

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company

The Company was incorporated as an exempted company with limited liability in Bermuda on 14 March 2002 under the Companies Act 1981 of Bermuda.

Group Reorganisation

Pursuant to an arrangement (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 July 2002, the Company became the holding company of the Group on 5 July 2002. This was accomplished by acquiring the entire issued share capital of Profitown Venture Corporation, the then holding company of LFP Engineering Limited (formerly Lahine Fire Protection Engineering Limited) thereby becoming the holding company of the companies now comprising the Group. Further details of the Group Reorganisation are also set out in the prospectus of the Company dated 12 July 2002.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the two years ended 31 March 2002 and 2003 rather than from the date of their acquisitions. Accordingly, the consolidated results and cash flows of the Group for the two years ended 31 March 2002 and 2003 include the results and cash flows of the Company and its subsidiaries with effect from 1 April 2001 or since their respective dates of incorporation/ registration, where this is a shorter period. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole, as the principal activities of the Group were mainly carried out by LFP Engineering Limited prior to and after the Group Reorganisation.

All significant transactions and balances within the Group are eliminated on consolidation.

2. CORPORATE INFORMATION

During the year, the Group was engaged in the provision and installation of fire-rated timber door sets, as well as the provision of interior decoration and renovation services and other carpentry works.

Notes to Financial Statements

31 March 2003

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements.

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 34 : “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 19 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 25 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP. The adoption of the SSAP 34 has had no material effect on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

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. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

Notes to Financial Statements

31 March 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

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 fixed assets have 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Motor vehicles and pleasure craft	20%

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Leased assets** *(Continued)*

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Long term investment

Long term investment is an investment in unlisted equity securities intended to be held on a long term basis. The long term investment is stated at cost less any impairment losses.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value 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 is credited to the profit and loss account to the extent of the amount previously charged.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders and claims. 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 percentage of the value of work performed to the contract sum 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.

Notes to Financial Statements

31 March 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction contracts, on the percentage of completion basis as further explained in the accounting policy for "Construction contracts" above; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim or special dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim or special dividends. Consequently, interim or special dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Employee benefits***Retirement benefits scheme***

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements

31 March 2003

5. SEGMENT INFORMATION

The Group has only one business segment, which is the provision and installation of fire-rated timber door sets, as well as the provision of interior decoration and renovation services and other carpentry works, and therefore, no analysis of business segments is presented.

No geographical analysis is presented as all the Group's operations are carried out in Hong Kong.

6. TURNOVER AND REVENUE

Turnover represents appropriate proportion of contract revenue from construction contracts.

An analysis of turnover and other revenue is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	55,630	108,899
OTHER REVENUE		
Interest income	31	49
Others	12	—
	43	49

Notes to Financial Statements

31 March 2003

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	2003 HK\$'000	2002 HK\$'000
Depreciation	2,555	110
Auditors' remuneration — <i>Note</i>	880	—
Staff costs (excluding directors' remuneration — note 9):		
Salaries and wages	3,119	4,129
Pension contributions	142	175
	3,261	4,304
Minimum lease payments under operating lease for land and buildings	504	243
Provision against doubtful debts	1,947	2,052
Interest income	(31)	(49)

Note: The auditor's remuneration for the year ended 31 March 2002 was included as part of the listing expenses and charged against the share premium account of the Company for the year ended 31 March 2003.

8. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on hire purchase contracts	113	8

Notes to Financial Statements

31 March 2003

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	40	—
Other emoluments:		
Salaries, bonuses and other benefits	1,935	260
Pension contributions	60	12
	2,035	272

The remuneration of all directors fell within the band of nil to HK\$1,000,000 for both of the years ended 31 March 2002 and 2003.

Fees include HK40,000 (2002: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

During the year, one of the directors agreed to waive director's salaries of a total of HK\$132,000 (2002: Nil).

During the year, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to Financial Statements

31 March 2003

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: Nil) directors, details of whose remuneration are set out in note 9 above.

Details of the remuneration of the remaining one (2002: Five) non-director, highest paid employee are as follow:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, bonuses and other allowances and benefits in kind	284	1,596
Pension contributions	12	59
	296	1,655

The number of the non-director, highest paid employees, other than directors, whose remuneration fell within the following designated band was:

	Number of employees	
	2003	2002
Nil — HK\$1,000,000	1	5

During the year, no emoluments had been paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year.

