

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and property investment. The activities of the subsidiary companies and associated companies are shown in notes 13 and 14 to the accounts respectively.

2. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and investments in certain associated companies and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31st March, and the Group's attributable share of post acquisition results and reserves of its associated companies. The results of subsidiary companies 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 effective date of disposal, as appropriate.

Profits or losses on the disposal of subsidiary companies are determined as the difference between the net sale proceeds and the Group's share of net assets together with any goodwill or capital reserve which has not been previously charged or recognised in the consolidated profit and loss account.

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

(b) Goodwill

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

(c) Subsidiary companies

A company is a subsidiary company if more than 50% of the issued equity capital is held for the long term or if the composition of the board of directors is controlled by the Company. Investments in subsidiary companies are carried at cost less provision. Provision is made when, in the opinion of Directors, there is a diminution in value other than temporary in nature.

NOTES TO THE ACCOUNTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) **Associated companies**

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

Investments in associated companies are accounted for under the equity method whereby the Group's share of profits less losses is included in the consolidated profit and loss account and the Group's share of net assets is included in the consolidated balance sheet.

In the Company's balance sheet, investments in associated companies are stated at cost or valuation less provision. Provision is made when, in the opinion of the Directors, there is a diminution in value other than temporary in nature.

(e) **Investments**

Investments held for the long term are stated at cost less provision. Provision is made when, in the opinion of the Directors, there is a diminution in value other than temporary in nature.

Investments held for the short term are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investments are recognised in the profit and loss account. Profits or losses upon the disposals of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) **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.

No depreciation is provided on investment properties held on leases of more than twenty years. Investment properties are carried at their open market values based on annual professional valuations by independent valuers at the balance sheet date. Increases in valuation are credited to the investment properties revaluation reserve; decreases are first set off against earlier valuation reserves on a portfolio basis and thereafter charged to the profit and loss account. Upon the disposal of an investment property, the relevant revaluation reserve is released and credited to the profit and loss account.

NOTES TO THE ACCOUNTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) **Properties under development**

Properties under development are carried at cost comprising land cost, development expenditure, interest or other direct expenses during the course of development.

(h) **Properties held for sale**

Properties held for sale are stated at the lower of cost and estimated net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(i) **Construction contracts in progress**

Construction contracts in progress are stated at cost less progress payments and provision for foreseeable losses.

(j) **Deferred taxation**

Deferred taxation is accounted for at the current tax 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 asset is expected to be payable or recoverable in the foreseeable future.

(k) **Revenue recognition**

Sales of properties are recognised only when the sale agreements are completed or when the relevant building occupation permit is issued by the Building Authorities whichever is the later. Management fee is recognised when services are rendered. Rental income is recognised over the term of the leases on a straight line basis. Revenue from construction contracts in progress is recognised using the percentage of completion method, measured by reference to the cost incurred to date compared with the estimated total cost of the contracts. Interest income is recognised on a time proportion basis. Dividend income is recognised when the right to receive payment is certain.

(l) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rental applicable to operating leases net of any incentives received from the lessors are charged to the profit and loss account on a straight line basis over the lease term.

NOTES TO THE ACCOUNTS *(Continued)*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at exchange rates ruling at that date. All exchange differences are dealt with in the profit and loss account.

(n) Related parties

Related parties are individuals and companies, including subsidiary and associated companies, where the individual, company or group 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.

3. TURNOVER

	2001 HK\$	2000 HK\$
Rental	4,150,665	5,105,061
Management fee	4,639,241	4,896,382
Interest	6,215,558	4,078,718
Construction fee	1,970,740	2,591,510
	<u>16,976,204</u>	<u>16,671,671</u>

Turnover represents rental, management fee, interest and construction fee income.

4. OTHER REVENUES

	2001 HK\$	2000 HK\$
Profit on sales of short-term investments	1,990,993	3,203,381
Dividend from listed investments	—	276,277
Sundries	131,866	42,890
	<u>2,122,859</u>	<u>3,522,548</u>

NOTES TO THE ACCOUNTS *(Continued)*

5. OPERATING PROFIT

	2001 HK\$	2000 HK\$
Operating profit is stated after crediting:		
Gross rental income		
Investment properties	1,233,343	1,409,948
Other properties	2,917,322	3,695,113
Less related outgoings	<u>(402,361)</u>	<u>(336,291)</u>
and after charging:		
Staff costs	4,191,610	4,390,132
Auditors' remuneration	302,000	226,000
Net unrealised loss of short-term investments	7,220,263	—
Operating lease rental expense for land and buildings	<u>175,500</u>	<u>209,625</u>

6. SHARE OF (LOSSES)/PROFITS OF ASSOCIATED COMPANIES

The Group's share of results of associated companies include deficits on revaluation of properties held by associated companies amounting to HK\$19,766,242 (2000: HK\$4,819,150).

