

NOTES TO FINANCIAL STATEMENTS

31 March 2002

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	53,662	53,662
Due from subsidiaries	183,306	183,844
	236,968	237,506
Provisions for impairment and amounts due from subsidiaries	(125,094)	(96,417)
	111,874	141,089
Due from subsidiaries classified as current assets	(29,540)	(70,078)
	82,334	71,011

The amounts due from subsidiaries are unsecured and interest-free. Except for an amount of HK\$93,766,000 (2001: HK\$113,766,000), of which the Company has undertaken not to demand repayment on or before 31 March 2004, the remaining balances have no fixed terms of repayment.

NOTES TO

FINANCIAL STATEMENTS

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Wing Hing Group (BVI) Limited	British Virgin Islands	Ordinary US\$41,025.65	100	Investment holding
CWS International Trading Limited	British Virgin Islands	Ordinary US\$10	100	Provision of trade financing services
Indirectly held				
W. Hing Construction Company Limited	Hong Kong	Ordinary HK\$30,000,100 Deferred* HK\$2,380,000	100	Super-structure construction
CWF Piling & Civil Engineering Company Limited	Hong Kong	Ordinary HK\$48,500,000 Deferred* HK\$1,500,000	100	Foundation and piling works
Anpoint Engineering Limited	Hong Kong	Ordinary HK\$10,000,000	100	Electrical and mechanical construction
Asian Creator Engineering Limited	Hong Kong	Ordinary HK\$10	100	Specialised building works
Sunny Engineering Limited	Hong Kong	Ordinary HK\$1,000	100	Machine leasing
Goodcome Investment Limited	Hong Kong	Ordinary HK\$100	55	Property development and construction
CWS Insurance Agent Limited	Hong Kong	Ordinary HK\$2	100	Insurance brokerage services
W H Interior Design and Contracting Company Limited	Hong Kong	Ordinary HK\$2	100	Interior decoration

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15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
W H Projects Management Limited	Hong Kong	Ordinary HK\$2	100	Provision of consultation services
Allied (International) Process Engineering Limited	Hong Kong	Ordinary HK\$1,000,000	80	Process engineering
Maxtop Engineering Limited	Hong Kong	Ordinary HK\$10	70	Interior decoration
Federal Contractors Limited	Hong Kong	Ordinary HK\$10	60	Foundation and piling works
TCJV Construction Company Limited	Hong Kong	Ordinary HK\$10	90	Foundation and piling works
SprayTec Engineering Limited	Hong Kong	Ordinary HK\$2	100	Trading of construction machines
CSP (HK) Limited	Hong Kong	Ordinary HK\$2	100	Dormant
TCL Piling Specialist Limited ("TCL")**	Hong Kong	Ordinary HK\$1,920,002	61	Foundation and piling works
CHEC-CWF Joint Venture	Hong Kong	–	51	Foundation and piling works

NOTES TO FINANCIAL STATEMENTS

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15. INTERESTS IN SUBSIDIARIES (continued)

- * The deferred shares carry no rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of the company. In the winding-up of a company, holders of the deferred shares are entitled to receive amounts paid-up or credited as paid-up on shares after the holders of the ordinary shares of the company have received a total return of HK\$1,000,000,000 per share.

As at 31 March 2002, all these deferred shares were owned by Wing Hing Group (BVI) Limited.

- ** An option exists for the minority shareholders of TCL to acquire from the Group an interest of 1% to 8% shareholding in TCL currently held by the Group at a consideration equivalent to the Group's original cost paid for the acquisition of the underlying shares.

The subsidiaries disposed of during the year did not have any significant contribution to the Group's turnover and results.

16. ACCOUNTS RECEIVABLE

Included in accounts receivable are the amounts due from contract customers which represent the excess of contract costs incurred to date by the Group plus recognised profits less recognised losses over progress billings raised by the Group for respective contracts at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	617,893	488,138
Less: Progress billings	<u>599,300</u>	<u>476,068</u>
Amounts due from contract customers	<u><u>18,593</u></u>	<u><u>12,070</u></u>

Retentions held by contract customers, that are recoverable within twelve months from the balance sheet date, are included in accounts receivable and in the amount of HK\$16,302,000 (2001: HK\$22,789,000). Retentions held by contract customers, that are recoverable after twelve months from the balance sheet date, in the amount of HK\$23,332,000 (2001: HK\$30,922,000), are classified as contract retention receivables under non-current assets.

