## 1 Basis of preparation of the accounts

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

## 2 Principal accounting policies

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

### (a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) Investments in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activities.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

## 2 Principal accounting policies *(Continued)*

### (c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets/liabilities of the associated company. The share of net liabilities of the associated company is accounted for to the extent of the Group's commitment to the associated company.

### (d) Goodwill or capital reserve on consolidation

Goodwill or capital reserve on consolidation represents the excess or shortfall of the purchase consideration paid over the Group's share of the fair value ascribed to the net assets of the respective subsidiaries acquired at the date of acquisition and is written off or credited to reserves in the year in which they arise.

Upon disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off or credited to reserves is transferred to the profit and loss account in determining the profit or loss on such disposal.

### (e) 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.

## 2 Principal accounting policies *(Continued)*

### (e) Fixed assets *(Continued)*

*(i) Investment properties (Continued)*

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent 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 in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to profit and loss account. Any subsequent increases are credited to 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 valuations is released from the investment properties revaluation reserve to the profit and loss account.

*(ii) Other fixed assets*

Leasehold land and buildings and other fixed assets are stated at cost or valuation less accumulated depreciation.

Effective from 30th September, 1995 no further revaluations of the Group's leasehold land and buildings have been carried out, which is in accordance with paragraph 72 of Statement of Standard Accounting Practice 2.117 issued by the Hong Kong Society of Accountants, which provides exemption from the requirement to make regular revaluations for such assets.

## 2 Principal accounting policies *(Continued)*

### (e) Fixed assets *(Continued)*

*(ii) Other fixed assets (Continued)*

Leasehold land is amortised over the remaining period of the lease. Buildings and other fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | Over the shorter of unexpired period of leases or fifty years |
| Motor vehicles | 10% |
| Furniture, fixtures and equipment | 5% - 20% |
| Computers and software | 33 $^{1}/_{3}$% |

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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

## 2 Principal accounting policies *(Continued)*

### (f) Properties under development

Properties under development are investments in land and buildings under development. Cost includes development and construction expenditure incurred and other direct costs attributable to the development. Properties under development for investment are carried at cost less provision, if necessary, for any diminution in value other than temporary in nature. Properties under development for sale are carried at the lower of cost and net realizable value. Net realizable value is determinate on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) Investment securities

Investment securities are stated at cost less any provision for diminution in value other than temporary in nature.

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

### (h) Properties held for sale

Properties held for sale are properties in respect of which the Group has the intention to sell in the next financial year. Properties held for sale are classified under current assets and are stated at the lower of cost and net realisable value.

Cost includes land costs, development and construction expenditure incurred and other direct costs attributable to the development. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.