

## Notes to Financial Statements

### 1. Principal activities

The principal activity of the Company was investment holding. The principal activities of the Company's subsidiaries are investment holding, sale and purchase of long-term listed investments and trading of short-term investments.

### 2. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") 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. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by i) the revaluation of certain land and building in 1993 ii) the revaluation of investment properties and listed investments at market value and iii) the revaluation of unlisted investments at fair value as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December, with the exception of unconsolidated subsidiaries the accounting policy of which is set out in note 2(e) and include the Group's share of the results for the year and undistributed post-acquisition reserves of associates. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective dates of acquisition and to the effective dates of disposal respectively. All material inter-company transactions and balances are eliminated on consolidation.

Goodwill arising on acquisition of subsidiary or associate representing the excess of the cost of investment in subsidiary or associate over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves in the year of acquisition. The excess of the Group's share of the fair value of the separable net assets of subsidiary or associate over cost is credited to capital reserve. On disposal of a subsidiary or an associate, attributable goodwill previously eliminated against reserves is included in the calculation of the profit or loss on disposal.

(d) 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.

Interests in subsidiaries in the Company's balance sheet are stated at cost or at Directors' valuation less provision for any permanent diminution in value.

(e) Unconsolidated subsidiaries

Unconsolidated subsidiary is a subsidiary and the Group's control of which is intended to be temporary. Unconsolidated subsidiary is stated at the lower of cost and net realisable value.

(f) Associates

An associate is a company in which the Group has a long-term equity interest and the Group can exercise significant influence, but not control or joint control, over its management.

The Group's interests in associates are accounted for in the consolidated financial statements under the equity method. The Group's share of post acquisition results of associates for the year is included in the consolidated profit and loss account. The Group's interests in associates are initially recorded at cost and adjusted thereafter for the post acquisition changes in the Group's share of the net assets of the associates.

Results of associates are accounted for by the Company on the basis of dividends received and receivable. Interests in associates in the Company's balance sheet are stated at cost less provision for any permanent diminution in value.

## Notes to Financial Statements (Cont'd)

### 2. Principal accounting policies (Cont'd)

(g) Listed and unlisted investments

Listed investments held for long-term purpose and trading purpose are stated at fair value, which is generally the market value, at the balance sheet date. Changes in fair value of the investments held for long-term purpose are recognised directly in the long-term investment revaluation reserve in the period in which the changes occur, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the profit and loss account for the year. Profits and losses on listed investments held for trading purpose are included in the profit and loss account in the period in which they arise.

Unlisted investments held for long-term purpose are stated at fair value, which is estimated by the Directors by reference to the net asset value of the investments, at the balance sheet date. Changes in fair value of the investments are recognised directly in the long-term investment revaluation reserve in the period in which the changes occur, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the profit and loss account for the year.

Upon disposal of long-term listed and unlisted investments, the gain or loss representing the difference between net sales proceeds and the carrying amount of the relevant investment together with any surplus/deficit transferred from the long-term investment revaluation reserve is dealt with in the profit and loss account. Impairment loss previously transferred from the long-term investment revaluation reserve to the profit and loss account is written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the cost of purchase. Net realisable value represents estimated selling price less selling expenses.

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.

(i) Revenue recognition

Major categories of revenue are recognised in the financial statements on the following bases:

Sales of listed and unlisted investments are recognised when the title to the investment is transferred and the buyer takes legal possession of the investment.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income is accrued on a time proportion basis on the principal outstanding and at the applicable rate.

Rental receivable under operating lease is credited, on a straight line basis, over the lease terms to the profit and loss account.

(j) Depreciation

Investment properties

Investment properties are interests in land and buildings which are held for their investment potential. Investment properties are stated at their open market value based on an annual independent professional valuation at the balance sheet date. Surpluses arising on revaluations are credited to the investment property revaluation reserve and deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account on a portfolio basis. Gain or loss on disposal of an investment property,

## Notes to Financial Statements (Cont'd)

### 2. Principal accounting policies (Cont'd)

representing the difference between the net sales proceeds and the carrying amount of the relevant asset together with any revaluation reserve balance remaining attributable to the relevant asset, is recognised in the profit and loss account. No depreciation is provided on investment property held on lease with unexpired term of more than twenty years.

#### Other properties

Land held on long and medium term lease is depreciated over the unexpired term of the lease. Buildings are depreciated on a straight line basis over 50 years or the remaining term of the lease, if shorter. The Group had placed reliance on provision as permitted by paragraph 72 of SSAP 17 "Properties, plant and equipment" and therefore regular revaluations on land and building stated at valuation are not made.

#### Other fixed assets

Depreciation is provided to write off the cost of other fixed assets less their estimated residual value, on a straight line basis, over their estimated useful lives as follows:

Equipment and motor vehicles	10 - 15 years
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Gain or loss on disposal of fixed assets 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profit and is shown as a movement in reserves.

#### (k) Deferred taxation

Deferred taxation is accounted for at current tax rate in respect of timing differences between results as computed for taxation purposes and results as stated in the financial statements to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

#### (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. Rental expenses in respect of operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

#### (m) Retirement costs

The Group's contributions to retirement scheme are expensed as incurred.

#### (n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies and the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at exchange rates ruling at that date. Exchange differences arising from the translation of financial statements of overseas subsidiaries and associates are dealt with through reserves. All other exchange differences are included in the determination of operating results.

#### (o) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

#### (p) Cash equivalents

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