

Notes to the Financial Statements

For the year ended 31st March, 2001

33. DEFERRED TAXATION (Cont'd)

A significant portion of the potential deferred tax asset which principally represents the tax losses of certain subsidiaries available to set off future assessable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be realised in the foreseeable future.

Deferred tax liabilities have not been provided for in the financial statements in respect of certain timing differences arising during the year as it is not expected that the potential deferred taxation liabilities will reverse in the foreseeable future, after taking into account the Group's medium-term financial plans and projections.

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

34. SHARE CAPITAL

| | 2001 | | 2000 | |
|---|------------------|----------------|------------------|----------------|
| | Number '000 | HK\$'000 | Number '000 | HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.10 each | <u>1,000,000</u> | <u>100,000</u> | <u>1,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | | | |
| At beginning of the year | 654,752 | 65,475 | 677,431 | 67,743 |
| Shares repurchased and cancelled (note a) | (8,758) | (876) | (23,262) | (2,326) |
| Exercise of share options and warrants | – | – | 583 | 58 |
| Placing of shares (note b) | <u>128,000</u> | <u>12,800</u> | – | – |
| At end of the year | <u>773,994</u> | <u>77,399</u> | <u>654,752</u> | <u>65,475</u> |

Notes to the Financial Statements

For the year ended 31st March, 2001

34. SHARE CAPITAL (Cont'd)

Notes:

- (a) During the year, the Company repurchased certain of its own shares, the details of which are summarised as follows:

| Month of repurchase | Number of ordinary shares of HK\$0.10 each | Price per share | | Aggregate consideration paid HK\$'000 |
|---------------------|--|-----------------|----------------|--|
| | | Highest HK\$ | Lowest HK\$ | |
| April 2000 | 1,086,000 | 0.81 | 0.80 | 871 |
| May 2000 | 6,590,000 | 0.78 | 0.57 | 4,738 |
| June 2000 | 1,082,000 | 0.62 | 0.57 | 650 |
| | <u>8,758,000</u> | | | <u>6,259</u> |

- (b) Pursuant to an agreement dated 13th June, 2000, Zen Wei Pao, William and Zen Wei Peu, Derek (the "Vendors"), the Chairman and Vice Chairman of the Company respectively, have sold in aggregate of 128,000,000 existing ordinary shares of HK\$0.10 each in share capital of the Company to an independent third party at a price of HK\$0.70 per share. The placing price represented a premium of approximately 14.75% to the closing market price of the Company's shares on 9th June, 2000. Pursuant to the same agreement, the Vendors have subscribed 128,000,000 new shares in the proportion that the number of shares sold by the Vendors respectively to the independent third party at the price of HK\$0.70 per share. The proceeds were used to repay bank borrowings and to provide additional working capital for the Group.

35. WARRANTS

At 31st March, 2000, the Company had outstanding 102,101,619 "2000 Warrants" entitling the registered holders to subscribe in cash at a price of HK\$2.00 (subject to adjustment) for one ordinary share of the Company, at any time from the date of issue to 30th June, 2000 (both days inclusive). Exercise in full of such warrants would result in the issue of 102,101,619 additional shares of HK\$0.10 each. All these "2000 warrants" were lapsed on 30th June, 2000.

Notes to the Financial Statements

For the year ended 31st March, 2001

36. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 7th August, 1992, the directors of the Company may, at their discretion, invite employees of the Company and its subsidiaries, including the directors of the Company, to take up options to subscribe for shares of the Company at a price not less than 80 per cent. of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option or the nominal value of a share, whichever is the higher. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued pursuant to the scheme from time to time. An option may be exercised at any time after one year from the date on which the option is deemed to be granted and accepted and prior to expiry of four years from that date.

During the year, 26,390,000 options were granted to employees including directors, of the Company and its subsidiaries for a total consideration of HK\$113.

A summary of the movements in the options at the following subscription prices during the year and the balances outstanding at 31st March, 2001 under the share option scheme is as follows:

| Exercise price HK\$ | Balance at 1st April, 2000 | Number of share options | | Balance at 31st March, 2001 |
|------------------------|-------------------------------|-------------------------------|---|--------------------------------|
| | | Granted during the year | Cancelled/ lapsed during the year | |
| 0.34 | – | 26,390,000 | (100,000) | 26,290,000 |
| 0.96 | 250,000 | – | (100,000) | 150,000 |
| 1.28 | 800,000 | – | (50,000) | 750,000 |
| 1.30 | 950,000 | – | (50,000) | 900,000 |
| 1.38 | 500,000 | – | (500,000) | – |
| 1.50 | 250,000 | – | (250,000) | – |
| 1.60 | 3,000,000 | – | (3,000,000) | – |
| | <u>5,750,000</u> | <u>26,390,000</u> | <u>(4,050,000)</u> | <u>28,090,000</u> |

