# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 September 2005*

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated financial statements have not been audited or reviewed by the Company's external auditors but have been reviewed by the Company's Audit Committee.

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

These condensed consolidated financial statements should be read in conjunction with the 2004/05 annual financial statements of the Group.

The accounting policies adopted in these condensed consolidated financial statements are consistent with those set out in the Group's audited consolidated financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following the adoption of certain new or revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations (hereinafter collectively referred to as "HKFRSs") which are effective for accounting periods commencing 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 in note 2 below.

## 2. CHANGES IN ACCOUNTING POLICIES

For the year ended 31 March 2005, the Group early adopted the following new HKFRSs in the financial statements:

| | |
|---|---|
| HKFRS 3 | Business Combinations |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 40 | Investment Property |

When preparing the interim financial statements of the Group for the six months ended 30 September 2004, goodwill arising from acquisitions after 1 April 2001 had been amortised on a straight-line basis over its estimated useful life of 20 years and amortisation expense of approximately HK$431,000 was recorded in the condensed consolidated income statement for the six months ended 30 September 2004. Upon adoption of HKFRS 3, HKAS 36 and HKAS 38 in preparing the consolidated financial statements for the year ended 31 March 2005, the Group has ceased the amortisation of goodwill from 1 April 2004. Accordingly, the comparative amount of profit attributable to shareholders of the Company for the six months ended 30 September 2004 has been restated and increased by reversing the amortisation of goodwill of approximately HK$431,000.

Following the adoption of HKAS 40 " Investment Property", a gain or loss arising from a change in the fair value of investment property is now recognised in the profit or loss for the period in which it arises. This new accounting standard has resulted in an increase in the profit attributable to shareholders of the Company for the six months ended 30 September 2005 by approximately HK$25,427,000 of revaluation gain.

## 2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The adoption of other new HKFRSs in the current period has resulted in the following changes in the Group's accounting policies:

**Leasehold land and building held for own use**

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy for leasehold land and buildings held for own use. In prior years, leasehold land and buildings were included in property, plant and equipment and measured at fair value or cost less accumulated depreciation and accumulated impairment. From 1 April 2005 onwards, the land and building elements of a lease of land and building are considered separately for the purposes of lease classification in accordance with the requirements of HKAS 17. Prepaid land premiums for the land leases are amortised on a straight-line basis over the lease term. However, if the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease is classified as a finance lease and the leasehold interests in land continue to be included in property, plant and equipment.

**Leasehold land held for development for sale**

In prior years, leasehold land held for development for sale was stated at cost less impairment losses and no amortisation was provided.

Following the adoption of HKAS 17, prepaid land premiums are amortised on a straight-line basis over the lease term. Amortisation on the prepaid land premium related to a property which is in the course of development or re-development, or is acquired exclusively with a view to subsequent disposal in the near future or for development and resale is included as part of the costs of the property for development. Such property is accounted for as inventories in accordance with the provisions of HKAS 2 "Inventories".

**Deferred tax on revaluation of investment properties**

In prior years, deferred tax on revaluation of investment properties was assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with SSAP-Interpretation 20. As it was considered that no capital gain tax would be payable upon disposal of the Group's investment properties, no deferred tax was provided on the revaluation gain on investment properties in prior years.

In the current period, the Group has applied HKAS-Interpretation 21 ("INT-21"), "Income Taxes – Recovery of Revalued Non-Depreciable Assets" and recognizes deferred tax on changes in fair values of investment properties on the basis that the carrying amounts of investment properties are to be recovered through use.

This change in accounting policy has been applied retrospectively and comparative amounts have been restated. As a result, the opening retained earnings as of 1 April 2005 has been decreased by HK$2,616,000.

As a result of this new accounting policy, the Group's taxation expense for the six months ended 30 September 2005 has increased by HK$4,450,000.

**Derivative financial instruments**

In the current period, the Group has for the first time entered into interest rate swap arrangements with a bank to manage the Group's exposure to risks of interest rate upward trends.

