

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31st December, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June, 2003, except that the Group has adopted SSAP 12 (Revised) “Income Taxes” (“SSAP 12 (Revised)”) in the current period.

Income taxes

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In prior periods, partial provision was made for deferred tax using the income statement liability method in which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. This change in accounting policy has resulted in a decrease of retained profits of HK\$83,494,185 at 30th June, 2003 (at 30th June, 2002: decrease of retained profits of HK\$69,927,740) and a decrease of the interests in associates of HK\$81,516,208 at 30th June, 2003 (at 30th June, 2002: decrease of interests in associates of HK\$68,848,962). The net profit for the six months ended 31st December, 2003 has been decreased by HK\$3,399,081 (six months ended 31st December, 2002: decrease of net profit of HK\$8,769,333). This change in accounting policy has also resulted in an increase of goodwill arising from the acquisition of an associate for the year ended 30th June, 1997 from negative goodwill of HK\$42,059,973 to goodwill of HK\$79,938,027.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions – hotel operations, restaurant and club operations and hotel management services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	– operate a hotel
Restaurant and club operations	– operate a restaurant and a club
Hotel management services	– provide hotel management services

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For the six months ended 31st December, 2003

3. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below.

Six months ended 31st December, 2003

	Hotel operations HK\$	Restaurant and club operations HK\$	Hotel management services HK\$	Consolidated HK\$
TURNOVER	<u>59,103,484</u>	<u>3,340,147</u>	<u>1,017,860</u>	<u>63,461,491</u>
RESULT				
Segment result	17,982,615	937,789	1,017,860	19,938,264
Unallocated corporate expenses				<u>(1,817,355)</u>
Profit from operations				<u>18,120,909</u>

Six months ended 31st December, 2002

	Hotel operations HK\$	Restaurant and club operations HK\$	Hotel management services HK\$	Consolidated HK\$
TURNOVER	<u>63,415,082</u>	<u>3,192,833</u>	<u>1,516,236</u>	<u>68,124,151</u>
RESULT				
Segment result	25,854,451	886,143	1,516,236	28,256,830
Unallocated corporate expenses				<u>(2,048,945)</u>
Profit from operations				<u>26,207,885</u>

4. PROFIT FROM OPERATIONS

	Six months ended	
	31.12.2003 HK\$	31.12.2002 HK\$
Profit from operations has been arrived at after charging:		
Cost of hotel inventories	<u>3,665,048</u>	3,781,127
Depreciation of property, plant and equipment	<u>1,463,456</u>	<u>1,385,380</u>

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For the six months ended 31st December, 2003

5. FINANCE INCOME

	Six months ended	
	31.12.2003	31.12.2002
	HK\$	HK\$
Interest income on:		
Advance to an associate	178,916	248,446
Bank deposits	19,238	104,056
	<u>198,154</u>	<u>352,502</u>

6. FINANCE COSTS

	Six months ended	
	31.12.2003	31.12.2002
	HK\$	HK\$
Interest expenses on:		
Bank borrowings wholly repayable within five years	4,122,071	6,584,676
Advance from an associate	2,677,226	4,332,864
Other unsecured loans	6,453,253	7,895,858
	<u>13,252,550</u>	<u>18,813,398</u>
Financing charges	757,066	651,925
	<u>14,009,616</u>	<u>19,465,323</u>

7. SHARE OF RESULTS OF ASSOCIATES

Share of results of associates includes amortisation of an associate's goodwill of HK\$6,257,550 (six months ended 31st December, 2002: HK\$6,257,550 as restated).

8. INCOME TAX EXPENSE

	Six months ended	
	31.12.2003	31.12.2002
	HK\$	HK\$
		(As restated)
The Company and subsidiaries:		
Hong Kong Profits Tax		
Current period	2,441,810	1,409,105
Under(over)provision in prior periods	37,699	(499,546)
	<u>2,479,509</u>	<u>909,559</u>
Deferred tax	(559,771)	398,615
	<u>1,919,738</u>	<u>1,308,174</u>
Share of taxation attributable to associates:		
Hong Kong Profits Tax	7,871,250	5,488,000
Deferred tax	908,902	4,818,768
	<u>8,780,152</u>	<u>10,306,768</u>
	<u>10,699,890</u>	<u>11,614,942</u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 31st December, 2002: 16% or 17.5%, as appropriate), of the estimated assessable profit for the period.

