

NOTES TO FINANCIAL STATEMENTS

31 March 2003

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 20 August 1992 and its shares are listed on The Stock Exchange of Hong Kong Limited.

During the year, the Group was involved in the following principal activities:

- provision of multi-disciplinary of building services comprising, electrical engineering, water pumping and fire services, air-conditioning, plumbing and drainage, environmental engineering and extra low voltage systems engineering;
- project management; and
- trading of electrical and mechanical engineering materials and equipment.

2. IMPACT OF NEW AND REVISED 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 33: “Discontinuing operations”
- 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 those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 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 of this SSAP is that a consolidated statement of changes in equity is now presented on page 27 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.

NOTES TO**FINANCIAL STATEMENTS** *(Continued)**31 March 2003***2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) *(Continued)***

SSAP 11 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 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. In addition, the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for “Cash and cash equivalents” in note 3 and in note 31(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinued operations, which were previously included in SSAP 2. The SSAP defines a discontinued operation and prescribes when an enterprise should commence including discontinued operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group’s discontinued operations are now included in note 6 to the financial statements.

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 the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and in note 23 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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, except for the periodic remeasurement of certain long term investments, as further explained below.

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.

Minority interests represent the interests of outside shareholders in the results and the net assets of the Company's subsidiaries.

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.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

NOTES TO**FINANCIAL STATEMENTS** *(Continued)*

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Associates** *(Continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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.

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

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

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

Fixed assets and depreciation *(Continued)*

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 land and properties held under medium term leases | 2% |
| Machinery and equipment | 20-30% |
| Furniture and office equipment | 20% |
| Motor vehicles | 20% |
| Leasehold improvements | 3 years or over the term of the lease, whichever is shorter |

The gain or loss on disposal 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.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis.

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

NOTES TO**FINANCIAL STATEMENTS** *(Continued)*

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Installation and maintenance contracts and contracts in progress**

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 installation and maintenance overheads.

Revenue from fixed price installation and maintenance contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified work performed to date to the estimated total contract sum of the relevant contracts. When the outcome of the contracts cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that is probable to be recoverable.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

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

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.

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.

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.

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 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.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 31(a) to the financial statements.

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

NOTES TO**FINANCIAL STATEMENTS** *(Continued)*

31 March 2003

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

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.

Employee benefits*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 23 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2003

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

Employee benefits *(Continued)*

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes, including an Occupational Retirement Schemes Ordinance retirement benefits scheme (the “ORSO Scheme”) and a Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees (including directors).

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees’ basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of between 30% to 90% after completing three to nine years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

Under 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 Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The assets of both types of scheme are held separately from those of the Group in independently administered funds.

NOTES TO**FINANCIAL STATEMENTS** *(Continued)*

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)**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.

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 the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from installation and maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for "Installation and maintenance contracts and contracts in progress" above;
- (c) service income from broadband connectivity, on an accrual basis over the life of the service agreement;
- (d) project management income, when project management services are rendered; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

4. SEGMENT INFORMATION

Segment information is presented by business segment. No further analysis by geographical segment is required as the Group operates solely in Hong Kong.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) building services contracting business, which includes the provision of multi-disciplinary building services, comprising electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering and extra low voltage systems engineering;
- (b) project management;
- (c) the trading of electrical and mechanical engineering materials and equipment;
- (d) the provision of broadband connectivity services (discontinued during the year ended 31 March 2002 – note 6); and
- (e) the provision of design, installation and maintenance services of karaoke-on-demand systems (discontinued during the year ended 31 March 2002 – note 6).

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO
FINANCIAL STATEMENTS (Continued)