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", a derivative is a financial asset or financial liability at fair value through profit or loss and is classified as held for trading (except for a derivative that is a designated and effective hedging instrument). A derivative is initially recognised and subsequently remeasured at fair value. For a derivative that is designated as held for trading, a gain or loss arising from a change of its fair value is recognised in profit or loss. For a derivative that is designated as a hedging instrument and meets the conditions for hedge accounting, changes in its fair value are recognised in profit or loss or in equity depending on the type of the hedging relationship and the effectiveness of the hedge.

## 2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**Derivative financial instruments** *(Continued)*

As a result of the adoption of HKAS 39, the Group has recognised a gain on changes in fair values of derivative financial instruments of approximately HK$737,000 in the income statement for the six months ended 30 September 2005.

The effect of the above new accounting standards on the Group's profit for the period is summarised as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Effect on profit for the period:** | | |
| HKFRS 3 Discontinuation of amortisation of goodwill | **431** | 431 |
| HKAS 39 Gain on changes in fair values of derivative financial instruments | **737** | – |
| HKAS 40 Gain on revaluation of investment properties | **25,427** | – |
| INT-21 Deferred tax on revaluation of investment properties | **(4,450)** | – |
| **Increase in profit for the period** | **22,145** | 431 |
| **Attributable to:** | | |
| Shareholders of the Company | **22,145** | 431 |
| Minority interests | **–** | – |
| | **22,145** | 431 |
| **Effect on earnings per share (EPS):** | | |
| Increase in Basic EPS | **2.354 cents** | 0.046 cents |
| Diluted EPS | **N/A** | N/A |

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the consolidated financial statements, the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include those used in the measurement of the fair values of investment properties and financial instruments, the recognition of construction contract revenue and expenses based on the percentage of completion method, the test for impairment of assets, the provision for income taxes and retirement benefit obligations.

## 4. SEGMENT INFORMATION

Analysis of the Group's segment revenue and segment results by business segments, which is the Group's primary basis of segment reporting, is as follows:

| | Building construction | | Civil engineering works | | Renovation, repairs and maintenance | | Property investment | | Property development | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | |
| | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) (restated) |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue** | | | | | | | | | | | | |
| External customers | 335,112 | 607,840 | 37,079 | 61,716 | 237,164 | 118,662 | 3,168 | – | – | – | 612,523 | 788,218 |
| **Segment results** | | | | | | | | | | | | |
| Profit from operating activities | 21,679 | 24,750 | 2,445 | 4,555 | 10,326 | 5,574 | 27,447 | – | (129) | – | 61,768 | 34,879 |
| Finance costs | – | – | – | – | – | – | (4,579) | – | – | – | (4,579) | – |
| | 21,679 | 24,750 | 2,445 | 4,555 | 10,326 | 5,574 | 22,868 | – | (129) | – | 57,189 | 34,879 |
| Unallocated revenue and gains | | | | | | | | | | | 3,987 | 415 |
| Unallocated corporate expenses | | | | | | | | | | | (12,587) | (16,282) |
| Unallocated finance costs | | | | | | | | | | | (2,704) | (242) |
| Share of loss of a jointly-controlled entity | | | | | | | | | | | (11) | (6) |
| Profit before tax | | | | | | | | | | | 45,874 | 18,764 |
| Tax | | | | | | | | | | | (8,164) | (3,311) |
| **Profit for the period** | | | | | | | | | | | 37,710 | 15,453 |

During both current and prior periods, the Group primarily carried out all of its operations in Hong Kong. Accordingly, no geographical segment information is presented.

