

## 1 PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of consolidation

- (i) The group accounts include the accounts of the Company and all of its subsidiaries made up to 31 December. All significant intercompany transactions and balances within the Group are eliminated on consolidation and all figures in the group accounts relate to external transactions only.
- (ii) Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital, or it controls the composition of the board of directors.

The investments in subsidiaries are recorded in the Company's accounts at cost, being the fair value of the consideration given plus related acquisition costs, less any provision required for permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

- (iii) Results of subsidiaries are included in the group accounts from their respective dates of acquisition. Results of subsidiaries disposed of during the year are included up to their respective dates of disposal.
- (iv) Goodwill arising on consolidation represents the excess of the cost of investments in subsidiaries over the fair value of net assets acquired at the dates of acquisition. Reserve on consolidation represents the excess of fair value of the net assets of subsidiaries acquired over the cost of investments at the dates of acquisition. Goodwill or reserve arising on consolidation is charged or credited directly to reserves.

### (b) Associated companies

Associated companies are companies, other than subsidiaries, in which the Group has a long term equity interest and over whose management the Group has the ability to exercise significant influence.

The Group's interests in associated companies are included in the consolidated balance sheet at the Group's share of net assets. The consolidated profit and loss account includes the Group's share of the results of associated companies for the year.

Any goodwill or reserve arising on the acquisition of investments in associated companies is charged or credited directly to reserves.

## 1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (c) 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 long term investment potential, any rental income being negotiated at arm's length.

Investment properties are revalued annually by independent professional valuers and stated at their open market value at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Where such a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of an investment property, any revaluation reserve held in respect of the property is released to the profit and loss account.

Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

#### (ii) Other fixed assets

Other fixed assets 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 expected useful lives to the Group. The principal annual rates used for this purpose are:-

Office equipment, furniture and fixtures	15%
Computer software	20%
Computer equipment	33%
Motor vehicles	20%

### (d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

### (e) Properties held for development

Properties held for development are stated at cost less provision for permanent diminution in value. The cost includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred incidental to the development.

(f) Properties held for sale

Completed properties held for sale are included as current assets and are stated at the lower of cost and net realisable value. Cost includes land cost, development expenditure, professional fees, capitalised interest and other expenses incurred at the development phase. Net realisable value is the estimated price at which a property can be realised less related expenses.

(g) Borrowing costs

Borrowing costs incurred on assets under active development that take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of such assets at the Group's weighted average cost of borrowing for the year. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(h) Revenue recognition

(i) Properties held for sale

Revenues and profits arising from the disposal of properties held for sale are recognised on the execution of legally binding contracts of sale.

(ii) Revenue from letting the Group's portfolio of investment properties is recognised on a straight line basis over the lease term.

(iii) Interest income is recognised on a time proportion basis.

(iv) Property management revenue is recognised when the services are rendered.

(v) Dividend income is recognised when the right to receive payment is established.

(i) Investments

(i) Investment securities

Investment securities intended to be held for specific long term purposes are included at cost, except that provision is made to the extent that the directors consider significant permanent diminution in value has taken place.

## 1 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (ii) Other investments

The Group's investments in investment funds are classified as other investments. Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits and losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (j) Deferred taxation

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 accounts. The tax effect of timing differences, computed under the liability method, is recognised in the accounts to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### (k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in operating results.

The accounts of overseas subsidiaries and associated companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are taken directly to the exchange fluctuation reserve.

### (l) Retirement benefits

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any employers' contributions relating to unvested benefits forfeited by employees who leave the scheme are used to reduce the Group's ongoing contributions otherwise payable.

### (m) 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.

# Notes to the Accounts

As at 31 December 2000

## 2 TURNOVER AND REVENUES

The group is principally engaged in property investment, property trading and providing property management services. Revenues recognised during the year are as follows:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover		
Rental income from investment properties	144,269	177,525
Income from property management and related services	13,082	7,609
Proceeds from sales of properties	3,728	1,600
	<u>161,079</u>	<u>186,734</u>
Other revenues		
Rental income net of outgoings on properties held for sale	(724)	1,210
Interest income from – banks	5,234	1,360
– others	123	866
Penalty income from early termination of leases	4,558	–
	<u>9,191</u>	<u>3,436</u>
Total revenues	<u>170,270</u>	<u>190,170</u>

