

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th September, 2001

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st March, 2001, except that the Group has changed certain of its accounting policies following the adoption of new and revised SSAPs which became effective for the current accounting period.

The Group has adopted the transitional provision of SSAP 30 "Business Combination" that goodwill/negative goodwill previously eliminated against/credited to reserves need not be restated and will be charged/credited to the income statement at the time of disposal of the subsidiary or associate or at such time the goodwill is determined to be impaired. Goodwill arising on acquisition after 1st April, 2001 is capitalized and amortized on the straight-line basis over its estimated useful life. Any impairment of goodwill will be recognized as an expense in the income statement immediately. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and recognized as income based on an analysis of the circumstances from which the negative goodwill resulted.

The adoption of the new and revised SSAPs has only resulted in the restatement of certain comparative figures and has no significant effect to the results of the Group in the current or prior period.

2. Segmental information

	Turnover		Contribution to	
	Six months ended		Operating (loss) profit	
	30th September,		30th September,	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Building services contracting business	319,478	289,125	9,559	26,065
Project management income	2,085	3,099	2,085	3,099
Trading of electrical and mechanical engineering materials and equipment	10,588	42,656	(1,384)	1,397
Provision for design, installation and maintenance of karaoke on demand system	11,048	16,806	(3,833)	1,858
	<u>343,199</u>	<u>351,686</u>	<u>6,427</u>	<u>32,419</u>
Discontinuing operation				
Provision for broadband connectivity	11,437	2,122	(3,905)	(7,883)
	<u>354,636</u>	<u>353,808</u>	<u>2,522</u>	<u>24,536</u>
Unallocated corporate expenses			(5,178)	(1,194)
Operating (loss) profit			<u>(2,656)</u>	<u>23,342</u>

The geographical segments of the operations of the Group are not presented as all the turnover of the Group is substantially derived from Hong Kong.

3. (Loss) Profit before taxation

(Loss) Profit before taxation is arrived at after charging and (crediting):

	Six months ended	
	30th September,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation		
– owned fixed assets	2,598	1,257
– fixed assets under finance lease	251	68
Interest expenses on bank loans and overdraft repayable within five years	1,989	1,573
Provision for impairment in value of other investment	—	11,171
Interest income on bank deposits	(969)	(3,080)
	<u> </u>	<u> </u>

4. Taxation

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 16% (2000 – 16%) on the estimated assessable profits arising in or from Hong Kong.

Taxation in the condensed consolidated income statement comprises:

	Six months ended	
	30th September,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision for profits tax:		
The People's Republic of China:		
Hong Kong	1,739	4,937
Elsewhere outside Hong Kong	—	—
Overseas	—	—
Deferred taxation	—	—
Share of taxation of associated companies	—	—
	<u> </u>	<u> </u>
	<u>1,739</u>	<u>4,937</u>

5. (Loss) Earnings per share

	Six months ended 30th September, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
(Loss) Earnings for the purposes of computing basic and diluted (loss) earnings per share	<u>(10,708)</u>	<u>5,893</u>
Number of ordinary shares:		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>386,746,600</u>	387,371,600
Effect of dilutive share option	<u>4,846</u>	<u>97,012</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>386,751,446</u>	<u>387,468,612</u>

6. Additions to fixed assets

During the period, the Group spent approximately HK\$4,526,000 (six months ended 30th September, 2000: HK\$9,675,000) to expand its operations.

7. Investments

Non-current investments are analysed as follows:

	30th September, 2001 (Unaudited) HK\$'000	31st March, 2001 (Audited) HK\$'000
Investment securities ^(a)	<u>15,678</u>	15,678
Other investment ^(b)	<u>1,783</u>	<u>1,783</u>
	<u>17,461</u>	<u>17,461</u>
(a) Investment securities	HK\$'000	HK\$'000
Unlisted equity securities, at cost	<u>53,976</u>	53,976
Less: Provision for impairment in value	<u>(38,298)</u>	<u>(38,298)</u>
	<u>15,678</u>	<u>15,678</u>
(b) Other investment	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at carrying value	<u>1,783</u>	1,783
Less: Unrealized gain/loss for the period	<u>—</u>	<u>—</u>
	<u>1,783</u>	<u>1,783</u>

8. Accounts receivable

An ageing analysis for accounts receivable (after netting off provision for bad debts) is as follow:

	30th September, 2001 (Unaudited) HK\$'000	31st March, 2001 (Audited) HK\$'000
0 – 30 days	81,241	126,533
31 – 60 days	16,820	13,337
61 – 90 days	20,325	11,151
91 – 180 days	6,541	21,080
Over 180 days	3,965	13,541
	128,892	185,642

The Group allows its trade customers with credit period normally ranging from cash on delivery to 60 days. A longer credit period is granted to a few customers with long business relationship and strong financial position.

