(1) GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Directors consider that its ultimate holding company is Shui On Company Limited, a private limited liability company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in construction and contracting, renovation and fitting out, manufacturing and trading of construction and building materials, property development, property investment and investment holding.

(2) SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, certain land and buildings and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or made up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate or a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate or jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On the disposal of investments in subsidiaries, associates or jointly controlled entities, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiaries, associates or jointly controlled entities.

Revenue recognition

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probably recoverable.

Private Sector Participation Scheme ("PSPS") Projects

Revenue from property development projects undertaken by the Group which are known as PSPS projects is recognised, when the outcome of the projects can be estimated reliably, over the development period on the basis of development costs incurred to date as a proportion of the estimated total development costs.

(2) SIGNIFICANT ACCOUNTING POLICIES - continued

Others

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholder's right to receive the relevant payment has been established.

Leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. They are valued at intervals of not more than three years by independent professional valuers. In each of the intervening years, valuations are undertaken by professionally qualified executives of the Group. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment other than certain land and buildings in Hong Kong are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis at the following rates per annum and after taking into account their estimated residue value, if applicable.

Land and buildings in Hong Kong and other regions of the People's Republic of China ("PRC") under medium-term lease	
Leasehold land	Over the term of the lease
Buildings	2.5%
Land and buildings in Hong Kong under short-term lease	Over the term of the lease
Plant and machinery	10 - 25%
Motor vehicles, equipment, furniture and other assets	20 - 33%

Certain land and buildings in Hong Kong are stated in the balance sheet at their revalued amounts, being the fair values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Interests in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, controls more than half of the voting power or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment loss.

Interests in associates

An associate is an enterprise, other than a subsidiary or a jointly controlled entity, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates based on their latest audited financial statements prepared up to 31 March or to a date not exceeding six months prior to 31 March. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

(2) SIGNIFICANT ACCOUNTING POLICIES - continued

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 participating parties has unilateral control.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Other joint venture arrangements

Investments made by means of joint venture structures which do not result in the Group having joint control with the other venturers are accounted for as subsidiaries (where the Group controls the board of directors or equivalent governing body), associates (where the Group is in a position to exercise significant influence) or investments in securities (where the Group exercises neither control nor significant influence).

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Club debentures

Club debentures represent membership rights in recreational clubs and are stated at cost less impairment losses recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(2) SIGNIFICANT ACCOUNTING POLICIES - continued

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of acquisition of land, construction costs, other direct costs and borrowing costs capitalised on such properties until they reach a marketable state. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Properties under development for sale

Properties under development for sale of the Group's PSPS projects are stated at cost plus development profit recognised to date less provision where appropriate.

Cost comprises the cost of acquisition of land, construction costs, other direct costs and borrowing costs capitalised. Net realisable value is estimated by management based on prevailing market conditions or where a binding sales agreement is executed, by reference to the agreed selling prices.

Site establishment expenditure

Site establishment expenditure for quarrying rights or leased sites is stated at cost less amortisation. Amortisation is provided to write off the cost of site establishment expenditure over the duration of the relevant quarrying rights or site leases.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

The accounting records of the Company and its subsidiaries in Hong Kong are maintained in Hong Kong dollars.

Transactions in foreign currencies are translated at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, associates or jointly controlled entities operating in the PRC which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

(2) SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Cash equivalents

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.

(3) SEGMENTAL INFORMATION AND TURNOVER

The Group's turnover and contribution to operating profit for the year ended 31 March, 2001, analysed by principal activity and geographical market, were as follows:

	2001		2000	
	Turnover HK$ million	Contribution to results from ordinary activities before taxation HK$ million	Turnover HK$ million	Contribution to results from ordinary activities before taxation HK$ million
By principal activity:				
Construction and building maintenance	3,546.5	287.2	4,242.4	251.4
Trading of building materials	3.8	(21.0)	-	-
Sale of construction materials	666.9	56.6	780.0	123.4
Property development	1,325.3	227.6	951.9	194.3
Property investment	13.6	9.0	10.9	5.4
	5,556.1	559.4	5,985.2	574.5
Finance costs		(1.1)		(1.0)
Share of results of jointly controlled entities		30.8		35.2
Surplus on revaluation of an investment property		10.0		-
Other (expenses) revenue		(1.0)		3.1
Profit from ordinary activities before taxation		598.1		611.8
By geographical market:				
Hong Kong	5,470.6	558.3	5,863.0	572.3
Other regions in the PRC	85.5	1.1	122.2	2.2
	5,556.1	559.4	5,985.2	574.5