31 March 2003

4. SEGMENT INFORMATION (Continued)

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group

| | (Continuing) Building services contracting business | | (Continuing) Project management | | (Continuing) Trading of electrical and mechanical engineering materials and equipment | | (Discontinued) Provision of broadband connectivity services | | (Discontinued) Provision of design, installation and maintenance services of karaoke-on- demand systems | | Eliminations | | Consolidated | |
|--|--|----------------|---------------------------------------|--------------|---|----------------|---|----------------|---|----------------|----------------|-----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | | | |
| Sales to external customers | 588,147 | 604,357 | 4,638 | 6,660 | 51,234 | 52,685 | 291 | 14,188 | — | 20,542 | — | — | 644,310 | 698,432 |
| Intersegment sales | — | — | — | — | 8,342 | 29,069 | — | — | — | — | (8,342) | (29,069) | — | — |
| Total revenue | <u>588,147</u> | <u>604,357</u> | <u>4,638</u> | <u>6,660</u> | <u>59,576</u> | <u>81,754</u> | <u>291</u> | <u>14,188</u> | <u>—</u> | <u>20,542</u> | <u>(8,342)</u> | <u>(29,069)</u> | <u>644,310</u> | <u>698,432</u> |
| Segment results | <u>4,874</u> | <u>17,743</u> | <u>4,638</u> | <u>6,660</u> | <u>606</u> | <u>(3,007)</u> | <u>(458)</u> | <u>(6,389)</u> | <u>—</u> | <u>(9,646)</u> | <u>—</u> | <u>—</u> | <u>9,660</u> | <u>5,361</u> |
| Interest income and unallocated gains | | | | | | | | | | | | | 2,718 | 2,451 |
| Legal expenses | | | | | | | | | | | | | — | (7,907) |
| Provision for impairment of goodwill | | | | | | | | | | | | | — | (12,680) |
| Unrealised holding losses on long term investments | | | | | | | | | | | | | (8,374) | (6,567) |
| Gain on disposal of a subsidiary | | | | | | | | | | | | | — | 781 |
| Loss on disposal of a subsidiary | | | | | | | | | | | | | — | (1,122) |
| Finance costs | | | | | | | | | | | | | (2,034) | (3,194) |
| Share of losses of associates | | | | | | | | | | | | | (2) | (3,605) |
| Profits/(loss) before tax | | | | | | | | | | | | | 1,968 | (26,482) |
| Tax | | | | | | | | | | | | | (4,872) | (5,209) |
| Loss before minority interests | | | | | | | | | | | | | (2,904) | (31,691) |
| Minority interests | | | | | | | | | | | | | (11,781) | (3,631) |
| Net loss from ordinary activities attributable to shareholders | | | | | | | | | | | | | <u>(14,685)</u> | <u>(35,322)</u> |

NOTES TO

FINANCIAL STATEMENTS (Continued)

31 March 2003

4. SEGMENT INFORMATION (Continued)

Group

| | (Continuing) Building services contracting business | | (Continuing) Project management | | (Continuing) Trading of electrical and mechanical engineering materials and equipment | | (Discontinued) Provision of broadband connectivity services | | (Discontinued) Provision of design, installation and maintenance services of karaoke-on- demand systems | | Eliminations | | Consolidated | |
|-------------------------------|--|------------------------|---------------------------------------|----------|---|------------------------|---|----------|---|----------|--------------|----------|--------------|------------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 (Restated) | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Restated) | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Restated) |
| Segment assets | 328,555 | 272,335 | — | — | 27,878 | 37,568 | 678 | 1,383 | — | — | — | — | 357,111 | 311,286 |
| Unallocated assets | | | | | | | | | | | | | 12,531 | 19,915 |
| Total assets | | | | | | | | | | | | | 369,642 | 331,201 |
| Segment liabilities | 232,097 | 170,316 | — | — | 18,722 | 32,196 | 10,643 | 11,605 | — | — | — | — | 261,462 | 214,117 |
| Other segment information: | | | | | | | | | | | | | | |
| Depreciation | 3,018 | 2,949 | — | — | 69 | 219 | — | 255 | — | 3,192 | — | — | 3,087 | 6,615 |
| Capital expenditure | 577 | 3,211 | — | — | 11 | 144 | — | 977 | — | 2,806 | — | — | 588 | 7,138 |
| Other non-cash expenses | — | 1,080 | — | — | — | — | — | — | — | — | — | — | — | 1,080 |
| Impairment losses of | | | | | | | | | | | | | | |
| - fixed assets | — | — | — | — | — | — | — | 826 | — | — | — | — | — | 826 |
| - goodwill | — | — | — | — | — | — | — | — | — | 12,680 | — | — | — | 12,680 |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and, an appropriate proportion of contract revenue from long term installation and maintenance contracts during the year.

An analysis of turnover and other revenue is as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|--------------------------------|------------------|
| Turnover | | |
| Continuing operations: | | |
| Building services contracting business | 588,147 | 604,357 |
| Project management income | 4,638 | 6,660 |
| Trading of electrical and mechanical engineering materials and equipment | 51,234 | 52,685 |
| | 644,019 | 663,702 |
| Discontinued operations: | | |
| Provision of broadband connectivity services | 291 | 14,188 |
| Provision of design, installation and maintenance services of karaoke-on-demand systems | — | 20,542 |
| | 644,310 | 698,432 |
| Other revenue | | |
| Interest income | 568 | 1,407 |
| Others | 2,150 | 1,044 |
| | 2,718 | 2,451 |

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

6. DISCONTINUED OPERATIONS

In view of a strategic plan by the Group to concentrate on its core activities, the directors determined to phase out the Group's broadband connectivity services business and it was substantially abandoned during the year ended 31 March 2002. In addition, certain of the Group's interests in a subsidiary, which was principally involved in the provision of design, installation and maintenance services of karaoke-on-demand systems, was disposed during the year ended 31 March 2002.

