

# NOTES TO FINANCIAL STATEMENTS

For the period ended 30 September 2001

## 1 CORPORATE INFORMATION

The Group comprises China Development Corporation Limited (the “Company”) and its subsidiary companies. The Company was incorporated under the laws of Hong Kong on 29 September 1987 and is listed on the Stock Exchange of Hong Kong Limited.

The principal activity of the Company is that of an investment holding company. The principal activities of subsidiary companies are set out in note 12 to the financial statements.

Pursuant to a Directors’ resolution on 3 July 2001, the Company changed its financial year end date from 30 June to 30 September commencing from the year 2001. The reason for the change is to better reflect the performances of the new business of the Group. The financial statements of the Group for 2001 is for the period from 1 July 2000 to 30 September 2001.

## 2 FUNDAMENTAL ACCOUNTING CONCEPTS

The financial statements have been prepared on a going concern basis the applicability of which depends on the following:

- (a) The Company and the Group incurred a net loss of HK\$213,248,000 and HK\$329,251,000 respectively for the period from 1 July 2000 to 30 September 2001, and as at 30 September 2001 the Company’s current liabilities exceeded its current assets by HK\$47,550,000 while the Group’s current liabilities exceeded its current assets by HK\$139,254,000. The ability of the Company and the Group to continue as a going concern will depend upon future funding being available.
- (b) The Group had a trade credit facility amounting to S\$25,000,000 or HK\$110,347,000 as at 30 September 2001 from a major supplier. This facility is secured by a corporate guarantee by the Company and a subsidiary company, and debentures comprising fixed and floating charges over all the assets of the relevant subsidiary companies. As at 30 September 2001, the trade credit facility was utilised by the relevant subsidiary companies amounted to S\$16,273,000 or HK\$71,843,000 and this amount is included in creditors and accrual charges in the balance sheet.

Subsequent to the balance sheet date, the Group received from the major supplier’s lawyers a demand letter for the full repayment of the amount outstanding. As at the date of this report, the major supplier has not taken legal action against the Group. The Group is in negotiation with this major supplier that the latter will not demand full settlement of the outstanding balance by the Group of S\$16,273,000 or HK\$71,843,000 or call on the corporate guarantee given by the Company. The ability of the Company and the Group to continue as a going concern will depend upon the outcome of the negotiation.

## 3 PRINCIPAL ACCOUNTING POLICIES

### a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong, and comply with statements of standard accounting practice (“SSAP”) issued by the Hong Kong Society of Accountants (“HKSA”), the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment.

Pursuant to the revised SSAP No.2.114, “Leases”, which was issued by the HKSA and became effective for accounting periods beginning on or after 1 July 2000, certain comparative figures have been restated.

**3 PRINCIPAL ACCOUNTING POLICIES** *(Continued)***a) Basis of preparation** *(Continued)*

A statement of changes in equity and a new format of statement of cash flow are prepared for the first time pursuant to the revised SSAPs No.2.101, "Presentation of financial statements" and No.2.115, "Cash flow statements" respectively, both were issued by the HKSA and became effective for accounting periods beginning on or after 1 January 2002.

**b) Basis of consolidation**

The accounting period of the Company and its subsidiary companies in the Group ends on 30 September and the consolidated financial statements include the financial statements of the Company and its subsidiary companies, together with the Group's share of the results of its associated companies for the period from 1 July 2000 to 30 September 2001.

The results of subsidiary and associated companies acquired or disposed of during the financial period are included in or excluded from the Group financial statements from the effective dates of acquisition or disposal as applicable. All material intra-group transactions and balances are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

**c) Subsidiary companies**

A subsidiary company 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 less any identified impairment losses.

**d) Associated companies**

An associated company is an enterprise, not being a subsidiary nor a joint venture, in which the Group has a substantial long-term interest in the equity voting rights and over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associated companies. The Group's interests in associated companies are included in the consolidated balance sheet at the Group's share of net assets using the equity method of accounting less any provision for diminutions in value other than those considered to be temporary in nature deemed necessary by the directors.

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

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### e) Goodwill

The difference between the purchase consideration and the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiary/associated companies represents goodwill or negative goodwill arising on acquisition as appropriate.

Goodwill/negative goodwill on acquisition of subsidiary/associated companies occurring on or after 1 January 2001 is included as separate assets and is amortised over its estimated useful life in accordance with the provisions of the new SSAP 30 "Business Combinations". This is a change in accounting policy as in previous years goodwill/negative goodwill on acquisitions was written off against/taken directly to reserves in the year of acquisition. In accordance with a transitional provision under SSAP 30, no retrospective adjustment to the goodwill/negative goodwill written off against/taken directly to reserves is required.

### f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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. Overhauling expenses to extend the useful lives of old vessels are, therefore, capitalised and depreciated over the period of the extended useful lives.

Changes in the values of property, plant and equipment are dealt with as movements in the assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit on an individual asset basis, the excess of the deficit is charged to the consolidated profit and loss account. Any subsequent revaluation surplus is credited to the consolidated profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as movement in reserves.

Depreciation is provided to write off the cost or valuation of each asset over its estimated useful life on a straight-line basis at the following annual rates:

Buildings on freehold land	5%
Leasehold land and buildings	Over the term of the lease
Vessels, plant and machinery	10% - 33 1/3%
Furniture and fittings, office equipment, motor vehicles and computer software	10% - 33 1/3%

No depreciation is charged on freehold land.

The gain or loss arising from the disposal or retirement of the asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### g) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the company and when the revenue can be measured reliably, on the following basis:

- (i) revenue from construction contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where a profitable outcome can be prudently foreseen and is measured by reference to the production of costs incurred for work performed to the balance sheet date as compared to the estimated total costs to completion. Anticipated losses on contracts are fully provided when identified.
- (ii) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (iii) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.
- (iv) rental income, on a straight-line accrual basis over the terms of lease agreements.
- (v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### h) Leases

##### (i) Finance leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long term liabilities. The finance charges are charged to the consolidated profit and loss account over the lease periods.

Assets held under finance leases are included in fixed assets and amortized over the shorter of the lease terms and the useful lives of the assets.

