

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September 2004

1. Corporate information

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

During the period ended 30th September 2004, the Group was principally involved in the undertaking of superstructure construction, foundation piling, substructure works, interior decoration works and special construction projects in Hong Kong SAR.

2. Basis of preparation and accounting policies

The unaudited consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These interim financial statements should be read in conjunction with the 2004 annual financial statements. The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the audited financial statements for the year ended 31st March 2004.

3. Turnover

Turnover represents the aggregate of the gross value of work earned from superstructure construction, foundation piling, substructure works, interior decoration and special construction projects.

4. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's net profit attributable to shareholders for the six months ended 30th September 2004 of HK\$6,468,000 (2003: HK\$8,298,000).

The basic earnings per share is based on the weighted average number of shares in issue during the six months ended 30th September 2004 of 287,500,000 (2003: 287,500,000). The diluted earnings per share is based on 332,117,486 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 44,617,486 shares deemed to be issued if all the Group's convertible note had been exercised. No diluted earnings per share was presented for the six months ended 30th September 2003 as there were no potential dilutive shares outstanding.

5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended	
	30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of services provided	130,038	185,855
Depreciation	1,760	1,628
Less: Amounts capitalised in construction contracts	–	(997)
	<u>1,760</u>	<u>631</u>
Staff costs (excluding directors' remuneration)		
Wages and salaries	15,322	19,737
Pension scheme contributions	635	399
Less: Amounts capitalised in construction contracts	(10,571)	(11,148)
	<u>5,386</u>	<u>8,988</u>
Goodwill amortization	61	–
Reversal of provision for non-recoverable amounts due from contract customers*	(1,539)	(2,200)
(Gain)/loss on disposal of a subsidiary*	(92)	83
Write off of an amount due from an associate*	–	420
Interest income	<u>(85)</u>	<u>(152)</u>

* These items are included in "Other operating expenses, net" on the face of the condensed consolidated profit and loss account.

6. Tax

- (a) Hong Kong profits tax was provided at the rate of 17.5% (six months ended 30th September 2003: 16%) on the estimated assessable profits arising in or derived from Hong Kong. Deferred tax on deductible/taxable temporary differences reversed during the period has been charged/credited to the profit and loss account using the applicable rates of tax in Hong Kong.
- (b) The tax charge for the period is made up as follows:

	Six months ended	
	30th September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group		
Current Hong Kong profits tax		
– provision for the period	40	–
– overprovision for prior period	(600)	–
Deferred tax	1,297	1,621
	737	1,621

7. Accounts receivable

Included in accounts receivable are the following amounts related to construction contracts.

	30th September	31st March
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits		
less recognised losses to date	841,166	1,119,528
Progress billings	804,234	1,088,773
Amounts due from contract customers	36,932	30,755

7. Accounts receivable (Continued)

An aged analysis 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 as follows:

	30th September	31st March
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current to 90 days	15,963	73,957
91 days to 180 days	3,540	11,179
181 days to 365 days	12,634	5,795
Over 365 days	21,442	19,476
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	53,579	110,407
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Retentions held by customers for contract works, included in accounts receivable, amounted to HK\$30,380,000. Retentions held by customers that are recoverable after twelve months from the balance sheet date are classified as contract retention receivables in non-current assets as at the balance sheet date.

8. Accounts payable

Included in accounts payable are the following amounts related to construction contracts.

	30th September	31st March
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Contract costs incurred plus recognized profits		
less recognized losses to date	444,782	246,484
Progress billings	454,767	271,812
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Amounts due to contract customers	9,985	25,328
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8. Accounts payable *(Continued)*

An aged analysis of the Group's other accounts payable as at the balance sheet date is as follows:

	30th September	31st March
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current to 90 days	29,755	56,155
91 days to 180 days	2,339	3,879
181 days to 365 days	2,357	2,392
Over 365 days	8,572	12,816
	43,023	75,242

9. Share capital

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

10. Contingent liabilities

As at the balance sheet date, the Group had the following contingent liabilities:

	30th September	31st March
	2004	2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Guarantees in respect of performance bonds in favour of contract customers	45,190	32,223

Save as disclosed above, there was no material change in the Group's contingent liabilities as compared to the most recent published annual report.