The directors considered the aforesaid two businesses were discontinued operations during the year ended 31 March 2002 and a provision for impairment of approximately HK\$826,000 was made against the fixed assets relating to the broadband connectivity services and a loss of approximately HK\$1,122,000 arose on the disposal of certain interests in the karaoke-on-demand systems business was recorded in the profit and loss account for the year ended 31 March 2002.

During the year ended 31 March 2003, there were essentially no business activities of the broadband connectivity services and the subsidiary engaged in the broadband connectivity services business was in liquidation as of 31 March 2003. Further details about the discontinued operations of these segments are included in note 4 to the financial statements.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

6. DISCONTINUED OPERATIONS (Continued)

The turnover, other revenue and gains, expenses, loss before tax and net loss for the year attributable to the discontinued operations are as follows:

| | Provision of broadband connectivity services | | Provision of design, installation and maintenance service of karaoke-on-demand systems | | Total | Total |
|--------------------------------|--|----------|--|----------|--------------|----------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | 291 | 14,188 | — | 20,542 | 291 | 34,730 |
| Cost of sales | (756) | (12,438) | — | (11,442) | (756) | (23,880) |
| Gross profit/(loss) | (465) | 1,750 | — | 9,100 | (465) | 10,850 |
| Other revenue and gains | 7 | 5 | — | 19 | 7 | 24 |
| Administrative expenses | — | (8,139) | — | (18,746) | — | (26,885) |
| Loss from operating activities | (458) | (6,384) | — | (9,627) | (458) | (16,011) |
| Finance costs | (20) | (242) | — | (12) | (20) | (254) |
| Loss before tax | (478) | (6,626) | — | (9,639) | (478) | (16,265) |
| Tax | — | — | — | (13) | — | (13) |
| Net loss for the year | (478) | (6,626) | — | (9,652) | (478) | (16,278) |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

6. DISCONTINUED OPERATIONS (Continued)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

| | Provision of broadband connectivity services | | Provision of design, installation and maintenance service of karaoke-on-demand systems | | Total | Total |
|-------------------|--|----------|--|----------|-----------------|----------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 678 | 1,383 | — | — | 678 | 1,383 |
| Total liabilities | (10,643) | (11,605) | — | — | (10,643) | (11,605) |
| Net liabilities | (9,965) | (10,222) | — | — | (9,965) | (10,222) |

The net cash flows attributable to the discontinued operations are as follows:

| | Provision of broadband connectivity services | | Provision of design, installation and maintenance service of karaoke-on-demand systems | | Total | Total |
|---------------------------|--|----------|--|----------|--------------|----------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating activities | (950) | (4,404) | — | 1,412 | (950) | (2,992) |
| Investing activities | — | — | — | (968) | — | (968) |
| Net cash inflow/(outflow) | (950) | (4,404) | — | 444 | (950) | (3,960) |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 43,188 | 43,744 |
| Cost of installation | 510,648 | 528,638 |
| | 553,836 | 572,382 |
| Depreciation (note 14) | 3,087 | 6,615 |
| Minimum lease payments under operating leases in respect of land and buildings | 1,993 | 3,655 |
| Auditors' remuneration | 800 | 750 |
| Staff costs (including directors' remuneration (note 9)): | | |
| Wages and salaries | 64,217 | 85,289 |
| Pension scheme contributions | 2,982 | 3,447 |
| Less: Forfeited contributions | (238) | (297) |
| Net pension contributions * | 2,744 | 3,150 |
| | 66,961 | 88,439 |
| Provision for/(recovery of) doubtful debts | (754) | 1,346 |
| Loss on disposal of fixed assets | 434 | 2,037 |

* At 31 March 2003, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2002: Nil).