NOTES TO FINANCIAL STATEMENTS

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16. ACCOUNTS RECEIVABLE (continued)

The Group's credit terms for its contracting business are negotiated with contract customers. Accounts receivable of a non-retention nature are generally due within 30 days of certification by independent architects as to the value of contract works performed and claimed by the Group in its interim applications for progress payment.

Retentions are due on the expiration of contract maintenance/defects liability period, determined in accordance with relevant contract terms and generally stipulated as 181 days to 365 days from the date of practical completion of contract works.

The age of the Group's other accounts receivable, inclusive of contract retention receivables classified as non-current assets, as at the balance sheet date and net of provisions is analysed as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	95,535	114,472
91 days to 180 days	6,153	8,075
181 days to 365 days	5,974	20,227
Over 365 days	305	6,614
	<u>107,967</u>	<u>149,388</u>

17. OTHER RECEIVABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Prepayments, deposits, other debtors and other assets	9,960	9,879
Due from related companies – note 32	4,745	4,579
Due from jointly-controlled entities	4,296	3,224
Due from associates	7,444	120
Due from minority shareholders	674	3,496
Tax recoverable	330	6,877
	<u>27,449</u>	<u>28,175</u>

The amounts due from jointly-controlled entities, associates and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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17. OTHER RECEIVABLES (continued)

Particulars of the amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	31 March 2002 HK\$'000	Maximum outstanding during the year HK\$'000	1 April 2001 HK\$'000
Entrepot Limited [#]	3,044	3,079	3,079
Total Success Worldwide Limited*	6,296	6,296	4,725
Far East Express Holdings Limited*	699	699	525
	10,039		8,329
Provision [#]	(3,044)		–
	6,995		8,329
Portion classified as current assets	(4,745)		(4,579)
Non-current portion	2,250		3,750

* Balances represent claim liabilities recoverable from related companies beneficially and wholly owned by certain directors of the Company (note 29(v)). All of these balances are unsecured and interest-free. Out of the total balance, an aggregate amount of HK\$2,250,000 (2001: HK\$3,750,000) is recoverable after twelve months from the balance sheet date and is classified as non-current assets at the balance sheet date, while the remaining balances of HK\$1,500,000 and HK\$3,245,000 are repayable by two equal instalments in June and December 2002, respectively, and repayable on demand.

[#] Full provision in respect of the amount due from Entrepot Limited of HK\$3,044,000 aged over 2 years was made as at 31 March 2002.

18. SHORT TERM INVESTMENTS

	2002 HK\$'000	Group 2001 HK\$'000
Investment funds in Hong Kong, at fair value	14,570	–

The short term investments have been pledged as security in respect of banking facilities granted to the Group as at 31 March 2002. Further details regarding the above pledge are set out in note 22 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	5,037	2,942	63	339
Time deposits	53,998	99,843	–	–
	59,035	102,785	63	339
Less: Pledged time deposits:				
Pledged for short term bank loans	(10,000)	–	–	–
Pledged for trust receipt loan and other banking guarantee facilities	(11,784)	–	–	–
Pledged for bank overdraft and trust receipt loan facilities	–	(6,054)	–	–
	37,251	96,731	63	339

20. ACCOUNTS PAYABLE

Included in accounts payable are the amounts due to contract customers which represent the excess of progress billings raised by the Group for respective contracts over the contract costs incurred to date by the Group plus recognised profits less recognised losses at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	705,412	818,349
Less: Progress billings	741,446	852,943
Amounts due to contract customers	36,034	34,594

NOTES TO FINANCIAL STATEMENTS

31 March 2002

20. ACCOUNTS PAYABLE (continued)

The age of the Group's other accounts payable as at the balance sheet date is analysed as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	54,317	70,908
91 days to 180 days	1,446	10,839
181 days to 365 days	2,598	5,227
Over 365 days	23,317	28,186
	<u>81,678</u>	<u>115,160</u>