7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

	2001 HK\$	2000 HK\$
Fees	<u>150,000</u>	<u>170,000</u>

Directors' fees paid to independent non-executive Directors amount to HK\$50,000 (2000: HK\$50,000). None of the Directors has waived the right to receive their emoluments. Details of the emoluments paid to the five individuals, who are not Directors, whose emoluments were the highest in the Group are:

	2001 HK\$	2000 HK\$
Salaries and other emoluments	1,752,875	1,781,925
Contributions to retirement benefit scheme	<u>120,720</u>	<u>115,378</u>
	<u>1,873,595</u>	<u>1,897,303</u>

The emoluments of each of the five individuals are below HK\$1,000,000.

NOTES TO THE ACCOUNTS *(Continued)*

8. RETIREMENT BENEFITS

The Group participates in a defined contribution scheme which covers all the employees of the Group and certain related companies. The assets of the scheme are held in a trust fund separated from the Group and the related companies. Contributions to the scheme are based on a percentage of employee salary depending upon the length of service of the employee and charged to the profit and loss account in the year to which they relate. The charge for the scheme for the year was HK\$245,998 (2000: HK\$232,944).

9. TAXATION

	2001 HK\$	2000 HK\$
Company and subsidiary companies		
Provision for the year	216,941	1,413,504
Over provision in prior years	(4,526)	(64,511)
Associated companies		
Provision for the year	2,698,679	2,573,500
Over provision in prior years	(9,980)	(51,490)
	<u>2,901,114</u>	<u>3,871,003</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the year. There are no material timing differences not provided for in the accounts.

10. DIVIDENDS

	2001 HK\$	2000 HK\$
Interim dividend paid		
1.1 cents (2000: 1.1 cents) per share	1,330,560	1,330,560
Proposed final dividend		
2.8 cents (2000: 3.9 cents) per share	3,386,880	4,717,440
	<u>4,717,440</u>	<u>6,048,000</u>

NOTES TO THE ACCOUNTS *(Continued)*

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$354,796 (2000: HK\$23,310,881) and on 120,960,000 shares in issue during the year.

12. INVESTMENT PROPERTIES

	Group and Company HK\$
Valuation	
At 31st March 2000	23,300,000
Deficit on revaluation (<i>note 21</i>)	<u>(2,500,000)</u>
At 31st March 2001	<u><u>20,800,000</u></u>

The properties are held under long-term leases in Hong Kong and are stated at professional valuation made on 31st March 2001 by Chung Sen Surveyors Limited on an open market value basis.

13. SUBSIDIARY COMPANIES

	Company	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	110,246	110,246
Amounts receivable	143,530	34,500
Amounts payable	<u>(8,565,864)</u>	<u>(11,050,119)</u>
	<u><u>(8,312,088)</u></u>	<u><u>(10,905,373)</u></u>

NOTES TO THE ACCOUNTS *(Continued)*

13. SUBSIDIARY COMPANIES *(Continued)*

Particulars of the subsidiary companies, all of which are wholly-owned by the Company, are as follows:

Name	Place of incorporation and operation	Principal activities	Nominal value of issued share capital <i>HK\$</i>
Festigood Company Limited	Hong Kong	Property development	2
Galy Property Management Limited	Hong Kong	Property management	2
Khanman Construction Company Limited	Hong Kong	Building contractor	200
Tai Kong Shan Realty Limited	Hong Kong	Property investment	100,000
Tinpoly Realty Limited	Hong Kong	Property investment	40
Wah Ha Construction Company Limited	Hong Kong	Building contractor	2
Wah Ha Real Estate Agency Limited	Hong Kong	Property agency	10,000

NOTES TO THE ACCOUNTS *(Continued)*

14. ASSOCIATED COMPANIES

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Unlisted shares, at cost or directors' valuation in 1990	26,240,627	26,290,627	26,240,627	26,290,627
Share of retained post-acquisition reserves	76,691,145	142,685,754	—	—
Share of net assets	102,931,772	168,976,381	26,240,627	26,290,627
Amounts receivable	258,045,674	259,884,114	258,045,674	259,884,114
Amounts payable	(2,032,640)	(50,504,334)	(2,032,640)	(50,504,334)
	256,013,034	209,379,780	256,013,034	209,379,780
	358,944,806	378,356,161	282,253,661	235,670,407

During the year, the Company received dividends of HK\$58,577,554 (2000: HK\$13,300,000) from associated companies.

