

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2005*

### 1. Corporate information

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda. The principal place of business of the Company is located at 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

During the period ended 30 September 2005, the Group was principally involved in the undertaking of superstructure construction, foundation piling, substructure works, slope improvement, special construction projects, interior decoration and landscaping works in Hong Kong SAR.

### 2. Principal accounting policies

The unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and in compliance with the Hong Kong Accounting Standards ("HKAS") No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and methods of computation used in preparing these unaudited condensed consolidated financial statements are consistent with those followed in preparing the Group's annual financial statements for the year ended 31 March 2005, except that the Group has changed certain of its accounting policies following its adoption of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

## 2. Principal accounting policies (Continued)

The HKICPA has issued a number of new HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs below, which are relevant to its operations, in the preparation of the unaudited condensed consolidated financial statements. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS – Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 3	Business Combinations

Save as disclosed below, the adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies:

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.

## 2. Principal accounting policies (Continued)

HKAS 24 has affected the identification of related parties and some other related party disclosures.

The effect of the adoption of certain new HKFRSs, which results in substantial changes to the Group's accounting policies, is set out below:

a) *Amortisation of positive and negative goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets)*

In prior periods:

- Positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the profit and loss account until disposal or impairment of the acquired business;
- Positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- Negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the profit and loss account as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit and loss account as it arises.

## 2. Principal accounting policies (Continued)

### a) *Amortisation of positive and negative goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets) (Continued)*

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transition arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 April 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the profit and loss account for the six months ended 30 September 2005. This has increased the Group's profit after tax for the six months ended 30 September 2005 by approximately HK\$288,500.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the profit and loss account on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the interim financial statements as there was no negative goodwill deferred as at 31 March 2005 and 30 September 2005.

### b) *Investment property (HKAS 40, Investment Property)*

In prior years, movements in the fair value of the Group's investment property was recognised directly in the investment property revaluation reserve except when the reserve was insufficient to cover a deficit, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account.

Under the adoption of HKAS 40 as from 1 January 2005, all changes in the fair value of investment property is recognised directly in the profit and loss account in accordance with the fair value model in HKAS 40.

The change in policy has been adopted retrospectively and comparative amount has been restated accordingly.

## 2. Principal accounting policies (Continued)

The resulting effect on the financial statements of the Group is set out below:

Effect on the unaudited consolidated profit and loss account:

In respect of the six months period ended 30 September 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months period ended 30 September 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective new HKFRSs. As retrospective adjustments have not been made for all changes in accounting policies as explained above, the amounts shown for the six months ended 30 September 2004 may not be comparable to the amounts shown for the current interim period.

Effect of new accounting policies (increase/ (decrease) in profit	Note	For the six months period ended 30 September 2005			For the six months period ended 30 September 2004		
		Shareholders of the		Total	Shareholders of the		Total
		Company	Minority interests		Company	Minority interests	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>HKFRS 3</b>							
Amortisation of goodwill	2(a)	289	-	289	61	-	61
<b>HKAS 40</b>							
Investment Property	2(b)	300	-	300	-	-	-
Total increase in profit attributable to shareholders of the Company		<u>589</u>	<u>-</u>	<u>589</u>	<u>61</u>	<u>-</u>	<u>61</u>
<b>Effect on earnings per share (increase / (decrease))</b>							
Basic (in Hong Kong cents)		0.18			0.02		
Diluted (in Hong Kong cents)		<u>N/A</u>			<u>0.02</u>		

## 2. Principal accounting policies (Continued)

Effect on the opening balance of total equity at 1 April 2005 (as adjusted):

The following table sets out the adjustment that have been made to the opening balances at 1 April 2005. These are the aggregate effect of retrospective adjustment to the net assets as at 31 March 2005.

Effect of new accounting policy (increase/(decrease))	Note	Investment property revaluation reserve HK\$'000	Retained profits/ losses) HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
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Prior period adjustment:

### HKAS 40

Investment Property	2(b)	(6,299)	6,299	-	-	-
Total effect at 1 April 2005		<u>(6,299)</u>	<u>6,299</u>	<u>-</u>	<u>-</u>	<u>-</u>

Effect on opening balance of total equity at 1 April 2004 (as adjusted):

The following table sets out only those adjustment that have been made to the opening balances at 1 April 2004. As explained above, certain of the changes in policy did not result in retrospective adjustment being made to the opening balances as at 1 April 2004 as this was prohibited by the relevant transitional provisions.

Effect of new accounting policy (increase/(decrease))	Note	Investment property revaluation reserve HK\$'000	Retained profits/ losses) HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
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Prior period adjustment:

### HKAS 40

Investment Property	2(b)	(4,649)	4,649	-	-	-
Total effect at 1 April 2004		<u>(4,649)</u>	<u>4,649</u>	<u>-</u>	<u>-</u>	<u>-</u>

**3. Turnover**

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

**4. Earnings per share**

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company for the six months ended 30 September 2005 of HK\$3,695,000 (2004: HK\$6,468,000).

The basic earnings per share is based on the weighted average number of shares in issue during the six months ended 30 September 2005 of 335,147,541 (2004: 287,500,000). No diluted earnings per share for the six months ended 30 September 2005 has been presented as the warrants had an anti-dilutive effect on the basic earnings per share for the period ended 30 September 2005. The diluted earnings per share for the six months ended 30 September 2004 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.