21. OTHER PAYABLES AND ACCRUALS

	Group	
	2002 HK\$'000	2001 HK\$'000
Accrued liabilities and other payables	5,291	6,457
Due to jointly-controlled entities	3,490	-
Due to minority shareholders	16,288	25,871
	<u>25,069</u>	<u>32,328</u>

The amounts due to jointly-controlled entities and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

22. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts	4,803	12,594
Trust receipt loans	-	3,182
Bank loans repayable:		
Within one year	6,000	5,921
In the second year	-	5,968
In the third to fifth years, inclusive	-	5,084
	6,000	16,973
	10,803	32,749
Portion classified as current liabilities	(10,803)	(21,697)
Non-current portion	-	11,052

As at 31 March 2002, the Group's banking facilities were secured by the following:

- (i) legal charges on the Group's leasehold land and buildings and an investment property, all situated in Hong Kong, with carrying values of HK\$2,200,000 and HK\$1,500,000, respectively, as at 31 March 2002 (note 12);
- (ii) legal charges on the Group's short term investments (note 18);
- (iii) pledged deposits of HK\$21,784,000 (2001: HK\$6,054,000) of the Group (note 19);
- (iv) corporate guarantees to the extent of HK\$212 million (2001: HK\$247 million) in aggregate executed by the Company in respect of banking facilities utilised by certain subsidiaries of the Company; and
- (v) cross guarantees amongst certain subsidiaries of the Company.

NOTES TO

FINANCIAL STATEMENTS

31 March 2002

23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its foundation piling business. These leases are classified as finance leases and have remaining lease terms of two years.

At 31 March 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	964	1,061	879	880
In the second to fifth years, inclusive	392	1,423	382	1,321
Total minimum finance lease payments	1,356	2,484	1,261	2,201
Future finance charges	(95)	(283)		
Total net finance lease payables	1,261	2,201		
Portion classified as current liabilities	(879)	(880)		
Non-current portion	382	1,321		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

24. DEFERRED TAX

Deferred tax is provided under the liability method at the rate of 16% (2001: 16%) on timing differences between taxable profits and profits reported in the financial statements.

Movements in the Group's provision for deferred tax liabilities are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	1,370	3,536
Credit for the year – note 9	(441)	(2,166)
Disposal of subsidiaries	(290)	–
At 31 March	<u>639</u>	<u>1,370</u>

The principal components of the Group's provision for deferred tax and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	742	4,261	3,114	2,580
Tax losses carried forward	(103)	(2,891)	(18,335)	(18,169)
	<u>639</u>	<u>1,370</u>	<u>(15,221)</u>	<u>(15,589)</u>

The revaluation of the Group's fixed assets and investment property does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

25. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
287,500,000 ordinary shares of HK\$0.10 each	<u>28,750</u>	<u>28,750</u>

Share options

The Company operates a share option scheme (the "Existing Scheme"), further details of which are set out under the heading "Share Option Scheme" in the Report of the Directors.

The Company had no outstanding share options granted under the Existing Scheme during each of the two years ended 31 March 2002.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

26. RESERVES

	Share premium account HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group						
At 1 April 2000	166,405	1,781	14,834	4,649	(7,076)	180,593
Surplus on revaluation	-	-	4,953	-	-	4,953
Surplus on revaluation shared by minority interests	-	-	(1,367)	-	-	(1,367)
Net loss for the year	-	-	-	-	(71,640)	(71,640)
Release of asset revaluation reserve upon disposal of fixed assets	-	-	(150)	-	150	-
At 31 March 2001 and 1 April 2001	166,405	1,781	18,270	4,649	(78,566)	112,539
Surplus on revaluation	-	-	2,777	-	-	2,777
Deficit on revaluation	-	-	(2,719)	-	-	(2,719)
Surplus on revaluation shared by minority interests	-	-	(29)	-	-	(29)
Net loss for the year	-	-	-	-	(29,342)	(29,342)
Release of asset revaluation reserve upon disposal of fixed assets	-	-	(1,961)	-	1,961	-
At 31 March 2002	166,405	1,781	16,338	4,649	(105,947)	83,226
Reserves retained by:						
Company and subsidiaries	166,405	1,781	16,338	4,649	(108,403)	80,770
Jointly-controlled entities	-	-	-	-	2,465	2,465
Associates	-	-	-	-	(9)	(9)
At 31 March 2002	166,405	1,781	16,338	4,649	(105,947)	83,226
Reserves retained by:						
Company and subsidiaries	166,405	1,781	18,270	4,649	(77,431)	113,674
Jointly-controlled entities	-	-	-	-	(1,130)	(1,130)
Associate	-	-	-	-	(5)	(5)
At 31 March 2001	166,405	1,781	18,270	4,649	(78,566)	112,539

