NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1 PRINCIPAL 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 principal 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.

(c) BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of Grand Hotel Holdings Limited and its subsidiaries made up to 30 June each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively. All material intercompany transactions are eliminated on consolidation.

(d) 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.

In the Company's balance sheet, investments in subsidiaries 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 income statement.

(e) JOINTLY CONTROLLED ENTITIES

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

The Group's interests in jointly controlled entities are accounted for in the consolidated accounts under the equity method and 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 consolidated income statement reflects the Group's share of the post-acquisition results of operations of the jointly controlled entities for the year.

In the Company's balance sheet, interests in jointly controlled entities are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each jointly controlled entity individually. The results of jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable at the balance sheet date.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) CAPITAL RESERVE OR GOODWILL ON CONSOLIDATION

Capital reserve or goodwill arising on consolidation represents the excess or deficit respectively of the fair value of the separable net assets of the subsidiaries and jointly controlled entities at the respective acquisition dates over the value of the consideration paid. Goodwill is written off directly to reserves in the year in which it arises. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of capital reserve or goodwill is included in the calculation of the profit or loss on disposal.

(g) FIXED ASSETS

1. Fixed assets are stated at cost less accumulated depreciation.
2. Where the Group leases out fixed assets under operating leases, the assets are included in the consolidated balance sheet according to their nature and, where applicable, are depreciated in accordance with the depreciation policies, as set out in accounting policy 1(h) below. Rental receivable arising from operating leases is recognised in accordance with accounting policy 1(k) below.

(h) DEPRECIATION

1. Hotel properties

No depreciation is provided in respect of hotel properties with an unexpired lease term of over 20 years. It is the Group's policy to maintain the hotel properties in such condition that their value is not diminished by the passage of time and the related expenditure is charged to the consolidated income statement in the year in which it is incurred so that any element of depreciation would be immaterial.

2. Other property and fixed assets

Depreciation on other property and fixed assets is provided so as to write off their costs on a straight line basis over their estimated useful lives as follows:

Other property	20 years
Leasehold improvements, furniture and fixtures	10 years
Motor vehicles and equipment	5 years
Other operating equipment	3 years

(i) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is computed on a first-in first-out basis. Net realisable value is determined by reference 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 consolidated income statement as follows:

1. Hotel revenue

Revenue from hotel operations is recognised when services are rendered.

2. Interest income

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

3. Dividends

Dividends are recognised when the right to receive payment is established.

(k) OPERATING LEASES

Rental receivable and payable under operating leases is accounted for on a straight line basis over the terms of the respective leases. Contingent rent receivable is recognised as income in the consolidated income statement in the accounting period in which it is earned. Contingent rent payable is charged to the consolidated income statement in the accounting period in which it is incurred.

(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 rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

(n) RELATED PARTIES

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.

2 TURNOVER AND PROFIT BEFORE TAXATION

The principal activities of the Company are investment holding and, through its subsidiaries, hotel owning and management.

As the majority of the activities of the Group during the year were carried out in Hong Kong, a geographical analysis of turnover and profit before taxation is not included.

An analysis of the Group's turnover and profit before taxation from the principal activities is as follows:

	Group	
	2001	2000
	$Million	$Million
(a) Turnover		
Hotel operations	**271.9**	255.5
Interest income	**9.2**	8.7
	281.1	264.2
(b) Profit before taxation		
Hotel operations	**83.4**	62.4
Interest income	**9.2**	8.7
	92.6	71.1
Less: Administrative expenses	**(18.9)**	(19.7)
	73.7	51.4

3 PROFIT FROM OPERATIONS

	Group 2001 $Million	Group 2000 $Million
Profit from operations is arrived at after charging:		
Staff costs	**135.0**	139.0
Cost of inventories	**16.1**	18.6
Depreciation	**15.1**	15.1
Auditors' remuneration	**1.2**	1.3
Lease payments in respect of land and building under operating lease	**8.0**	8.0
and after crediting:		
Other revenue — management fees	**10.7**	11.7

4 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Directors' emoluments disclosed pursuant to Sections 161 and 161A of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001	2000
	$Million	$Million
Fees		
Independent Non-Executive Directors	**0.1**	0.1
Other directors	**0.1**	0.1
	0.2	0.2

Directors are not salaried employees of the Company, but receive directors' fees.

