

# Notes to the Financial Statements

*For the year ended 31st March, 2001*

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 48, 17 and 18 respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, other than those over which the Company does not exercise control, made up to 31st March each year.

Where the Group holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of that subsidiary are not consolidated because to do so would be misleading. Where the Group is in a position to exercise significant influence or joint control, such investments are dealt with as associates or jointly controlled entities as appropriate. Otherwise, they are accounted for in accordance with the Group's policy for investments in securities.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **Goodwill and capital reserve arising on consolidation**

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries, associates and jointly controlled entities at the date of acquisition, is written off directly to reserves.

Capital reserve arising on consolidation, which represents the excess of the fair value of the Group's share of the separable net assets acquired over the purchase consideration, is credited directly to reserves.

On disposal of subsidiaries, associates and jointly controlled entities, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiaries, associates or jointly controlled entities.

### **Investment in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

### **Revenue recognition**

Sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to surveys of work performed during the year.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of an asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the terms of the relevant leases
Buildings	4% or over the terms of the relevant leases, whichever is shorter
Leasehold improvements	33 $\frac{1}{3}$ % or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

#### **Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **Jointly controlled operations**

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant group company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations together with the expenses that it incurs are included in the income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

### **Jointly controlled entities**

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

### **Construction contracts**

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as the contract revenue recognised.

When it is probable the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Amount due from customers for contract work" or the "Amount due to customers for contract work", as appropriate. Amounts billed, but not yet paid by the customers, for work performed on contracts are included in the balance sheet under "Debtors, deposits and prepayments".

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit for the year.

### Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as finance leases obligations. The finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged as expenses over the term of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit for the year.

On consolidation the financial statements of overseas subsidiaries, associates and jointly controlled entities are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### **Retirement benefit schemes contributions**

The contributions payable to the Group's defined contribution retirement benefit scheme, defined benefit pension scheme under the Occupational Retirement Schemes Ordinance ("ORSO Schemes") and Mandatory Provident Fund Schemes ("MPF Schemes") are charged as expenses.

#### **Operating leases**

Rentals payable under operating leases are charged as expenses on a straight line basis over the lease terms.

#### **Cash equivalents**

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 3. GROUP TURNOVER AND CONTRIBUTION TO PROFIT BEFORE TAXATION

The Group's turnover and contribution to profit before taxation by principal activity and geographical market are as follows:

By principal activity:

	Turnover		Contribution to profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Construction	2,023,935	2,150,972	58,755	(24,969)
Quarrying	163,040	122,342	7,794	3,139
Highway and expressway	–	–	154,148	242,601
Building material	342,028	361,609	5,163	13,820
Others	18	21,028	(9,569)	(1,258)
	<u>2,529,021</u>	<u>2,655,951</u>	<u>216,291</u>	<u>233,333</u>
Unallocated corporate expenses			<u>(14,871)</u>	<u>(21,379)</u>
Profit before taxation			<u>201,420</u>	<u>211,954</u>

By geographical market:

	Turnover		Contribution to profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	2,147,023	2,373,336	88,548	13,670
Other regions in the People's Republic of China ("PRC")	166,645	146,544	151,401	226,605
Republic of China	215,353	136,071	(23,658)	(6,942)
	<u>2,529,021</u>	<u>2,655,951</u>	<u>216,291</u>	<u>233,333</u>
Unallocated corporate expenses			<u>(14,871)</u>	<u>(21,379)</u>
Profit before taxation			<u>201,420</u>	<u>211,954</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 4. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Other revenue has been arrived at after crediting:		
Interest on bank deposits	8,980	6,187
Gain on disposal of property, plant and equipment	3,717	1,089
Gain on deconsolidation of subsidiaries	2,655	–
Gain on disposal of an associate	331	–
Gains on disposal of listed other investments	–	2,216
Management income received from a jointly controlled entity	–	6,754
Management income received from an associate	–	98
Diesel and water supply income received from a related company	–	818
Plant hire income received from a related company	–	298
Machinery repairing charges received from a related company	–	295

### 5. PROVISION FOR PILING INCIDENT

In preparing the financial statements, the directors have considered the likelihood of a successful claim which may be made against one of the Company's wholly-owned subsidiaries, Zen Pacific Civil Contractors Limited ("ZPCCL"), in relation to a piling project which was discovered to be sub-standard in late 1999 and in respect of which the Company made a provision of HK\$60 million in its audited consolidated financial statements for the year ended 31st March, 2000, being the directors' estimate of the costs of carrying out remedial work and of legal and consultants' cost. Details were disclosed in Note 6 to the financial statements for the year ended 31st March, 2000.

The Hong Kong Housing Authority ("HA") has now alleged claims in respect of the sub-standard piling in the amount of approximately HK\$588 million or, in the alternative basis, HK\$747 million, but provided only limited details. In defending ZPCCL's position, a counterclaim prepared based on acceptable legal arguments has been submitted. At the date of approval of these financial statements, the HA did not agree ZPCCL's request to enter into mediation proceedings to resolve the dispute and ZPCCL has accordingly decided that it will proceed to arbitration.

ZPCCL has taken legal advice on the claims alleged by the HA and the amount of any such claims, and on the counterclaim available to ZPCCL. Based on that advice and on the information at present available to ZPCCL, although it is not possible to determine the outcome of this matter with reasonable certainty at this time, the directors have determined that there is no requirement to make any additional provision in respect of the alleged claims in the financial statements.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 6. PROFIT (LOSS) FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration	3,400	2,700
Depreciation and amortisation:		
Owned assets	43,083	52,869
Assets held under finance leases	3,656	3,184
Assets held under sale and lease back arrangements	–	2,726
	<u>46,739</u>	<u>58,779</u>
Less: amount attributable to construction contracts	<u>13,667</u>	<u>14,777</u>
	<u>33,072</u>	<u>44,002</u>
Staff costs:		
Directors' remuneration (note 8)	14,766	5,052
Other staff costs	358,740	391,513
Retirement benefit schemes contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$2,431,000 (2000: HK\$1,242,000)	10,742	10,349
	<u>384,248</u>	<u>406,914</u>
Less: amount attributable to construction contracts	<u>257,327</u>	<u>246,021</u>
	<u>126,921</u>	<u>160,893</u>
Hire charges for plant and machinery	28,640	23,391
Less: amount attributable to construction contracts	<u>26,690</u>	<u>23,113</u>
	<u>1,950</u>	<u>278</u>
Operating lease rentals in respect of land and buildings	23,785	13,188
Less: amount attributable to construction contracts	<u>276</u>	<u>370</u>
	<u>23,509</u>	<u>12,818</u>