NOTES TO FINANCIAL STATEMENTS

31 March 2002

26. RESERVES (continued)

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company				
At 1 April 2000	166,405	51,562	(37,374)	180,593
Net loss for the year	—	—	(68,054)	(68,054)
At 31 March 2001 and 1 April 2001	166,405	51,562	(105,428)	112,539
Net loss for the year	—	—	(29,313)	(29,313)
At 31 March 2002	166,405	51,562	(134,741)	83,226

The contributed surplus of the Group arose as a result of the Group reorganisation completed on 2 October 1995 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus is distributable in certain circumstances.

The investment property revaluation reserve of HK\$4,649,000 and an amount of HK\$3,107,000 included in the asset revaluation reserve, attributable to leasehold land and buildings, have been frozen and are not available for absorbing any deficit arising from revaluation of the underlying properties which gave rise to these reserves. Such freezing of reserves arose during the year ended 31 March 1998 when the directors of the Company changed the intended use of certain of the Group's investment properties and transferred these properties at their then carrying values to leasehold land and buildings. A reverse transfer to investment properties was also made in respect of certain of the Group's leasehold land and buildings.

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to the Group's accounting period beginning 1 April 2001, to remain eliminated against consolidated reserves.

The amount of goodwill, arising from the acquisition of subsidiaries prior to the Group's accounting period beginning 1 April 2001, and remaining eliminated in consolidated reserves as at 31 March 2002 was HK\$72,000.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2002 HK\$'000	2001 HK\$'000
Loss from operating activities	(38,263)	(71,932)
Interest income	(2,030)	(7,086)
Depreciation	1,198	4,774
Provision for non-recoverable amounts due from contract customers	5,605	19,432
Reversal of provision for non-recoverable amounts due from contract customers	(590)	(786)
Provision for an advance to an associate	375	11,431
Provision for an amount due from a related company	3,044	–
Gain on disposal of short term investments	–	(682)
Loss on disposal of fixed assets	1,041	577
Loss on disposal of an investment property	460	–
Gain on disposal of subsidiaries	(3,260)	–
Unrealised loss on revaluation of short term investments	1,034	–
Deficit arising from revaluation of investment property and leasehold land and buildings	1,243	728
Deficit arising from revaluation of plant and machinery and motor vehicles	1,654	594
Increase in amounts due from jointly-controlled entities	(276)	(848)
Decrease in accounts receivable	34,010	36,397
Decrease/(increase) in amounts due from related companies	(1,710)	891
Decrease/(increase) in amounts due from minority shareholders	2,822	(578)
Decrease/(increase) in prepayments, deposits, other debtors and other assets	(6,549)	1,496
Decrease in accounts and bills payable	(24,787)	(22,293)
Increase/(decrease) in accrued liabilities and other payables	9,192	(5,916)
Decrease in amounts due to minority shareholders	(9,583)	(7,849)
Net cash outflow from operating activities	<u>(25,370)</u>	<u>(41,650)</u>

