

Notes on the Unaudited Interim Financial Report

1. BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”), except that they have not reviewed the comparative information relating to the six months ended 30 June 2000. KPMG’s independent review report to the board of directors is included on page 26.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA, except that comparative figures for the condensed cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 16 March 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report except for the changes in accounting policies as explained in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

During 2001, the Group adopted SSAP 9 (revised) “Events after the balance sheet date”, SSAP 17 (revised) “Property, plant and equipment” and SSAP 28 “Provisions, contingent liabilities and contingent assets” issued by the HKSA.

(a) SSAP 9 (revised) “Events after the balance sheet date”

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) “Events after the balance sheet date”, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in case of interim dividends) or approved by the shareholders (in case of final dividends).

As a result of this new accounting policy, the Group’s net assets at 30 June 2001 have been increased by HK\$28,503,000 (at 31 December 2000: HK\$71,254,000). There is no impact on the Group’s profit attributable to shareholders for the periods presented. This new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

2. CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) SSAP 17 (revised) "Property, plant and equipment"

The adoption of SSAP 17 (revised) has resulted in "properties under development" transferred previously from "property, plant and equipment" being restated at cost less provision for diminution in value. In prior years, these properties were stated at carrying value less provision for diminution in value. This change has been accounted for retrospectively by adjusting the opening balance of "properties under development" and "other property revaluation reserve" and restating comparatives.

(c) SSAP 28 "Provisions, contingent liabilities and contingent assets"

In prior years, an annual provision based on the projected maintenance cost of hotel properties for the next five years under the planned maintenance scheme was charged to the profit and loss account. With effect from 1 January 2001, the Group adopted the accounting policy as set out below in order to comply with SSAP 28 "Provisions, contingent liabilities and contingent assets".

Under SSAP 28, provisions are recognised for liabilities of uncertain timing or amount when (i) the Group has a legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. The financial impact of adopting SSAP 28 is immaterial and therefore neither adjustment to the opening balance of retained profits nor restatement of comparative information has been made.

(d) The changes in accounting policies described in (a) and (b) above had the following impact on the opening balances of "properties under development", "other property revaluation reserve" and "retained profits" at 1 January 2001:

| | Properties under development | | Other property | Retained profits |
|---|---------------------------------|---------------------------|---------------------------------|------------------|
| | Held for investment HK\$'000 | Held for sale HK\$'000 | revaluation reserve HK\$'000 | |
| Balance at 1 January 2001 as previously reported | 653,553 | 2,956,941 | 1,590,477 | 389,902 |
| Impact of adopting SSAP 9 (revised) | — | — | — | 71,254 |
| Impact of adopting SSAP 17 (revised) | <u>(177,029)</u> | <u>(610,067)</u> | <u>(787,096)</u> | <u>—</u> |
| Balance at 1 January 2001 as restated | <u>476,524</u> | <u>2,346,874</u> | <u>803,381</u> | <u>461,156</u> |

3. SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, and are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group enterprises within a single segment.

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's turnover and profit from operations were derived from activities outside Hong Kong.

The Group is currently organized into three main operating segments, Property development and investment, Ferry, shipyard and related operations, and Travel and hotel operations.

3. SEGMENTAL REPORTING (cont'd)

The segmental information for the six months ended 30 June 2001 and 2000 about these business segments is presented below:

(a) Segmental Turnover

| | Total turnover | | Inter-segment turnover | | Turnover from external customers | |
|--|--------------------------|------------------|--------------------------|------------------|----------------------------------|------------------|
| | Six months ended 30 June | | Six months ended 30 June | | Six months ended 30 June | |
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Continuing operations | | | | | | |
| Property development and investment (note c) | 907,088 | 404,366 | 1,384 | 1,950 | 905,704 | 402,416 |
| Ferry, shipyard and related operations | 78,342 | 89,410 | 515 | 356 | 77,827 | 89,054 |
| Travel and hotel operations | 60,196 | 59,364 | 3 | 257 | 60,193 | 59,107 |
| Others (note d) | 2,487 | 2,347 | — | — | 2,487 | 2,347 |
| | <u>1,048,113</u> | <u>555,487</u> | <u>1,902</u> | <u>2,563</u> | <u>1,046,211</u> | <u>552,924</u> |
| Discontinued operations | | | | | | |
| Passenger ferry operation | — | 9,707 | — | — | — | 9,707 |
| Wholesale operation | — | 30,209 | — | 143 | — | 30,066 |
| | <u>—</u> | <u>39,916</u> | <u>—</u> | <u>143</u> | <u>—</u> | <u>39,773</u> |
| | <u>1,048,113</u> | <u>595,403</u> | <u>1,902</u> | <u>2,706</u> | <u>1,046,211</u> | <u>592,697</u> |

3. SEGMENTAL REPORTING (cont'd)

(b) Segmental Result

| | Profit/(loss) from operations Six months ended 30 June | |
|---|---|-----------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Continuing operations | | |
| Property development and investment (note c) | 248,061 | 126,137 |
| Ferry, shipyard and related operations (note 4) | 15,677 | 6,505 |
| Travel and hotel operations | 4,031 | 3,330 |
| Others (note d) | (1,978) | 1,325 |
| | <u>265,791</u> | <u>137,297</u> |
| Discontinued operations | | |
| Passenger ferry operation (note 4) | 7,012 | (21,884) |
| Wholesale operation | — | (2,629) |
| | <u>7,012</u> | <u>(24,513)</u> |
| | <u><u>272,803</u></u> | <u><u>112,784</u></u> |

- (c) Included in the segmental turnover and segmental result of the property development and investment operations were the proceeds, being the third and final instalment, from the disposal of the right to 50% of the sales proceeds of the domestic portion of the redevelopment referred to in note 18 of HK\$900,000,000 and the profits derived from the subject disposal of HK\$294,218,000 respectively.

The segmental result of the property development and investment operations also included impairment loss in respect of the shipyard property of HK\$41,224,000.

- (d) "Others" mainly comprise financial and investment income and corporate expenses.