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

8. FINANCE COSTS

| | Group | |
|---|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | 1,405 | 2,407 |
| Bank charges | 546 | 593 |
| Interest on finance leases | 83 | 194 |
| | 2,034 | 3,194 |

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: | | |
| Executive directors | — | — |
| Non-executive directors | — | — |
| Independent non-executive directors | 240 | 241 |
| | 240 | 241 |
| Other emoluments for executive directors: | | |
| Salaries, allowances and benefits in kind | 3,880 | 3,683 |
| Performance related bonuses | — | 3,300 |
| Pension scheme contributions | 153 | 231 |
| | 4,033 | 7,214 |
| | 4,273 | 7,455 |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

9. DIRECTORS' REMUNERATION (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|--------------------------------|----------------------------|------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 6 | 10 |
| HK\$1,000,001 to HK\$1,500,000 | 3 | 2 |
| HK\$5,000,001 to HK\$5,500,000 | — | 1 |
| | 9 | 13 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

| | Group | |
|---|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 2,044 | 2,205 |
| Pension scheme contributions | 129 | 85 |
| | 2,173 | 2,290 |

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

| | Number of employees | |
|--------------------------------|----------------------------|------|
| | 2003 | 2002 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | 2 |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

11. TAX

The Company is exempted from tax in Bermuda until 2016. 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.

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Hong Kong | 5,245 | 6,722 |
| Underprovision/(overprovision) in prior years | (66) | 153 |
| Deferred (note 27) | (307) | (1,666) |
| | 4,872 | 5,209 |
| Share of tax attributable to associates | — | — |
| Tax charge for the year | 4,872 | 5,209 |

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is approximately HK\$37,003,000 (2002: HK\$31,066,000).

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

13. LOSS PER SHARE

The calculations of basic and diluted loss per share are based on:

| | 2003 | 2002 |
|--|---------------------------|--------------------|
| | HK\$'000 | HK\$'000 |
| Loss | | |
| Net loss attributable to shareholders, used in the basic and diluted loss per share calculations | <u>(14,685)</u> | <u>(35,322)</u> |
| | Number of shares | |
| | 2003 | 2002 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation | 463,721,600 | 422,025,767 |
| Assumed issued at no consideration on deemed exercise of all share options outstanding during the year | <u>—</u> | <u>2,159</u> |
| Weighted average number of ordinary shares used in diluted loss per share calculation | <u>463,721,600</u> | <u>422,027,926</u> |

There is no dilution of the basic earnings per share for the year ended 31 March 2003, as there is no dilutive potential ordinary shares in existence during the year.

A diluted loss per share amount for the year ended 31 March 2002 has not been presented as the share options outstanding during that year had an anti dilutive effect on the basic loss per share for the year.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

14. FIXED ASSETS**Group**

| | Leasehold land properties HK\$'000 | Machinery and equipment HK\$'000 | Furniture and equipment HK\$'000 | and office vehicles HK\$'000 | Motor improvements HK\$'000 | Leasehold Total HK\$'000 |
|---|---|---|---|------------------------------------|-----------------------------------|--------------------------------|
| Cost: | | | | | | |
| At beginning of year | 22,378 | 6,200 | 13,859 | 5,203 | 2,108 | 49,748 |
| Additions | — | — | 342 | — | 246 | 588 |
| Disposals | — | (6,200) | (3,952) | (698) | (309) | (11,159) |
| At 31 March 2003 | 22,378 | — | 10,249 | 4,505 | 2,045 | 39,177 |
| Accumulated depreciation and impairment: | | | | | | |
| At beginning of year | 2,871 | 6,195 | 9,713 | 2,938 | 1,346 | 23,063 |
| Depreciation provided during the year | 447 | 5 | 1,344 | 815 | 476 | 3,087 |
| Disposals | — | (6,200) | (3,001) | (698) | (250) | (10,149) |
| At 31 March 2003 | 3,318 | — | 8,056 | 3,055 | 1,572 | 16,001 |
| Net book value | | | | | | |
| At 31 March 2003 | 19,060 | — | 2,193 | 1,450 | 473 | 23,176 |
| At 31 March 2002 | 19,507 | 5 | 4,146 | 2,265 | 762 | 26,685 |

The Group's leasehold land and properties are located in Hong Kong and are held under medium-term leases.

At 31 March 2003, certain of the Group's leasehold land and properties with net book value of approximately HK\$16,500,000 (2002: Nil) were pledged to secure general banking facilities granted to the Group.

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2003 amounted to approximately HK\$648,000 (2002: HK\$1,531,000).

