Notes to Financial Statements

1. Principal activities

The principal activity of the Company is 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. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP"s) 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 and changes in accounting policies

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 and unconsolidated subsidiaries at fair value.

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

(i) Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively.

(ii) Segment reporting

In the current year, the Group has followed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

(iii) Goodwill/Negative goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill/negative goodwill previously taken to reserves. However, subsequent impairment loss arising on goodwill will be recognised in the consolidated profit and loss account. Impairment losses of HK$59,459,000 relating to periods prior to 1 January 2000 have been dealt with retrospectively. Therefore, there is no impact in the Group's net assets as at 31 December 2001 and its loss attributable to shareholders for both years presented.

(iv) Leases

In the current year, the Group has adopted SSAP 14 (revised) "Leases". Information relating to the future minimum rental payments receivable/payable for operating leases are disclosed accordingly.

(v) Unconsolidated subsidiaries

In previous year, unconsolidated subsidiaries were stated at cost which was lower than its net realisable value. Following the adoption of SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries", unconsolidated subsidiaries are stated at fair value. This change in accounting policy has no impact on the financial statements for previous year as the fair value of unconsolidated subsidiaries last year was not materially different from the cost.

2. Principal accounting policies (Cont'd)

(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(f). The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal respectively. All material inter-company transactions and balances are eliminated on consolidation.

(d) Goodwill/Negative goodwill

Goodwill or negative goodwill represents the excess or deficit of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries or associates at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is capitalised and amortised on a straight line basis over its estimated useful life not exceeding 20 years. Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision in SSAP 30 and goodwill previously written off against reserves has not been restated. Any impairment losses arising from such goodwill are accounted for in accordance with SSAP 31 "Impairment of assets".

Negative goodwill on acquisitions occurring on or after 1 January 2001 is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable or amortisable.

In respect of associates, the carrying amount of interests in associates includes the goodwill/ negative goodwill less amortisation and any impairment losses.

On disposal of a subsidiary or an associate, any attributable amount of goodwill/negative goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the gain or loss on disposal.

(e) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost or at Directors' valuation less any impairment losses.

(f) Unconsolidated subsidiaries

Unconsolidated subsidiary is a subsidiary which is acquired and held exclusively with a view to its subsequent disposal in the near future therefore the control of which is intended to be temporary. Unconsolidated subsidiaries are stated at fair value which is estimated by the Directors by reference to their net asset value. Gains and losses on unconsolidated subsidiaries are included in the profit and loss account in the period in which they arise. The Group is continuing to actively seek a purchaser for the unconsolidated subsidiaries.

(g) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's investments in associates are accounted for in the consolidated financial statements under the equity method. The Group's investments 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. The consolidated profit and loss account reflects the Group's share of post-acquisition results of the associates for the year.

Investments in associates are accounted for by the Company using the cost method. In the Company's balance sheet, investments in associates are stated at cost less any impairment losses.

2. Principal accounting policies (Cont'd)

(h) 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. Gains 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 sheets 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.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the cost of purchase. Net realisable value represents the 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.

(j) Fixed assets

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, 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.