

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. These accounts also comply with the applicable disclosure provisions of the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of Keck Seng Investments (Hong Kong) Limited and all its subsidiaries made up to 31 December 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.

On consolidation, the purchase consideration of subsidiaries and associates has been allocated between the underlying net tangible assets on the basis of their fair values to the acquiring company. Goodwill arising therefrom is charged to reserves in the year in which it arises.

On disposal of subsidiary or associates, 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) Interest 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.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Interest in subsidiaries (continued)

Interest in subsidiaries in the Company's balance sheet is 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.

(e) Associates

An associate is a company 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 associates 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 goodwill charged to reserves and for the post acquisition change in the Group's share of the associates' net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

The results of 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) Investment properties

Investment properties are stated in the balance sheet at their open market values, which are assessed annually by external qualified valuers. Surpluses arising on revaluations are credited on a portfolio basis to the profit and loss account to the extent of any deficit arising on revaluation previously charged to the profit and loss account and are thereafter taken to the investment property revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

On disposal of the investment properties, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is transferred to the profit and loss account for the year.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Properties under development

(i) Property under development held for long term investment

Property under development held for long term investment is stated in the balance sheet at cost less any provisions for diminution in value which is other than temporary as determined by the directors. Cost comprises land cost, any interest paid during the development period capitalised and development expenditure.

(ii) Properties under development held for sale

Properties under development held for sale are stated in the balance sheet at cost less provision for any anticipated loss where appropriate. Cost comprises land cost, any interest paid during the development period capitalised and development expenditure.

(h) Hotel and other properties

Hotel and other properties are stated in the balance sheet at cost less accumulated depreciation.

(i) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realisable value. Cost is determined by apportionment of the total purchase / construction costs attributable to the unsold units. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(j) Other inventories

Inventories are carried at the lower of cost and net realisable value. Cost represents purchase cost computed on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Depreciation

(i) Investment properties

No depreciation is provided on investment properties with an unexpired lease term of more than 20 years, including renewal periods, since the valuation takes into account the state of the property at the date of valuation.

(ii) Properties under development

No depreciation is provided on properties under development.

(iii) Hotel property

Depreciation on hotel property is provided on a straight line basis over the shorter of the joint venture period and 25 years on the cost of the hotel property.

(iv) Other properties

Depreciation is provided on other properties on a straight line basis over the unexpired period of the lease.

(v) Other fixed assets

Fixed assets other than properties are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of these assets on a straight line basis over their estimated useful lives as follows:

Furniture, fixtures and equipment	–	3 to 5 years
Motor vehicles	–	6 ² / ₃ years

(l) 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 investments are stated in the balance sheet at their fair values. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Investments in securities (continued)

- (ii) Transfers from the investment revaluation reserve to the profit and 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 non-trading investments are accounted for in the profit and loss account as they arise. The profit or loss includes any amount previously held in the investment revaluation reserve in respect of that investment.

(m) 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) Revenue arising from properties held for sale is recognised upon the completion of the sales 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 sheet under trade and other payables.
- (ii) Rental income receivable from properties is recognised on an accruals basis in accordance with the terms of the respective leases.
- (iii) Hotel and club revenue from room rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (iv) Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable.
- (v) Management fee is recognised when the services are rendered.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 in foreign currencies and the accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account, except for those arising from the translation of the accounts of overseas subsidiaries and associates which are taken directly to exchange reserve.

(o) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

(p) 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.

(q) Affiliated companies

An affiliated company is a company, not being a subsidiary or an associate, in which a director of the Company has a beneficial interest.

(r) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the year 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 get ready for its intended use or sale.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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, and include affiliated companies.

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

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 12 on the accounts:

Turnover represents revenue derived from the following:

	2000 \$'000	1999 \$'000
Proceeds on sale of properties	65,459	345,607
Rental income	5,495	6,768
Hotel and club operations	28,811	14,407
Management fee received	5,064	4,165
	<u>104,829</u>	<u>370,947</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

2. TURNOVER (continued)

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year is as follows:

	Group turnover		Contribution to (loss)/ profit from operations	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Principal activities				
Property development, investment and management	76,018	356,540	6,550	107,466
Hotel and club operation	28,811	14,407	(35,451)	(48,867)
	<u>104,829</u>	<u>370,947</u>	<u>(28,901)</u>	<u>58,599</u>
Geographical locations of operations				
Macau	76,971	350,163	2,632	95,037
PRC	25,165	11,629	(30,323)	(41,687)
Others	2,693	9,155	(1,210)	5,249
	<u>104,829</u>	<u>370,947</u>	<u>(28,901)</u>	<u>58,599</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