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

15. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|--------------------------------|-------------------------|
| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
| Unlisted shares, at cost | 33,116 | 33,116 |
| Due from subsidiaries | 143,695 | 141,849 |
| | 176,811 | 174,965 |
| Provision for impairment | (112,275) | (73,187) |
| | 64,536 | 101,778 |

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Group are as follows:

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|--|---|---|-----------------|--|
| | | | Direct | Indirect | |
| Shun Cheong Electrical Engineering Company Limited | Hong Kong | HK\$4,000,100 | — | 100 | Design, installation, repair and maintenance of electrical and mechanical systems |
| Shun Cheong Automation Systems Limited | Hong Kong | HK\$2,000,000 | — | 85 | Design and installation of computer control systems and building automation projects |
| Shun Cheong Management Limited | Hong Kong | HK\$2 | — | 100 | Provision of management services |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries of the Group are as follows: (Continued)

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---------------------------------------|--|--|----------|--|
| | | | Direct | Indirect | |
| Tinhawk Company Limited | Hong Kong | HK\$2,000,000 | — | 90 | Installation and maintenance of water pumps and fire prevention and fighting systems |
| Ecotech Engineering Limited | Hong Kong | HK\$650,001 | — | 89.99 | Design, installation and maintenance of waste-water treatment systems |
| Shun Cheong M&E Limited | Hong Kong | HK\$663,000 | — | 100 | Trading of electrical generators and uPVC conduits and trunking systems |
| Shun Cheong Electrical Supplies Company Limited | Hong Kong | HK\$100,000 | — | 100 | General trading of materials and equipment for electrical installation |
| Shun Cheong Real Estates Limited | Hong Kong | HK\$10,000 | — | 100 | Property holding |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries of the Group are as follows: (Continued)

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---------------------------------------|--|--|----------|--|
| | | | Direct | Indirect | |
| Westco Airconditioning Limited | Hong Kong | HK\$2,200,000 | — | 100 | Design, installation and maintenance of heating ventilation and air-conditioning systems |
| Speedlink Limited (In creditors' voluntary liquidation) | Hong Kong | HK\$10,000,000 | — | 72 | Provision of broadband connectivity services |
| Shun Wing Construction & Engineering Co., Ltd. | Hong Kong | HK\$1,000 | — | 50.1 | Provision of building and electrical maintenance services |
| Ever Billion Engineering Limited | Hong Kong | HK\$100 | — | 100 | Provision of building and electrical maintenance services |

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.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

16. INTERESTS IN AN ASSOCIATE

| | Group | |
|-------------------------------------|--------------------------------|-------------------------|
| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
| Share of net assets of an associate | <u>—</u> | <u>—</u> |

Particulars of the associate are as follows:

| Name | Business structure | Place of incorporation and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|--------------------------|---------------------------|--|---|-----------------------------|
| MIT Shun Cheong Co. Ltd. | Corporate | Hong Kong | 50 | Inactive |

17. LONG TERM INVESTMENTS

| | Group | |
|---|--------------------------------|-------------------------|
| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
| Listed equity investments in Hong Kong, at market value | 166 | 1,410 |
| Unlisted investments, at fair value | <u>12,365</u> | <u>18,505</u> |
| | <u>12,531</u> | <u>19,915</u> |

As at 31 March 2003, the Group held 7.7%, 13.96%, 8.91% and 22.33% equity interests in four unlisted companies with fair values, as estimated by the directors, of HK\$4,329,000, HK\$5,056,000, HK\$1,860,000, and HK\$1,120,000 respectively.

The unlisted investment with a carrying value of HK\$4,329,000 was stated at its fair value as at 31 March 2003 as estimated by the directors based on its latest available audited financial statements, and the remaining unlisted investments with an aggregate carrying value of HK\$8,036,000 were stated at their fair values as at 31 March 2003 as estimated by the directors, based on their latest available unaudited financial information.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

17. LONG TERM INVESTMENTS (Continued)

In the prior year, the Group's 13.96% equity interest in one of these unlisted companies, Dyxnet Holdings Limited, which was previously recorded as an interest in an associate at approximately HK\$5,758,000, was reclassified to long term investments, after accounting for the Group's share of its loss of approximately HK\$3,548,000 for the year ended 31 March 2002.

As set out in the Company's public announcement dated 28 March 2002, the Group's equity interest in Binary KOD Limited and its subsidiaries (the "Binary KOD Group"), which was previously recorded as interest in subsidiaries, decreased from an effective interest of approximately 45.76% to approximately 32%, following the reorganisation of the Binary KOD Group. The Group's interest in Binary KOD Group was further diluted to approximately 22% following a private placement completed by Binary KOD Group on 31 March 2002. The directors of the Company are of the opinion that the Group is unable to exercise any significant influence over the Binary KOD Group and accordingly, the investment was recorded as a long term investment as at 31 March 2002.

