1. Principal accounting policies

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

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, investments in securities and options written, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 30 June 2001. 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.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(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 results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(d) Goodwill or capital reserve

Goodwill or capital reserve represents the difference of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired.

Goodwill is, in respect of each acquisition, either recognised as an asset and amortised by equal annual instalments over a maximum period of 20 years or eliminated against reserves in the year of acquisition.

Capital reserve is credited to reserves in the year of acquisition.

1. Principal accounting policies *(continued)*

(e) 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.

Investment properties are stated at annual professional valuation undertaken by independent external valuers at the balance sheet date. 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 operating results. Any subsequent increases are credited to operating results 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.

(f) Fixed assets

Fixed assets other than investment properties (note 1(e)) are stated at cost less accumulated depreciation and are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold land	2.0% - 3.3 %
Buildings	2.5% - 5.0%
Leasehold improvements	20% - 33 1/3%
Plant and machinery	10% - 15%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	20% - 25%
Computer equipment	20% - 30%

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.

1. **Principal accounting policies** *(continued)*

(g) 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. 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.

(h) Investments in securities

(i) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) Trading investments

Trading 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 trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises purchase cost of stocks in trade, materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Loans and accounts receivable

Provision is made against loans and accounts receivable to the extent they are considered to be doubtful. Loans and accounts receivable in the balance sheet are stated net of such provision.

1. **Principal accounting policies** *(continued)*

(k) Options written

Options written by the Group are stated in the balance sheet at fair value as estimated by the directors with reference to the quoted market price of the listed warrants with similar terms. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of options written are recognised in the profit and loss account.

(l) Deferred taxation

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

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(n) Retirement benefit costs

The Group continues to operate defined contribution retirement schemes for the majority of its qualifying employees in Hong Kong. These schemes are exempted recognised occupational retirement schemes under the Mandatory Provident Fund Ordinance. Under these schemes, both the Group and its eligible employees need to contribute 5% of the employees' basic monthly salary. The Group's contributions to these schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

Effective from 1 December 2000, the Group has also joined a mandatory provident fund scheme ("MPF Scheme") in respect of all employees who commenced employment after 30 November 2000. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Both the Group and its employees are required to contribute 5% of the employees' relevant income. The mandatory contributions required to be made by each of the Group and an employee are capped at HK$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF scheme.

1. **Principal accounting policies** *(continued)*

(n) **Retirement benefit costs** *(continued)*

The Group also makes voluntary contributions to the MPF Scheme, which represents the difference between the capped amount and 5% of the employees' monthly basic salaries. The percentage of voluntary contributions vested in the employees is subject to their years of services with the Group.

The Group's contributions to the MPF Scheme are charged to the profit and loss account as incurred in accordance with the rules of the scheme and are reduced by the voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the voluntary contributions. The assets of the MPF Scheme are also held separately from those of the Group in funds under control of an independent trustee.

The Group also participates in the employee pension schemes of the respective municipal government in various places in PRC where the Group operates. The Group is to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group's contributions to the schemes are expensed as incurred.

(o) **Revenue recognition**

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from sale of services is recognised when the services are rendered.

All transactions related to dealing in securities, derivative products and futures and options contracts, and handling fee and commission income arising from these transactions are based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting period have been taken into account.

Proceeds from disposal of trading investments are recognised when a sale and purchase contract is entered into.

Corporate finance and advisory fee income are recognised when the service is rendered, the income can be reliably estimated and it is probable that the revenue will be received.

Rental income is recognised on a straight-line basis over the lease term.

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2. Turnover and revenue

(a) The Group is principally engaged in the provision of financial services, including securities broking, futures broking, corporate finance, financial advisory and proprietary trading, dyestuffs distribution, garment manufacturing, property investments and investment holding.

Revenues recognised during the year/period are as follows:

	Year ended 30 June 2001 ***HK$'000***	Period from 1 April 1999 to 30 June 2000 *HK$'000*
Turnover		
Sales of goods	**97,036**	162,707
Manufacturing processing services	**16,360**	22,714
Country club services	**10,290**	14,119
Brokerage commission from dealing in securities, equity options, futures and options contracts	**17,511**	—
Proceeds from sale of trading investments	**12,764**	—
Trading and handling income from financial derivative products	**8,460**	—
Corporate finance and advisory fee income	**9,789**	—
Commission from new issues and underwriting activities	**3,642**	—
Gross rental income from investment properties	**6,492**	4,401
Dividend income from non-trading securities	**1,950**	—
	184,294	203,941
Other revenues		
Interest income	**7,161**	3,048
Others	**1,595**	—
	8,756	3,048
Total revenues	**193,050**	206,989

2. Turnover and revenue *(continued)*

(b) An analysis of the Group's turnover and contribution to operating profit/(loss) for the year/period by principal activities and markets is as follows:

	Turnover		Operating profit/(loss)	
	Year ended 30 June 2001	Period from 1 April 1999 to 30 June 2000	**Year ended 30 June 2001**	Period from 1 April 1999 to 30 June 2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal activities:				
Investment holding	**1,950**	—	**(93,838)**	(22,761)
Financial services	**52,166**	—	**(18,022)**	—
Dyestuffs distribution	**38,653**	67,522	**(2,851)**	(2,733)
Garment manufacturing	**62,453**	79,336	**3,715**	1,989
Household fabric	**13,020**	39,300	**(1,079)**	(814)
Property holding and others	**16,052**	17,783	**2,056**	(13,424)
	184,294	203,941	**(110,019)**	(37,743)
Gain on disposal of subsidiaries *(note)*	**—**	—	**14,936**	11,318
	184,294	203,941	**(95,083)**	(26,425)
Principal markets:				
Hong Kong	**96,597**	74,230	**(95,040)**	(17,298)
Mainland China	**82,093**	103,698	**532**	(3,947)
Overseas	**5,604**	26,013	**(575)**	(5,180)
	184,294	203,941	**(95,083)**	(26,425)

Note:

Included in the gain on disposal of subsidiaries for the year ended 30 June 2001 is a gain of HK$14.5 million arising on the sale of the household fabric operation. This gain represents the difference between the net proceeds of sale and the carrying amount of the net assets of the household fabric operation at the date of sale together with the capital reserve, which was not previously recognised in the profit and loss account. The household fabric operation is a discontinued operation.