3. INCOME

	2000 \$'000	1999 \$'000
(a) Other revenue		
Interest income	4,961	3,157
Dividend income from non-trading listed investments	18	22
Others	659	1,276
	<u>5,638</u>	<u>4,455</u>
	2000 \$'000	1999 \$'000
(b) Other net (expenses) / income		
Exchange (loss) / gain	(474)	2,231
Compensation costs (note)	(5,671)	–
Loss on disposal of fixed assets	(2,701)	(761)
	<u>(8,846)</u>	<u>1,470</u>

Note:

Compensation costs represent agreed settlement for sale deposits forfeited in the previous years under dispute.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

4. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2000 \$'000	1999 \$'000
(Loss) / profit from ordinary activities before taxation is arrived at after charging / (crediting):		
(a) Finance costs		
Interest on bank overdraft and other advances repayable within five years	25,310	25,117
Interest paid on amounts due to an affiliated company	13,892	18,058
Other borrowing costs	<u>391</u>	<u>1,013</u>
Total borrowing costs	39,593	44,188
Less: Borrowing costs capitalised into properties under development*	<u>(9,842)</u>	<u>(19,869)</u>
	<u><u>29,751</u></u>	<u><u>24,319</u></u>
* The borrowing costs have been capitalised at a rate of 7-9% per annum (1999: 6-8% per annum) for properties under development.		
(b) Other items		
Cost of properties sold	36,853	199,201
Cost of inventories	5,772	2,409
Staff cost	17,918	19,386
Depreciation	31,462	26,092
Auditors' remuneration	984	737
Operating lease charges for hire of premises	278	428
Rental receivable from investment properties less outgoings	(4,001)	(4,779)
Other rental income less outgoings	<u><u>(1,035)</u></u>	<u><u>(1,170)</u></u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

5. DIRECTORS' REMUNERATION

- (a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 \$'000	1999 \$'000
Fees	65	205
Salaries and allowances	480	480
Discretionary and performance related bonuses	80	90
	<u>625</u>	<u>775</u>

Included in the above are the following payments to non-executive directors:

	2000 \$'000	1999 \$'000
Fees	15	76

- (b) The directors' remuneration is in the following range:

	2000 Number of Directors	1999 Number of Directors
Nil - \$1,000,000	7	7

6. MANAGEMENT REMUNERATION

- (a) The aggregate amount of the remuneration of the four (1999: four) employees who, not being directors of the Company, are amongst the top five highest paid individuals, including directors, employed by the Group is as follows:

	2000 \$'000	1999 \$'000
Salaries and allowances	2,371	2,188
Discretionary and performance related bonuses	307	195
	<u>2,678</u>	<u>2,383</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

6. MANAGEMENT REMUNERATION (continued)

(b) The employees' remuneration is in the following range:

	2000	1999
	Number of	Number of
	Individuals	Individuals
Nil - \$1,000,000	<u><u>4</u></u>	<u><u>4</u></u>

7. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	\$'000	\$'000
Overseas taxation		
– current year	1,098	18,339
– prior year	(19,545)	(19,973)
	<u>(18,447)</u>	<u>(1,634)</u>
Share of associates' taxation	(2,627)	3,289
	<u>(21,074)</u>	<u>1,655</u>

Overseas taxation is calculated at the applicable rates on overseas assessable profits. No provision has been made for Hong Kong profits tax as the Company and its Hong Kong subsidiaries sustained a loss for Hong Kong taxation purposes during the year.

(b) No provision for deferred taxation has been made in the accounts as the Group has net deferred tax assets, the future realisation of which is uncertain. The major component of the deferred tax assets is the future benefit of tax losses which amounts to \$3,064,000 (1999: \$2,447,000).

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of \$2,639,000 (1999: profit of \$32,180,000) which has been dealt with in the accounts of the Company.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$6,948,000 (1999: \$40,107,000) and on the 340,200,000 ordinary shares (1999: weighted average of 244,944,000 shares) in issue during the year.