9. Accounts payable and accruals

An ageing analysis for accounts payable and accruals are as follows:

	30th September, 2001 (Unaudited) HK\$'000	31st March, 2001 (Audited) HK\$'000
0 – 30 days	38,880	48,370
31 – 60 days	19,157	20,496
Over 60 days	10,800	3,719
	68,837	72,585
Accruals	16,753	7,200
	85,590	79,785

10. Share capital

a. Authorized

	30th September, 2001		31st March, 2001	
	Number of shares	Nominal Value (Unaudited)	Number of shares	Nominal Value (Audited)
	<i>'000</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.1 each	<u>800,000</u>	<u>80,000</u>	<u>800,000</u>	<u>80,000</u>

b. Issued and fully paid

	Six months ended 30th September, 2001	
	Number of shares	Nominal Value (Unaudited)
	<i>'000</i>	<i>HK\$'000</i>
Beginning of the period	387,022	38,702
Shares issued upon exercise of share options	150	15
Share repurchased	(450)	(45)
End of the period	<u>386,722</u>	<u>38,672</u>

Shares repurchased were cancelled and the issued share capital of the Company was reduced by the total nominal value of such repurchased shares. The difference between the nominal value of shares repurchased and the price paid was of approximately HK\$63,000 charged against the share premium account. The aggregate cost of the repurchase of shares of approximately HK\$108,000 was transferred from retained profits to capital redemption reserve.

c. Share options

No options to subscribe for shares in the Company have been granted pursuant to the Share Option Scheme for the six months ended 30th September, 2001.

11. Reserves

	Share premium (Unaudited) <i>HK\$'000</i>	Capital redemption reserve (Unaudited) <i>HK\$'000</i>	Accumulated deficit (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Balance as at 1st April 2001	102,920	87	(19,289)	83,718
Share premium arising from exercise of share option	11	—	—	11
Repurchase of shares	(63)	—	—	(63)
Transfer of reserves on repurchase of shares (<i>Note 10</i>)	—	108	(108)	—
Loss attributable to shareholders	—	—	(10,708)	(10,708)
Balance as at 30th September, 2001	<u>102,868</u>	<u>195</u>	<u>(30,105)</u>	<u>72,958</u>

12. Commitments and contingent liabilities

As at 30th September, 2001, the Group has the following outstanding commitments:

- (a) As at 30th September, 2001, the Group's contracts on hand has an aggregate uncompleted contract value of approximately HK\$241 million (*as at 31st March, 2001 – HK\$435 million*) extending to various dates, the latest being September 2003.
- (b) The total amount of operating lease commitment in respect of land and buildings as at 30th September, 2001 amounted to approximately HK\$6,821,000 (*as at 31st March, 2001 – HK\$5,535,000*). The amount of commitments payable in aggregate are analyzed as follows:

	30th September, 2001 (Unaudited) <i>HK\$'000</i>
Operating lease:	
Expiring in the first year	292
Expiring in the second to fifth years inclusive	<u>6,529</u>
	<u>6,821</u>

The Group has no material contingent liabilities as at 30th September, 2001 (*as at 31st March, 2001 – Nil*).

13. Related party transactions

Particulars of significant transactions between the Group and related companies are summarized below:

	Six months ended	
	30th September, 2001 (Unaudited) HK\$'000	30th September, 2000 (Unaudited) HK\$'000
Purchase of merchandise from Shun Cheong Electrical Products Factory Limited (<i>Note a</i>)	<u>141</u>	<u>1,571</u>
Billing of building maintenance works and building services installation works to Chinney Construction Company Limited (<i>Note b</i>)	<u>46,998</u>	<u>5,143</u>
Payment to Diyixian.com Limited (“Diyixian”) of rental for server co-location at Diyixian’s data centres and for access to the Internet together with related setup charges (<i>Note c</i>)	<u>945</u>	<u>596</u>
Purchase of merchandise from Chinney Alliance Engineering Limited (<i>Note d</i>)	<u>483</u>	<u>—</u>

Notes:

- (a) Shun Cheong Products Factory Limited is a company in which Mr. Kwok Shun On and Ms. Kwok Lai Sheung, Melissa, directors of the Company, have indirect beneficial interest. Mr. Kwok Shun On and Ms. Kwok Lai Sheung, Melissa ceased to be the directors of the Company on 16th July, 2001 and 29th October, 2001 respectively.
- (b) Chinney Construction Company Limited is a company in which Mr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric, directors of the Company, have indirect beneficial interest.
- (c) Diyixian is a wholly-owned subsidiary of Dyxnet Holdings Limited, which is an associated company of the Group. Mr. Kwok Shun on, director of the Company, is also the director of Diyixian and Dyxnet Holdings Limited. Mr. Kwok Shun On ceased to be the director of the Company on 16th July, 2001.
- (d) Chinney Alliance Engineering Limited is a wholly-owned subsidiary of Chinney Alliance Group Limited which, a company listed on The Stock Exchange of Hong Kong Limited, is a substantial shareholder of the Company. Mr. Wong Sai Wing, James and Mr. Yu Sek Kee, Stephen, directors of the Company, are also the directors of Chinney Alliance Group Limited.

In the opinion of the directors of the Company, all the above transactions were undertaken in the normal course of business and were conducted on normal commercial terms on an arm’s length basis.

14. Comparative figures

Project management income of approximately HK\$3,099,000 for the six months ended 30th September, 2000 has been reclassified from other revenues to turnover to conform to the current period’s presentation.