##### (ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

- (iii) Rental income under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) Investments

#### (i) *Long term investments*

Investments in non-trading unlisted equity securities intended to be held on a long term basis are stated at their estimated fair values on an individual investment basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

#### (ii) *Short term investments*

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

### j) Stocks

Stocks are valued at the lower of cost and net realizable value. Cost includes cost of purchase of materials computed using the first-in, first-out formula, and in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date less the estimated costs of completion and the estimated costs necessary to make the sale.

### k) Deferred taxation

Deferred taxation is provided at the current tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

### l) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars, at the applicable rates of exchange ruling at that date. Foreign currency transactions during the year are recorded at the applicable rates ruling at the transaction dates. Profits and losses on exchange are dealt with in the profit and loss account.

**3 PRINCIPAL ACCOUNTING POLICIES** *(Continued)***l) Translation of foreign currencies** *(Continued)*

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Long term intercompany balances due from subsidiaries are deemed to form part of the equity. The resulting translation differences are included in the exchange fluctuation reserve.

**m) Related parties**

Two parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**n) Provision for dry-docking expenses**

Dry-docking expenses are provided for annually based on an estimation of expenses to be incurred once in every two to five years, and are charged as operating expenses in each of the years preceding the next dry-docking date.

**o) Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the total value of work certified to date to the estimated total contract value for each contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**p) Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amounts of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

*For the period ended 30 September 2001*

## **3 PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **p) Impairment** *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### **q) Retirement benefits scheme costs**

The Group operates a defined contribution retirement scheme for its employees. The assets of the defined contribution retirement schemes are held separately from the Group's assets and are administered by independent trustees.

Contributions to the defined contribution schemes are made by either the Group only or by both the Group and the related employees at rates based on certain per cent of the employees' basic salaries.

In the prior years, certain subsidiaries of the Group operated defined benefit retirement schemes.

### **r) Cash equivalents**

For the purpose of the consolidated cash flow statement, 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 advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

#### 4 TURNOVER

Turnover represents an appropriate proportion of contract revenue of construction contracts; the value of services rendered; the rental income from equipment/marine vessels leasing; the net invoiced value of goods sold, after allowance for returns and trade discounts; and securities trading during the period.

The analysis of the Group's turnover and operating loss before finance costs by principal activities and geographical locations are as follows:

	Group turnover		Operating loss before finance costs	
	Period from 1 July 2000 to 30 September 2001 HK\$'000	Year ended 30 June 2000 HK\$'000	Period from 1 July 2000 to 30 September 2001 HK\$'000	Year ended 30 June 2000 HK\$'000
Construction, equipment rental and services income	423,833	632,088	(15,376)	(45,728)
Trading income	11,598	2,339	(5,172)	(7,732)
Internet business	333	—	(71,169)	—
Investment holding	6,063	—	(225,914)	(118,669)
	<u>441,827</u>	<u>634,427</u>	<u>(317,631)</u>	<u>(172,129)</u>
Geographical location of operations:				
Singapore	433,184	627,237	(63,000)	(93,278)
Malaysia	—	2,467	(3,116)	610
Mynamar	2,101	4,593	(7,807)	(6,017)
Hong Kong	6,396	—	(243,737)	(73,464)
Others	146	130	29	20
	<u>441,827</u>	<u>634,427</u>	<u>(317,631)</u>	<u>(172,129)</u>



# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 5 OTHER REVENUE

Group	Period from	Year ended
	1 July 2000 to 30 September 2001 HK\$'000	30 June 2000 HK\$'000
Interest income	4,082	4,195
Recovery of directors' fees paid in prior years	—	7,000
Gain on disposal of fixed assets, net	2,267	5,068
Insurance claims	1,271	776
Sale of used equipment	2,521	—
Others	3,343	553
	<u>13,484</u>	<u>17,592</u>

## 6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Included in staff costs is remuneration of the directors disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance as follows:

	Period from	Year ended
	1 July 2000 to 30 September 2001 HK\$'000	30 June 2000 HK\$'000
Fees	—	150
Other emoluments:		
Salaries, allowances and benefits in kind	1,296	4,320
Retirement scheme contributions	19	45
	<u>1,315</u>	<u>4,515</u>
Recovery of directors' fee paid in prior years ( <i>see note 5</i> )	—	7,000

**6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS** (Continued)

Fees disclosed above include nil (30 June 2000: nil) paid to independent non-executive and non-executive directors. There were no other emoluments paid to independent non-executive and non-executive directors. None of the directors have waived the right to receive their emoluments.

The remuneration of the directors falls within the following bands (HK\$):

	<b>Period from 1 July 2000 to 30 September 2001</b>	Year ended 30 June 2000
	<b>Number of directors</b>	Number of directors
0 - 1,000,000	4	9
1,000,001 - 1,500,000	—	—
1,500,001 - 2,000,000	—	1
2,000,001 - 2,500,000	—	1
	<u>4</u>	<u>11</u>

The five individuals whose remuneration were the highest in the Group for the period include one director (30 June 2000: two directors) whose remuneration is disclosed in the analysis presented above. The remuneration payable to the remaining four (30 June 2000: three) individuals during the period are as follows:

	<b>Period from 1 July 2000 to 30 September 2001</b>	Year ended 30 June 2000
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	4,897	2,985
Performance related bonuses	—	295
Contributions to Singapore Central Provident Fund	139	35
	<u>5,036</u>	<u>3,315</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The remuneration falls within the following bands (HK\$):

	Period from 1 July 2000 to 30 September 2001	Year ended 30 June 2000
	Number of individuals	Number of individuals
0 - 1,000,000	1	1
1,000,001 - 1,500,001	2	1
1,500,001 - 2,000,000	1	1
	<u>4</u>	<u>3</u>