10. FIXED ASSETS

(a) The Group

	Hotel property \$'000	Other properties \$'000	Furniture, fixtures and equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:							
At 1 January 2000	218,738	90,124	96,624	6,260	411,746	138,300	550,046
Additions	–	–	308	–	308	–	308
Disposals	(1,055)	(238)	(1,787)	(57)	(3,137)	–	(3,137)
Deficit on revaluation	–	–	–	–	–	(4,500)	(4,500)
Exchange adjustments	(2,638)	–	(1,047)	(24)	(3,709)	–	(3,709)
	<u>215,045</u>	<u>89,886</u>	<u>94,098</u>	<u>6,179</u>	<u>405,208</u>	<u>133,800</u>	<u>539,008</u>
At 31 December 2000	215,045	89,886	94,098	6,179	405,208	133,800	539,008
Representing:							
Cost	215,045	89,886	94,098	6,179	405,208	–	405,208
Valuation – 2000	–	–	–	–	–	133,800	133,800
	<u>215,045</u>	<u>89,886</u>	<u>94,098</u>	<u>6,179</u>	<u>405,208</u>	<u>133,800</u>	<u>539,008</u>
Accumulated depreciation:							
At 1 January 2000	6,572	5,346	19,851	3,508	35,277	–	35,277
Charge for the year	8,659	3,666	18,374	763	31,462	–	31,462
Written back on disposals	(22)	–	(357)	(57)	(436)	–	(436)
Exchange adjustments	(80)	–	(166)	(7)	(253)	–	(253)
	<u>15,129</u>	<u>9,012</u>	<u>37,702</u>	<u>4,207</u>	<u>66,050</u>	<u>–</u>	<u>66,050</u>
At 31 December 2000	15,129	9,012	37,702	4,207	66,050	–	66,050
Net book value:							
At 31 December 2000	<u>199,916</u>	<u>80,874</u>	<u>56,396</u>	<u>1,972</u>	<u>339,158</u>	<u>133,800</u>	<u>472,958</u>
At 31 December 1999	<u>212,166</u>	<u>84,778</u>	<u>76,773</u>	<u>2,752</u>	<u>376,469</u>	<u>138,300</u>	<u>514,769</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

10. FIXED ASSETS (continued)

(a) The Group (continued)

- (i) The investment properties comprise various units of Luso International Bank Building and Ocean Gardens in Macau. The lease of Luso International Bank Building is for a period of 50 years, commencing from 6 May 1957 and thereafter renewable for successive periods of 10 years up to 19 December 2049. The lease of Ocean Gardens is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.
- (ii) The investment properties were revalued by Jones Lang Lasalle Limited, Chartered Surveyors at 31 December 2000 on an open market value basis, after taking into consideration of the net rental income allowing for reversionary potential.
- (iii) The formal transfer of titles of the relevant units of the investment properties in Luso International Bank Building into the subsidiary's name amounting to \$21,300,000 (1999: \$21,300,000) had not been completed (note 25).
- (iv) At 31 December 2000, certain investment properties and a hotel property together with its integral fixtures and fittings of the Group with a net book value of \$333,716,000 (1999: \$350,466,000) were mortgaged to various banks to secure banking facilities granted to the Group.
- (v) Hotel property comprises land use right for 30 years commencing on 21 August 1995 granted to and buildings held by a subsidiary in Wuhan, the People's Republic of China.
- (vi) Other properties comprise a club house situated in Ocean Gardens. The lease of the club house is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.
- (vii) The gross amounts of fixed assets of the Group held for use in operating leases were \$133,800,000 (1999: \$138,300,000).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

10. FIXED ASSETS (continued)

(b) The Company

	Furniture, fixtures and equipment \$'000
Cost:	
At 1 January 2000 and at 31 December 2000	532
Accumulated depreciation:	
At 1 January 2000	522
Charge for the year	3
At 31 December 2000	525
Net book value:	
At 31 December 2000	7
At 31 December 1999	10

11. PROPERTIES UNDER DEVELOPMENT

	2000 \$'000	1999 \$'000
Property under development held for long term investment – note (a)	718,536	708,125
Properties under development held for sale – note (b)	164,269	156,837
	882,805	864,962

(a) Property under development held for long term investment

The property in Ho Chi Minh City, Socialist Republic of Vietnam is for the development of a building complex including a hotel, serviced apartments and offices for investment purposes. The cost of development will be transferred to fixed assets upon the completion of the construction which is expected to be in 2002.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. PROPERTIES UNDER DEVELOPMENT (continued)

(a) Property under development held for long term investment (continued)

A dispute arose between the subsidiary and the main contractor of the property under development over contractual issues and the matter has been referred to arbitration in accordance with the terms of the construction agreement (note 24 (d)).

The rights of the use of the land are for a period of 48 years commencing from 7 May 1994.

(b) Properties under development held for sale

(i) *Macau*

The property, which comprises certain leasehold land at Taipa Island, was acquired by a subsidiary from the Macau Government as the site for the development, in several phases, of a residential and commercial complex. The lease is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

Under the terms of the agreement dated 1 March 1983 and a supplementary agreement dated 20 June 1994 with the Macau Government in respect of the leasehold land, the subsidiary had undertaken to complete the remaining phases of the development by various specified dates and the whole project was due to be completed by December 1997. Following successive applications for extension made to the Macau Government by the subsidiary, the Macau Government agreed to extend the final completion date up to 31 December 2001 without any penalty.

