

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Property and equipment – continued

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present value.

Land and buildings are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation are provided to write off the cost or valuation of property and equipment other than investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease or 2%
Equipment	10%-20%

In previous years, buildings were depreciated over the shorter of the term of the lease or at 3% per annum. With effect from 1 January 2000, buildings are to be depreciated over the shorter of the term of the lease or at 2% per annum, which reflects the Group's previous experience of the useful lives of its assets. The change in depreciation rate has decreased the depreciation charge for the year by approximately HK\$2,861,000.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, on a portfolio basis, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Investment properties – continued

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to retained profits.

No depreciation is provided for investment properties which are held on leases with an unexpired term of more than 20 years.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

Amounts due from lessees under finance leases and hire purchase contracts are recorded in advances and other accounts at the amount of the net investment in the leases.

Finance leases and hire purchase contract income is allocated to accounting periods so as to produce a constant rate of return on the net cash investment in the lease. In estimating the net cash investment in a lease, payments are assumed to take place at the beginning of each payment period and taxation rates are assumed to remain constant. Significant changes in these assumptions are adjusted for when they occur. Initial direct costs are written off to the income statement in the year in which they arise.

All other leases are classified as operating leases and the rental income is credited to the income statement on a straight line basis over the lease term.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Operating leases

Rental costs under operating leases are charged to the income statement on a straight line basis over the lease term.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Financial derivative products

Financial derivative products, which include financial futures and forward contracts, interest rate swaps, options and similar derivative products, are recognised on a trade date basis and are initially measured at cost. Financial derivative products outstanding at the year end, except for those designated as hedges, are valued at market rate, with realised gains and losses included in the income statement. Gains and losses related to these derivative products that are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged.

Fiduciary assets

The assets of staff retirement benefits scheme and assets held in trust in a fiduciary capacity are not assets of the Group and accordingly are not included in the financial statements.

Retirement benefits scheme

A non-contributory defined benefit scheme (the "Scheme") has been in operation for all eligible employees since 1995. In December 2000, most of the Scheme members have chosen to enroll in a defined contribution mandatory provident fund scheme (the "MPF Scheme") in replacement of the Scheme.

Retirement benefits scheme contributions charged to the income statement represent payments made in respect of the Scheme and the MPF Scheme.

Payments in respect of the Scheme are calculated by reference to the recommendations made by professionally qualified actuaries so as to spread the costs of providing retirement benefits over the service lives of employees in such a way that the cost is a substantially level percentage of current and expected future pensionable payroll.

Payments in respect of the MPF Scheme are based on specified rates in compliance with the Mandatory Provident Fund Schemes Ordinance.