An analysis of the Group's turnover and contribution to operating loss/profit by principal activities and geographical distribution is as follows:-

	Turnover		Operating (loss)/profit	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Principal activities				
Property investment	144,269	177,525	(19,816)	134,582
Property management and related services	13,082	7,609	9,080	151
Property trading	3,728	1,600	(109,992)	(7,566)
	<u>161,079</u>	<u>186,734</u>	<u>(120,728)</u>	<u>127,167</u>
Principal markets				
Hong Kong	157,351	185,134	(44,890)	156,271
Mainland China	3,728	1,600	(75,838)	(29,104)
	<u>161,079</u>	<u>186,734</u>	<u>(120,728)</u>	<u>127,167</u>

# Notes to the Accounts

As at 31 December 2000

## 3 FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank loans and overdrafts	77,146	76,071
Loan arrangement fees	547	1,546
	<u>77,693</u>	<u>77,617</u>

## 4 OPERATING LOSS/PROFIT

The operating loss/profit is stated after charging and crediting the following:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
<b>Charging:</b>		
Auditors' remuneration		
– Current year	460	750
– (Over)/under-provision in previous year	(200)	60
	<u>260</u>	<u>810</u>
Provision for bad debts	1,235	2,566
Depreciation of fixed assets	491	1,447
Loss on disposal of fixed assets	684	12
Outgoings in respect of other properties	2,882	1,175
Staff costs		
– Provision for/(reversal of provision for) discretionary bonus	757	(3,519)
– Pension scheme contributions	470	369
– Salaries and other benefits	8,822	9,151
	<u>8,822</u>	<u>9,151</u>
<b>Crediting:</b>		
Reversal of write-down of properties held for sale	–	2,124
Recovery of bad debts previously written off	–	373
	<u>–</u>	<u>373</u>

# Notes to the Accounts

As at 31 December 2000

## 5 TAXATION CHARGE/CREDIT

(a) The taxation (charge)/credit in the consolidated profit and loss account comprises:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Company and its subsidiaries		
Hong Kong profits tax		
Current year	(3,320)	(8,128)
Over-provision in previous years	1,236	10,191
Hong Kong tax rebate	—	205
	<u>(2,084)</u>	<u>2,268</u>

(b) Hong Kong taxation is provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Hong Kong tax rebate represented a 10% refund of Hong Kong profits tax paid for the year ended 31 December 1997.

(c) An analysis of the full potential unprovided deferred tax assets of the Group as at the year end is as follows:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accelerated depreciation allowances	16	165
Tax losses	4,889	2,972
	<u>4,905</u>	<u>3,137</u>

The surplus/deficit arising on revaluation of investment properties does not constitute a timing difference and accordingly there are no deferred tax implications.

## 6 LOSS/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the loss attributable to shareholders of HK\$120,968,000 (1999: profit of HK\$125,839,000) is a loss of HK\$80,011,000 (1999: profit of HK\$63,726,000), which is dealt with in the Company's accounts.

# Notes to the Accounts

As at 31 December 2000

## 7 DIVIDENDS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Final, proposed, of HK2.0¢ per share (1999: HK2.0¢ per share)	<u>15,943</u>	<u>15,943</u>

## 8 LOSS/EARNINGS PER SHARE

Loss (1999: earnings) per share is calculated based on the loss attributable to shareholders of HK\$120,968,000 (1999: profit of HK\$125,839,000) and the weighted average of 768,493,000 shares in issue (1999: 664,357,000 shares) during the year.

The options of the Company do not result in a dilution effect on the loss/earnings per share in respect of the years ended 31 December 2000 and 1999.

## 9 EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

The emoluments of the directors and the five highest paid employees have been included in staff costs disclosed in note 4 to the accounts.

### (a) Directors' emoluments

Directors' emoluments for the year were as follows:-

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
As directors – fees	–	160
Basic salaries, housing allowances, other allowances and benefits in kind	2,620	2,788
Discretionary bonuses	512	–
Pension contributions	98	54
	<u>3,230</u>	<u>3,002</u>

Directors' fees and other emoluments disclosed above include HK\$ Nil (1999: HK\$160,000) payable to independent non-executive directors.