## 7 LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

Group	Period from 1 July 2000 to 30 September 2001 HK\$'000	Year ended 30 June 2000 HK\$'000
Depreciation:		
Owned fixed assets	30,161	29,953
Leased fixed assets	2,563	3,978
Operating lease rentals:		
Land and buildings	3,846	5,596
Plant and machinery	3,213	1,696
Auditors' remuneration	636	719
Provision for doubtful recovery of long term receivable	—	114,081
Provision for doubtful recovery of trade debtors	23,623	26,614
Provision for foreseeable losses on contracts in progress	79,927	23,919
Provision for stock obsolescence	1,104	—
Provision for dry-docking expenses	2,472	2,764
Provision for permanent diminution in value of investments	38,980	—
Provision for diminution in value in other investments	33,572	—
Provision for doubtful debts	16,428	—
Goodwill on acquisition of a subsidiary company fully amortised	67,225	—
Loss on disposal of interests in subsidiary companies	—	2,264
Realisation of exchange fluctuation reserve on liquidation of a subsidiary company	27,992	—
Exchange losses, net	491	2,139

## 8 FINANCE COSTS

Group	Period from	Year ended
	1 July 2000 to 30 September 2001 HK\$'000	30 June 2000 HK\$'000
Interest expenses on:		
Bank overdrafts	—	1
Term Loans	3,619	1,464
Finance leases	765	730
Trade payables	5,413	4,870
	<u>9,797</u>	<u>7,065</u>

## 9 TAXATION

Group	Period from	Year ended
	1 July 2000 to 30 September 2001 HK\$'000	30 June 2000 HK\$'000
Taxation charge comprises the following:		
Write-back of deferred overseas tax	—	(5,868)
Share of tax of overseas associated companies	—	81
Underprovision in prior years	3,548	—
	<u>3,548</u>	<u>(5,787)</u>

No provision for Hong Kong and overseas profits tax is required as both the Company and the Group incurred a loss for the period except for certain overseas associated companies, for which provision has been calculated at the rates applicable in the countries in which the associated companies operate.

## 10 LOSS PER SHARE

The calculation of basic loss per share is based on the net loss of HK\$329,251,000 (30 June 2000: HK\$173,125,000) attributable to shareholders for the period/year divided by the weighted average number of 1,039,188,365 (30 June 2000: 727,543,130) ordinary shares in issue after adjusting for the consideration shares issue, rights shares issue together with bonus shares issued by the Company on 16 February 2001 and 5 June 2001 respectively.

A total of 124,220,194 rights shares was issued at HK\$0.40 per rights share on the basis of one rights share for every eight existing share together with the issue of 372,660,582 new shares on the basis of three bonus shares for every one rights share taken up. As the rights issue did not include a bonus element, no adjustment factor has been applied in the calculation of the weighted average number of ordinary shares in the period under review and the prior year basic loss per share accordingly.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 11 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK\$'000	Leasehold land and buildings HK\$'000	Vessels, plant and machinery HK\$'000	Others HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>					
At beginning of period	3,557	26,497	388,421	18,207	436,682
Due to acquisition of a subsidiary company	—	—	797	—	797
Additions	47	10	6,617	4,205	10,879
Write-offs	(12,667)	(140)	(112)	(12,919)	
Disposals	—	—	(3,779)	(2,072)	(5,851)
Foreign exchange realignment	(437)	(581)	(8,463)	(392)	(9,873)
At end of period	<u>3,167</u>	<u>13,259</u>	<u>383,453</u>	<u>19,836</u>	<u>419,715</u>
<b>Representing:</b>					
Cost	3,167	9,528	372,530	19,836	405,061
Valuation in 1987	—	3,731	3,090	—	6,821
Valuation in 1989	—	—	7,833	—	7,833
	<u>3,167</u>	<u>13,259</u>	<u>383,453</u>	<u>19,836</u>	<u>419,715</u>
<b>Accumulated depreciation:</b>					
At beginning of period	117	23,834	251,393	14,172	289,516
Due to acquisition of a subsidiary company	—	—	397	—	397
Charge for the period	70	1,244	29,934	1,544	32,792
Write-offs	—	(12,661)	(140)	(84)	(12,885)
Disposals	—	—	(3,512)	(1,998)	(5,510)
Foreign exchange realignment	(16)	(523)	(5,525)	(309)	(6,373)
At end of period	<u>171</u>	<u>11,894</u>	<u>272,547</u>	<u>13,325</u>	<u>297,937</u>
<b>Net book value:</b>					
<b>At 30 September 2001</b>	<u><b>2,996</b></u>	<u><b>1,365</b></u>	<u><b>110,906</b></u>	<u><b>6,511</b></u>	<u><b>121,778</b></u>
At 30 June 2000	<u>3,440</u>	<u>2,663</u>	<u>137,028</u>	<u>4,035</u>	<u>147,166</u>

Included in vessels, plant and equipment, the net book value of assets held under finance leases and under term loan at 30 September 2001 amounted to HK\$16,442,000 (30 June 2000: HK\$17,522,000) and HK\$2,041,000 (30 June 2000: nil) respectively.

The Group's freehold and leasehold land and buildings are located outside Hong Kong. The leasehold land and buildings are held under short term leases, which have an unexpired period of less than twenty years.

**11 PROPERTY, PLANT AND EQUIPMENT** (Continued)

Leasehold land and buildings were revalued by the directors in January 1987 based on independent professional valuations conducted by Asian Appraisal Company Pte Ltd on the basis of fair market value.

Certain vessels, plant and machinery of the Group were revalued by:

- (a) SSI Marine Surveying Pte Ltd and Promech Engineering Pte Ltd, professional valuers, in January 1987 on the basis of estimated replacement costs less accumulated depreciation.
- (b) Messrs. Graham Miller (Singapore) Private Limited, professional valuers, as at 1 October 1989 on the basis of estimated replacement costs less accumulated depreciation, which resulted in a write-down of certain fixed assets.

The Group has relied upon the exemption from the need to revalue the entire class of land and buildings and plant and machinery on a regular basis pursuant to SSAP 17. These fixed assets have been fully depreciated in the prior years subsequent to the write-down of their carrying values.