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For the six months ended 31st December, 2003

9. DIVIDEND

	Six months ended	
	31.12.2003	31.12.2002
	HK\$	HK\$
Final dividend for the year ended 30th June, 2003: HK1 cent (year ended 30th June, 2002: HK1 cent) per share	8,161,169	8,030,542

The Directors determined that an interim dividend for the six months ended 31st December, 2003 of HK1.5 cents (six months ended 31st December, 2002: HK1.5 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 19th April, 2004.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the period of HK\$36,997,031 (six months ended 31st December, 2002: HK\$33,942,367 as restated) and on the weighted average number of 816,417,096 (six months ended 31st December, 2002: 803,491,855) shares in issue during the period.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31st December, 2003, the Group spent approximately HK\$996,000 (six months ended 31st December, 2002: HK\$1,528,000) on property, plant and equipment.

12. INTERESTS IN ASSOCIATES

	31.12.2003	30.6.2003
	HK\$	HK\$
		(As restated)
Share of net assets	1,151,510,513	1,110,695,641
Goodwill	205,286,054	211,543,604
	1,356,796,567	1,322,239,245

The Inland Revenue Department (the "IRD") initiated tax inquiries for the years of assessment 1994/95 to 2002/03 on a wholly-owned subsidiary, Bestown Property Limited ("Bestown") of the Group's associate, Asian Glory Limited ("AGL"). Notices of assessment for additional tax in an aggregate amount of approximately HK\$145,879,000 were issued to Bestown for the years under review and objections were properly lodged with the IRD by Bestown. The effective share of the additional tax attributable to the Group as at 31st December, 2003 is estimated to be approximately HK\$36,470,000. In the opinion of the management of Bestown, as the tax inquiries are still at its preliminary stage of fact findings and the process is likely to continue for some time, the ultimate outcome of the tax inquiries, which may not be known for some years, cannot presently be determined by the management of Bestown with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of Bestown.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.

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13. TRADE AND OTHER RECEIVABLES

The Group maintains a defined credit policy. An aged analysis of trade receivables is as follows:

	31.12.2003 HK\$	30.6.2003 HK\$
Trade receivables		
0 – 30 days	4,161,471	929,589
31 – 60 days	674,710	22,728
61 – 90 days	131,995	25,336
Over 90 days	—	22,470
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	4,968,176	1,000,123
Other receivables	2,349,656	2,077,009
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	7,317,832	3,077,132
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14. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	31.12.2003 HK\$	30.6.2003 HK\$
Trade payables		
0 – 30 days	4,917,556	2,271,132
31 – 60 days	234,322	48,267
61 – 90 days	—	7,179
Over 90 days	—	60,647
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	5,151,878	2,387,225
Other payables	7,555,742	6,913,970
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	12,707,620	9,301,195
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15. CONTINGENT LIABILITIES

	31.12.2003 HK\$	30.6.2003 HK\$
Guarantees given to banks, in respect of loan facilities utilised by an associate	241,500,000	248,500,000
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16. PLEDGE OF ASSETS

- The Group has pledged its hotel properties having a net book value of HK\$1,950,110,500 (30th June, 2003: HK\$1,950,110,500), listed securities at market value of HK\$227,152,729 (30th June, 2003: HK\$176,953,230) and other assets of HK\$35,789,386 (30th June, 2003: HK\$23,530,850) to banks to secure long-term loan facilities granted to the Group;
- The Group has pledged a time deposit of HK\$1,371,785 (30th June, 2003: HK\$1,367,679) to secure a letter of guarantee issuance facilities; and
- The investments in certain subsidiaries of the Company have been pledged to banks or financial institutions to secure loan facilities granted to the Group.