The number of directors whose emoluments fell within the following band is as follows:

	Number of directors	
	2001	2000
Nil — $1,000,000	**8**	8

The emoluments of the five highest paid individuals in the Group, none of whom was a director in either 2001 or 2000, are as follows:

	Group	
	2001	2000
	$Million	$Million
Salaries, allowances and benefits in kind	**5.3**	5.9
Group's contributions to pension scheme	**0.4**	0.5
Discretionary bonuses	**0.1**	0.6
	5.8	7.0

The emoluments of the five highest paid individuals fell within the following bands:

	Number of individuals	
	2001	2000
Nil — $1,000,000	**3**	2
$1,500,001 — $2,000,000	**2**	3
	5	5

5 TAXATION

	Group 2001 $Million	Group 2000 $Million
(a) Taxation in the consolidated income statement represents:		
Provision for Hong Kong profits tax at 16% for the year	**8.0**	12.0
Estimated underprovision in respect of prior years	**32.8**	18.9
Deferred taxation (Note 14)	**(0.1)**	(0.8)
	40.7	30.1

	Group 2001 $Million	Group 2000 $Million	Company 2001 $Million	Company 2000 $Million
(b) Taxation in the balance sheets represents:				
Provision for Hong Kong profits tax for the year	**8.0**	12.0	**0.1**	—
Estimated provision for Hong Kong profits tax relating to prior years	**11.5**	55.9	**—**	—
	19.5	67.9	**0.1**	—

(c) The Group is currently in discussion with the Inland Revenue Department regarding a dispute over the deductibility of certain interest payments in previous years' tax computations. As at the balance sheet date, the outcome of the said dispute remained undetermined and substantial tax provision has been made in the accounts on the grounds of prudence.

6 NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net profit attributable to shareholders includes a profit of $57.2 million (2000: $43.3 million) which has been dealt with in the accounts of the Company.

7 DIVIDENDS

	2001 $Million	2000 $Million
Interim dividend paid		
'A' shares: 1.5 cents (2000: 1.0 cent) per share	**9.3**	6.2
'B' shares: 0.15 cent (2000: 0.1 cent) per share	**0.9**	0.6
Proposed final dividend		
'A' shares: 1.7 cents (2000: 1.1 cents) per share	**10.6**	6.8
'B' shares: 0.17 cent (2000: 0.11 cent) per share	**1.0**	0.7
	21.8	14.3

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders of $33.0 million (2000: $21.3 million) and 621.6 million 'A' shares and 600.0 million 'B' shares in issue during the year.

9 FIXED ASSETS — GROUP

	Leasehold land and buildings			
	Hotel properties	Other property	Other fixed assets	Total
	$Million	$Million	$Million	$Million
Cost:				
At 1 July 2000	1,475.8	160.3	256.7	1,892.8
Additions	—	—	11.8	11.8
Disposals	—	—	(3.5)	(3.5)
At 30 June 2001	**1,475.8**	**160.3**	**265.0**	**1,901.1**
Accumulated depreciation:				
At 1 July 2000	—	67.7	228.4	296.1
Charge for the year	—	8.0	7.1	15.1
Written back on disposals	—	—	(3.3)	(3.3)
At 30 June 2001	**—**	**75.7**	**232.2**	**307.9**
Net book value:				
At 30 June 2001	**1,475.8**	**84.6**	**32.8**	**1,593.2**
At 30 June 2000	1,475.8	92.6	28.3	1,596.7

All leasehold land is held on long leases in Hong Kong. Other property represents an interest in The Wesley which is held under an agreement with Methodist Centre Limited, and is being depreciated over the term of 20 years to 2012.

The Group leases out its hotel properties and the other property under operating leases. The leases typically run for an initial period of one day to one year, with an option to renew the leases after that date at which time all terms are renegotiated. Lease payments are usually adjusted regularly to reflect market rentals and none of the leases provide for contingent rentals.

