# 1. PRINCIPAL ACCOUNTING POLICIES

## a. Basis of Preparation

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

## b. Basis of Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 30th June each year and include the Group's interests in associates and jointly controlled entities on the basis set out in note 1(f) and note 1(g) below respectively. The financial statements of the associates and jointly controlled entities used for this purpose are either co-terminus with the financial statements of the Company or cover a year ended not more than six months before the Company's year-end. The results of subsidiaries, associates and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisition or to the effective dates of disposal. All material intra-group transactions and balances are eliminated on consolidation.

Goodwill or capital reserve arising on acquisition of a subsidiary, an associate or a jointly controlled entity, representing the excess or shortfall of the value of purchase consideration paid over the Group's share of the fair value ascribed to separable net assets of the subsidiary, associate or jointly controlled entity acquired at the date of acquisition, is eliminated against or credited to reserves immediately on acquisition. Upon disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill or capital reserve previously taken to reserves is transferred to profit and loss account in calculating the profit or loss on disposal.

Minority interests in the consolidated profit and loss account and balance sheet represents the interests of third parties outside the Group in the results and net assets of subsidiaries.

## c. Turnover

Turnover derived from the Group's principal activities comprises proceeds from sale of properties (excluding proceeds on development properties sold prior to their completion which are included in deposits received on sale of properties under current liabilities), gross rental income from properties letting under operating leases, income from property management, revenue from hotel operation and revenue derived from other business activities including car parking and transport infrastructure management, logistics business, construction, financial services, insurance, stock broking and IT infrastructure and e-commerce businesses. It does not include the turnover of associates and jointly controlled entities.

## d. Revenue Recognition

Revenue of a transaction is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group which will result in increases in equity and these benefits can be measured reliably, on the following basis:

# 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

## d. Revenue Recognition (Continued)

### (i) Property sales

Revenue and profit from sale of completed properties is recognized upon execution of the sale agreements.

When a development property is sold in advance of completion, revenue and profit is only recognized upon completion of the development. Deposits and instalments received from purchasers prior to this stage are included in current liabilities.

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, that portions of the differences between the sale prices with and without such terms representing finance income are allocated to the profit and loss account on a basis that takes into account the effective yields on the amounts of the sales proceeds receivable over the interest-free period.

### (ii) Rental income

Rental income from properties letting under operating leases is recognized on straight line basis over the lease terms.

### (iii) Hotel operation

Revenue from hotel operation is recognized upon provision of services.

### (iv) Interest income

Interest income is accrued on a time proportion basis that takes into account the effective yields on the carrying amount of assets.

### (v) Construction

Revenue in respect of building construction job is recognized on the percentage of completion method measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

### (vi) Investment income

Income from securities and other investments is recognized when the right to receive payment is established.

### (vii) Use of internet services centre facilities

Revenue from customer use of internet services centre facilities is recognized ratably over the term of the agreement.

### (viii) Other income

Property management service fee, car parking management fee, insurance income and stock brokerage are recognized when the services are rendered.

## e. Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the balance sheet of the Company at cost less provision for impairment in value.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### f. Associates

Associates are those in which the Group is in a position to exercise significant influence, but not control or joint control, over the management, including participation in the financial and operating policy decisions.

Results of associates are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in associates are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

### g. Joint Ventures

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

#### (i) Jointly controlled entities

Jointly controlled entities involve the establishment of a separate entity in which the Group has a long term interest and over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements.

Results of jointly controlled entities are incorporated in the consolidated profit and loss account to the extent of the Group's share of post-acquisition profits less losses whereas accounted for in the profit and loss account of the Company only to the extent of dividend income.

Interests in jointly controlled entities are accounted for in the consolidated balance sheet under the equity method and are initially recorded at cost and adjusted for goodwill arising on consolidation at date of acquisition and thereafter for post acquisition change in the Group's share of their net assets whereas in the balance sheet of the Company are stated at cost less provision for impairment in value.

#### (ii) Jointly controlled assets

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognized in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### h. Investments in Securities

#### (i) Investments

Investments in debt and equity securities held for an identified long-term or strategic purpose are stated at cost less provision for impairment in value. Results of investments are accounted for to the extent of dividend and interest income.

Investments in debt securities which are intended to be held to maturity are measured at amortized cost, less any impairment losses recognized, if necessary, in the balance sheet. The amortization of any discount or premium arising on acquisition is aggregated with other investment income receivable over the period from the date of acquisition to the date of maturity so as to give a constant yield on the investment.

#### (ii) Marketable securities

Marketable securities, which are that part of liquid assets temporarily invested in debt and equity securities, are stated at fair value, with unrealized gains and losses included in net profit or loss for the year.

### i. Properties

#### (i) Land pending development

Land pending development, which is stated at cost less provision for impairment in value made by the directors, embraces all land acquired pending any definite intention whether to develop it for long term retention or for sale. When the intention is clear and action initiated, land to be developed for long term retention is reclassified as fixed assets whereas land to be developed for sale and expected to be realized in the normal course of the Group's property development cycle is reclassified as stocks under current assets.

#### (ii) Investment properties

Investment properties are completed properties which are income producing and held for their investment potential on a long term basis. Investment properties are included in fixed assets at open market value on the basis of an annual professional valuation related to properties on the basis that increases in valuations are credited to the investment property revaluation reserve and decreases in valuations are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to operating profit. Upon disposal of an investment property, the revaluation surplus/deficit realized is transferred to operating profit in calculating the profit or loss on disposal.

#### (iii) Hotel properties

Hotel properties and their integral fixed plant used in the operation of hotel are included in fixed assets at open market value on the basis of an annual professional valuation related to individual hotel properties.

#### (iv) Properties under development

Properties under development for long term retention are classified under fixed assets and are stated at cost less provision for impairment in value. These properties are reclassified as investment properties or other properties as the case may be upon completion of the development.

Properties under development for sale are included in stocks at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to completion.

Cost of property in the course of development comprises land cost and development costs during the development period.