Failure to complete the remaining phases by 31 December 2001 would give rise to the possibility of fines to be imposed by the Macau Government up to 180 days of delay in a manner more particularly described in note 24(c). Delays beyond the 180-day period would give rise to the possibility of rescission of the lease by the Macau Government without compensation to the subsidiary. Whilst construction work has already commenced on the remaining two phases of the development, the directors now consider that these phases may still not be completed by 31 December 2001. The directors are, however, confident that they will be able to reach a satisfactory settlement with the Macau Government in view of the extent of the delay which is not significant in the context of the entire development project (see also note 24(c)).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. PROPERTIES UNDER DEVELOPMENT (continued)

(b) Properties under development held for sale (continued)

The directors are of the opinion that, based on their current estimates, the remaining phases of the development project will be completed on a profitable basis.

The subsidiary has mortgaged its leasehold land at Taipa Island to a bank to secure banking facilities to the extent of \$85,000,000 (1999: \$85,000,000) granted to the subsidiary. At 31 December 2000, such facilities had been utilised up to \$64,400,000 (1999: \$70,000,000) (see note 18).

(ii) Portugal

The property is a plot of freehold land situated in Portugal.

12. INTEREST IN SUBSIDIARIES

	2000 \$'000	1999 \$'000
Unlisted shares, at cost	49,314	49,314
Less: Dividend paid out of pre-acquisition profits	(4,156)	(4,156)
Provision	(5,468)	(5,468)
	<u>39,690</u>	<u>39,690</u>
Amounts due from subsidiaries		
– Loan account	12,824	12,799
– Current account	618,319	597,898
– Dividend receivable	–	26,214
	<u>670,833</u>	<u>676,601</u>
Amount due to a subsidiary	<u>62,348</u>	<u>103,109</u>

Amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

12. INTEREST IN SUBSIDIARIES (continued)

Details of the subsidiaries are as follows:

Name of company	Place of incorporation/ operation	Issued equity capital	Percentage of equity			Principal activity
			attributable to the Group	held by the Company	held by subsidiaries	
Ocean Incorporation Ltd. ("Ocean Inc")	Macau	Two quotas of Ptc9,999,000 and Ptc1,000 respectively totalling Ptc10,000,000	100%	100%	–	Property investment and dealing
Ajoint Inc	United States of America	100 shares of US\$10 each and US\$699,000 additional paid in capital	100%	100%	–	Dormant
Carrigold Limited*	British Virgin Islands	1 share of US\$1	100%	100%	–	Investment holding
Compton Developments Limited*	British Virgin Islands	1 share of US\$1	100%	100%	–	Investment holding
Crichton Assets Limited*	British Virgin Islands	1 share of US\$1	100%	100%	–	Investment holding
Labond Developments Limited*	British Virgin Islands	1 share of US\$1	100%	100%	–	Investment holding
KSB Enterprises Limited*	Canada	1 share of no par value issued at CAD\$1	100%	100%	–	Investment holding
Scoffield Limited	Isle of Man/ Portugal	2,000 shares of £1 each	75%	75%	–	Property development
Bardney Investment Limited*	Republic of Liberia/Macau	2 shares of no par value issued at HK\$5,000 each	100%	–	100%	Investment holding
Lam Ho Investments Pte Ltd	Singapore	5,000,000 shares of S\$1 each	90.10%	–	90.10%	Investment holding

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

12. INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Issued equity capital	Percentage of equity			Principal activity
			attributable to the Group	held by the Company	held by subsidiaries	
Shun Seng International Limited	Hong Kong	100,000 shares of HK\$1 each	75.01%	–	75.01%	Investment holding
Accord Investment Limited	Macau	Two quotas of Ptc99,000 and Ptc1,000 respectively totalling Ptc100,000	70.61%	–	100%	Property trading
Golden Crown Development Limited (“Golden Crown”)	Macau	70,000,000 shares of Ptc1 each	70.61%	–	70.61%	Property development
Ocean Gardens Management Company Limited *	Macau	Two quotas of Ptc99,000 and Ptc1,000 respectively totalling Ptc100,000	69.90%	–	99%	Building management
Honister Investment Limited	Republic of Liberia/Macau	2 shares of no par value issued at HK\$5,000 each	70.61%	–	100%	Investment holding
Ocean Club Recreational Company Limited	Macau	100,000 shares of Ptc1 each	70.61%	–	100%	Club operation
Ocean Place Joint Venture Company Limited (“OPJV”)	Socialist Republic of Vietnam	US\$29,100,000	63.07%	–	70%	Hotel and property development
Hubei Qing Chuan Hotel Company Limited * (“Qing Chuan”)	The People’s Republic of China (“PRC”)	US\$16,300,000	41.26%	–	55%	Operation of a hotel
Lam Ho Finance Limited	British Virgin Islands	1 share of US\$1	90.10%	–	90.10%	Financial investment