Company	Furniture and fittings <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>				
At beginning of period	78	150	—	228
Additions	—	25	72	97
Disposals	(42)	(70)	—	(112)
At end of period	<u>36</u>	<u>105</u>	<u>72</u>	<u>213</u>
<b>Accumulated depreciation:</b>				
At beginning of period	31	141	—	172
Charge for the period	13	4	8	25
Written back on disposals	(21)	(63)	—	(84)
At end of period	<u>23</u>	<u>82</u>	<u>8</u>	<u>113</u>
<b>Net book value:</b>				
<b>At 30 September 2001</b>	<u><u>13</u></u>	<u><u>23</u></u>	<u><u>64</u></u>	<u><u>100</u></u>
At 30 June 2000	<u><u>47</u></u>	<u><u>9</u></u>	<u><u>—</u></u>	<u><u>56</u></u>

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 12 SUBSIDIARY COMPANIES

<b>Company</b>	<b>30 September 2001 HK\$'000</b>	<b>30 June 2000 HK\$'000</b>
Unlisted shares, at cost	455,775	455,775
Less: provision for permanent diminution in value	<b>(395,105)</b>	<b>(395,105)</b>
	<b>60,670</b>	<b>60,670</b>
Amounts due from subsidiary companies	<b>397,644</b>	<b>304,932</b>
Less: Provisions for doubtful recovery	<b>(272,578)</b>	<b>(121,380)</b>
	<b>125,066</b>	<b>183,552</b>
Amounts due to subsidiary companies	<b>(44,439)</b>	<b>(44,446)</b>
	<b>141,297</b>	<b>199,776</b>

Amounts due from (to) subsidiary companies are non-trade related, interest-free, unsecured and have no fixed terms of repayments.

Particulars of the principal subsidiary companies are as follows:

<b>Name of company</b>	<b>Attributable Interest</b>		<b>Place of Incorporation/ registration and operations</b>	<b>Nominal value of issued/ registered share capital</b>	<b>Principal activities</b>
	<b>To the Company %</b>	<b>To the Group %</b>			
* Sum Cheong Corporation Pte Ltd	100	—	Singapore	S\$58,000,000	Investment Holding
Gain Source Ltd	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment Holding
Denton Capital Limited	100	—	British Virgin Islands/ Hong Kong	US\$100	Securities trading
Diamond Pearl Limited	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment holding
Total Power Trading Limited	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment holding
Marketspace Currency Limited	—	72	Hong Kong	HK\$2	Internet business

**12 SUBSIDIARY COMPANIES** (Continued)

Name of company	Attributable Interest		Place of Incorporation/ registration and operations	Nominal value of issued/ registered share capital	Principal activities
	To the Company %	To the Group %			
Epista Marketspace Limited	—	72	Hong Kong	HK\$2	Internet business
Iswapnet Hong Kong Limited	—	72	Hong Kong	HK\$250	Internet business
* Sum Cheong Piling Private Ltd	—	100	Singapore	S\$12,000,000	Foundation and civil engineering contracting
* Sum Cheong Construction Pte Ltd	—	100	Singapore	S\$100,000	Foundation and civil engineering contracting
* Sum Envirotech Pte Ltd	—	100	Singapore	S\$1,000,000	Investment Holding
* Sum Cheong Resources Pte Ltd	—	100	Singapore	S\$2	Investment Holding
* Sum Cheong Machinery Pte Ltd	—	100	Singapore	S\$8,225,000	Vessels, construction equipment and machinery hiring and repair
* Supplies Investments Private Limited	—	100	Singapore	S\$2,460,002	Vessels and equipment rental
* Gul Marine Engineering Pte Ltd	—	100	Singapore	S\$100	Construction equipment and machinery storage and repair
* SC Marine Pte Ltd	—	100	Singapore	S\$100,000	Marine engineering contracting
* Appleland Investment Pte Ltd	—	100	Singapore	S\$2	Investment Holding
* Sum Cheong (China) Pte Ltd	—	100	Singapore	S\$2	Investment Holding



# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 12 SUBSIDIARY COMPANIES (Continued)

Name of company	Attributable Interest		Place of Incorporation/ registration and operations	Nominal value of issued/ registered share capital	Principal activities
	To the Company %	To the Group %			
* Supplies (Malaysia) Sdn Bhd	—	100	Malaysia	RM500,000	Foundation and civil engineering contracting
* Sum Cheong (Myanmar) Ltd	—	100	Myanmar	S\$129,747	Foundation and civil engineering contracting
* Excellent Luck Corporation Limited	—	100	Thailand	Baht7,000,000	Investment Holding

\* Not audited by John K.H. Lo & Co.

## 13 ASSOCIATED COMPANIES

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Unlisted shares, at cost	—	—	6	6
Share of net assets	1,431	414	—	—
	<u>1,431</u>	<u>414</u>	<u>6</u>	<u>6</u>
Less: provision for diminution in value	—	—	(6)	(6)
	<u>1,431</u>	<u>414</u>	<u>—</u>	<u>—</u>
Amounts due from associated companies	8,973	27,841	20	—
	<u>10,404</u>	<u>28,255</u>	<u>20</u>	<u>—</u>

The Group's share of the post-acquisition profits of its associated companies as at 30 September 2001 is HK\$993,000 (30 June 2000: loss of HK\$476,000).

**13 ASSOCIATED COMPANIES** (Continued)

Except for an amount of nil (30 June 2000: HK\$20,674,000) which bears interest at 0% (30 June 2000: 6.4%-7.9%) per annum, the amounts due from associated companies are non-trade related, interest-free, unsecured and have no fixed terms of repayment.

Particulars of associated companies are as follows:

Name of company	Business structure	Percentage of equity shares held		Place of incorporation/ registration and operations	Principal activities
		By the Company %	By the Group %		
* CP-Sum Cheong (China) Pte Ltd	Corporate	—	50	Singapore/People's Republic of China	Investment and development of infrastructure projects
* Township Construction (China) Pte Ltd	Corporate	—	30	Singapore/People's Republic of China	In liquidation

\* Not audited by John K.H. Lo & Co.