11. Segment information

The Group's operations are principally undertaken in Hong Kong SAR. An analysis of the Group's turnover and profit from operating activities by principal activity, in respect of the Group's operations for the six months ended 30th September 2004 is as follows:

2004

	Superstructure construction works (Unaudited) HK\$'000	Foundation piling and substructure works (Unaudited) HK\$'000	Special construction projects (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	36,172	27,018	14,653	65,712	-	143,555
Intersegment sales	950	2,938	2,062	-	(5,950)	-
Other revenue	407	1,718	441	1,457	-	4,023
Intersegment revenue	-	2,671	-	9,423	(12,094)	-
Total	<u>37,529</u>	<u>34,345</u>	<u>17,156</u>	<u>76,592</u>	<u>(18,044)</u>	<u>147,578</u>
Segment results	<u>1,452</u>	<u>6,810</u>	<u>(1,249)</u>	<u>(3,316)</u>		<u>3,697</u>
Interest income						<u>85</u>
Profit from operating activities						<u>3,782</u>

2003

	Superstructure construction works (Unaudited) HK\$'000	Foundation piling and substructure works (Unaudited) HK\$'000	Special construction projects (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	165,327	17,915	7,207	8,944	-	199,393
Intersegment sales	-	-	13,674	31,680	(45,354)	-
Other revenue	1,028	4,612	56	160	-	5,856
Intersegment revenue	-	-	-	-	-	-
Total	<u>166,355</u>	<u>22,527</u>	<u>20,937</u>	<u>40,784</u>	<u>(45,354)</u>	<u>205,249</u>
Segment results	<u>3,905</u>	<u>727</u>	<u>2,837</u>	<u>(1,230)</u>		<u>6,239</u>
Interest income						<u>152</u>
Profit from operating activities						<u>6,391</u>

12. Commitments

(i) Operating lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th September 2004 (Unaudited) HK\$'000	31st March 2004 (Audited) HK\$'000
Within one year	38	723
In the second to fifth years, inclusive	–	50
	38	773

(ii) Capital commitments contracted for

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
Capital contribution to jointly-controlled entities	5,303	11,046
Acquisition of fixed assets	–	5,030
	5,303	16,076

In addition to the above, as at 30th September 2004, the Group's share of jointly-controlled entity's own capital commitments amounted to approximately HK\$16,859,000 which were contracted but not provided for. Save as disclosed above, there was no material change in the Group's commitments as compared to the most recent published annual report.

13. Pledge of assets

As at 30th September 2004, the Group's assets were pledged as follows:

- (i) pledged bank deposits amounted to HK\$41,654,000; and
- (ii) legal charges over the Group's leasehold land and buildings, which are all situated in Hong Kong, with carrying values of approximately HK\$5,587,000.

14. Post balance sheet event

On 5th October 2004, Sunny Engineering Limited ("Sunny"), a wholly owned subsidiary of the Company, entered into a shareholders' agreement (the "Shareholders' Agreement") with two other companies (the "Other Shareholders of the Associate") with respect to the ownership, management and operations of an associate (the "Associate"). The Associate was established by Sunny and the Other Shareholders of the Associate to undertake a property development project. The resolution approving the Shareholders' Agreement was passed at the Company's Special General Meeting held on 15th November 2004.

The issued share capital of the Associate is owned as to 35% by Sunny and as to 65% by the Other Shareholders of the Associate. Pursuant to the terms of the Shareholders' Agreement, the development costs and the working capital requirements of the Associate shall be funded by means of advances and credit from financial institutions and when such advances and credit are exhausted or unavailable, by advances from the shareholders of the Associate in proportion to their respective shareholding.

It is currently estimated by the Associate that the development costs will be approximately HK\$124,300,000, of which HK\$21,300,000 represents the land purchase price, HK\$18,000,000 represents the premium payable for the change of use of the land from industrial and/or godown use to commercial use and approximately HK\$85,000,000 represents the construction costs.

The Associate is negotiating with a number of banks with a view to obtain loans to finance the development costs. Up to 15th December 2004, the Associate has secured banking facilities in aggregate of HK\$99,000,000, to which the Company has executed its proportionate corporate guarantee to the amount of HK\$34,650,000. Based on the estimated development costs in the sum of HK\$124,300,000, the possible further shareholders' advance to be made by Sunny would be as follows:—

	<i>HK\$'000</i>
Estimated development costs	124,300
Less: secured banking facilities up to 15th December 2004	(99,000)
Less: pro-rata shareholders' advances made up to 15th December 2004	(23,260)
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Possible further shareholders' advance	2,040
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Sunny's proportionate possible further shareholders' advance	714
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