* The accounts of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 18% (1999: 4%) and 29% (1999: 1%) of the respective consolidated totals.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

13. INTEREST IN ASSOCIATES

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	–	–	5	5
Share of net assets	112,585	90,566	–	–
Interest free loans to associates	257,782	264,362	203,554	203,764
	<u>370,367</u>	<u>354,928</u>	<u>203,559</u>	<u>203,769</u>

Details of the associates are as follows:

Name of company	Place of incorporation/ operation	Percentage of equity			Principal activity
		attributable to the Group	held by the Company	held by subsidiaries	
Chateau Ottawa Hotel Inc – note (a)	Canada	50%	–	50%	Operation of a hotel
Worldwide Properties Limited	Macau	50%	–	50%	Dormant
Trans-International Development Limited	Macau	40%	–	40%	Dormant
Shun Cheong International Limited – note (b)	Hong Kong	35.01%	–	35.01%	Property investment
Porchester Assets Limited (“PAL”) – note (c)	British Virgin Islands	49%	49%	–	Investment holding
Crown Pacific Development Limited (“Crown Pacific”) – note (d)	Hong Kong	24%	–	24%	Investment holding
KSF Enterprises Sdn Bhd (“KSF”) – note (e)	Malaysia	25%	25%	–	Investment holding

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

13. INTEREST IN ASSOCIATES (continued)

- (a) Chateau Ottawa Hotel Inc owns a hotel in Ottawa licensed with Sheraton Inns Canada operating as the Sheraton Ottawa Hotel.
- (b) Shun Cheong International Limited is engaged in properties investment in the PRC.
- (c) PAL has a wholly owned subsidiary, Glynhill Investments (Vietnam) Pte Ltd (“Glynhill”), which holds 51% in Chains Caravelle Hotel Joint Venture Company Limited (“CCH”). CCH is a joint venture company established under the laws of the Socialist Republic of Vietnam (“Vietnam”) between Glynhill and a local Vietnamese entity for the purpose of developing, renovating and operating the Caravelle Hotel in Vietnam. In accordance with the joint venture agreement and the subsequent increase in registered share capital on 19 May 1997, the legal capital of CCH is \$143.8 million (US\$18.6 million). Glynhill contributed \$73.3 million (US\$9.5 million), and the remaining balance of \$70.5 million (US\$9.1 million) was contributed by the Vietnamese joint venture partner in the form of the right of using a parcel of land (2,612 sqm) for a term of 40 years. In addition, Glynhill is committed to secure on behalf of CCH or alternatively to provide further finance of up to \$305 million (US\$39.4 million) in the form of interest bearing shareholder’s loan towards the costs of developing and renovating the hotel and general working capital requirements. As at 31 December 2000, PAL has advanced interest bearing loans totalling \$344.6 million (US\$44.1 million) to CCH. The joint venture has a duration of 40 years from 8 October 1992 and may be extended for a further period subject to the mutual agreement of the joint venture partners and approval from the relevant local authority.
- (d) Crown Pacific is engaged in the development for resale of a residential compound in Beijing in the PRC through Beijing Hong Gong Garden Villa House Property Development Co Limited (“BHGG”), a Sino-foreign cooperative joint venture company established in the PRC with a local Beijing party. In accordance with the joint venture agreement, the legal capital of BHGG is approximately \$256 million (US\$33.1 million), which has been fully paid up. Crown Pacific is entitled to share 100% of the financial results and net assets of BHGG save for a distribution of total profit of a fixed sum of HK\$2.79 million to the local Beijing party.

The joint venture lasts for a period of 30 years from 15 January 1993 to 14 January 2023. All the four phases of the development were completed and most of the units have been sold.

- (e) KSF has a wholly owned subsidiary, KSD Enterprises Limited (“KSD”), which operates the International Plaza Hotel and Conference Centre in Toronto, Canada.

On 10 January 2000, KSD acquired a 50% interest in KSE Enterprises Limited which operates the Four Points Hotel by Sheraton in Quebec, Canada.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

13. INTEREST IN ASSOCIATES (continued)

The following supplementary financial information is disclosed relating to a material associate, Crown Pacific, which is based on its audited consolidated accounts for the year ended 31 December 2000.