NOTES TO

FINANCIAL STATEMENTS

31 March 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the years

	Bank loans	Finance lease obligations	Balances with jointly- controlled entities	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	–	1,224	–	4,590
Net cash inflow/(outflow)				
from financing activities	16,973	(1,685)	–	–
Inception of finance leases	–	2,662	–	–
Share of net profit for the year	–	–	–	590
Share of surplus on asset revaluation for the year	–	–	–	1,367
At 31 March 2001 and 1 April 2001	16,973	2,201	–	6,547
Net cash inflow/(outflow)				
from financing activities	4,666	(940)	3,490	–
Share of net loss for the year	–	–	–	(4,398)
Share of surplus on asset revaluation for the year	–	–	–	29
Disposal of subsidiaries	(15,639)	–	–	(641)
At 31 March 2002	6,000	1,261	3,490	1,537

NOTES TO FINANCIAL STATEMENTS

31 March 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	26,996	—
Accounts receivable	5,456	—
Prepayments and deposits	565	—
Cash and bank balances	406	—
Accounts payable	(7,255)	—
Accrued liabilities and other payables	(11,858)	—
Bank loans	(15,639)	—
Deferred tax	(290)	—
Minority interests	(641)	—
	<u>(2,260)</u>	—
Gain on disposal of subsidiaries	3,260	—
	<u>1,000</u>	—
Satisfied by:		
Cash	<u>1,000</u>	—

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	1,000	—
Cash and bank balances disposed of	(406)	—
	<u>594</u>	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>594</u>	—

In respect of the cash flows for the year ended 31 March 2002, the subsidiaries disposed of contributed HK\$340,000 to the Group's net cash inflow from operating activities, and paid HK\$5,000 and HK\$403,000 in respect of the investment activities and financing activities, respectively.

The results of the subsidiaries disposed of for the year ended 31 March 2002 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

During the year ended 31 March 2001, the Group disposed of certain subsidiaries, mainly engaged previously in the business of property development and construction. As these subsidiaries were dormant with all their assets written off in prior years, there was no overall financial effect arising from such disposal.

For the same foregoing reasons, the subsidiaries disposed of during the year ended 31 March 2001 had no material contribution to the Group's cash flows arising from operating activities, returns on investments and servicing of finance, tax, investing activities and financing activities.

(d) Non-cash transactions

During the year ended 31 March 2002, the repayment of amounts due from other debtors in the amount of HK\$5,903,000 was settled by the transfer of fixed assets in the same amount to the Group.

During the year ended 31 March 2001, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$2,662,000.

28. COMMITMENTS

(i) Operating lease commitments

(a) As lessor

The Group leases its investment property (note 12) under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	120	26
In the second to fifth years, inclusive	<u>90</u>	<u>—</u>
	<u><u>210</u></u>	<u><u>26</u></u>

NOTES TO FINANCIAL STATEMENTS

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28. COMMITMENTS

(i) Operating lease commitments (continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000
Within one year	1,559	2,064	812	939
In the second to fifth years, inclusive	1,204	770	968	—
	<u>2,763</u>	<u>2,834</u>	<u>1,780</u>	<u>939</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

(ii) Capital commitments contracted for

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
Acquisition of fixed assets	<u>156</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS

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29. CONTINGENT LIABILITIES

- (i) As at the balance sheet date, the Group and the Company had the following contingent liabilities:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees in respect of performance bonds in favour of contract customers	16,669	31,909	–	–
Corporate guarantees on liabilities of subsidiaries in respect of:				
Finance lease obligations	–	–	1,261	2,201
Interest-bearing bank borrowings	–	–	9,208	22,389
Banking facilities	–	–	1,168	–
	16,669	31,909	11,637	24,590

In addition to the above, as at the balance sheet date, the Company had executed a guarantee in favour of a contract customer in respect of the performance of a subsidiary's obligation under a contract with contract sum of HK\$7,550,000 with that contract customer (2001: Nil).

As at the balance sheet date, the Group's jointly-controlled entities had contingent liabilities in respect of performance bond guarantee amounted to HK\$92,920,000 (2001: Nil) to which the Group, together with other joint venture partners, are jointly and severally liable to.