At 30 June 2001, total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	$Million
Within 1 year	16.7

10 INTEREST IN SUBSIDIARIES

	Company 2001 $Million	Company 2000 $Million
Unlisted shares, at cost	**357.5**	357.5
Amounts due from subsidiaries	**1,640.6**	1,532.1
Amounts due to subsidiaries	**(395.5)**	(326.2)
	1,602.6	1,563.4

Details of subsidiaries are set out in note 22.

11 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group 2001 $Million	Group 2000 $Million	Company 2001 $Million	Company 2000 $Million
Unlisted shares, at cost	**—**	—	**0.1**	0.1
Share of net assets	**8.5**	8.6	**—**	—
	8.5	8.6	**0.1**	0.1

Details of jointly controlled entities are set out in note 23.

12 DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors with the following ageing analysis:

	Group 2001 $Million	Group 2000 $Million
Within 1 month	**6.2**	6.0
1 - 3 months	**2.7**	3.3
	8.9	9.3

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

13 CREDITORS AND ACCRUED EXPENSES

Included in creditors and accrued expenses are trade creditors with the following ageing analysis:

	Group	
	2001	2000
	$Million	$Million
Within 1 month	**8.1**	9.2

14 DEFERRED TAXATION

	Group	
	2001	2000
	$Million	$Million
Movements on deferred taxation comprise:		
Balance at 1 July	**0.7**	1.5
Transfer to the consolidated income statement (Note 5(a))	**(0.1)**	(0.8)
Balance at 30 June	**0.6**	0.7

Deferred taxation represents depreciation allowances in excess of related depreciation. The deferred tax asset being the future benefit of tax losses is $23.1 million (2000: $14.7 million) has not been recognised as its realisation is not assured beyond reasonable doubt.

15 SHARE CAPITAL

	2001	2000
	$Million	$Million
Authorised		
700,000,000 'A' shares of $0.1 each	**70.0**	70.0
1,000,000,000 'B' shares of $0.01 each	**10.0**	10.0
	80.0	80.0
Issued and fully paid		
621,631,226 'A' shares of $0.1 each	**62.2**	62.2
600,000,000 'B' shares of $0.01 each	**6.0**	6.0
	68.2	68.2

16 RESERVES

	Group		Company	
	2001	2000	**2001**	2000
	$Million	$Million	**$Million**	$Million
Share premium	**942.7**	942.7	**942.7**	942.7
Capital reserves	**13.0**	13.0	**—**	—
Revenue reserves				
Retained profits	**635.7**	624.5	**575.9**	540.5
General reserve	**3.0**	3.0	**3.0**	3.0
	638.7	627.5	**578.9**	543.5
	1,594.4	1,583.2	**1,521.6**	1,486.2

	Group	
	2001	2000
	$Million	$Million
Statement of revenue reserves:		
Group companies	**630.2**	618.9
Jointly controlled entities	**8.5**	8.6
	638.7	627.5

The aggregate amount of the Company's reserves available for distribution to shareholders at 30 June 2001 was $578.9 million (2000: $543.5 million).

17 PENSION SCHEME AND COSTS

As subsidiaries of the Hang Lung Group, Grand Hotel Holdings Limited and its subsidiaries ("the Group") participate in the defined contribution provident fund scheme operated by the Hang Lung Group. The assets of this scheme are held separately from those of the participating companies, in an independent fund administered by trustees and managed by a professional fund manager. Contributions are made by both the employer and employees at a certain percentage of the employees' basic salaries, the percentage varying with their length of service. The Group's contributions amounted to $8.1 million for the year ended 30 June 2001 (2000: $8.2 million).

When an employee leaves the scheme prior to his or her interest in the employer's contributions being fully vested, forfeited contributions are credited to reserves of the fund. Depending on the level of reserves, the trustees may credit dividends to members' accounts out of the reserves of the fund. The Group's contributions may be reduced by the forfeited contributions; however, no such reduction of the Group's contributions was made during the year. Since the reserves of the scheme, of which the Group is a participating member, do not distinguish the respective attributable shares of individual participating member companies, no figure for available forfeited contributions for the Group alone can be ascertained.