Consolidated profit and loss account

	2000 \$'000	1999 \$'000
Turnover	67,023	86,468
Profit from ordinary activities before taxation	44,202	33,271
Profit attributable to shareholders	<u>56,778</u>	<u>20,298</u>
Group's share of profit from ordinary activities before taxation	<u>10,608</u>	<u>7,985</u>

Consolidated balance sheet

	2000 \$'000	1999 \$'000
Long term assets	250,614	227,586
Current assets	833,273	921,914
Current liabilities	(543,459)	(665,849)
Long term liabilities	<u>(200,000)</u>	<u>(200,000)</u>
Shareholders' funds	<u>340,428</u>	<u>283,651</u>
Group's share of net assets	<u>81,703</u>	<u>68,076</u>

14. NON-TRADING INVESTMENTS

	2000 \$'000	1999 \$'000
Listed shares outside Hong Kong	<u>567</u>	<u>584</u>
Market value	<u>567</u>	<u>584</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

15. PROPERTIES HELD FOR SALE

Properties held for sale comprise:

(a) Ocean Park

The property is freehold and situated in Singapore.

(b) Heng Fa Chuen

The property is held under a long lease and situated in Hong Kong.

(c) Properties in Macau held by subsidiaries

(i) Ocean Centre II

The lease is for a period of thirty years, commencing from 9 June 1973 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

(ii) Keck Seng Industrial Centre III

The lease is for a period of thirty years, commencing from 4 September 1973 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

At 31 December 2000, the formal transfer of titles of the above properties into the subsidiary's name amounting to \$3,260,000 (1999: \$3,260,000) had not been completed and the properties were still registered in the names of the previous owners (see also note 25).

(iii) Ocean Gardens

These are completed units of the property development at Taipa Island in Macau. The lease is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

Certain of these properties of \$314,908,000 (1999: \$321,730,000) have been mortgaged to secure the Group's banking facilities at 31 December 2000.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

16. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Amounts expected to be recoverable:				
– within 1 year	14,169	15,845	227	338
– after 1 year	348	348	–	–
	<u>14,517</u>	<u>16,193</u>	<u>227</u>	<u>338</u>
Trade and other receivables	<u>14,517</u>	<u>16,193</u>	<u>227</u>	<u>338</u>

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:–

	The Group	
	2000	1999
	\$'000	\$'000
Current	2,626	1,344
1 to 3 months overdue	5,624	7,631
More than 12 months overdue	47	47
	<u>8,297</u>	<u>9,022</u>

Debts are due within 30 days from the date of billing. Trade receivables with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Trade and other receivables included the deposits of \$555,000 which were pledged at 31 December 2000 (1999: \$785,000) in respect of guarantees given by a subsidiary to a bank on behalf of purchasers of flats amounting to \$354,000 (1999: \$425,000) (note 24 (b)).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

17. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions	63,510	141,056	6,205	46,795
Cash at bank and in hand	13,983	4,422	186	52
	<u>77,493</u>	<u>145,478</u>	<u>6,391</u>	<u>46,847</u>

18. BANK OVERDRAFTS AND LOANS

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Repayable within 1 year and included in current liabilities:				
Bank overdrafts	17	13	—	—
Bank loans	86,098	93,978	—	—
	<u>86,115</u>	<u>93,991</u>	<u>—</u>	<u>—</u>
Bank loans repayable after 1 year and included in non-current liabilities:				
Between 2 and 5 years	81,420	77,221	—	—
After 5 years	105,102	111,874	—	—
	<u>186,522</u>	<u>189,095</u>	<u>—</u>	<u>—</u>
	<u>272,637</u>	<u>283,086</u>	<u>—</u>	<u>—</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

18. BANK OVERDRAFTS AND LOANS (continued)

At 31 December 2000, the bank loans and overdrafts outstanding were secured as follows:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Unsecured bank overdrafts	----- 17	----- 13	----- -	----- -
Bank loans				
– secured	110,367	125,040	-	-
– unsecured	162,253	158,033	-	-
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
	272,620	283,073	-	-
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
	272,637	283,086	-	-
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>

The banking facilities of certain subsidiaries are secured by mortgages over the leasehold land at Taipa Island and the hotel property as at 31 December 2000. Such banking facilities, amounting to \$162,860,000 (1999: \$162,710,000), were utilised to the extent of \$110,367,000 (1999: \$125,040,000) at 31 December 2000.

19. LOANS FROM MINORITY SHAREHOLDERS

Loans from minority shareholders include amounts due to an affiliated company of \$93,447,619 (1999: \$70,006,271) and are non-interest bearing except for an amount of \$13,136,792 (1999: \$10,828,028) which is interest bearing and repayable after 31 December 2005.

