

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Basis of consolidation

The Group accounts include the accounts of Tai Sang Land Development Limited and its subsidiary companies made up to 31st December.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

(c) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiary companies acquired and is taken to reserves in the year of acquisition.

(d) Subsidiary companies

A company is a subsidiary company if more than 50% of the issued voting capital is held for the long term. Investments in subsidiary companies are stated in the Company's balance sheet at cost less provision, if necessary, for any diminution in value other than temporary in nature.

The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

(e) Turnover

Turnover represents gross rental income, estate agency and management fees, proceeds on sale of properties, interest and dividend income.

(f) Revenue recognition

The Group recognises income on the following bases:

(i) Rental income

Rental income is recognised on a straight line basis over the terms of the lease agreements.

(ii) Agency commission and management fees

Agency commission and management fees are recognised on an accrual basis.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Revenue recognition (Continued)

(iv) Income on sale of listed investments

Income on sale of listed investments is recognised when the title to the investments is passed to the purchaser.

(v) Income on sale of properties

Income on sale of properties is recognised either upon the completion of the sale and purchase agreement or when the relevant project is completed which is determined by the issuance of occupation permit, whichever is later.

(vi) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) Retirement benefit costs

The Group's contributions to the retirement benefit scheme which is defined contribution in nature and available to all employees in Hong Kong are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(h) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuation is released from the investment properties revaluation reserve to the profit and loss account.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Fixed assets (Continued)

(ii) Properties under development

Properties under development are investments in land and buildings under development. The investments are carried at cost or carrying amount (for fixed assets transferred from investment properties into this category for redevelopment) which includes development and construction expenditure incurred and interest and other direct costs attributable to the development.

Carrying amount of assets transferred from investment properties into this category for redevelopment represents amount recorded under their original classification. Upon sale or reclassification back to investment properties, any previous revaluation reserve on the property frozen in the investment properties revaluation reserve at the time of reclassification, will be transferred to the profit and loss account or unfrozen.

No depreciation is provided on properties under development.

(iii) Other properties

Other properties are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost of buildings on a straight line basis over 40 years. Land is depreciated on a straight line basis over the remaining unexpired period of the lease.

(iv) Other fixed assets

Other fixed assets, comprising plant and machinery, furniture and equipment and motor vehicles, are stated at cost less accumulated depreciation. Depreciation is provided on a reducing balance basis at 10% to 20% per annum after charging an initial depreciation of 20% in the year of acquisition.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(i) Land and buildings for resale

Land and buildings for resale are stated at the lower of cost and net realisable value. Cost comprises land cost, development expenditure, professional fees and interest capitalised. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Properties reclassified from properties under development are stated at the lower of carrying amount and net realisable value. Carrying amount represents amount recorded under their original classification.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Borrowing costs

Borrowing costs incurred for the financing of the development of properties that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised and included in the cost of properties under development.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(k) Investment securities

Investment securities are held for the long term and are stated at cost less provision for, if necessary, any diminution in value other than temporary in nature.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below their carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(l) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of overseas subsidiary companies, expressed in foreign currencies, are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(n) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(o) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

2 REVENUE AND TURNOVER

The Group is principally engaged in the investment holding, property investment, property rental, property development and estate management and agency. Revenue recognised during the year is as follows:

	2000	1999
	HK\$	HK\$
Property rental	181,215,060	182,146,124
Property sales		
- investment properties	1,500,000	—
- land and buildings for resale	62,400,000	—
Property related services	9,591,294	10,399,641
Others	2,008,287	3,454,113
	<u>256,714,641</u>	<u>195,999,878</u>

An analysis of the Group's turnover and contribution to profit before taxation for the year by principal activities and markets is as follows:

	Turnover		Contribution to profit before taxation	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Hong Kong				
Property rental	126,511,805	139,627,539	82,165,106	100,181,712
Property related services	9,591,294	10,399,641	5,900,957	4,964,165
Property sales	1,500,000	—	1,120,000	—
Others	2,008,287	2,979,814	2,008,287	4,059,191
Less: Administrative expenses and interest expenses (net)			(56,611,441)	(63,836,338)
	<u>139,611,386</u>	<u>153,006,994</u>	<u>34,582,909</u>	<u>45,368,730</u>
North America				
Property rental	54,703,255	42,518,585	35,132,860	25,433,378
Property sales	62,400,000	—	46,596,708	—
Others	—	474,299	—	474,299
Less: Administrative expenses and interest expenses (net)			(19,309,568)	(10,600,816)
	<u>117,103,255</u>	<u>42,992,884</u>	<u>62,420,000</u>	<u>15,306,861</u>
	<u>256,714,641</u>	<u>195,999,878</u>	<u>97,002,909</u>	<u>60,675,591</u>

3 OPERATING PROFIT

	2000	1999
	HK\$	HK\$
Operating profit is stated after crediting and charging the following:		
Crediting		
Gross rental income from		
- investment properties	161,891,782	162,642,121
- other properties	19,323,278	19,504,003
Dividend income from listed investments	1,054,753	910,431
Interest income	2,631,155	1,867,276
Gain on disposal of investment properties	1,120,000	—
Gain on disposal of listed investments	24,484	17,175
Write back of provision for diminution in value of listed investments	—	1,750,000
	<u> </u>	<u> </u>
Charging		
Auditors' remuneration	1,478,592	1,387,060
Bad debts expense	314,821	887,789
Cost of sales of land and buildings for resale	15,803,292	—
Depreciation	5,485,269	6,601,278
Loss on disposal of other fixed assets	192,366	1,720,124
Outgoings in respect of		
- investment properties	29,613,145	26,320,928
- other properties	4,059,163	4,023,545
Operating lease rental for land and buildings	1,763,171	2,074,935
Retirement benefit costs (note 4)	83,372	—
Staff costs	41,824,331	39,095,752
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4 RETIREMENT BENEFIT COSTS

The Group provided long service payments for all its permanent full time employees in Hong Kong before the Mandatory Provident Fund Scheme (the "MPF" Scheme) which was set up on 1st December 2000. The long service payments were provided for by the Group in accordance with the Employment Ordinance in Hong Kong.

With effect from 1st December 2000, the Group has set up the MPF Scheme, which is defined contribution in nature, for all the eligible employees of the Group in Hong Kong. The contributions from the employees and employer are made to the MPF Scheme and the Group has no longer made provision to the long service payment.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000. The employer's monthly contributions are calculated at 5% of the employees' monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions").

The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.