In 2002, as a result of the failure to notify chargeability for the years of assessment 1998/99 and 1999/2000 and the late submission of the profits tax return within the prescribed time limit for the year of assessment 2000/01, the Inland Revenue Department (the "IRD") imposed tax penalties amounting to approximately HK\$2.6 million on LFP Engineering Limited, an indirect wholly-owned subsidiary of the Company. Mr. Chu Chi Ming ("Mr. Chu") and Pan-Star Nominees Limited ("Pan-Star") had agreed to indemnify the Group against the penalties and paid the penalties to the IRD.

Notes to Financial Statements

31 March 2003

11. TAX (Continued)

Mr. Chu is an executive director and a major shareholder of the Company. Pan-Star is a major shareholder of the Company.

The Group did not have any significant unprovided deferred tax liabilities in respect of the year.

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2003, is HK\$2,313,000 (2002: Nil).

13. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim — 2 HK cents (2002: Nil) per ordinary share	13,440	—
Special dividend	—	20,000
	13,440	20,000

34

The special dividend declared and paid for the year ended 31 March 2002 was paid by an indirect wholly-owned subsidiary of the Company to its then shareholders prior to the Group Reorganisation, as set out in note 1 to the financial statements.

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$2,968,000 (2002: net profit of HK\$22,567,000), and the pro forma weighted average of 619,528,767 (2002: 504,000,000) ordinary shares in issue during the year, assuming that the Group Reorganisation had been completed since 1 April 2001 or since the respective dates of incorporation of the Company and its subsidiaries, where this is a shorter period.

Diluted earnings or loss per share amounts for the years ended 31 March 2002 and 2003 have not been disclosed as there were no dilutive potential ordinary shares outstanding during these years.

Notes to Financial Statements

31 March 2003

15. FIXED ASSETS

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles and pleasure craft <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	242	306	—	548
Additions	3,261	376	10,015	13,652
Acquisition of subsidiaries (note 27(c))	—	—	3,576	3,576
At 31 March 2003	3,503	682	13,591	17,776
Accumulated depreciation:				
At beginning of year	242	151	—	393
Provided during the year	289	136	2,130	2,555
At 31 March 2003	531	287	2,130	2,948
Net book value:				
At 31 March 2003	2,972	395	11,461	14,828
At 31 March 2002	—	155	—	155

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	—	—	—
Additions	3,261	370	3,631
At 31 March 2003	3,261	370	3,631
Accumulated depreciation:			
At beginning of year	—	—	—
Provided during the year	289	74	363
At 31 March 2003	289	74	363
Net book value:			
At 31 March 2003	2,972	296	3,268
At 31 March 2002	—	—	—

Notes to Financial Statements

31 March 2003

15. FIXED ASSETS (Continued)

The net book value of the Group's fixed assets held under hire purchase contracts included in the total amount of furniture, fixtures and office equipment, motor vehicles and pleasure craft at 31 March 2003 amounted to HK\$35,000 and HK\$7,764,000 (2002: HK\$53,000 and Nil), respectively.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	36,801	—
Due from subsidiaries	39,996	—
Due to a subsidiary	(18,604)	—
	58,193	—
Provision for impairment	(370)	—
	57,823	—

36

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Further particulars of the Company's principal subsidiaries as at 31 March 2003 are set out in note 32 to the financial statements.

Notes to Financial Statements

31 March 2003

17. LONG TERM INVESTMENT

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted equity investment, at cost	2,371	—

Details of the unlisted investment disclosed in accordance with Section 129 of the Companies Ordinance are as follows:

Name	Place of incorporation and operations	Percentage of equity interest attributable to the Group	Principal activity
Profit Top Industries Limited ("PTI")	Hong Kong	40	Investment holding

Since the directors consider that the Group does not have any control or significant influence over PTI, the investment is accounted for as a long term investment.

18. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current — 90 days	5,043	19,572
91 days — 180 days	—	12,572
181 days — 365 days	9,148	583
Over 365 days	3,067	8,253
	17,258	40,980
Retention monies receivable	4,802	7,080
	22,060	48,060

Interim applications for progress payments for contract works are normally made on a monthly basis. The credit period is generally for a period of two months extending up to six months for its major contract customers. For retention monies receivable in respect of contract works, the due dates are usually six months to one year after the issue of the statements of the final accounts of the contract works.

Notes to Financial Statements

31 March 2003

19. CONSTRUCTION CONTRACTS

	2003 HK\$'000	2002 HK\$'000
Gross amounts due from contract customers	—	29
Gross amounts due to contract customers	—	(3,135)
	—	(3,106)
Contract costs incurred plus recognised profits		
less recognised losses to date	—	30,838
Less: Progress billings	—	(33,944)
	—	(3,106)

At 31 March 2002 and 31 March 2003, retentions held by customers for contract works included in accounts receivable under current assets amounted to approximately HK\$7,080,000 and HK\$4,802,000, respectively.