The interest charge payable to the affiliated company for the year ended 31 December 2000 was \$1,071,400 (1999: \$350,285).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Creditors and accruals	130,025	176,333	551	808
Sales deposits and receipts in advance	1,124	1,446	283	244
	<u>131,149</u>	<u>177,779</u>	<u>834</u>	<u>1,052</u>

Included in trade and other payables are trade creditors with the following ageing analysis:

	The Group	
	2000	1999
	\$'000	\$'000
Due within 1 month or on demand	2,343	6,871
Due after 1 month but within 3 months	1,120	1,238
Due after 3 months but within 6 months	1,110	637
Due after 6 months but within 1 year	103	—
	<u>4,676</u>	<u>8,746</u>

21. SHARE CAPITAL

	2000		1999	
	No of shares	\$'000	No of shares	\$'000
Authorised:				
Ordinary shares of \$1 each	<u>500,000,000</u>	<u>500,000</u>	<u>500,000,000</u>	<u>500,000</u>
Issued and fully paid:				
At 1 January	340,200,000	340,200	226,800,000	226,800
Shares issued	<u>—</u>	<u>—</u>	<u>113,400,000</u>	<u>113,400</u>
At 31 December	<u>340,200,000</u>	<u>340,200</u>	<u>340,200,000</u>	<u>340,200</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

22. RESERVES

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Share premium account:				
At 1 January	158,105	159,105	158,105	159,105
Expenses on issue of shares	<u>—</u>	<u>(1,000)</u>	<u>—</u>	<u>(1,000)</u>
At 31 December	158,105	158,105	158,105	158,105
Legal reserve:				
At 1 January and 31 December	12,758	12,758	—	—
Exchange reserve:				
At 1 January	14,870	8,417	1,317	1,467
Movement during the year	(5,163)	6,453	<u>—</u>	<u>(150)</u>
At 31 December	9,707	14,870	1,317	1,317
Investment property revaluation reserve:				
At 1 January	3,696	29,874	—	—
Revaluation deficit	(3,605)	(26,178)	<u>—</u>	<u>—</u>
At 31 December	91	3,696	—	—
Investment revaluation reserve:				
At 1 January	(8)	—	(8)	—
Revaluation deficit	(17)	(8)	(17)	(8)
At 31 December	(25)	(8)	(25)	(8)
Retained profits				
At 1 January	716,170	680,032	342,490	314,279
Profit / (loss) for the year	6,948	40,107	(2,639)	32,180
Dividends	<u>—</u>	<u>(3,969)</u>	<u>—</u>	<u>(3,969)</u>
	723,118	716,170	339,851	342,490
	903,754	905,591	499,248	501,904

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

22. RESERVES (continued)

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance.

The legal reserve is non-distributable and represents transfers from annual profits up to a maximum of 20 percent of the issued and paid up capital of the Macau subsidiaries in accordance with the Macau Commercial Code.

Exchange reserve of the Group arises on translation of the financial statements of foreign subsidiaries and associates (see note 1(n)).

The investment property revaluation and investment revaluation reserves have been set up and dealt in accordance with the accounting policies adopted for the revaluation of investment properties (see note 1(f)) and non-trading investments (see note 1(l)).

Distributable profits of the Company at 31 December 2000 amounted to \$339,851,000 (1999: \$342,490,000).

23. COMMITMENTS

At 31 December 2000, the Group had commitments in respect of development expenditure not provided for in the accounts as follows:

	2000	1999
	\$'000	\$'000
Contracted for	150,906	133,668
Authorised but not contracted for	17,810	–
	<u>168,716</u>	<u>133,668</u>

At 31 December 2000, the Group had commitments under operating leases to make payments in the next year as follows:

	2000	1999
	\$'000	\$'000
Leases on premises expiring		
– within one year	<u>180</u>	<u>198</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

24. CONTINGENT LIABILITIES

- (a) At 31 December 2000, there were outstanding counter indemnities relating to guarantees issued by a subsidiary's bankers in favour of the Macau Government in respect of properties under development amounting to \$6,311,000 (1999: \$9,709,000).
- (b) At 31 December 2000, there were guarantees given by a subsidiary to a bank on behalf of purchasers of flats amounting to \$2,656,000 (1999: \$4,683,000).
- (c) Pursuant to the revised agreement with the Macau Government on 6 August 1999 (note 11(b)(i)), Golden Crown is required to complete the remaining phases of the development project by various specified dates up to 31 December 2001. Failure to comply with the development schedule may render the subsidiary liable to a fine of \$4,854 for each day of delay up to a limit of 90 days and thereafter the fine may be increased up to \$9,709 per day. When the delay reaches 180 days, the Macau Government may terminate the agreement totally or partially and the specified areas granted together with the work already done shall revert to the Macau Government and the subsidiary shall have no right of compensation.

