

Notes to the accounts

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” and Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31 December, 2000 except the method of accounting for goodwill/negative goodwill, planned maintenance, proposed dividend and segment reporting as described below.

(a) Goodwill/negative goodwill

In prior years, goodwill/negative goodwill arising on consolidation, representing the excess/shortfall of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, is taken to reserves in the year in which it arises. On disposal of a subsidiary or an associate, the attributable amount of goodwill/capital reserve is included in calculating the profit or loss on disposal.

With effect from 1 January, 2001, with the introduction of SSAP 30 “Business Combinations”, the Group adopted an accounting policy to recognise goodwill as an asset and is amortised on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account.

On disposal of a subsidiary or an associate, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

The above changes have no financial impact on the Group since the Group has no goodwill arising on consolidation prior to 1 January, 2001 and during the current period.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Planned maintenance

In prior years, the Group operated a planned maintenance scheme for its hotel which projected future maintenance requirements over a period of years. Within this scheme actual costs and/or projected costs of ensuing four year periods as estimated by the Group were equalised by annual provisions in the profit and loss account. With effect from 1 January, 2001, maintenance costs are expensed in the profit and loss account in the year in which they are incurred in accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets". The accounting policy has been adopted retrospectively. In adjusting prior years' figures, revenue reserves as at 1 January, 2001 were restated and increased by HK\$63.2 million representing the reversal of the previous provisions for planned maintenance.

As a result of the adoption of SSAP 28 and restating the prior years' results and reserves, the Group's profit for the period attributable to shareholders and shareholders' funds at 30 June, 2001 have increased by HK\$4.2 million (2000: HK\$5.3 million) as a net result of not making planned maintenance provision and writing off the actual maintenance costs incurred during the period.

(c) Proposed dividend

In prior years, dividend proposed after balance sheet date was accrued as liabilities at the balance sheet date. With effect from 1 January, 2001, the dividend proposed after balance sheet date is shown as a separate component of shareholders' funds in accordance with revised SSAP 9 "Events after the Balance Sheet Date" issued by the Hong Kong Society of Accountants. The new accounting policy has been adopted retrospectively. In adjusting prior years' figures, shareholders' funds as at 1 January, 2001 were restated and increased by HK\$37.8 million representing the proposed final dividend for the year ended 31 December, 2000.

As a result of the adoption of SSAP 9 and restating the prior years' reserves, the Group's shareholders' funds at 30 June, 2001 have increased by HK\$15.8 million (2000: HK\$15.8 million).

(d) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Inter-segment pricing is based on similar terms as those available to other external parties.

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26 "Segment Reporting". In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

2. REVENUE AND OPERATING PROFIT

(a) Segment information

Analysis of the Group's revenue and operating profit by business segments and geographical segments for the six months ended 30 June is as follows:

	Revenue		Operating Profit	
	30/6/2001	30/6/2000	30/6/2001	30/6/2000
	HK\$	HK\$	HK\$	HK\$
	Million	Million	Million	Million
Business segments				
Hotel and restaurants	150.2	153.1	35.9	43.8
Investment property	28.1	31.3	22.9	26.5
Investment and others	34.1	21.4	23.1	1.4
	212.4	205.8	81.9	71.7
Geographical segments				
Hong Kong	199.2	195.5	68.7	61.4
Singapore	13.2	10.3	13.2	10.3
	212.4	205.8	81.9	71.7

No inter-segment revenue was recorded during the periods.

(b) Operating profit is arrived at after charging:

	30/6/2001	30/6/2000
	HK\$	HK\$
	Million	Million
Cost of inventories sold	15.1	15.4
Depreciation	3.6	3.2
Staff costs	51.2	47.5
Loss on disposal of investments	1.9	-
Auditors' remuneration	0.2	0.3
and after crediting:		
Gross rental income from investment properties	26.5	29.9
Less: direct outgoings	(3.8)	(3.7)
	22.7	26.2
Profit on disposal of investments	-	1.1
Interests on bank deposits	19.0	7.5
Dividend income from listed securities	15.1	12.8

3. BORROWING COSTS

	30/6/2001	30/6/2000
	HK\$	HK\$
	Million	Million
Interest paid on bank loan due within one year	15.9	8.9
Less: Amount deferred	-	(1.4)
Net borrowing costs	15.9	7.5

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16.0% (2000: 16.0%) on the estimated assessable profit for the period.