38 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deposits and prepayments	28,974	253	28,841	—
Due from a related company — <i>note 21</i>	—	5,896	—	—
Due from a director — <i>note 22</i>	—	96	—	—
	28,974	6,245	28,841	—

The deposits and prepayments accounts include deposits aggregating approximately HK\$27 million paid to log suppliers in the year ended 31 March 2003 for the purchase of logs to be used by the Group in certain potential contracts for the supply of fire-rated timber door sets. However, since the respective tenders of the contracts were not ultimately awarded, the Group had terminated the purchase contracts with the log suppliers and the deposits were fully and subsequently refunded.

Notes to Financial Statements

31 March 2003

21. DUE FROM A RELATED COMPANY

Particulars of the amounts due from a related company are as follows:

	31 March 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 April 2002 HK\$'000
Lahine Engineering Limited	—	5,896	5,896

Mr. Chu, a director of the Company, was the director of Lahine Engineering Limited ("LEL") and resigned as a director of LEL on 6 March 2002.

The balances mainly arose from payments made by LEL on behalf of the Group and prepayments to LEL for the handling of certain settlements to suppliers. The amounts due from the related company were unsecured, interest-free, and were fully settled during the year.

Notes to Financial Statements

31 March 2003

22. DUE FROM A DIRECTOR

Particulars of the amount due from a director, disclosed pursuant to Section 161B of the Companies Ordinance, are as follows:

	31 March 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 April 2002 HK\$'000
Mr. Chu Chi Ming	—	2,975	96

The amount due from a director was unsecured, interest-free and had no fixed terms of repayment. The amount was fully settled prior to the listing of the Company's shares on the Stock Exchange.

23. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group 2003 HK\$'000	2002 HK\$'000
Current — 90 days	782	2,694
91 — 180 days	259	4
181 — 365 days	66	1
Over 365 days	59	58
	1,166	2,757
Retention monies payable	1,298	1,406
	2,464	4,163

Notes to Financial Statements

31 March 2003

24. HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its office equipment, motor vehicles and pleasure craft. These leases are classified as hire purchase contracts with remaining lease terms ranging from two to five years.

At 31 March 2003, the total future minimum lease payments under hire purchase contracts and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	2,022	23	1,724	18
In the second year	2,021	13	1,782	11
In the third to fifth years, inclusive	3,830	12	3,546	11
Total minimum lease payments	7,873	48	7,052	40
Future finance charges	(821)	(8)		
Total net hire purchase contract payables	7,052	40		
Portion classified as current liabilities	(1,724)	(18)		
Long term portion of hire purchase contract payables	5,328	22		

Notes to Financial Statements

31 March 2003

25. SHARE CAPITAL

(a) Shares

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each (2002: 1,000,000 ordinary shares of HK\$0.1 each)	100,000	100
Issued:		
672,000,000 ordinary shares of HK\$0.1 each fully paid (2002: 1,000,000 ordinary shares of HK\$0.1 each nil paid)	67,200	—

The following changes in the Company's authorised and issued share capital took place during the year:

- (i) As at the date of incorporation of the Company, its initial authorised share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, all of which were allotted and issued nil paid to Mr. Chu on 17 April 2002;
- (ii) On 5 July 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 999,000,000 new shares of HK\$0.1 each to rank equally with the existing shares in all respects;
- (iii) On 5 July 2002, the Company allotted and issued 360,000 and 640,000 shares of HK\$0.1 each, credited as fully paid, to Mr. Chu and Pan-Star as part of the consideration and in exchange for the acquisition by the Company of the entire issued share capital of Profitown Venture Corporation ("Profitown Venture");
- (iv) On 5 July 2002, an amount of HK\$100,000, being part of the amount credited to the contributed surplus account of the Company arising from the issue of such 1,000,000 shares of HK\$0.1 each in exchange for the entire issued share capital of Profitown Venture as referred to in paragraph (iii) above, was applied in paying up in full at par the 1,000,000 shares allotted and issued nil paid to Mr. Chu on 17 April 2002 by the Company;

25. SHARE CAPITAL *(Continued)***(a) Shares** *(Continued)*

- (v) On 24 July 2002, the Company allotted and issued a total of 502,000,000 shares of HK\$0.1 each credited as fully paid at par to and amongst the shareholders whose names appear on the register of members of the Company (or as such members of the Company may direct) at the close of business on 9 July 2002 in proportion (as nearly as possible without involving fractions) to their then respective shareholdings in the Company by way of capitalisation of the sum of HK\$50,200,000 standing to the credit of the share premium account and contributed surplus of the Company; and

- (vi) On 24 July 2002, 168,000,000 shares of HK\$0.1 each were issued at HK\$0.3 each to the public by way of new issue and placement of shares for a total cash consideration, before related expenses, of HK\$50,400,000.