18. GROSS AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS

| | Group | |
|---|--------------------|-------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Gross amount due from contract customers | 86,453 | 61,356 |
| Gross amount due to contract customers | (83,514) | (45,825) |
| | 2,939 | 15,531 |
| Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date | 2,473,677 | 1,914,486 |
| Less: Progress billings | (2,470,738) | (1,898,955) |
| | 2,939 | 15,531 |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

19. INVENTORIES

Inventories comprise electrical cables, conduits, wiring accessories, light fittings and switch gear.

| | Group | |
|----------------------|-----------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Merchandise for sale | <u>3,499</u> | <u>4,527</u> |

As at 31 March 2003, no inventories were carried at net realisable value or pledged as security for any liability of the Group (2002: Nil).

20. TRADE AND OTHER RECEIVABLES

| | Group | |
|-------------------|-----------------------|----------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Trade receivables | 133,525 | 109,873 |
| Other receivables | 27,379 | 22,390 |
| | <u>160,904</u> | <u>132,263</u> |

The Group grants its trade customers credit periods normally ranging from cash on delivery to 60 days. A longer credit period is granted to a few customers with long business relationships with the Group and strong financial positions.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

20. TRADE AND OTHER RECEIVABLES (Continued)

An aged analysis for trade receivables (after netting off provisions for bad and doubtful debts) is as follows:

| | Group | |
|--------------|--------------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| 0 – 30 days | 106,582 | 27,850 |
| 31 – 60 days | 9,329 | 12,220 |
| 61 – 90 days | 5,160 | 18,012 |
| Over 90 days | 12,454 | 51,791 |
| | <u>133,525</u> | <u>109,873</u> |

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|-----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Cash and bank balances | 14,238 | 10,316 | 76 | 49 |
| Time deposits | 39,935 | 42,510 | — | — |
| | 54,173 | 52,826 | 76 | 49 |
| Less: Pledged time deposits | (27,348) | (26,800) | — | — |
| Cash and cash equivalents | <u>26,825</u> | <u>26,026</u> | <u>76</u> | <u>49</u> |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

22. TRADE PAYABLES

The aged analysis for trade payables is as follows:

| | Group | |
|--------------|-----------------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| 0 – 30 days | 22,527 | 10,490 |
| 31 – 60 days | 9,190 | 15,515 |
| Over 60 days | 13,073 | 13,639 |
| | 44,790 | 39,644 |

23. OTHER PAYABLES AND ACCRUALS

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$2,131,000 and HK\$2,074,000 being included in the balance of the Group’s accruals in respect of paid leave carried forward as at 31 March 2003 and 2002, respectively. As a consequence, the consolidated accumulated losses at 1 April 2002 and 2001 have both been increased by HK\$2,074,000, as detailed in the consolidated statement of changes in equity. There is no impact on the Group’s net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

24. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

| | Group | |
|--|--------------------------------|-------------------------|
| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
| Bank overdrafts: | | |
| Secured | 16,086 | 21,048 |
| Bank loans: | | |
| Secured | 7,333 | — |
| Unsecured | 13,655 | 921 |
| | 37,074 | 21,969 |
| Bank overdrafts repayable within one year or on demand | 16,086 | 21,048 |
| Bank loans repayable: | | |
| Within one year or on demand | 4,000 | — |
| In the second year | 3,333 | — |
| Trust receipt loans repayable within three months from date of advance | 13,655 | 921 |
| | 37,074 | 21,969 |
| Portion classified as current liabilities | (33,741) | (21,969) |
| Long term portion | 3,333 | — |

The Group's banking facilities, including overdrafts, term loans, letters of credit and bank guarantees of approximately HK\$108,500,000 (2002: HK\$116,500,000) are secured by bank deposits of the Group of approximately HK\$27,348,000 (2002: HK\$26,800,000) and certain of the Group's leasehold land and properties with a net book value of approximately HK\$16,500,000 (2002: Nil).