Particulars of the associated companies and the amounts receivable/(payable) are as follows:

Name	Principal activities	Amounts receivable/(payable) by Group		Effective percentage of equity held by Group
		2001	2000	
		HK\$	HK\$	
Cantake Land Investment Company Limited	Property development	105,712,760	105,722,760	25
Chase Good Development Limited	Property development	17,629,303	18,280,303	25
Daily Eagle Development Limited	Property development	6,322,661	10,536,411	25
Eastern Tailor Enterprises Limited	Property investment	22,190,919	23,174,919	25

NOTES TO THE ACCOUNTS *(Continued)*

14. ASSOCIATED COMPANIES *(Continued)*

Name	Principal activities	Amounts		Effective percentage of equity held by Group
		receivable/(payable) by Group		
		2001 HK\$	2000 HK\$	
E. Hing Cheung Realty Limited (In Liquidation)	Dormant	—	(23,122,694)	50
Fu Kung San Realty Limited	Investment holding	(1,289,610)	(6,413,610)	50
Fullion Realty Limited	Property investment	(1,716)	(16,126,716)	50
* Fupoly Properties Limited	Property investment	(155,000)	(30,000)	25
Hinquand Enterprise Limited	Property investment	17,156,760	13,554,031	50
Kam Lee Wah Realty Limited	Property investment	163,170	146,590	50
Keneva Company Limited	Property development	36,566,901	32,158,900	25
Keneva Construction Company Limited	Building contractor	—	—	25
Kin Yuen Hing Investment Company Limited	Property development	17,184,056	18,846,556	50
Mass Collection Company Limited	Property development	(586,314)	(4,811,314)	50
Remadour Estate Limited	Property investment	11,043,495	11,795,995	25
* Sing Mei Properties Limited	Property investment	—	—	25

NOTES TO THE ACCOUNTS *(Continued)*

14. ASSOCIATED COMPANIES *(Continued)*

Name	Principal activities	Amounts receivable/(payable) by Group		Effective percentage of equity held by Group
		2001	2000	
		HK\$	HK\$	
* Sun Prince Godown Limited	Property investment	3,331,575	3,227,575	50
* Sun Tai Tsuen Godown Company Limited	Property investment	3,352,469	3,248,469	50
Wah Ha Property Development Limited	Property investment	17,391,605	19,191,605	50
		<u>256,013,034</u>	<u>209,379,780</u>	

(1) The amounts receivable and payable are unsecured, interest free and have no specific repayment terms. The Group has not provided any guarantees in respect of any borrowings or facilities of the associated companies and has not entered into any agreements to make further advances to the associated companies.

(2) All associated companies are incorporated in Hong Kong and are held directly by the Company except Sing Mei Properties Limited which is 50% owned by Fu Kung San Realty Limited.

* The accounts of these associated companies have not been audited by PricewaterhouseCoopers.

15. OTHER INVESTMENTS

	Group and Company	
	2001	2000
	HK\$	HK\$
Unlisted shares, at cost	<u>250,448</u>	<u>250,448</u>

NOTES TO THE ACCOUNTS *(Continued)*

16. LOANS RECEIVABLE

	Group	
	2001 HK\$	2000 HK\$
Mortgage loans	323,627	471,461
Current portion included in current assets	(125,796)	(105,344)
	<u>197,831</u>	<u>366,117</u>

Mortgage loans are provided to purchasers of the Group's properties.

17. DEBTORS AND PREPAYMENTS

	Group	
	2001 HK\$	2000 HK\$
Trade debtors		
Below 60 days	331,358	269,068
Other debtors	2,804,013	2,512,267
Prepayments and utility deposits	190,745	149,869
	<u>3,326,116</u>	<u>2,931,204</u>

Trade debtors represent rental receivable which is normally due for payment upon presentation of debit note at the beginning of each rental period.

18. SHORT-TERM INVESTMENTS

	Group and Company	
	2001 HK\$	2000 HK\$
Unlisted, at cost less provision	32,643,040	—
Listed shares in Hong Kong, at market value	18,019,402	—
	<u>50,662,442</u>	<u>—</u>

NOTES TO THE ACCOUNTS *(Continued)*

19. CREDITORS AND ACCRUALS

	Group	
	2001 HK\$	2000 HK\$
Trade creditors		
Below 90 days	22,822	41,251
Over 90 days	404,200	298,163
	<u>427,022</u>	339,414
Other creditors	5,113,789	283,371
Rental and utility deposits received	883,384	919,918
Accrued expenses	375,000	370,686
	<u>6,799,195</u>	<u>1,913,389</u>