## 5. (Loss)/profit from operating activities

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

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Cost of services provided	229,654	130,038
Depreciation	2,786	1,760
Less: Amounts capitalised in construction contracts	—	—
	<u>2,786</u>	<u>1,760</u>
Goodwill amortization	—	61
Staff costs (excluding directors' remuneration)		
Wages and salaries	18,730	15,322
Pension scheme contributions	745	635
Less: Amounts capitalized in construction contracts	<u>(12,987)</u>	<u>(10,571)</u>
	<u>6,488</u>	<u>5,386</u>
Reversal of provision for non-recoverable amounts due from contract customers*	(238)	(1,539)
Surplus arising from revaluation of an investment property*	(300)	—
Loss on disposal of fixed assets*	50	—
Gain on disposal of a subsidiary*	—	(92)
Interest income	<u>(422)</u>	<u>(85)</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 30 September 2004: 17.5%) 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 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Group		
Current Hong Kong profits tax		
– provision for the period	–	40
– overprovision for prior period	–	(600)
Deferred tax	<u>38</u>	<u>1,297</u>
	<u><u>38</u></u>	<u><u>737</u></u>

## 7. Accounts receivable

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

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Contract costs incurred plus recognized profits less recognised losses to date	<u>669,904</u>	406,766
Less: Progress billings	<u>637,971</u>	<u>384,382</u>
Amounts due from contract customers	<u><u>31,933</u></u>	<u><u>22,384</u></u>

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:

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Current to 90 days	60,110	81,527
91 days to 180 days	4,362	6,208
181 days to 365 days	20,687	5,529
Over 365 days	19,082	22,268
	<u>104,241</u>	<u>115,532</u>

Retentions held by customers for contract works, included in accounts receivable, amount to HK\$31,299,000. 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.

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Contract costs incurred plus recognized profits less recognized losses to date	294,739	802,652
Less: Progress billings	<u>317,271</u>	<u>826,920</u>
Amounts due to contract customers	<u>22,532</u>	<u>24,268</u>

## 8. Accounts payable (Continued)

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

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Current to 90 days	52,407	56,483
91 days to 180 days	5,565	2,043
181 days to 365 days	12,553	2,860
Over 365 days	22,909	21,522
	<u>93,434</u>	<u>82,908</u>

## 9. Share capital

HK\$'000

### *Authorised:*

At 1 October 2004, 31 March 2005 and 30 September 2005

1,000,000,000 ordinary shares of HK\$0.10 each

100,000

### *Issued and fully paid:*

At 1 October 2004 and 31 March 2005

287,500,000 ordinary shares of HK\$0.10 each

28,750

### *Issue of new shares:*

74,500,000 ordinary shares of HK\$0.10 each

7,450

At 30 September 2005

36,200

## 10. Contingent liabilities

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

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Guarantees in respect of performance bonds in favour of contract customers	<u><u>50,104</u></u>	<u><u>48,908</u></u>

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 (loss)/profit from operating activities by principal activity, in respect of the Group's operations for the six months ended 30 September 2005 is as follows:

2005

	Superstructure construction works (Unaudited) HK\$'000	Foundation piling and substructure works (Unaudited) HK\$'000	Special construction projects (Unaudited) HK\$'000	Interior decoration and landscaping works (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:							
Sales to external customers	135,772	33,365	44,555	10,587	17,223	-	241,502
Intersegment sales	287	2,023	2,465	34,296	-	(39,071)	-
Other revenue	121	1,970	23	157	273	-	2,544
Intersegment revenue	-	-	-	-	11,942	(11,942)	-
Total	<u><u>136,180</u></u>	<u><u>37,358</u></u>	<u><u>47,043</u></u>	<u><u>45,040</u></u>	<u><u>29,438</u></u>	<u><u>(51,013)</u></u>	<u><u>244,046</u></u>
Segment results	<u><u>4,660</u></u>	<u><u>5,347</u></u>	<u><u>(15,122)</u></u>	<u><u>(322)</u></u>	<u><u>3,675</u></u>		(1,762)
Interest income							<u><u>422</u></u>
Loss from operating activities							<u><u>(1,340)</u></u>

## 11. Segment information (Continued)

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>		3,697
Interest income						<u>85</u>
Profit from operating activities						<u>3,782</u>

## 12. Commitments

### Operating lease commitments

#### (a) As lessor

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

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Within one year	<u>9</u>	<u>56</u>

**12. Commitments (Continued)***(b) As lessee*

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

	<b>30 September 2005 (Unaudited) HK\$'000</b>	31 March 2005 (Audited) HK\$'000
Within one year	<u><b>173</b></u>	<u>112</u>

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 30 September 2005, the Group's assets were pledged as follows:

- (i) pledged bank deposits amounted to HK\$38,552,000; 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\$9,000,000.

**14. Post balance sheet events***(i) Investment in Wealthy Star Development Limited*

Subsequent to the balance sheet date, Sunny Engineering Limited ("Sunny"), a wholly owned subsidiary of the Company entered into an acquisition agreement with an independent third party (the "Vendor") pursuant to which Sunny has agreed to purchase from the Vendor 8% of the entire issued capital of Wealthy Star Development Limited. This acquisition constitutes a very substantial acquisition on the part of the Company under Rule 14.06 of the Listing Rules and had been approved by of the shareholders of the Company on 28 November 2005.

Further details in respect of the above investment are set out in the circular dated 11 November 2005.

**14. Post balance sheet events (Continued)****(ii) Investment in Powerluck Properties Limited**

Subsequent to the balance sheet date, Sunny entered into the Shareholders' Agreement with certain independent third parties to record their respective rights and obligations with respect to the ownership, management and operations of Powerluck Properties Limited. The investment in Powerluck Properties Limited constitutes a discloseable transaction on the part of the Company under Rule 14.06 of the Listing Rules.

Further details in respect of the above investment are set out in the circular dated 11 November 2005.