## 5. TURNOVER, OTHER REVENUE AND GAINS

| | Six months ended 30 September | |
|---|---|---|
| | 2005 (unaudited) *HK$'000* | 2004 (unaudited) *HK$'000* |
| **Turnover** | | |
| Contract revenue | 609,355 | 788,218 |
| Property gross rental income | 3,168 | – |
| | 612,523 | 788,218 |
| **Other revenue and gains** | | |
| Bank interest income | 1,158 | 23 |
| Gain on disposal of fixed assets | 1 | – |
| Exchange gain | 897 | – |
| Gain on changes in fair values of derivative financial instruments | 737 | – |
| Sundry income | 1,194 | 392 |
| | 3,987 | 415 |

## 6. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities has been arrived at after charging/(crediting):

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | | (restated) |
| | ***HK$'000*** | *HK$'000* |
| Depreciation | **720** | 800 |
| Exchange gains, net | **(897)** | – |
| Interest income | **(1,158)** | (23) |
| (Gain)/loss on disposal of fixed assets | **(1)** | 63 |

## 7. TAX

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current – Hong Kong: | | |
| Charge for the period | **3,928** | 3,311 |
| Deferred *(Note 17)* | **4,236** | – |
| | **8,164** | 3,311 |

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimate assessable profits arising in Hong Kong for the period.

## 8. DIVIDEND

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Interim – Nil (2004: HK0.5 cent per ordinary share) | **–** | 4,704 |
| | **–** | 4,704 |

## 9. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's unaudited net profit attributable to shareholders for the period of approximately HK$37,710,000 (2004 restated: HK$15,453,000) and on the actual weighted average number of 940,758,000 shares (2004: 940,758,000 shares) of the Company in issue during the period.

Diluted earnings per share has not been calculated for both periods as the Company's outstanding share options did not have a dilutive effect.

## 10. PROPERTY, PLANT AND EQUIPMENT

| | 30 September 2005 (unaudited) HK$'000 | 31 March 2005 (audited) HK$'000 |
|---|---|---|
| Leasehold land and building | 15,309 | 15,309 |
| Leasehold improvements | 2,347 | 1,989 |
| Machinery and equipment | 2,162 | 3,521 |
| Furniture, fixture and office equipment | 10,238 | 9,663 |
| Motor vehicles | 2,773 | 2,651 |
| Less: Accumulated depreciation and impairment | (15,325) | (15,293) |
| | 17,504 | 17,840 |

The Group's leasehold land and building is situated in London, the United Kingdom, held under a long lease and pledged as security against the Group's bank borrowings.

## 11. INVESTMENT PROPERTIES

| | 30 September 2005 (unaudited) HK$'000 | 31 March 2005 (audited) HK$'000 |
|---|---|---|
| At beginning of period / year | 229,800 | 16,800 |
| Additions | 226,193 | 198,050 |
| Acquisition of subsidiary | 4,000 | – |
| Gain on revaluation | 25,427 | 14,950 |
| | 485,420 | 229,800 |

All of the investment properties of the Group are situated in Hong Kong and held under the following lease terms:

| | 30 September 2005 (unaudited) HK$'000 | 31 March 2005 (audited) HK$'000 |
|---|---|---|
| Land in Hong Kong: | | |
| – Long leases | 315,320 | 195,300 |
| – Medium term leases | 170,100 | 34,500 |
| | 485,420 | 229,800 |

The Group's investment properties were valued by B.I. Appraisals Limited, independent professionally qualified valuers, at HK$485,420,000 as at 30 September 2005 (31 March 2005: HK$229,800,000) on market value basis. The gain on revaluation of HK$25,427,000 (2004: nil) and deferred tax thereon of HK$4,450,000 (2004: nil) have been recognised in the consolidated income statement for the period.

As at 30 September 2005, the Group's investment properties with an aggregate carrying value of HK$485,100,000 (31 March 2005: HK$229,500,000) were pledged as security against general banking facilities granted to the Group.

**12. PROPERTIES FOR DEVELOPMENT**

At 30 September 2005, properties for development pledged as security against the Group's bank borrowings amounted to approximately HK$182,058,000 (31 March 2005: HK$42,355,000).

