

# Notes to the Financial Statements

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## 1. PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and property investment in Hong Kong. Activities of the subsidiary company and associated companies are set out in notes 11 and 12 respectively.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

In the current year, the Group adopted the Statement of Standard Accounting Practice 12 (“SSAP 12”) “Income taxes” issued by the HKICPA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group’s accounting policies and the effect of adopting this new policy are set out in Note 2(h) below.

### (b) Basis of consolidation

The Group accounts incorporate the accounts of the Company and its subsidiary company made up to 30 September and include the Group’s share of the results for the year and undistributed post-acquisition reserves of associated companies.

All material intra-group transactions and balances have been eliminated on consolidation.

### (c) Subsidiary company

A company is a subsidiary company if the Group controls more than half of the voting power, controls the composition of the board of directors or holds more than half of the issued equity capital. Provision is made when, in the opinion of the Directors, there is impairment other than temporary in nature.

The Company’s investment in the subsidiary company is carried at cost less provision. The results of the subsidiary company are accounted for by the Company on the basis of dividend income.

### (d) Associated companies

An associated company is a company other than a subsidiary company, in which the Group’s interest is held for the long term and substantial and significant influence is exercised through representatives on the board of directors.

The Group’s investments in associated companies are stated at the Group’s share of net assets and goodwill/negative goodwill (net of accumulated amortisation) on acquisition. The Company’s investments in associated companies are carried at cost less provision. The results of associated companies are accounted for by the Company on the basis of dividend income.

### (e) Unlisted investment

Unlisted investment is stated at cost less provision.

The carrying amount of the investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the

# Notes to the Financial Statements (Cont'd)

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## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (e) Unlisted investment (Cont'd)

carrying amount of the investment will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

### (f) Fixed assets

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for their investment potential. Investment properties are carried in the balance sheet at their open market value based on professional valuation. Increases in valuation are credited to the investment property revaluation reserve; decreases are first set off against earlier revaluation surpluses on a portfolio basis and thereafter charged to the profit and loss account. Upon sale of an investment property, the revaluation surplus realised is transferred to operating profit. No depreciation is provided on investment properties held on leases with unexpired period of more than twenty years.

Fixtures and equipment are stated at cost less accumulated depreciation and provision for impairment. Fixtures and equipment are depreciated over their estimated useful lives using the straight-line method at the rate of 10% per annum.

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised in the profit and loss account to reduce the asset to its 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.

### (g) Revenue recognition

Rental and service income from investment properties is recognised on a time proportion basis. Interest income is recognised on an accrual basis. Dividend income is recognised when the right to receive payment has been established.

### (h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Financial Statements (Cont'd)

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (h) Deferred taxation (Cont'd)

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 18 to the accounts, opening reserves at 1 October 2002 and 2003 have been increased by HK\$226,000 and HK\$57,000 respectively, which represent the unprovided deferred tax assets. The profit for the year ended 30 September 2003 has been reduced by HK\$169,000.

### (i) Foreign currencies

Transactions in foreign currencies during the year are converted at exchange rates ruling at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at that date. All exchange differences are included in the determination of operating profit.

## 3. SEGMENT INFORMATION

	2004 HK\$'000	2003 HK\$'000
<b>(a) Turnover</b>		
Property investment	70,263	69,609
	<u>70,263</u>	<u>69,609</u>
<b>(b) Contribution to operating profit</b>		
Property investment	42,708	42,007
Unallocated item - provision for unlisted investment	( 20,567)	( 9,180)
	<u>22,141</u>	<u>32,827</u>

Turnover represents gross rental and service income from investment properties.

As the Group's principal business is property investment in Hong Kong, an analysis of the Group's turnover and profit by business and geographical segments has not been presented.

## 4. OTHER REVENUES

	2004 HK\$'000	2003 HK\$'000
Bank deposit and other interest income	126	491
Sundry income	294	301
	<u>420</u>	<u>792</u>

# Notes to the Financial Statements (Cont'd)

## 5. OPERATING PROFIT

	2004 HK\$'000	2003 HK\$'000
<b>Operating profit is stated after charging:</b>		
Directors' emoluments (note 6(a))	858	858
Auditors' remuneration	438	438
Depreciation	52	49
Bad and doubtful debts	–	1,995
Staff costs (excluding Directors' emoluments)		
Salaries and other emoluments	3,545	3,514
Long service payments	246	246
Contributions to mandatory provident fund scheme	136	139
	<u>          </u>	<u>          </u>

## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

<b>(a) Directors' emoluments</b>	2004 HK\$'000	2003 HK\$'000
Fees	140	140
Salaries and other emoluments	668	668
Long service payments	38	38
Contributions to mandatory provident fund scheme	12	12
	<u>          </u>	<u>          </u>
	858	858
	<u>          </u>	<u>          </u>

Each non-executive Director receives a fixed fee of HK\$ 20,000 per annum and fees paid to non-executive Directors for the year amounted to HK\$80,000 (2003: HK\$80,000). None of the Directors has waived the right to receive their emoluments.

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

### (b) Senior executives' emoluments

The five individuals whose emoluments were the highest in the Group for the year include one Director (2003: one Director) whose emoluments are reflected in the analysis presented above. Details of the emoluments paid to the remaining four (2003: four) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other emoluments	1,383	1,383
Long service payments	56	56
Contributions to mandatory provident fund scheme	48	48
	<u>          </u>	<u>          </u>
	1,487	1,487
	<u>          </u>	<u>          </u>

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