Notes to Financial Statements

31 March 2003

25. SHARE CAPITAL (Continued)

(a) Shares (Continued)

A summary of the movements in the Company's ordinary share capital during the year is as follows:

	<i>Notes</i>	Number of Shares issued	Issued share capital HK\$'000
Shares allotted and issued nil paid on 17 April 2002	<i>(i)</i>	1,000,000	—
Shares issued as part of the consideration for acquisition of the entire issued share capital of Profitown Venture	<i>(iii)</i>	1,000,000	100
1,000,000 nil paid shares credited as fully paid as the remaining consideration for acquisition of the entire issued share capital of Profitown Venture	<i>(iv)</i>	—	100
Capitalisation issue credited as fully paid conditional on the share premium account and contributed surplus of the Company being credited as a result of the new issue of shares to the public	<i>(v)</i>	502,000,000	—
Pro forma share capital at 31 March 2002 and 1 April 2002		504,000,000	200
New issue on public listing	<i>(vi)</i>	168,000,000	16,800
Capitalisation of share premium account as set out in <i>(v)</i> above		—	50,200
Issued share capital at 31 March 2003		672,000,000	67,200

For the purpose of the consolidated balance sheet, the comparative amount of the issued share capital at 31 March 2002 comprised the pro forma issued share of HK\$200,000 as set out above.

25. SHARE CAPITAL *(Continued)***(b) Share option scheme**

A share option scheme ("the Scheme") was conditionally approved by a written resolution of all shareholders of the Company dated 6 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to enable the Company to grant options to selected employees and directors as an incentive or rewards for their contribution to the Group. The board of directors (the "Board") may, at its discretion, invite any executive director, non-executive director, independent non-executive director and/or full-time or part time employee of any company in the Group from time to time determined by the Board as having contributed to the development and growth of the Company and/or any of its subsidiaries, to take up options at HK\$1 each to subscribe for such number of shares as the Board shall determine at a price calculated in accordance with the paragraph below.

The subscription price for shares under the Scheme will be a price determined by the Board and notified to each grantee and will be the higher of (i) the average closing prices of the shares on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; or (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (iii) the nominal value of a share.

The maximum number of shares to be issued upon exercise of all outstanding options under the Scheme and any other share option schemes of the Company will not exceed 30% (or where applicable, such higher percentage as may from time to time to be permitted under the Listing Rules or by the Stock Exchange) of the total number of the issued shares from time to time. The total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 67,200,000 shares, representing 10% of the issued share capital of the Company, as at the date of listing of shares on the Stock Exchange. The Company may seek approval of its shareholders at a general meeting to renew the 10% limit. However, the total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of renewing such limit. No option may be granted to any one person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted to him/her in the 12-month period up to and including the date of such grant, to exceed 1% of the issued share capital of the Company as at the date of such grant. Any further grant of options in excess of the foregoing limit must be subject to the approval of the shareholders of the Company in a general meeting.

Notes to Financial Statements

31 March 2003

25. SHARE CAPITAL *(Continued)*

(b) Share option scheme *(Continued)*

A grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by all the independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the options). If the Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director or their respective associates (as defined in the Listing Rules) which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the shares in issue as at the date of such further proposed grant; and (ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange at the date of such grant, in excess of HK\$5,000,000; such further grant shall be subject to the approval of the shareholders of the Company in general meeting. Shareholders' approval must be obtained for any change in the terms of options granted to a grantee who is a substantial shareholder or an independent non-executive director of the Company or their respective associates.

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing immediately after the date on which the option is accepted and deemed to be granted and expiring on a date to be notified by the Board to each grantee which shall not be more than 10 years from the date on which the option is accepted and deemed to be granted. According to the Scheme, there is no general requirement for a minimum holding period or performance targets before an option may be exercised.

25. SHARE CAPITAL *(Continued)***(b) Share option scheme** *(Continued)*

The directors may terminate the Scheme, subject to shareholders' approval in a general meeting, at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Scheme. Any cancellation of options granted, but not exercised, shall be approved by the shareholders of the Company in a general meeting.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercisable price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

No share options have been granted under the Scheme during the year and nor were outstanding at the balance sheet date.