Despite likely delays beyond 31 December 2001 as described in note 11(b)(i) above, the directors are confident that given the likely delay is insignificant within the context of the entire Ocean Gardens development, further extensions will be granted to the company to complete the development without rescission of the lease by the Macau Government. Furthermore, the directors consider that the amounts of the fines, were they to be imposed, will be immaterial and would not have a significant adverse impact on the financial position of the subsidiary.

- (d) A dispute arose between the subsidiary and the main contractor of the property under development over contractual issues and the matter has been referred to arbitration in accordance with the terms of the construction agreement (note 11(a)). Having regard to legal advice, the directors are of the view that the subsidiary is not likely to, as a result of such arbitration proceedings, incur additional liabilities in excess of that contemplated in the construction contract.
- (e) At 31 December 2000, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries and an associate amounted to \$183,088,000 (1999: \$182,735,000) and \$53,819,000 (1999: \$24,062,000) respectively.
- (f) At 31 December 2000, guarantees given by a subsidiary to a bank to secure banking facilities made available to an associate amounted to \$34,568,000 (CAD\$6,635,000) (1999: \$35,477,000 (CAD\$6,635,000)).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

25. MACAU PROPERTIES

It is common practice in Macau for transfer of interests in property to be effected by agreements or by the grant of irrevocable powers of attorney, without any change being made in the registered ownership of the property. At 31 December 2000, the Group's interests in certain properties situated in Macau held in this manner were as follows:

	2000	1999
	\$'000	\$'000
Investment properties (note 10(a)(iii))	21,300	21,300
Properties held for sale (note 15(c))	3,260	3,260
	<u>24,560</u>	<u>24,560</u>

26. MATERIAL RELATED PARTY TRANSACTIONS

During the year, certain subsidiaries of the Company had the following transactions which are on normal commercial terms with Goodland Limited ("Goodland"):

- (a) A current account was maintained between Goodland and Ocean Inc and interest was charged on the outstanding balance at market rates. At 31 December 2000, the balance due by Ocean Inc on this account amounted to \$216,153,850 (1999: \$231,525,057). The interest charge for the year ended 31 December 2000 was \$12,792,941 (1999: \$15,088,860).
- (b) Goodland maintained interest bearing current account with Golden Crown. At 31 December 2000, the balance due by Golden Crown amounted to \$9,509 (1999: \$471,008). The interest charge for the year ended 31 December 2000 payable by Golden Crown was \$27,466 (1999: \$2,618,650).

At 31 December 2000, the balances due to / (from) Goodland by OPJV, Golden Crown, Qing Chuan, Shun Seng International Limited and Lam Ho Investments Pte Limited on non-interest bearing accounts amounted to \$171,510 (1999: \$59,145), \$8,600,000 (1999: \$10,150,107), \$(781,069) (1999: \$4,299,194), \$(1,913) (1999: \$26,316) and \$(1,263) (1999: \$Nil) respectively.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

26. MATERIAL RELATED PARTY TRANSACTIONS (continued)

- (c) Loans from minority shareholders include an amount due to Goodland of \$93,447,619 (1999: \$70,006,271) and are non-interest bearing except for an amount of \$13,136,792 (1999: \$10,828,028) which is interest bearing and repayable after 31 December 2005.

The interest charge payable to the affiliated company was \$1,071,400 (1999: \$350,285).

- (d) Golden Crown rented certain of its properties to Goodland and received rental income (net of outgoings) amounting to \$1,011,204 for the year ended 31 December 2000 (1999: \$1,365,125).
- (e) Ocean Inc, Golden Crown, OPJV and Qing Chuan paid management fees of \$1,456,311 (1999: \$1,456,311), \$1,747,573 (1999: \$1,747,573), US\$Nil (1999: US\$60,000) and US\$Nil (1999: US\$194,040) respectively for the year to Goodland.
- (f) Golden Crown rented certain properties from Goodland and rental amounting to \$198,058 (1999: \$428,155) was paid during the year.
- (g) Golden Crown incurred construction fees of \$10,199,480 for the year (1999: \$57,421,775) to Goodland in respect of the construction of certain projects of the Ocean Gardens development.

Kansas Holdings Limited provides management services to the Company. No management fee was charged during the year (1999: \$Nil).

Keck Seng Realty Investment Pte Limited acts as manager and sales agent for the Company's property in Singapore. No management or agency fee was charged during the year (1999: \$Nil).

Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong were interested in the above arrangements as substantial shareholders and directors of Kansas Holdings Limited, Keck Seng Realty Investment Pte Limited and Goodland.

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.