Notes to the Financial Statements

For the year ended 31st March, 2001

37. RESERVES

| | Share premium HK\$'000 | Translation reserve HK\$'000 | (Goodwill) Capital reserve HK\$'000 | Special reserve HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------------|--|--------------------------------|------------------------------------|---------------------------------|-------------------|
| THE GROUP | | | | | | | |
| At 1st April, 1999 | 680,231 | 12,145 | (130,333) | (29,530) | - | 798,990 | 1,331,503 |
| Share of associates' reserve movements during the year | - | (1,670) | 311 | - | - | - | (1,359) |
| Shares repurchased | (24,178) | - | - | - | - | - | (24,178) |
| Acquisition of additional interest in an associate | - | - | 6,642 | - | - | - | 6,642 |
| Acquisition of additional interest in a subsidiary | - | - | (3,233) | - | - | - | (3,233) |
| Purchase of subsidiaries | - | - | (5,305) | - | - | - | (5,305) |
| Warrants and share options exercised | 684 | - | - | - | - | - | 684 |
| Profit for the year | - | - | - | - | - | 160,388 | 160,388 |
| Dividends | - | - | - | - | - | (26,980) | (26,980) |
| At 31st March, 2000 | 656,737 | 10,475 | (131,918) | (29,530) | - | 932,398 | 1,438,162 |
| Share of associates' reserve movements during the year | - | - | 31,859 | - | - | - | 31,859 |
| Shares repurchased | (5,383) | - | - | - | - | - | (5,383) |
| Issue of shares | 76,800 | - | - | - | - | - | 76,800 |
| Acquisition of additional interest in an associate | - | - | 580 | - | - | - | 580 |
| Acquisition of additional interest in a subsidiary | - | - | (428) | - | - | - | (428) |
| Exchange difference arising on retranslation of financial statements of subsidiaries | - | (234) | - | - | - | - | (234) |
| Profit for the year | - | - | - | - | - | 176,168 | 176,168 |
| At 31st March, 2001 | 728,154 | 10,241 | (99,907) | (29,530) | - | 1,108,566 | 1,717,524 |
| THE COMPANY | | | | | | | |
| At 1st April, 1999 | 680,231 | - | - | - | 93,994 | 97,588 | 871,813 |
| Shares repurchased | (24,178) | - | - | - | - | - | (24,178) |
| Warrants and share option exercised | 684 | - | - | - | - | - | 684 |
| Loss for the year | - | - | - | - | - | (16,450) | (16,450) |
| Dividends | - | - | - | - | - | (26,980) | (26,980) |
| At 31st March, 2000 | 656,737 | - | - | - | 93,994 | 54,158 | 804,889 |
| Shares repurchased | (5,383) | - | - | - | - | - | (5,383) |
| Issue of shares | 76,800 | - | - | - | - | - | 76,800 |
| Profit for the year | - | - | - | - | - | 185,249 | 185,249 |
| At 31st March, 2001 | 728,154 | - | - | - | 93,994 | 239,407 | 1,061,555 |

Notes to the Financial Statements

For the year ended 31st March, 2001

37. RESERVES (Cont'd)

The retained profits of the Group included HK\$680,040,000 (2000: HK\$555,900,000) retained by associates of the Group and HK\$126,223,000 (2000: HK\$56,339,000) retained by its jointly controlled entities.

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---------------------|-------------------------|-------------------------|
| Contributed surplus | 93,994 | 93,994 |
| Retained profits | 239,407 | 54,158 |
| | <u>333,401</u> | <u>148,152</u> |