Notes to Financial Statements

31 March 2003

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 19 of the financial statements.

(b) Company

	Contributed surplus <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 14 March 2002 (date of incorporation), at 31 March 2002 and 1 April 2002	—	—	—	—
Arising from acquisition of				
Profitown Venture	61,601	—	—	61,601
Issue of shares	—	33,600	—	33,600
Capitalisation issue of shares	(27,554)	(22,646)	—	(50,200)
Share issue expenses	—	(10,954)	—	(10,954)
Net profit for the year	—	—	2,313	2,313
Interim 2003 dividend	(13,440)	—	—	(13,440)
At 31 March 2003	20,607	—	2,313	22,920

The Group's contributed surplus originally represented the difference between the nominal value of the shares, the share premium account and the contributed surplus of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company includes the excess of the fair value of the shares of the subsidiaries acquired pursuant to Group Reorganisation set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously, five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest, taxes and dividends paid are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities. The presentation of the 2002 comparative cash flow statement has been changed to accord with the new layout.

(b) Major non-cash transactions

During the year, the Group entered into hire purchase contract arrangements in respect of fixed assets with a total capital value at the inception of the hire purchase contracts of HK\$5,435,000 (2002: HK\$88,000).

(c) Acquisition of subsidiaries

	<i>Note</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	15	3,576
Cash and bank balances		162
Prepayments and other receivables		1,544
Hire purchase contract payables		(2,182)
		3,100
Satisfied by:		
Cash		3,100

Notes to Financial Statements

31 March 2003

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000
Cash consideration	(3,100)
Cash and bank balances acquired	162
<hr/>	
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,938)

On 9 October 2002, the Group acquired 100% interests in Tai Sang (Far East) Limited (formerly Door Tech (Far East) Limited), Tubi P&D System Limited and Billion Concept Limited from an independent third party.

Since acquisition, Tai Sang (Far East) Limited, Tubi P&D System Limited and Billion Concept Limited contributed nil and HK\$2,677,000 in aggregate to the consolidated turnover and consolidated loss after tax for the year ended 31 March 2003, respectively.

28. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms of three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	825	260	825	—
In the second to fifth years, inclusive	1,357	—	1,357	—
<hr/>				
	2,182	260	2,182	—

Notes to Financial Statements

31 March 2003

29. COMMITMENTS

At the balance sheet date, neither the Group, nor the Company had any significant commitments.

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements are as follow:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to bank in connection with hire purchase contracts	—	—	6,695	—

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following significant related party transactions:

	Notes	Group	
		2003	2002
		HK\$'000	HK\$'000
Purchases of materials from LEL	(i)	—	209
Handling fees paid to LEL for purchasing raw materials	(ii)	—	240

Notes:

- (i) The purchase cost was determined based on the resale price to third parties less an appropriate percentage of profit margin.
- (ii) The terms of the transactions were determined in accordance with relevant agreements entered into between the Group and LEL. The handling fees were charged by LEL at a fixed amount of HK\$20,000 per month.

Mr. Chu, the director of the Company, was the director of LEL and resigned as a director of LEL on 6 March 2002.

Notes to Financial Statements

31 March 2003

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 March 2003 are as follows:

Company name	Place of incorporation	Nominal value of issued and paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
LFP Engineering Limited (formerly Lahine Fire Protection Engineering Limited)	Hong Kong	HK\$200,000 Ordinary	—	100	Provision and installation of fire-rated timber door sets and the provision of interior decoration and renovation services
Tai Sang (Far East) Limited (formerly Door Tech (Far East) Limited) *	Hong Kong	HK\$10,000 Ordinary	—	100	Investment holding
First Inc Investment Limited *	Hong Kong	HK\$2 Ordinary	100	—	Investment holding
Giant Gold Investments Limited *	British Virgin Islands	US\$1 Ordinary	100	—	Investment holding
Profitown Venture Corporation	British Virgin Islands	US\$200 Ordinary	100	—	Investment holding
Billion Concept Limited *	Hong Kong	HK\$10,000 Ordinary	—	100	Holding of motor vehicles

Notes to Financial Statements

31 March 2003

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Company name	Place of incorporation	Nominal value of issued and paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
First Billion Development Limited *	Hong Kong	HK\$10,000 Ordinary	—	100	Holding of motor vehicles
Tubi P&D System Limited *	Hong Kong	HK\$10,000 Ordinary	—	100	Dormant

* Newly incorporated or acquired during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 July 2003.