**14 LONG TERM INVESTMENTS**

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Unlisted equity investments, at fair value	<u>64,124</u>	<u>50,649</u>	<u>37,979</u>	<u>—</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 15 LONG TERM RECEIVABLES

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Loan receivable	40,875	41,791	—	—
Less: Provision for doubtful recovery	(40,875)	(41,791)	—	—
	—	—	—	—
Amount receivable from PTJSI ( <i>note a</i> )	58,708	142,484	—	—
Less: Provision for doubtful recovery	(42,405)	(114,081)	—	—
	16,303	28,403	—	—
Loan to SSTD ( <i>note b</i> )	5,397	20,996	—	—
	21,700	49,399	—	—
Less: Portion classified as current assets under debtors, deposits and prepayments	(16,303)	(17,381)	—	—
	5,397	32,018	—	—

- (a) On 5 May 1999, the Company announced that the High Court of Singapore (the "Court") mediated a conditional settlement agreement (the "Settlement Agreement (1999)") with PTJSI and a past chairman of the Group, Mr. Low Tuck Kwong ("LTK"). The Settlement Agreement (1999) was approved by the shareholders of the Company during an extraordinary general meeting held on 29 October 1999.

Further details of the terms of the Settlement Agreement 1999, and details of the legal proceedings instituted against PTJSI and LTK through the filing of a writ of summons in the Court, are set out in note 11(a) to the financial statements of the Group for the year ended 30 June 1999.

Under the terms of the Settlement Agreement (1999), the Group stood to recover a maximum amount of S\$38,294,000 (HK\$174,564,000) of the total outstanding receivable of S\$53,218,000 (HK\$242,595,000). The remaining balance of S\$14,924,000 (HK\$68,031,000) was written off in the financial year ended 30 June 1999. The amount recoverable of S\$38,294,000 (HK\$173,803,000) comprised:

- (i) A sum of S\$7,093,000 (HK\$32,333,000) recoverable from PTJSI by 30 monthly cash instalment is referred to as the "Guaranteed Sum". This sum is guaranteed by LTK. The first instalment of S\$100,000 was received in 1999 and subsequent instalments were received according to repayment schedule. As at 30 September 2001, the outstanding balance amounted to S\$3,693,000 (HK\$16,303,000).

**15 LONG TERM RECEIVABLES** *(Continued)*

- (ii) A sum of S\$25,275,000 (HK\$114,081,000) recoverable from PTJSI (referred to as the “Non-Guaranteed Sum”), which has confirmed its obligation to make repayment in accordance with a payment schedule to be agreed. As security for its obligation to make repayment of the Non-Guaranteed Sum, PTJSI agreed to assign to the Group, a debt of US\$19,000,000 (HK\$147,924,000) owed to PTJSI by PT Kiani Kertas (“PTKK”), a third party.

During the financial year ended 30 June 2000, due to the considerable time and expenses incurred in drafting the deed of assignment and the uncertainty over the ability of PTKK and PTJSI to make repayment in full, the Group has, on a without prejudice basis, proposed that PTJSI provides alternative security for its obligations under the Settlement Agreement (1999), or undertakes to act as a collecting agent for the debt owned by PTKK and direct all proceeds received from PTKK towards the payment of the sum owed to the Group. The Group is awaiting PTJSI’s response to its proposal. To date, no payment has been received by the Group. Also, as stated above, there is an uncertainty of the amount, if any, which might ultimately prove to be unrecoverable in respect of the Non-Guaranteed Sum.

- (iii) 1,230,001 ordinary shares of S\$1 each in Sumpiles Investments Private Limited (“Sumpiles”), ceded from LTK and Mr. Sudwikatmono to the Group. These shares, which represent 50% of the issued capital of Sumpiles, are determined to have a value of S\$5,926,000 (HK\$27,389,000), being the aggregate of 50% of the net assets of Sumpiles as at 30 June 1999 and 50% of the eight marine vessels of Sumpiles having zero book value, but which have been valued by American Appraisal Hong Kong Limited, an independent professional valuer. Following the ceding of the shares, Sumpiles became a wholly-owned subsidiary of the Group during the financial year ended 30 June 2000.

The directors are of the opinion that in respect of the:

- (i) Guaranteed Sum, no provision for doubtful recovery is required because of the security arrangements effected.
- (ii) Non-Guaranteed Sum, given the circumstances as detailed above, solely as an accounting measure (without any admission that the Non-Guaranteed Sum is not payable by PTJSI or recoverable from PTJSI), the directors have made a full provision for the doubtful recovery of the Non-Guaranteed Sum in the year ended 30 June 2000.
- (iii) 1,230,001 ordinary shares in Sumpiles, ceded to the Group, the aggregate value of which amounting to S\$5,926,000 has been determined using the basis as set out above, represent a fair exchange for a receivable of an equivalent amount and has been accounted for as the consideration paid for the acquisition of an interest in a subsidiary.
- (b) The loan made to SSTD, a company incorporated in Singapore in which the Group holds 4.17% (30 June 2000: 4.17%) of the equity share capital, is unsecured, bears interest at six-month US\$ LIBOR plus 1% (30 June 2000: six-month US\$ LIBOR plus 1%) and repayable within the next twelve months.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 16 STOCKS

	<b>30 September</b>	30 June
	<b>2001</b>	2000
<b>Group</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Materials	<b>16,848</b>	32,995
Spare parts	<b>2,531</b>	3,060
Equipment	<b>2,484</b>	2,540
	<u><b>21,863</b></u>	<u>38,595</u>

## 17 CONTRACTS IN PROGRESS

	<b>30 September</b>	30 June
	<b>2001</b>	2000
<b>Group</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Contract costs incurred plus attributable profits	<b>986,933</b>	795,354
Less: Progress billings	<b>(927,624)</b>	(685,486)
	<u><b>59,309</b></u>	<u>109,868</u>
Less: Provision for foreseeable losses to date	<b>(77,643)</b>	(25,429)
	<u><b>(18,334)</b></u>	<u>84,439</u>
Representing:		
Gross amount due from contract customers	<b>32,400</b>	98,995
Gross amount due to contract customers	<b>(50,734)</b>	(14,556)
	<u><b>(18,334)</b></u>	<u>84,439</u>

Included in contract costs is depreciation of property, plant and equipment of HK\$465,000 (30 June 2000: HK\$485,000) incurred during the period/year.

