during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

The results of the associates are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Investments in securities

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

- (i) Non-trading securities are stated in the balance sheets at fair value. Changes in fair value are recognised in the non-trading 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 non-trading securities revaluation reserve to the profit and loss account.

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Investments in securities (Cont'd)

- (ii) Transfers from the non-trading 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 non-trading securities revaluation reserve in respect of that security.

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
 - hotel properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and
 - other fixed assets are stated in the balance sheet at cost less accumulated depreciation.
- (ii) Changes arising on the revaluation of investment properties and hotel properties are generally dealt with in reserves. 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 that same asset, or, solely in the case of investment properties, 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 that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) The carrying amount of fixed assets (other than investment properties and hotel properties with an unexpired lease term of more than 20 years) 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 recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Fixed assets (Cont'd)

(iii) (Cont'd)

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) 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 properties revaluation reserve is also transferred to the profit and loss account for the year. For hotel property, any related revaluation surplus is transferred from the capital reserve to retained profits.

(h) Depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) No depreciation is provided on hotel properties, including their integral fixed plant, with an unexpired lease term of over 20 years. It is the Group's practice to maintain the hotel properties in such condition that the residual value is such that depreciation would be insignificant.

(iii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives as follows:

- leasehold land is depreciated on a straight-line basis over the remaining term of the lease;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases; and
- Other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Golf course and club house	40 years
Machinery, furniture, fixtures and equipment	4 - 10 years

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Properties under development

Properties under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses less any provisions considered necessary by the directors.

(j) 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) Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease.
- (ii) Revenue arising from properties held for resale is recognised upon the signing of the sale and purchase agreements or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheets under sales and rental deposits received.
- (iii) Income from hotel, food and beverage and travel operations and from management services is recognised when the relevant services are provided.
- (iv) Dividend income from unlisted investments other than associates is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (v) Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(k) Inventories

(i) Consumable stores

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

Cost is calculated using the first-in-first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

1 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(k) Inventories *(Cont'd)*

(i) Consumable stores (Cont'd)

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.

(ii) Properties held for resale

Properties held for resale are stated at the lower of cost and the estimated net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(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 results of overseas subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; the balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Retirement costs

(i) Defined contribution scheme

Contributions to the scheme are expensed as incurred and are reduced by forfeited contributions arising from employees who leave the scheme prior to becoming fully vested in the employer's contributions.

(ii) Defined benefit scheme

The scheme is non-contributory and is for the provision of gratuities to employees who joined the Company prior to 1969. The cost of the scheme is charged to the profit and loss account as and when the Company's contributions fall due, as determined by qualified actuaries on the basis of periodic valuation of the assets and liabilities of the scheme.

(iii) Mandatory Provident Fund scheme

Contribution to the scheme are charged to the profit and loss account as and when incurred.

(o) Long service payments

Long service payments are provided in accordance with Part VB of the Employment Ordinance based on the employees' service to date and current salary level for those employees who satisfy all the following requirements at the balance sheet date:

- aged over 65 or more;
- have been employed by the Group for at least 5 years; and
- have not joined the Group's retirement schemes.

No provision is made for employees who do not satisfy the above requirements.

(p) 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 construct for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Repairs and maintenance costs

Repairs and maintenance costs are expensed in the profit and loss account in the period in which they are incurred.

(r) 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.

(s) 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 consolidated cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of advance.

2 TURNOVER AND SEGMENTAL INFORMATION

The principal activities of the Company are investment holdings and property investment. The principal activities of the subsidiaries are set out in note 13 on the accounts.

An analysis of the Group's turnover and operating profit during the financial year are as follows:

	Group turnover		Contribution to profit from operations	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Principal activities				
Property rental	364,144	374,561	270,412	273,734
Property sales	70,288	38,216	1,422	23,156
Hotel ownership and management	305,585	262,877	121,893	88,319
Food and beverage operation	138,891	133,646	374	(2,700)
Travel operation	354,603	366,191	(4,675)	(10,873)
Other activities	4,403	4,492	7,680	8,181
	<u>1,237,914</u>	<u>1,179,983</u>	<u>397,106</u>	<u>379,817</u>
Other group expenses net of other income			<u>(58,624)</u>	<u>(56,348)</u>
			<u>338,482</u>	<u>323,469</u>

During the year, more than 90 per cent of the operations of the Group in terms of both turnover and operating profit were derived from its operations in Hong Kong.

3 INCOME

	2001 \$'000	2000 \$'000
Other revenue		
Dividend from non-trading securities	336	-
Interest income	3,739	3,359
Forfeited deposits	307	20,687
Waived loan (note)	19,736	-
Sundry income	17,563	14,665
	<u>41,681</u>	<u>38,711</u>

Note: During the year, an amount of \$39,359,000 advanced by a minority shareholder of a subsidiary company was settled in full for \$19,623,000. The balance of \$19,736,000 waived represents a gain by the subsidiary for the early settlement of this advance and is included in the consolidated profit and loss account as other revenue. The Group's share of the gain amounted to \$10,136,000.

	2001 \$'000	2000 \$'000
Other net income/(loss)		
Loss on disposal of fixed assets	(1,898)	(128)
Gain on disposal of investment properties	-	1,250
Gain on disposal of properties under development	5,017	3,656
Gain on disposal of subsidiaries	1,903	-
Gain on disposal of an associate	135	-
	<u>5,157</u>	<u>4,778</u>

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2001 \$'000	2000 \$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	139,298	142,947
Other borrowing costs	<u>4,210</u>	<u>3,527</u>
Total borrowing costs	143,508	146,474
Less: Borrowing costs capitalised into properties under development* (note 12)	<u>(4,225)</u>	<u>(2,902)</u>
	<u><u>139,283</u></u>	<u><u>143,572</u></u>
* Borrowing costs have been capitalised at a rate of 8% (2000: 7%) per annum for properties under development.		
(b) Other items:		
Auditors' remuneration	2,565	2,306
Exchange gain	(1,136)	(1,108)
Rentals receivable from investment properties less outgoings of \$45,432,000 (2000: \$45,287,000)	<u>(318,712)</u>	<u>(329,274)</u>