As at the balance sheet date, the Group executed a guarantee in respect of repayment of mortgage loan granted to an associate to the extent of HK\$6,613,000 (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2002

29. CONTINGENT LIABILITIES (continued)

- (ii) As at 31 March 2002, certain subsidiaries of the Company had provided undertakings of financial support to certain of the Group's jointly-controlled entities in proportion to their equity interests in these entities, in order that these entities could meet their obligations and liabilities as and when they fall due. The Group's share of net deficiency in assets in these joint venture entities as at the balance sheet date in the amount of HK\$2,397,000 (2001: HK\$1,914,000) has already been accounted for (note 13) in presenting these financial statements.
- (iii) The Group was involved during the two years ended 31 March 2002 in the undertaking of two construction contracts for the Hong Kong Housing Authority ("HA"). In attending to these contract works, the Group received requests for clarifications from the HA regarding the technical compliance of the piling work sections of these contract works. Additional piling specification review, testing and other compliance procedures were carried out to substantiate the satisfactory adherence to the technical specifications required for these contract works and for any extension works required for the purpose of providing assurance to the HA. Provisions have been made in the financial statements for the two years ended 31 March 2002 for all additional costs incurred, as well as those necessarily required to be incurred, in attending to these and other additional works reasonably anticipated by the directors to be necessary for the satisfaction of the HA.

As a result of the execution of these additional contract works, which were not anticipated at the stage of contract inception, the contract period was prolonged with a corresponding overrun of the contract costs incurred. In accordance with contractual agreement, HA is entitled to claim against the Group for liquidated damages for the delay in completion of contract works. The maximum potential amount of liquidated damages involved was assessed by the directors based on contractual provisions as approximately HK\$17 million, in aggregate, as at 31 March 2002. Having regard to the circumstances surrounding the prolonged contract works as described above, the directors are however of the opinion that the Group has meritorious defences against claims for the liquidated damages. In a letter of 12 December 2000 issued by HA, HA confirmed that its building committee had considered the situation and approved the waiver of liquidated damages on an ex-gratia basis if the delay is due to unanticipated complex ground conditions and/or initiatives on supervision enhancement and design approval on piling works implemented after contract formation. Accordingly, although the Group's grounds of claiming waiver of these possible liquidated damages has yet to be reviewed and approved by HA, the directors are of the opinion that the likelihood of such damages falling to the Group is not probable and a provision therefor has not been made in presenting the financial statements for the two years ended 31 March 2002.

29. CONTINGENT LIABILITIES (continued)

In July 2001, the piling sections involved in these HA contract works were completed and, to date, the Group has not received any complaint or indications from the HA regarding sub-standard piling works. The Group is presently in the process of filing formal claims to HA requesting compensation of the extra contract costs incurred, which have already been fully charged to the profit and loss account during each of the two years ended 31 March 2002, as a result of contract prolongation. However, as the negotiations with HA have not yet reached an advanced stage, in view of the uncertainties involved, no accrual for the potential compensation revenue has been made in these financial statements.

- (iv) The Group was previously engaged, since early 2000, in the undertaking of a piling works contract, which was terminated by the contract customer during 2001 prior to completion of contract works as a result of the allegation of non-conforming piles. As at 31 March 2002, the contract customer had demanded of the Group for the retrenchment of HK\$5 million of the contract fees received by the Group, as compensation for early termination of contract works. Having considered legal counsel's advice, the directors are of the opinion that the Group has a meritorious defence against the claim. Accordingly, no provision has been made in these financial statements.
- (v) The Group was held liable to two related claims for the alleged breach of contractual duties, brought against the Group from a contract customer and a nominated sub-contractor in respect of renovation works undertaken by the Group in 1992. The total claims payable in respect of the claims amounted to HK\$9.2 million. Certain directors of the Company, through companies beneficially and wholly owned by them, have covenanted with the Group to jointly and severally indemnify and keep the Group indemnified in full against the damages payable. A provision therefor, as well as the corresponding reimbursement recoverable of an equal amount, have been recognised in these financial statements.

30. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by assets of the Group, are included in note 22 to the financial statements.

31 March 2002

31. PENDING LITIGATION

- (i) The Group is involved in disputes with the other shareholder of an associate and its related parties (the "Dispute Parties"), under which the Group is alleged, amongst other things, to have mis-appropriated certain construction machinery and to have defaulted into repayment of related machinery lease rentals in the amount of approximately HK\$5 million in aggregate. The directors consider that proper payment has been made regarding the machinery and, having regard to advice from the legal counsel, are also of the opinion that the Group has a meritorious defence against these additional claims. Accordingly, a provision therefor has not been made in these financial statements.