## 18 DEBTORS, DEPOSITS AND PREPAYMENTS

(a) Included in debtors, deposits and prepayments are trade debtors with their age analysis as follows:

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Current to 30 days	1,410	121,554	—	—
31 to 60 days	4,713	3,570	—	—
61-90 days	3,447	2,888	—	—
Over 90 days	58,062	50,711	—	—
	<u>67,632</u>	<u>178,723</u>	<u>—</u>	<u>—</u>

The Group has a general credit policy of 30 days.

(b) As at 30 September 2001, the retention receivable for contracts in progress amounting to approximately HK\$13,026,000 (30 June 2000: HK\$17,634,000) has been included in trade debtors. Retention money receivables in respect of construction and engineering services are settled in accordance with the terms of respective contracts.

## 19 SHORT TERM INVESTMENTS

Group	30 September 2001 HK\$'000	30 June 2000 HK\$'000
	Listed securities, at market value	
Hong Kong	<u>7,150</u>	<u>—</u>

## 20 CASH AND BANK BALANCES

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Cash at banks and in hand	13,883	11,871	499	408
Unpledged fixed deposits	<u>724</u>	<u>39,644</u>	<u>—</u>	<u>32,133</u>
	14,607	51,515	499	32,541
Pledged fixed deposits	<u>6,631</u>	<u>3,038</u>	<u>—</u>	<u>—</u>
	<u>21,238</u>	<u>54,553</u>	<u>499</u>	<u>32,541</u>

The pledged fixed deposits are pledged to financial institutions in connection with facilities granted to subsidiary companies.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 21 LOANS AND OTHER OBLIGATIONS

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Current portion of bank loan, secured (note 23)	515	12,145	—	—
Current portion of finance lease obligations (note 24)	4,844	5,045	—	—
	<u>5,359</u>	<u>17,190</u>	<u>—</u>	<u>—</u>

## 22 CREDITORS AND ACCRUED CHARGES

- (a) Included in creditors and accrued charges is HK\$71,845,000 (30 June 2000: HK\$124,814,000) due to a major supplier, which is secured by debentures comprising fixed and floating charges over all assets of a group of subsidiary companies.
- (b) Included in creditors and accrued charges is provision for dry-docking expenses amounting to HK\$4,677,000 (30 June 2000: HK\$5,321,000)
- (c) Included in creditors and accrued charges is an interest-bearing amount of HK\$47,632,000 at rates ranging from Hong Kong prime rate+1% to +2% per annum. The amount is unsecured and is rolled forward every six months.
- (d) Included in creditors and accrued charges are trade creditors with their ageing analysis as follows:

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Current to 30 days	21	99,197	—	—
31-60 days	340	24,917	—	—
61-90 days	6,262	13,199	—	—
Over 90 days	169,122	132,892	—	—
	<u>175,745</u>	<u>270,205</u>	<u>—</u>	<u>—</u>

- (e) At 30 September 2001, retention money held from subcontractors for contracts in progress amounting to HK\$21,010,000 (30 June 2000: HK\$23,206,000) has been included in trade creditors.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 23 BANK LOANS

	30 September 2001 <i>HK\$'000</i>	30 June 2000 <i>HK\$'000</i>
<b>Group</b>		
Bank loans, secured	515	20,674
Portion repayable within 1 year; classified as current liabilities ( <i>note 21</i> )	<u>(515)</u>	<u>(12,145)</u>
Long term portion	<u>—</u>	<u>8,529</u>
The long term portion is repayable as follows:		
After 1 year but within 2 years	—	—
After 2 years but within 5 years	—	8,529
After 5 years	<u>—</u>	<u>—</u>
	<u>—</u>	<u>8,529</u>

## 24 FINANCE LEASE OBLIGATIONS

	30 September 2001		30 June 2000	
	Minimum payments <i>HK\$'000</i>	Present value of payments <i>HK\$'000</i>	Minimum payments <i>HK\$'000</i>	Present value of payments <i>HK\$'000</i>
<b>Group</b>				
Within one year ( <i>note 21</i> )	5,467	4,844	5,749	5,045
After 1 year but within 2 years	2,385	2,109	5,305	4,773
After 2 years but within 5 years	<u>762</u>	<u>655</u>	<u>2,865</u>	<u>2,712</u>
	8,614	7,608	13,919	12,530
Future finance charges on finance leases	<u>(1,006)</u>	<u>—</u>	<u>(1,389)</u>	<u>—</u>
Present value of finance lease obligations	<u>7,608</u>	<u>7,608</u>	<u>12,530</u>	<u>12,530</u>

## 25 DEFERRED TAXATION

	30 September 2001 <i>HK\$'000</i>	30 June 2000 <i>HK\$'000</i>
<b>Group</b>		
Balance brought forward	15,867	21,950
Credit for the period/year	—	(5,868)
Foreign exchange realignment	<u>(348)</u>	<u>(215)</u>
At balance sheet date	<u>15,519</u>	<u>15,867</u>

The principal component of deferred taxation is depreciation allowances in excess of related depreciation charges.



# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 26 ISSUED CAPITAL

	30 September 2001		30 June 2000	
	Number of shares (thousand)	Nominal value HK\$'000	Number of shares (thousand)	Nominal value HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.40 each				
Balance brought forward	1,000,000	400,000	1,000,000	400,000
Increase during period/year	3,000,000	1,200,000	—	—
Balance carried forward	<u>4,000,000</u>	<u>1,600,000</u>	<u>1,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.40 each				
Balance brought forward	831,261	332,504	692,717	277,087
Allotment during period/year	162,500	65,000	138,544	55,417
Rights share issue during period/year	124,220	49,689	—	—
Bonus share issue during period/year	372,661	149,064	—	—
Balance carried forward	<u>1,490,642</u>	<u>596,257</u>	<u>831,261</u>	<u>332,504</u>

Movements of share capital during the period were as follows:

- On 16 February 2001, as part of the consideration for the acquisition of a group of companies which were principally engaged in internet-based e-commerce activities, providing software solutions consultancy and internet services, the Company allotted and issued 162,500,000 shares of HK\$0.40 each, credited as fully paid.
- Pursuant to a resolution passed at an extraordinary general meeting dated 22 February 2001, the authorised share capital of the Company was increased from HK\$400,000,000 to HK\$1,600,000,000 by the creation of an additional 3,000,000,000 ordinary shares of HK\$0.40 each.
- Pursuant to a resolution passed at an extraordinary general meeting dated 14 May 2001, a total of 124,220,194 rights shares of HK\$0.40 per rights share on the basis of one rights share for every eight existing share together with 372,660,582 new shares on the basis of three bonus shares for every one rights share taken up to be allotted and issued to the existing shareholders. The rights share issue together with the bonus share issue were allotted and issued on 5 June 2001.

