Notes to the Financial Statements

For the Year Ended 31st December, 2000

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property development and trading, steel trading, hotel operation and property investment and investment holding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

On disposal of investments in subsidiaries, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or registered capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income is 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 revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

(i) *Hotel properties*

Hotel properties are stated in the balance sheet at their open market value on the basis of an annual professional valuation at the balance sheet date. Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel property revaluation reserve except to the extent that it reverses a revaluation decrease of the same hotel property previously recognised as an expense, in which case this 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 a hotel property is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that hotel property. On the subsequent sale or retirement of a revalued hotel property, the balance on the hotel property revaluation reserve attributable to that property is credited to the accumulated profits.

No depreciation is provided on hotel properties except where the unexpired term of the relevant lease is 20 years or less. It is the Group's practice to maintain the buildings in a continual state of sound repairs and to make improvements thereto from time to time and accordingly, the Directors consider that depreciation is not necessary due to their high residual value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ii) *Other property, plant and equipment*

Other property, plant and equipment is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided to write off the cost of items of other property, plant and equipment 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:

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

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 values.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for development

Properties held for development are stated at cost less any impairment loss. The cost of properties held for development includes land costs, construction costs, interest capitalised and other incidental costs. Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises land cost, construction cost, interest capitalised and other direct costs that have been incurred in bringing these properties to their present location and condition.

Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to be incurred in marketing and selling.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in period which they are incurred.

Revenue recognition

(i) *Sales of properties*

Income is recognised only when legal title to the property is transferred to the purchaser and the sale and purchase transaction is completed. Amounts received prior to completion of the transactions are included under current liabilities as deposits received on sale of properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ii) *Sales of goods*

Sales of goods other than properties are recognised when goods are delivered and title has passed.

(iii) *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are provided.

(iv) *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(v) *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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 an expressed intention and ability to hold to maturity (held-to-maturity debt 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 debt 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.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.