With the implementation of the Mandatory Provident Fund Schemes Ordinance on 1 December 2000, a master trust Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up and is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of $20,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to $0.1 million.

As the Group's provident fund scheme is an MPF-exempt Occupational Retirement Scheme (the "ORSO Scheme"), all the existing employees were given a one-off option to elect between the ORSO and the MPF schemes. Eligibility for membership of the ORSO and MPF schemes is identical, and new employees are offered the choice of joining either the ORSO or the MPF scheme.

18 CONTINGENT LIABILITIES

At 30 June, contingent liabilities were as follows:

	Company	
	2001	2000
	$Million	$Million
Guarantees given to a bank to secure banking facilities	**—**	690.0

19 COMMITMENTS

(a) At 30 June, capital commitments not provided for in the accounts were as follows:

	Group	
	2001	2000
	$Million	$Million
Contracted for	**—**	3.2

(b) The Group leases a property under a non-cancellable operating lease expiring after 10 years. Contingent rental payable is based on a percentage of the revenue from the property. At 30 June, total future minimum lease payments to be made under this operating lease were as follows:

	Group	
	2001	2000
	$Million	$Million
Within 1 year	**9.2**	8.0
After 1 year but within 5 years	**44.0**	42.2
After 5 years	**81.6**	92.6
	134.8	142.8

20 RELATED PARTY TRANSACTIONS

During the year, the Group paid $3.7 million (2000: $3.0 million) to a fellow subsidiary for the Group's share of administrative services provided by the fellow subsidiary. The amount payable is mutually agreed by both parties after taking into account of the volume of activities shared by the Group.

During the year, the Group received $1.2 million (2000: $1.3 million) from a fellow subsidiary for the fellow subsidiary's share of administrative services provided by the Group. The amount payable is mutually agreed by both parties after taking into account of the volume of activities shared by the fellow subsidiary.

During the year, Grand Hotel Group Limited, a wholly-owned subsidiary of the Company received a fixed sum fee of $0.9 million (2000: $0.9 million) from a fellow subsidiary, Kornhill Recreation Club Limited for the provision of administrative services to Kornhill Recreation Club.

During the year, the Group received management fees totalling $10.7 million (2000: $12.1 million) from a jointly controlled entity. The amount receivable by the Group is based on a fixed sum or at a percentage of gross revenue.

21 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 30 June 2001 to be Hang Lung Development Company, Limited which is incorporated in Hong Kong.

22 SUBSIDIARIES

AT 30 JUNE 2001

	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Subsidiaries					
Floret Investments Limited	8	100	100	Investment holding	British Virgin Islands
Grand Group Limited	2	100	100	Dormant	Hong Kong
Grand Hotel Group Limited*	10,200	100	100	Hotel operating and management	Hong Kong
Grand Hotel Treasury Limited*	2	100	100	Financial services	Hong Kong
Grand Hotel Treasury Services Limited	2	100	100	Dormant	Hong Kong
Grand Suite Tower Limited*	200	100	100	Operations of service apartments	Hong Kong
Hurton Investments Limited	8	100	—	Investment holding	British Virgin Islands
Kronik Holdings Limited	8	100	100	Investment holding	British Virgin Islands
Modalton Limited*	2	100	—	Property leasing	Hong Kong
Myrica Investments Limited	8	100	—	Investment	British Virgin Islands
Spiracy International Inc.	8	100	—	Investment holding	British Virgin Islands
Tasco Investments Limited	8	100	100	Investment holding	British Virgin Islands
Tegraton Limited*	2	100	—	Property leasing	Hong Kong
Tiona Holdings Limited	8	100	—	Investment holding	British Virgin Islands

* Audited by KPMG

23 JOINTLY CONTROLLED ENTITIES

AT 30 JUNE 2001

	Issued Share Capital (HK$)	% Held by The Group	% Held by The Company	Activity	Place of Incorporation and Operations
Jointly Controlled Entities					
Arges Limited	4	50	50	Restaurant operations	Hong Kong
Inlink Investment Limited	2	50	—	Holding of restaurant licence	Hong Kong

* Audited by KPMG