Notes to the Financial Statements

For the year ended 31st March, 2001

38. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 2001 | 2000 |
|--|-----------------|------------------|
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 201,420 | 211,954 |
| Share of profits less losses of jointly controlled entities | (77,774) | (22,069) |
| Share of profits less losses of associates | (186,246) | (287,481) |
| Share of profit of subsidiary not consolidated | (7) | – |
| Gain on deconsolidation of subsidiaries | (2,655) | – |
| Depreciation | 33,072 | 44,002 |
| Interest income | (8,980) | (6,187) |
| Interest expense | 32,741 | 44,262 |
| Finance leases charges | 1,155 | 867 |
| Finance costs on convertible redeemable preference shares issued by a subsidiary | 10,900 | 27,773 |
| Finance costs on redeemable exchangeable bond | 11,592 | – |
| Gain on disposal of property, plant and equipment | (3,717) | (1,089) |
| Impairment loss arising on property, plant and equipment | – | 20,991 |
| Gain on disposal of an associate | (331) | – |
| Gain on disposal of listed other investments | – | (2,216) |
| Unrealised gains of construction contract income | 26,514 | – |
| Impairment loss arising on investment securities | – | 228 |
| (Increase) decrease in inventories | (35,781) | 44,431 |
| Increase in properties under development held for sale | (205,777) | (710,749) |
| Decrease (increase) in amount due from customers for contract work | 215,686 | (77,388) |
| Decrease (increase) in debtors, deposits and prepayments | 252,263 | (11,732) |
| Increase in amounts due from jointly controlled entities | (49,510) | – |
| Decrease in amount due to a related company | – | (157) |
| (Decrease) increase in amount due to customers for contract work | (248,652) | 250,441 |
| (Decrease) increase in creditors and accrued charges | (53,815) | 74,557 |
| Exchange realignment | (808) | 143 |
| Net cash outflow from operating activities | <u>(88,710)</u> | <u>(399,419)</u> |

Notes to the Financial Statements

For the year ended 31st March, 2001

39. DECONSOLIDATION OF SUBSIDIARIES

| | Deconsolidation relating to | | | 2001 HK\$'000 | 2000 HK\$'000 |
|--|---|---|---|---------------------|------------------|
| | Subsidiary not consolidated HK\$'000 | Interests in jointly controlled entity HK\$'000 | Interests in associates HK\$'000 | | |
| Property, plant and equipment | – | – | 124 | 124 | – |
| Properties under development held for sale | 106,857 | 850,185 | – | 957,042 | – |
| Debtors, deposits and prepayments | 120 | 120 | 229 | 469 | – |
| Bank balances and cash | 7 | 21 | 200 | 228 | – |
| Creditors and accrued charges | – | (39,009) | (4) | (39,013) | – |
| Amounts due to group companies | (11,638) | (73,952) | (673) | (86,263) | – |
| Other borrowings | (96,120) | (741,967) | – | (838,087) | – |
| Minority interests | – | – | 34 | 34 | – |
| | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Net liabilities deconsolidated | (774) | (4,602) | (90) | (5,466) | – |
| Gain on deconsolidation of subsidiaries | 414 | 2,241 | – | 2,655 | – |
| | <u>(360)</u> | <u>(2,361)</u> | <u>(90)</u> | <u>(2,811)</u> | <u>–</u> |
| Transferred to: | | | | | |
| Subsidiary not consolidated | 360 | – | – | 360 | – |
| Interests in jointly controlled entities | – | 2,361 | – | 2,361 | – |
| Interests in associates | – | – | 90 | 90 | – |
| | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>–</u></u> |
| Analysis of net cash outflow of cash and cash equivalents in connection with deconsolidation of subsidiaries: | | | | | |
| Bank balances and cash disposed of | (7) | (21) | (200) | (228) | – |
| | <u><u>(7)</u></u> | <u><u>(21)</u></u> | <u><u>(200)</u></u> | <u><u>(228)</u></u> | <u><u>–</u></u> |

Notes to the Financial Statements

For the year ended 31st March, 2001

39. DECONSOLIDATION OF SUBSIDIARIES (Cont'd)

The deconsolidated subsidiary transferred to subsidiary not consolidated during the year utilised HK\$106,977,000 of the Group's net operating cash flow and raised HK\$96,120,000 in respect of financing activities.

The deconsolidated subsidiary transferred to interests in jointly controlled entities during the year utilised HK\$118,407,000 of the Group's net operating cash flow and raised HK\$111,238,000 in respect of financing activities.

The deconsolidated subsidiary transferred to interests in associates during the year did not have any material impact on cash flow nor results for the year.

40. PURCHASE OF SUBSIDIARIES

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Property, plant and equipment | – | 8,120 |
| Inventories | – | 43,698 |
| Amount due from customers for contract work | – | 14,466 |
| Debtors, deposits and prepayments | – | 69,839 |
| Amounts due from group companies | – | 32 |
| Bank balances and cash | – | 12,210 |
| Amount due to customers for contract work | – | (9,726) |
| Creditors and accrued charges | – | (40,983) |
| Amounts due to group companies | – | (39,267) |
| Amount due to a minority shareholder | – | (3,572) |
| Taxation | – | (1,726) |
| Trust receipt loans | – | (14,713) |
| Shareholders' loan | – | (46,500) |
| Minority interests | – | 2,843 |
| | <hr/> | <hr/> |
| Net liabilities acquired | – | (5,279) |
| Share of net deficit of associates recognised | – | 2,112 |
| Goodwill arising on acquisition | – | 5,305 |
| | <hr/> | <hr/> |
| | – | 2,138 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Satisfied by: | | |
| Cash | – | 2,138 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries: | | |
| Cash consideration paid | – | (2,138) |
| Bank balances and cash acquired | – | 12,210 |
| | <hr/> | <hr/> |
| | – | 10,072 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements

For the year ended 31st March, 2001

41. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and share premium HK\$'000 | Amounts due to associates HK\$'000 | Amounts due to jointly controlled entities HK\$'000 | Bank loans HK\$'000 | Other borrowings HK\$'000 | Redeemable exchangeable bond HK\$'000 | Trust receipt loans HK\$'000 | Amounts due to minority shareholders HK\$'000 | Minority interests HK\$'000 |
|---|---|---------------------------------------|--|------------------------|------------------------------|--|---------------------------------|--|--------------------------------|
| Balance at 1st April, 1999 | 747,974 | 72,886 | 48,578 | 345,926 | 270,523 | - | 423 | 3,059 | 22,744 |
| Net cash inflow (outflow) from financing | (25,762) | (20,024) | 15,448 | (132,568) | 567,205 | - | 35,976 | (3,572) | - |
| Dividend paid to minority shareholders | - | - | - | - | - | - | - | - | (6,700) |
| Other movements not involving cash flows: | | | | | | | | | |
| Purchase of a subsidiary | - | - | - | - | - | - | 14,713 | 3,572 | (2,843) |
| Purchase of additional interest in subsidiaries | - | - | - | - | - | - | - | - | (20,253) |
| Capitalisation of shareholders' loan to share capital | - | - | - | - | - | - | - | - | 16,275 |
| Accrued finance cost on: | | | | | | | | | |
| - convertible redeemable preference shares | - | - | - | - | 12,410 | - | - | - | - |
| - syndicated loans | - | - | - | - | 17,260 | - | - | - | - |
| Inception of finance leases | - | - | - | - | 10,320 | - | - | - | - |
| Minority interests' share of profit | - | - | - | - | - | - | - | - | 24,390 |
| Balance at 31st March, 2000 | 722,212 | 52,862 | 64,026 | 213,358 | 877,718 | - | 51,112 | 3,059 | 33,613 |
| Net cash inflow (outflow) from financing | 83,341 | (10,619) | 22,252 | (149,015) | 25,560 | 180,000 | 1,670 | - | 930 |
| Other movements not involving cash flows: | | | | | | | | | |
| Deconsolidation of subsidiaries | - | - | - | - | (838,087) | - | - | - | 34 |
| Minority interests' share of profit | - | - | - | - | - | - | - | - | 8,113 |
| Exchange realignment | - | - | - | 120 | - | - | - | - | - |
| Balance at 31st March, 2001 | 805,553 | 42,243 | 86,278 | 64,463 | 65,191 | 180,000 | 52,782 | 3,059 | 42,690 |

42. COMMITMENTS

(a) Joint venture commitments

At 31st March, 2001, the Group had committed to invest approximately HK\$194,800,000 (2000: HK\$124,031,000) into several joint ventures established in PRC. These joint ventures are principally engaged in the production of construction and building materials and property investment in PRC.

Notes to the Financial Statements

For the year ended 31st March, 2001

42. COMMITMENTS (Cont'd)

(b) Operating lease commitments

At 31st March, 2001, the Group had the following commitments payable within the next year under non-cancellable operating leases in respect of land and buildings:

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Operating leases which expire: | | |
| Within one year | 5,739 | 2,488 |
| In the second to fifth year inclusive | 23,156 | 18,553 |
| | <u>28,895</u> | <u>21,041</u> |

At 31st March, 2001, the Company did not have any significant commitments.

43. PLEDGE OF ASSETS

As at 31st March, 2001, the following assets of the Group were pledged to secure certain banking facilities granted to and the redeemable exchangeable bond issued by the Group:

- Bank deposits amounting to HK\$35,752,000 (2000: HK\$35,121,000) of the Group were pledged to secure banking facilities granted to the Group.
- The benefits under certain construction contracts of a subsidiary of the Company were assigned to a bank to secure banking facilities granted to a subsidiary of the Company. The pledge of assets was released after the balance sheet date.
- During the year, 40,000,000 shares of Road King with a market value of HK\$116,000,000 were pledged to secure the redeemable exchangeable bond issued by the Company as mentioned in note 28.

As at 31st March, 2000, properties under development held for sale and all other assets of a wholly-owned subsidiary of the Company with a carrying value of HK\$731,897,000 and HK\$2,985,000 respectively were pledged to secure syndicated loans to an extent of HK\$1,732,000,000.

As at 31st March, 2001, the Company pledged bank deposit amounting to HK\$24,955,000 (2000: HK\$26,837,000) to secure banking facilities granted to the Company.