**13. ACCOUNTS RECEIVABLE**

Accounts receivable consist of receivables from contract works and rentals under operating leases. The payment terms of contract works were stipulated in the relevant contracts. Rentals are normally payable in advance.

The following is the ageing analysis of accounts receivable at the balance sheet date:

| | 30 September 2005 (unaudited) *HK$'000* | 31 March 2005 (audited) *HK$'000* |
|---|---|---|
| 0 – 3 months | 116,234 | 157,026 |
| 4 – 6 months | 350 | 1,744 |
| over 6 months | 19,213 | 2,345 |
| | 135,797 | 161,115 |

As at 30 September 2005, retentions receivable from customers for contract works included in the accounts receivable amounted to approximately HK$49,609,000 (31 March 2005: HK$50,226,000).

At 30 September 2005, accounts receivable of approximately HK$80 million (31 March 2005: HK$96 million) was assigned to banks to secure the banking facilities granted to the Group.

**14. ACCOUNTS PAYABLE**

The following is the ageing analysis of accounts payable at the balance sheet date:

| | 30 September 2005 (unaudited) *HK$'000* | 31 March 2005 (audited) *HK$'000* |
|---|---|---|
| 0 – 3 months | 119,917 | 183,996 |
| 4 – 6 months | 5,640 | 15,294 |
| over 6 months | 29,519 | 28,438 |
| | 155,076 | 227,728 |

As at 30 September 2005, retentions payable to customers for contract works included in accounts payable amounted to approximately HK$39,423,000 (31 March 2005: HK$36,543,000).

As at 30 September 2005, trade payables to related parties included in accounts payable amounted to approximately HK$181,000 (31 March 2005: HK$181,000).

## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 September 2005 (unaudited) HK$'000 | 31 March 2005 (audited) HK$'000 |
|---|---|---|
| Secured bank overdrafts | 17,645 | – |
| Secured bank loans repayable within one year or on demand *(Note 16)* | 77,057 | 61,590 |
| Current portion of finance lease payable | 50 | 50 |
| | 94,752 | 61,640 |

## 16. INTEREST-BEARING BANK LOANS

| | 30 September 2005 (unaudited) HK$'000 | 31 March 2005 (audited) HK$'000 |
|---|---|---|
| Secured bank loans repayable: | | |
| Within one year or on demand | 77,057 | 61,590 |
| In the second year | 19,317 | 4,705 |
| In the third to fifth years, inclusive | 53,698 | 15,076 |
| Beyond five years | 288,851 | 113,541 |
| | 438,923 | 194,912 |
| Portion classified as current liabilities *(Note 15)* | (77,057) | (61,590) |
| Long term portion | 361,866 | 133,322 |

## 17. DEFERRED TAX

The movements in deferred tax liabilities (assets) during the period are as follows:

| | Accelerated tax depreciation | | Revaluation of properties | | Tax losses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 |
| At 1 April, as previously reported | 511 | 223 | – | – | (202) | – | 309 | 223 |
| Prior year adjustment on adoption of INT-21 *(Note 2)* | – | – | 2,616 | – | – | – | 2,616 | – |
| As restated | 511 | 223 | 2,616 | – | (202) | – | 2,925 | 223 |
| Charge to income for the period | 232 | – | 4,450 | – | (446) | – | 4,236 | – |
| At 30 September | 743 | 223 | 7,066 | – | (648) | – | 7,161 | 223 |

## 18. SHARE OPTIONS

Details of share options outstanding are as follows:

| Exercise period | Exercise price per share | Number of ordinary shares underlying the share options outstanding as at 30 September 2005 | 2004 |
|---|---|---|---|
| 29 April 2004 – 28 April 2007 | HK$0.8 | 95,958,000 | 95,958,000 |

## 19. ACQUISITION OF SUBSIDIARY

| | Six months ended 30 September 2005 (unaudited) *HK$'000* | 2004 (unaudited) *HK$'000* |
|---|---|---|
| Net assets acquired: | | |
| Investment property | 4,000 | – |
| Secured bank loan | (1,520) | – |
| | 2,480 | – |
| Satisfied by: | | |
| Cash | 2,480 | – |

On 28 July 2005, the Group acquired 100% equity interest in Win Glories Limited ("Win Glories"), a company incorporated in Hong Kong and engaging in property investment, for a cash consideration of approximately HK$2,480,000. The results of Win Glories since the acquisition date included in the Group's consolidated profit for the period is insignificant.

