3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation is provided so as to write off the cost of each asset over its estimated useful life. The principal annual rates and bases used are as follows:

Leasehold land	Over the lease term
Buildings	2.5% on the straight-line basis
Leasehold improvements	25% on the reducing balance basis
Furniture, fixtures and equipment	15% on the reducing balance basis
Motor vehicles	20% on the reducing balance basis

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development/held for redevelopment

These are stated at cost unless, in the opinion of the directors, there have been impairment losses, when they are written down to values determined by the directors. Cost includes the acquisition cost of the properties and all costs attributable to such redevelopment.

Joint venture arrangement

Where an investment made by means by joint venture structures which do not result in the Group having joint control with the other venturer, or any control nor significant influence over the joint venture, the investment in such joint venture is accounted for as a long term investment which is stated at cost less amortisation and any impairment losses, if necessary. Amortisation is provided to write off the cost in proportion to the expected return over the life of the joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long term investments

Long term non-trading investments in equity securities intended to be held for an identified long term purpose are stated at cost less impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline has occurred, the carrying amount of each investment is reduced to fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

Other long term investments are investments in listed equity securities and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is arrived at on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, under the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounting for leases and hire purchase contracts

i) *Hire purchase contracts*

Hire purchase contracts are accounted for as finance leases. At the inception of the contract, the cost of the asset is capitalised and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. The interest element is charged to the profit and loss account so as to produce a constant periodic rate of charge.

Assets held under hire purchase contracts are depreciated over their estimated useful lives.

ii) *Operating leases*

Rentals in respect of operating leases are dealt with in the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

Foreign currency transactions during the year are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates denominated in foreign currencies are translated into Hong Kong dollars for inclusion in the Group's financial statements using the closing rate method. The resulting translation differences arising on consolidation are dealt with in the exchange fluctuation reserve.

Retirement benefits

At the beginning of year and up to 30 November 2000, the Group operated a defined contribution pension scheme for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Group's contributions having vested fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits *(Continued)*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Related parties

Parties are considered to be related if one party 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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) the rendering of services, in the period in which the services are rendered;

(c) from the sale of properties, on the exchange of legally binding sale and purchase agreements;

(d) from securities dealing and trading, on the transaction dates when the relevant contract notes are exchanged;