31 July 2000

4. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(Continued)*

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed primarily by way of note (note 8 to the financial statements) and are no longer specifically referred to as "exceptional".

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10 and, accordingly, has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 31 July 2000, except for those subsidiaries set out in notes 15 below. The results of the subsidiaries acquired or disposed of during the period are consolidated from or up to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The Group's investments in unconsolidated subsidiaries are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting at the date of exclusion from consolidation or at cost, less any subsequent provisions for permanent diminutions in values deemed necessary by the directors. The results of these subsidiaries are included in the Group's profit and loss account only to the extent of dividends received and receivable.

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

Goodwill arising on consolidation

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess of the purchase consideration paid for the subsidiaries and associates over the fair values ascribed to the net underlying the assets acquired at the date of acquisition and is eliminated against reserves on consolidation.

On disposal of subsidiaries and associates, the relevant portion of attributable goodwill previously eliminated against reserves is realised and accounted for in determining the gain or loss on disposal.

Subsidiaries

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

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for permanent diminutions in values deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values deemed necessary by the directors.

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) construction contracts, on the percentage of completion basis as further explained in this accounting policy note under the heading "Construction contracts";

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

Revenue recognition *(Continued)*

(b) sales are recognised 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;

(c) rental income is recognised on a time proportion basis over the lease terms;

(d) interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(e) dividend income is recognised when the shareholders' right to receive payment is established.

Fixed assets and depreciation

Fixed assets are stated at cost or carrying amount less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

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.

The carrying amounts of fixed assets are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their estimated recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the fixed asset, including its residual value on disposal. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account as incurred.

NOTES TO FINANCIAL STATEMENTS

31 July 2000

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

Fixed assets and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2 – 10%
Furniture, fixtures and office equipment	10 – $33^1/_3$%
Plant, machinery and workshop equipment	10 – $33^1/_3$%
Motor vehicles	10 – 25%
Floating craft and vessels	10%
Workshops	10 – 50%

Floating craft and vessels under construction are not depreciated until the construction work has been completed and the assets are put into use.

Inventories

Inventories of raw materials and accessories are stated at the lower of cost, on the weighted average basis, and net realisable value after making due allowances for any obsolete or slow-moving items. In the case of work in progress, cost comprises direct materials, direct labour, subcontracting charges and an appropriate portion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract cost incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the lower of the gross billing value of contracting work to date as compared to the total contract sum receivable under the construction contract and the total costs attributable to work performed to date as compared to the estimated total contract costs.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.