## 20. CONTINGENT LIABILITIES

As at 30 September 2005, the Group had the following contingent liabilities:

(a) The Group had outstanding guarantees against performance bonds in favour of contract customers of approximately HK$79 million (31 March 2005: HK$69 million).

(b) The Company had outstanding guarantees against banking facilities granted to subsidiaries of the Company which were utilised to the extent of approximately HK$456 million (31 March 2005: HK$266 million).

(c) As at 30 September 2005, the Group had the following outstanding litigation:

(i) On 3 January 2003, a High Court action was brought by a subcontractor against a subsidiary of the Group for a claim for subcontracting fee of approximately HK$2.6 million. The Directors consider that, given the nature of the claim, it is not possible to estimate the eventual outcome of the claim with reasonable certainty. After consulting with the Group's lawyer, the Directors are of the opinion that the Group has valid defence, and consider that any resulting liability would not have material impact on the Group's financial position.

**20. CONTINGENT LIABILITIES** *(Continued)*

(ii) On 4 September 2004 and 2 April 2005, two District Court actions were brought by two employees of the Group against the Group's subsidiaries and other respondents in respect of claims for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by those employees in two accidents respectively occurred in the course of their employment.

(iii) On 11 January 2005, 26 January 2005, 4 March 2005 and 3 August 2005, four District Court actions was commenced by four employees of the Group's subcontractors against the Group's subsidiaries and other respondents in respect of claims for employees' compensation under the Employees' Compensation Ordinance for personal injury sustained by those employee in accidents arising in and out of the course of their employment.

(iv) On 15 June 2005, a High Court action was commenced by an employee of the Group's subcontractor against the Group's subsidiary and another respondent in respect of a claim for employees' compensation under the common law for personal injury sustained by the employee in an accident arising out of and in the course of his employment.

No settlement has been reached for the above actions up to the date of this report and no judgement has been made against the Group in respect of the claims. The Directors are of the opinion that the claims will be covered by insurance and would not have material adverse impact on the Group's financial position.

(d) The Group had possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$1.6 million at 30 September 2005 (31 March 2005: HK$1.7 million). This contingent liability has arisen because, at 30 September 2005, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances.

Save as disclosed above, as at 30 September 2005, the Group and the Company had no material contingent liabilities.

**21. CAPITAL COMMITMENT**

The Group had the following capital commitment at the balance sheet date:

| | 30 September 2005 (unaudited) *HK$'000* | 31 March 2005 (audited) *HK$'000* |
|---|---|---|
| Contracted but not provided for: | | |
| Purchase of investment properties | 408 | 313,267 |

**22. RELATED PARTY TRANSACTIONS**

During the period, the Group had transactions with the following related parties:

| | | Six months ended 30 September | |
|---|---|---|---|
| | *Notes* | 2005 (unaudited) *HK$'000* | 2004 (unaudited) *HK$'000* |
| Subcontracting fees paid to close family members of Mr. Ngai Chun Hung, director of the Company | (i) | – | 2 |
| Rental expense paid to Win Source Investment Limited ("Win Source") | (ii) | 33 | 33 |

*Notes:*

(i) The terms for the subcontracting fees were determined in accordance with relevant agreements entered into between the Group and the relevant related parties, with reference to the Group's estimated costs.

(ii) Mr. Ngai Chun Hung is a director of Win Source. The rental expense was determined at a rate mutually agreed between the Group and Win Source by reference to prevailing market rates.

The directors of the Company consider that the above transactions were carried out in the ordinary course of business.

**23. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 16 December 2005.