The Group has initiated legal actions against the Dispute Parties in respect of machinery lease rentals in the aggregate amount of approximately HK\$6 million incurred on a machinery lease agreement which was incepted by the Dispute Parties on behalf of the associate but was not properly authorised by the board of directors of the associate and a claim for the recovery of STG195,000 advanced by the Group to the Dispute Parties.

- (ii) A number of claims have been brought against the Group in respect of compensation for alleged personal injuries sustained by construction workers during the execution of contract works. The directors believe that any liabilities of the Group in respect of such claims will be covered either by the Group's insurance policies, or that the Group has a meritorious defence against such claims. Accordingly, the directors do not believe that these claims will have any material adverse impact on the Group and, therefore no provisions have been made in respect thereof.
- (iii) A claim for approximately HK\$1.6 million was brought against a subsidiary of the Company by a sub-contractor alleging that the Group is liable for settlement of sub-contracting charges to the sub-contractor. Having considered the legal counsel's advice, the directors believe that the Group has meritorious defences for the claim. Accordingly, the directors consider that a provision for the claim is not necessary.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had transactions with certain related parties during the year as summarised below.

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Insurance premiums paid to a related company	(i)	639	543
Insurance brokerage commission received from a related company	(i)	(81)	(101)
Service fee income from jointly-controlled entities	(ii)	(2,103)	(2,155)
Subcontracting fees paid to minority shareholders of subsidiaries	(iii)	7,332	5,979
Machinery rental paid and payable to minority shareholders of subsidiaries	(iii)	-	292
Service fee paid to minority shareholders of subsidiaries	(iv)	3,529	10,018
Contract sum received and receivable from a minority shareholder of a subsidiary	(v)	(41,032)	(17,213)

NOTES TO

FINANCIAL STATEMENTS

31 March 2002

32. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) Insurance premiums and insurance brokerage commission were paid to/received from certain subsidiaries of China Insurance H.K. (Holdings) Company Limited ("China Insurance"), which owns 15.65% of the issued capital of the Company through its 99.9% owned subsidiary, Glado Development Limited. As confirmed by the directors of the Company, insurance premium expense and insurance brokerage commission income were calculated by reference to open market rates.
- (ii) The service fee income was charged in relation to the provision of management services in respect of the undertaking of construction works. The service charge was made on a cost recovery basis.
- (iii) The subcontracting fees and machinery rental were charged for subcontracting work in respect of construction contracts rendered to the Group. The directors consider that the subcontracting fees and machinery rental were made according to conditions similar to those paid to other non-related subcontractors and suppliers.
- (iv) The service fee was paid in relation to the provision of site workers for the undertaking of construction works of the Group, and was charged on a cost recovery basis by the minority shareholders.
- (v) The contract sum was received in respect of renovation works rendered to external walls of two town hall complexes, of which the minority shareholder is the main contractor. The directors consider that these contract fees were made according to terms similar to those offered to non-related contract customers of the Group.

In addition to the above, the Group made advances to related companies of the Company during the year, the summary terms of which are set out in note 17 to the financial statements.

Details of the Group's balances with its associates as at the balance sheet date are included in note 17 to the financial statements, and details of the Group's balances with its jointly-controlled entities are included in notes 17 and 21 to the financial statements.

The Group was held and adjudicated to be liable to certain litigation claims, the summary details of which are set out in note 29(v) to the financial statements. In connection with these claim liabilities, certain directors of the Company, through companies beneficially wholly owned by them, have covenanted with the Group to jointly and severally indemnify and keep the Group indemnified in full against the damages payable, including any expenses or liabilities which the Group may sustain in connection with the claims.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

32. RELATED PARTY TRANSACTIONS (continued)

The Group has also provided undertakings of financial support to certain of the Group's jointly-controlled entities, in proportion to the Group's equity interests in these entities, in order to enable those entities to meet their liabilities and obligations as and when they fall due (note 29 (ii)).

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2002.