20. SHARE CAPITAL

	Company	
	2001 HK\$	2000 HK\$
Authorised:		
150,000,000 shares of HK\$0.65 each	<u>97,500,000</u>	<u>97,500,000</u>
Issued and fully paid:		
120,960,000 shares of HK\$0.65 each	<u>78,624,000</u>	<u>78,624,000</u>

NOTES TO THE ACCOUNTS *(Continued)*

21. RESERVES

Group	Asset revaluation reserve HK\$	Investment properties revaluation reserve HK\$	Retained profit HK\$	Total HK\$
At 31st March 1999	24,461,230	56,135,452	324,598,699	405,195,381
Deficit on revaluation				
Company and subsidiary companies	—	(300,000)	—	(300,000)
Associated companies	—	(6,104,001)	—	(6,104,001)
Profit for the year	—	—	23,310,881	23,310,881
Dividends	—	—	(6,048,000)	(6,048,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2000	24,461,230	49,731,451	341,861,580	416,054,261
Deficit on revaluation				
Company and subsidiary companies	—	(2,500,000)	—	(2,500,000)
Associated companies	—	(2,533,758)	—	(2,533,758)
Profit for the year	—	—	354,796	354,796
Dividends	—	—	(4,717,440)	(4,717,440)
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At 31st March 2001	<u>24,461,230</u>	<u>44,697,693</u>	<u>337,498,936</u>	<u>406,657,859</u>
Company				
At 31st March 1999	23,600,000	18,302,285	191,985,204	233,887,489
Deficit on revaluation	—	(300,000)	—	(300,000)
Profit for the year	—	—	23,850,061	23,850,061
Dividends	—	—	(6,048,000)	(6,048,000)
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At 31st March 2000	23,600,000	18,002,285	209,787,265	251,389,550
Deficit on revaluation	—	(2,500,000)	—	(2,500,000)
Profit for the year	—	—	65,729,624	65,729,624
Dividends	—	—	(4,717,440)	(4,717,440)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2001	<u>23,600,000</u>	<u>15,502,285</u>	<u>270,799,449</u>	<u>309,901,734</u>

NOTES TO THE ACCOUNTS *(Continued)*

21. RESERVES *(Continued)*

- (1) Asset revaluation reserve, investment properties revaluation reserve and retained profit of the Group attributable to associated companies amounted to HK\$24,461,230 (2000: HK\$24,461,230), HK\$29,195,408 (2000: HK\$31,729,166) and HK\$46,634,507 (2000: HK\$110,095,358) respectively.
- (2) Distributable reserves of the Company, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$270,799,449 (2000: HK\$209,787,265).

22. DEFERRED TAXATION

	Group	
	2001 HK\$	2000 HK\$
Balance brought forward	28,500	37,500
Reclassified to current taxation	<u>(10,159)</u>	<u>(9,000)</u>
Balance carried forward	<u><u>18,341</u></u>	<u><u>28,500</u></u>

Provision is made in respect of timing differences on computing profit on sales of properties for taxation purposes. The surplus arising from the revaluation of investment properties does not constitute a timing difference and accordingly no provision for deferred taxation is required. There are no material timing differences not provided for in the accounts.

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
Operating profit	5,450,508	13,493,009
Dividend income	—	(276,277)
Interest income	(6,215,558)	(4,078,718)
Profit on sales of short-term investments	(1,990,993)	(3,203,381)
Increase in debtors and prepayments	(98,299)	(292,946)
Increase/(decrease) in net balances due to related companies	81,304	(701,693)
Increase/(decrease) in creditors and accruals	4,885,806	(47,609)
Net unrealised loss of short-term investments	<u>7,220,263</u>	<u>—</u>
Net cash inflow from operating activities	<u><u>9,333,031</u></u>	<u><u>4,892,385</u></u>

NOTES TO THE ACCOUNTS *(Continued)*

24. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of the related party transactions, which also constitute connected transactions, carried out in the normal course of the Group's business activities:

	<i>Note</i>	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Associated companies			
Management fee income	1	<u>2,757,500</u>	<u>2,923,839</u>
Related companies			
Management fee income	1	324,000	424,400
Construction fee income	2	1,970,740	2,591,510
Estate agency fee income	3	200,000	200,000
Rental expense	4	<u>175,500</u>	<u>209,625</u>

Notes:

- (1) The Group provides management services to associated companies and a related company. Fees are charged based on a percentage of annual rental income of the associated companies and related companies.
- (2) The Group provides supervisory services for building construction work to related parties. Service fees are calculated based on the number of employees on the job.
- (3) The Group provides estate agency services to a related company at a fixed annual fee of HK\$200,000.
- (4) The rental was paid to a related company at a monthly fixed rate.

25. APPROVAL OF ACCOUNTS

The accounts on pages 15 to 35 were approved by the Board of Directors on 13th July 2001.