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

25. FINANCE LEASE PAYABLES

The Group leases motor vehicles for its building services contracting business. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

As at 31 March 2003, the total future minimum lease payments under finance leases and their present values were as follows:

| Group | Minimum lease payments | Minimum lease payments | Present value of 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 | 322 | 402 | 270 | 337 |
| In the second year | 214 | 322 | 180 | 270 |
| In the third to fifth years, inclusive | — | 214 | — | 180 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total minimum finance lease payments | 536 | 938 | 450 | 787 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Future finance charges | (86) | (151) | | |
| | <hr/> | <hr/> | | |
| Total net finance lease payables | 450 | 787 | | |
| Portion classified as current liabilities | (270) | (337) | | |
| | <hr/> | <hr/> | | |
| Long term portion | 180 | 450 | | |
| | <hr/> | <hr/> | | |

26. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The loans from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

27. DEFERRED TAX

| | Group | |
|--|--------------------------------|-------------------------|
| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
| Balance at 1 April | 560 | 2,226 |
| Written back for the year (<i>note 11</i>) including the effect of change in tax rate from 16% to 17.5% of HK\$24,000 (<i>2002: Nil</i>) | (307) | (1,666) |
| At 31 March | <u>253</u> | <u>560</u> |

Deferred tax mainly represents the tax effect of the cumulative differences in profit relating to incomplete long term installation and maintenance contracts.

As at 31 March 2003, the Group had no unrecognised potential deferred tax assets in respect of unutilised tax losses (*2002: Nil*).

The Group and the Company had no other significant potential deferred tax liabilities for which provision has not been made.

28. SHARE CAPITAL

| | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| <i>Authorised:</i> | | |
| 800,000,000 ordinary shares of HK\$0.10 each | <u>80,000</u> | <u>80,000</u> |
| <i>Issued and fully paid:</i> | | |
| 463,721,600 ordinary shares of HK\$0.10 each | <u>46,372</u> | <u>46,372</u> |

There were no movements in share capital during the year ended 31 March 2003.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company’s share option scheme, which expired on 14 September 2002, are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 15 September 1992, a Share Option Scheme (the “Scheme”) was approved by the shareholders of the Company, under which the directors of the Company were able, at their discretion, to offer any employee (including any director) of the Company or of any of its subsidiaries, options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The summary terms and particulars of options under the Scheme are disclosed below pursuant to the requirements of Chapter 17 of the Listing Rules.

Summary of the Scheme

(a) **Purpose of the Scheme**

The purpose of the Scheme was to attract and retain high calibre employees, and to motivate them to a higher level of performance.

(b) **Participants of the Scheme**

The board was able, at its discretion, to grant to any employees (including any director) of the Company or of any of its subsidiaries, options to subscribe for the Company’s shares.

(c) **Maximum number of shares available to issue under the Scheme**

The maximum number of the shares in respect of which options were able to be granted under the Scheme were such number of shares, which when aggregated with shares already subject to any other share option schemes of the Company, represented 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares issued pursuant to the Scheme).

NOTES TO**FINANCIAL STATEMENTS** *(Continued)*

31 March 2003

29. SHARE OPTION SCHEME *(Continued)***Summary of the Scheme** *(Continued)***(d) Maximum entitlement to any one participant**

Under the Scheme, no options were able to granted to any one employee which, if exercised in full, would result in the total number of the Company's shares already issued and issuable to him under all the options granted to him exceeding 25% of the aggregated number of shares of the Company for the time being issued and issuable under the Scheme.

(e) Period and payment on acceptance of options

Under the Scheme, the offer of an option to acquire shares had to be accepted in writing in such manner as the board prescribed within 30 days from the date of offer and no fee was payable upon the grant of the option.

(f) Period within which the shares had to be taken up under an option

An option was able to be exercised in whole or in part at any time during an exercise period commencing on the date of the grant of the option to a participant and expiring at the close of business on the second anniversary of that date.

(g) The basis of determining the exercise price

The exercise price of the options was determined by the board and was not less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date on which the offer to grant an option was made.

(h) Remaining life of the Scheme

The Scheme was valid until 14 September 2002 at which date it expired.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

29. SHARE OPTION SCHEME *(Continued)*

Summary of the Scheme *(Continued)*

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 share 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 exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the outstanding share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, no options were granted by the Company under the Scheme up to the date of the expiration of the Scheme.

30. 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 27 of the financial statements.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

30. RESERVES (Continued)**(b) Company**

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Capital redemption reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--------------------------------------|---|------------------------------------|--|-----------------------------------|----------------------|
| At 1 April 2001 | 102,920 | 14,009 | 87 | (38,230) | 78,786 |
| Repurchase of shares | — | — | 45 | (108) | (63) |
| Issue of shares | 7,712 | — | — | — | 7,712 |
| Loss for the year | — | — | — | (31,066) | (31,066) |
| At 31 March 2002 and 1 April 2002 | 110,632 | 14,009 | 132 | (69,404) | 55,369 |
| Loss for the year | — | — | — | (37,003) | (37,003) |
| At 31 March 2003 | <u>110,632</u> | <u>14,009</u> | <u>132</u> | <u>(106,407)</u> | <u>18,366</u> |