**26 ISSUED CAPITAL** (Continued)**Share options**

Under a share option scheme adopted on 29 November 1993, the directors may grant options to any employee of the Company or the Group, including executive directors, to subscribe for shares in the Company. The subscription price shall be the higher of a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer date and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options shall be shares representing 10% of the total number of shares in issue from time to time excluding any shares issued under the option scheme.

As at 1 July 2000, share options outstanding were 33,250,000 and out of the total share options granted, 32,250,000 and 1,000,000 share options were granted to three directors and an employee respectively. The subscription price per share payable upon the exercise of each option is HK\$0.40 subject to adjustment. During the period on 22 September 2000 and 22 October 2000, upon the expiration of the three-month period from the respective resignation dates of the three directors, options to subscribe for 10,750,000 and 21,500,000 shares of the Company lapsed respectively. And on 2 April 2001, the employee also waived her entitlement to the share options and the related share options lapsed accordingly.

As at 30 September 2001 there were no share options outstanding.

**27 ACCUMULATED LOSSES**

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
Balance brought forward	(547,312)	(374,187)	(551,212)	(389,018)
Transfer from profit and loss account	(329,251)	(173,125)	(213,248)	(162,194)
Transfer from capital reserve on disposal of fixed assets previously revalued	460	—	—	—
Balance carried forward	<u>(876,103)</u>	<u>(547,312)</u>	<u>(764,460)</u>	<u>(551,212)</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 28 RESERVES

	Group		Company	
	30 September 2001 <i>HK\$'000</i>	30 June 2000 <i>HK\$'000</i>	30 September 2001 <i>HK\$'000</i>	30 June 2000 <i>HK\$'000</i>
Capital redemption reserve:				
Balance brought forward and carried forward	<u>976</u>	<u>976</u>	<u>976</u>	<u>976</u>
Share Premium:				
Balance brought forward	<u>448,137</u>	<u>448,137</u>	<u>448,137</u>	<u>448,137</u>
Bonus share issue	<u>(149,064)</u>	<u>—</u>	<u>(149,064)</u>	<u>—</u>
	<u>299,073</u>	<u>448,137</u>	<u>299,073</u>	<u>448,137</u>
Capital reserve:				
Balance brought forward and carried forward	<u>(11,933)</u>	<u>(11,933)</u>	<u>—</u>	<u>—</u>
Asset revaluation reserve:				
Balance brought forward	<u>15,945</u>	<u>15,945</u>	<u>—</u>	<u>—</u>
Transfer to accumulated losses on disposal of fixed assets previously revalued	<u>(460)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance carried forward	<u>15,485</u>	<u>15,945</u>	<u>—</u>	<u>—</u>
Investment revaluation reserve:				
Balance brought forward and carried forward	<u>(12,192)</u>	<u>(12,192)</u>	<u>—</u>	<u>—</u>
Exchange fluctuation reserve:				
Balance brought forward	<u>5,947</u>	<u>5,947</u>	<u>—</u>	<u>—</u>
Adjustment on exchange translation	<u>(1,159)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Transfer to profit and loss account on liquidation of a subsidiary company	<u>27,992</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance carried forward	<u>32,780</u>	<u>5,947</u>	<u>—</u>	<u>—</u>
Total	<u><u>324,189</u></u>	<u><u>446,880</u></u>	<u><u>300,049</u></u>	<u><u>449,113</u></u>

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	30 September 2001 HK\$'000	30 June 2000 HK\$'000
(a) <b>Acquisition of subsidiary company</b>		
Net assets acquired:		
Fixed assets	797	32,052
Debtors, deposits and prepayments	2,711	116
Due from fellow subsidiary companies	—	27,173
Cash and bank balances	293	11
Creditors and accrued charges	(2,725)	(3,259)
Tax payable	—	(63)
	<u>1,076</u>	<u>56,030</u>
Minority interest	(301)	—
	<u>775</u>	<u>56,030</u>
Goodwill/capital reserve on acquisition	67,225	(630)
Amount previously accounted as interest in associated company	—	(28,011)
	<u>68,000</u>	<u>27,389</u>
Satisfied by:		
Reduction in long term receivable	—	27,389
Cash	3,000	—
Issue of shares at HK\$0.4 each	65,000	—
	<u>68,000</u>	<u>27,389</u>
Cash flow on acquisition net of cash acquired:		
Cash consideration	3,000	—
Cash and bank balances acquired	(293)	11
	<u>2,707</u>	<u>11</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the period ended 30 September 2001

## 29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

	30 September 2001 HK\$'000	30 June 2000 HK\$'000
<b>(b) Disposal of subsidiary company</b>		
Net assets disposed of:		
Fixed assets	—	(10)
Interest in associated company	—	(1,344)
Long term investments	—	(81)
Debtors, deposits and prepayments	—	(4,537)
Cash and bank balances	—	(218)
Contracts in progress	—	1,167
Creditors and accrued charges	—	7,980
	<hr/>	<hr/>
	—	2,957
Capital reserve realised on disposal	—	(8,221)
Translation reserve realised on disposal	—	(191)
Loss on disposal of subsidiary company	—	2,264
	<hr/>	<hr/>
Satisfied by:		
Cash	—	(3,191)
	<hr/> <hr/>	<hr/> <hr/>
Cash flow on disposal net of cash disposed of:		
Cash consideration	—	3,191
Cash and bank balances disposed of	—	(218)
	<hr/>	<hr/>
	—	2,973
	<hr/> <hr/>	<hr/> <hr/>
<b>(c) Cash and cash equivalents</b>		
Cash at banks and in hand	<b>13,883</b>	11,871
Unpledged fixed deposits	<b>724</b>	39,644
	<hr/>	<hr/>
	<b>14,607</b>	51,515
	<hr/> <hr/>	<hr/> <hr/>