	30/6/2001	30/6/2000
	HK\$	HK\$
	Million	Million
Company and subsidiaries		
Hong Kong profits tax	6.5	8.4

5. PROPOSED INTERIM DIVIDENDS

	30/6/2001	30/6/2000
	HK\$	HK\$
	Million	Million
Proposed interim dividends of 5.0 cents (2000: 5.0 cents) per share	15.8	15.8

6. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings for the period of HK\$63.6 million (2000: HK\$59.4 million) and on 315.0 million (2000: 315.0 million) ordinary shares in issue during the period. For the period under review and the preceding comparative period, there is no difference between the basic and diluted earning per share.

7. DEBTORS

Included in debtors are trade debtors (net of provision for bad and doubtful debts) and their age analysis as at 30 June, 2001 as follows:

	30/6/2001	31/12/2000
	HK\$	HK\$
	Million	Million
Due within 30 days	11.2	15.2
Due after 30 days but within 60 days	3.8	3.5
Due after 60 days but within 90 days	1.6	1.0
Over 90 days	2.3	0.2
	<u>18.9</u>	<u>19.9</u>

The Group has a defined credit policy, the general credit terms allowed range from 0 to 60 days.

8. CREDITORS

Included in creditors are trade creditors and their age analysis as at 30 June, 2001 as follows:

	30/6/2001	31/12/2000
	HK\$	HK\$
	Million	Million
Due within 30 days	10.7	14.1
Due after 30 days but within 60 days	0.7	-
	<u>11.4</u>	<u>14.1</u>

9. SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

10. RESERVES

Extracts from reserves are movements of the investment securities revaluation reserve and revenue reserves for the six months ended 30 June, 2001 as shown below:

The Group	Investment Securities Revaluation Reserve	Revenue Reserves
(a) Company and subsidiaries	HK\$ Million	HK\$ Million
Balance at 1 January, 2001	(271.2)	1,664.1
Prior year adjustment	-	63.2
Restated	(271.2)	1,727.3
Transferred to profit and loss account on disposal of investment in securities	3.0	-
Revaluation deficit		
- Investment in securities	(129.6)	-
Profit attributable to shareholders	-	59.5
Proposed dividend	-	(15.8)
Balance at 30 June, 2001	<u>(397.8)</u>	<u>1,771.0</u>
 (b) Associates		
Balance at 1 January, 2001	7.7	16.7
Revaluation deficit		
- Investment in securities	(6.1)	-
Profit attributable to shareholders	-	4.1
Balance at 30 June, 2001	<u>1.6</u>	<u>20.8</u>
At 30 June, 2001	<u>(396.2)</u>	<u>1,791.8</u>
At 31 December, 2000 (Restated)	<u>(263.5)</u>	<u>1,744.0</u>

11. MATERIAL RELATED PARTY TRANSACTIONS

The Group has a management agreement with a subsidiary of the ultimate holding company in respect of the management of hotel operations and the fee payable during the period ended 30 June, 2001 amounted to HK\$8.6 million (2000: HK\$9.0 million) which included management fee of HK\$6.5 million (2000: HK\$6.9 million) and marketing fee of HK\$2.1 million (2000: HK\$2.1 million). The management fee includes a basic fee and an incentive fee which is calculated based on 3% and 5% of gross revenue and gross operating profit respectively. The marketing fee is calculated based on 1.5% of gross revenue. Such transactions also constitute connected transactions as defined under the Listing Rules, but are exempted under paragraph 14.24(2) thereof from the relevant requirements relating to connected transactions.

12. COMMITMENTS

Capital commitments for property, plant and equipment

	Group	
	30/6/2001	31/12/2000
	HK\$	HK\$
	Million	Million
Contracted but not provided for	6.4	2.9
Authorised but not contracted for	2.6	2.3
	9.0	5.2

13. CONTINGENCIES

The Company, together with its ultimate holding company, The Wharf (Holdings) Limited (“Wharf”), the principal shareholder of Wharf and two subsidiaries thereof (together “joint venturers”), have jointly and severally guaranteed the performance and observance of the terms under an agreement for a property development project undertaken by an associate (“project company”). The joint venturers also severally guaranteed loan facilities granted to the project company. The amount attributable to the Company is HK\$680.0 million (2000: HK\$440.0 million).

14. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the current period’s presentation. Certain comparative figures have also been adjusted as a result of changes in accounting policies for planned maintenance, proposed dividend and segment reporting in order to comply with SSAP 28, 9 and 26 respectively, details of which are set out in Note 1.

15. The unaudited interim accounts for the six months ended 30 June, 2001 have been reviewed by the audit committee of the Company.