The contributed surplus represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries under a Group reorganisation in 1992. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated 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 and taxes paid are now included in cash flows from operating activities and interest received is now included in cash flows from investing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

Also, the definition of “cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash and cash equivalents” in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK\$921,000, previously included at that date. The year’s movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Disposal of subsidiaries**

| | 2003 | 2002 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Net assets disposed of: | | |
| Fixed assets | — | 5,815 |
| Cash and bank balances | — | 460 |
| Trade receivables | — | 16,757 |
| Prepaid tax | — | 324 |
| Inventories | — | 2,213 |
| Prepayments, deposits and other assets | — | 3,403 |
| Trade payables | — | (13,628) |
| Other payables and accruals | — | (6,500) |
| Minority shareholders' loans | — | (5,240) |
| | — | 3,604 |
| Loss on disposal of subsidiaries, net | — | (341) |
| | — | 3,263 |
| <i>Satisfied by:</i> | | |
| Reclassification to long term investments | — | 3,263 |

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(b) Disposal of subsidiaries** (Continued)

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|--------------------------------|------------------|
| Cash consideration | — | — |
| Cash and bank balances disposed of | — | (460) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | <u>—</u> | <u>(460)</u> |

The results of the subsidiaries disposed of in the year ended 31 March 2002 had no significant impact on the Group's consolidated turnover or to the consolidated loss before minority interests for that year.

(c) Major non-cash transaction

During the year ended 31 March 2002, the Group entered into a finance lease contract arrangement in respect of motor vehicles with a total capital value at the inception of the lease of HK\$1,080,000.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

32. RELATED PARTY TRANSACTIONS

Save as disclosed in note 26 to the financial statements, the Group had the following material transactions with related companies during the year:

| | <i>Notes</i> | 2003 HK\$'000 | 2002 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Billing of building maintenance works and building services installation works to Chinney Construction Company Limited | <i>(i)</i> | 274,343 | 169,629 |
| Payment to Diyixian.com Limited ("Diyixian") of rental for server co-location at Diyixian's data centres and for access to the Internet together with related set-up charges | <i>(ii)</i> | 192 | 1,453 |
| Purchase of merchandise from Chinney Alliance Engineering Limited | <i>(iii)</i> | 808 | 2,033 |
| Management fee paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Company Limited, a subsidiary of the Company, for the provision of management services of a building maintenance contract | | 5,091 | — |
| Sub-contracting charge paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Company Limited, a subsidiary of the Company, for the completion of work orders of a building maintenance contract | | 81,670 | — |

Notes:

- (i) Chinney Construction Company Limited is a company in which Mr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric, directors of the Company, have indirect beneficial interests.
- (ii) Diyixian is a minority shareholder of Speedlink Limited, a subsidiary of the Company. Speedlink Limited commenced creditors' voluntary winding up on 19 August 2002.

NOTES TO

FINANCIAL STATEMENTS *(Continued)*

31 March 2003

32. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

- (iii) Chinney Alliance Engineering Limited is a wholly-owned subsidiary of Chinney Alliance Group Limited, a company listed on The Stock Exchange of Hong Kong Limited, which is a substantial shareholder of the Company. Mr. Wong Sai Wing, James and Mr. Yu Sek Kee, Stephen, directors of the Company, are also directors of Chinney Alliance Group Limited.

In the opinion of the directors, the above transactions were conducted at mutually agreed rates in the normal course of the Group's business.

In the prior year, on 26 March 2002, the Group entered into a reorganisation agreement with existing partners in relation to the operations of Binary KOD Limited, an investee company of the Company. Further details of the reorganisation are set out in note 17 to the financial statements and in the Company's public announcement dated 28 March 2002.

33. CONTINGENT LIABILITIES

As at 31 March 2003, the Company had provided guarantees of HK\$83,000,000 (2002: HK\$91,000,000) in total in respect of banking facilities granted to its subsidiaries, of which approximately HK\$82,800,000 (2002: HK\$53,600,000) were utilised as at the balance sheet date.

NOTES TO**FINANCIAL STATEMENTS** (Continued)

31 March 2003

34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|--------------------------------|------------------|
| Within one year | 1,641 | 3,808 |
| In the second to fifth years, inclusive | 577 | 1,566 |
| | 2,218 | 5,374 |

35. COMMITMENTS

Apart from those disclosed in note 34, at the balance sheet date, neither the Group nor the Company had any significant commitments.

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 July 2003.