**30 CONTINGENT LIABILITIES**

	Group		Company	
	30 September 2001 HK\$'000	30 June 2000 HK\$'000	30 September 2001 HK\$'000	30 June 2000 HK\$'000
(a) Guarantee facilities	81,722	68,428	153,567	112,847
(b) Performance bonds	40,613	41,343	—	—
	<u>122,335</u>	<u>109,771</u>	<u>153,567</u>	<u>112,847</u>

Included in guarantee facilities is a corporate guarantee given by the Company to a major supplier of a subsidiary company for a trade credit facility granted to that subsidiary company. The amount of the trade credit facility utilised by the subsidiary company is included in creditors and accrued charges in the consolidated balance sheet (note 22 (a)).

**31 COMMITMENTS****(a) Funding commitment**

In accordance with a shareholders agreement entered into between a subsidiary company and SSTD, the subsidiary company may be required to provide further funding of US\$5,803,000 or HK\$45,150,000 (30 June 2000: US\$3,450,000 or HK\$26,910,000) to SSTD for working capital purposes. As at the date of this report, there has been no further call on capital.

**(b) Assets under fixed and floating charges**

As at the end of the financial period, certain subsidiaries of the Group collectively:

- (i) had a guarantee facility amounting to HK\$110,372,500 or S\$25,000,000 (30 June 2000: HK\$112,847,500 or S\$25,000,000) from a financial institution to provide the issuance of guarantees. One of the terms of the guarantee facility is that the two subsidiary companies are required to meet certain financial covenants set by the financial institution granting the facility. Notwithstanding the fact that these companies failed to meet with these financial covenants, the financial institution has confirmed in writing that all existing guarantees issued on behalf of the Group will not be withdrawn.
- (ii) had a trade credit facility amounting to HK\$110,372,500 or S\$25,000,000 (30 June 2000: HK\$112,847,500 or S\$25,000,000) from its major supplier.

The above facilities are secured by debentures comprising fixed and floating charges over all assets of the respective subsidiary companies.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the period ended 30 September 2001

## 31 COMMITMENTS (Continued)

(c) Commitments outstanding at 30 September 2001 not provided for in the financial statements were as follows:

	Group		Company	
	30 September	30 June	30 September	30 June
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments:				
Contracted for	23,850	—	—	—
Authorised but not contracted for	—	—	—	—
	<u>23,850</u>	<u>—</u>	<u>—</u>	<u>—</u>
Annual commitments under non-cancellable operating leases:				
Land and buildings expiring:				
Within one year	456	—	—	—
In the second to fifth years, inclusive	3,979	4,042	311	495
Other equipment expiring in the second to fifth years, inclusive	126	83	—	—
	<u>4,561</u>	<u>4,125</u>	<u>311</u>	<u>495</u>

## 32 POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, the Group received from a major supplier's lawyers a demand letter for the full repayment of the amount outstanding. As at the date of this report, the major supplier has not taken legal action against the Group. The Group is in negotiation with this major supplier that the latter will not demand full settlement of the outstanding balance by the Group of S\$16,273,000 or HK\$71,843,000 or call on the corporate guarantee given by the Company.
- (b) Subsequent to the balance sheet date, the Company has entered into negotiation with management of a major group of subsidiary companies about a management buy-out of the relevant group of subsidiary companies. The effect of the management buy-out would be that the Company would be released from all corporate guarantee given but at the same time the Company would lose ownership and control of the relevant group of subsidiary companies.
- (c) On 21 November 2001, Samwoh Asfalt Premix Pte Ltd ("Samwoh") a supplier of a subsidiary company, namely Sum Cheong Piling ("SCP") was successful in restoring its call on the S\$500,000 or HK\$2,207,450 performance guarantee furnished by Ecics-Coface Guarantee Company (Singapore) Pte Ltd. As at 30 September 2001, SCP owed Samwoh S\$133,593 or HK\$589,799.
- (d) Subsequent to the end of the financial period, the Company waived an amount of HK\$44,149,000 or S\$10,000,000 due from a subsidiary company.

### 33 RELATED PARTY TRANSACTIONS

Other than normal trading transactions between the Company and its subsidiary and associated companies, there are no related party transactions during the period.

### 34 LITIGATION

- (a) An independent third party ("Claimant"), pursuant to a sub-contract ("Sub-Contract") in relation to certain construction works, made a claim against Sum Cheong Piling Pte Ltd. ("Sum Cheong"), a wholly owned subsidiary of the Company for damages for breach of the Sub-Contract, together with the loss of profit or expenditure loss, payment for work done, and indemnity to the Claimant in respect of costs and losses by reason of Sum Cheong's breach of duty in the sum of S\$9,150,000. Sum Cheong is in the course of preparing a Defence and Counterclaim in respect thereof.
- (b) On 4 May 2001, Guido Giacometti, a trustee for the estate of Sukamto Sia fka Sukarman Sukamto, a former Director and substantial shareholder of the Company, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$590,000 together with attorneys' fees and costs. The Company received the summons and the related documents on 21 September 2001, and the Company is seeking legal advice in connection with the matter. In the opinion of the directors, no provision is required.
- (c) On 30 May 2001, Industrial Concrete Products Sdn Bhd ("ICP") a supplier of the subsidiary company, SC Marine Pte Ltd ("SCM"), issued a letter of demand against SCM for an amount of S\$3,950,000 (USD\$2,152,426) that SCM owed ICP to be settled on or before 13 June 2001. SCM is in the process of recovering claims it has made against a long outstanding debtor, for which the proceeds recovered will be used to repay ICP. As at the date of this report, ICP has not commenced legal proceedings against SCM.

### 35 COMPARATIVE FIGURES

Comparative figures are for the year ended 30 June 2000. Due to the adoption of new/revised SSAPs during the current period, the presentation of the profit and loss account, the balance sheet, the cash flow statement and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

### 36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 6 February 2002.