

NOTES TO THE ACCOUNTS

1. GROUP REORGANISATION

The Company was incorporated in Bermuda on 4th August 2003. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9th October 2003.

Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 19th September 2003. The Reorganisation involved companies under common control and therefore the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

No balance sheet of the Company at 31st March 2003 is presented in the accounts, as the Company was not yet incorporated on that date.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties and other investments are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") No. 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st April 2003. The adoption of this revised SSAP has not resulted in any material changes to the prior years' net assets and results.

The change to the Group's accounting policy and the effect of adopting this revised policy is set out in note 2(j) below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power, or has the power to govern the financial and operating policies; to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Consolidation** *(Continued)**(i) Subsidiaries (Continued)*

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

Minority interests represent the interests of outside shareholder in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

Jointly controlled entities are those entities formed under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account include the Group's share of the results of the jointly controlled entities and the consolidated balance sheets include the Group's share of the net assets of the jointly controlled entities.

(c) Fixed assets*(i) Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(ii) Other fixed assets

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives, on a straight-line basis, at the following annual rates:

Leasehold improvements	Over the lease period
Motor vehicles	25% to 30%
Furniture and equipment	10% to 50%

Major costs incurred on restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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

(iii) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets (other than investment properties) are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

(d) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the consolidated profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the consolidated profit and loss account as they arise.

(e) Contracting work-in-progress

Contracting work-in-progress is valued at cost incurred plus an appropriate proportion of profit after deducting progress payments and allowances for foreseeable losses. Cost comprises direct materials, labour and overheads attributable in bringing the work-in-progress to its present condition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(f) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Deferred income

Profits in respect of incomplete contracts are calculated in accordance with the stage of completion. Profits calculated in this manner are transferred from gross profit to deferred income on the consolidated balance sheet and a portion is released to the consolidated profit and loss account in accordance with the stage of completion of the contracts after projects are more than 40% complete.

(i) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Deferred taxation (Continued)

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the revised SSAP 12 has not resulted in any material changes to the prior years' net assets and results.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves.

(m) Revenue recognition

Property management and facility management fees are recognised when the services are rendered and in accordance with the terms of agreements. There are two types of property management and facility management agreements, namely manager remuneration contracts ("MR Contracts") or lump sum contracts ("LS Contracts"). Under a MR contract, the Group is remunerated by way of a fixed fee equal to a fixed percentage on top of the costs involved in the management of the property or facility as the manager remuneration and only such fee is recognised as revenue for the Group. Under a LS contract, the Group is paid a lump sum fee which normally covers the costs involved in the management of the property or facility, thus the whole of lump sum fee is recognised as revenue for the Group.

Revenue from provision of other supporting services for the management of the property or facility is recognised when the services are rendered.

Revenue from contracting work is recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work can be measured reliably. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as compared to the total contract sum receivable under the contracts.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition (Continued)

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease income is recognised on a straight-line basis.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefit

The Group contributes to two defined contribution retirement schemes available for all the employees in Hong Kong namely Hsin Chong Group Retirement Fund Scheme ("RFS") and Hsin Chong Group Mandatory Provident Fund Scheme ("MPF"). The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to RFS and MPF are based on rates ranging from 5% to 10% of employees' salaries depending on their length of service and are expensed as incurred. The contributions to RFS are not reduced by contribution forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Such forfeited amounts are retained in the funds for the benefit of other employees.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Employee benefits *(Continued)*

(iii) Retirement benefit (Continued)

Pursuant to the relevant regulations of the government in the People's Republic of China ("PRC"), the subsidiaries in PRC participates in the municipal government contribution scheme whereby the subsidiary is required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of the PRC is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and no geographical segment information is presented as all the major operations of the Group are carried out in Hong Kong.

Unallocated costs primarily represent corporate expenses. Segment assets consist primarily of fixed assets, contracting work-in-progress, receivables and operating cash, and exclude other investments, taxation recoverable, deferred tax assets and amounts due from related companies. Segment liabilities comprise operating liabilities and exclude items such as taxation payable, deferred tax liabilities, amounts due to related companies and an intermediate holding company and bank borrowings. Capital expenditure comprises additions to fixed assets.

3. TURNOVER AND OTHER REVENUES

The Group is principally engaged in the provision of property management and facility management services, security services, cleaning services, laundry services, repair and maintenance works and trading of related products. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Property management and facility management services	349,309	215,983
Security services	10,957	5,429
Cleaning services	7,955	4,019
Laundry services	2,050	2,196
Repair and maintenance works	13,894	8,379
Trading of related products	3,804	3,638
	387,969	239,644
Other revenues		
Copying services	637	510
Rental income	179	237
Dividend income from other investments	144	86
Interest income on bank deposits	505	1,095
Public relations and support service income from related companies and an intermediate holding company (<i>note 28</i>)	200	1,822
Net unrealised gain on other investments	420	86
Gain on disposal of other investments	1,396	–
Miscellaneous income	761	544
	4,242	4,380
	392,211	244,024

4. SEGMENT INFORMATION

Primary reporting format: business segments

The Group is organised into two major business segments, being provision of property management and facility management services and provision of supporting services to property management and facility management.

	2004		Total HK\$'000
	Property management and facility management services HK\$'000	Supporting services to property management and facility management HK\$'000	
Segment revenue	349,309	55,351	404,660
Inter-segment transactions	–	(16,691)	(16,691)
	<u>349,309</u>	<u>38,660</u>	<u>387,969</u>
Segment turnover of the Group			
	<u>349,309</u>	<u>38,660</u>	<u>387,969</u>
Segment results of the Group	<u>34,378</u>	<u>5,553</u>	39,931
Unallocated corporate expenses, net of income			(1,823)
Interest and dividend income			649
Operating profit			38,757
Finance costs			(664)
Share of losses of jointly controlled entities	(773)	–	(773)
Profit before taxation			37,320
Taxation			(6,003)
Profit for the year			31,317
Minority interest			294
Profit attributable to shareholders			<u>31,611</u>
Segment assets	137,078	16,924	154,002
Jointly controlled entities	2,164	–	2,164
Unallocated assets			49,428
Taxation recoverable			69
Deferred tax assets			477
Total assets			<u>206,140</u>
Segment liabilities	51,597	3,851	55,448
Unallocated liabilities			1,260
Taxation payable			727
Deferred tax liabilities			481
Total liabilities			<u>57,916</u>
Capital expenditure	2,887	71	2,958
Depreciation	2,416	410	2,826

4. SEGMENT INFORMATION (Continued)

Primary reporting format: business segments (Continued)

	2003		Total HK\$'000
	Property management and facility management services HK\$'000	Supporting services to property management and facility management HK\$'000	
Segment revenue	215,983	50,630	266,613
Inter-segment transactions	–	(26,969)	(26,969)
Segment turnover of the Group	<u>215,983</u>	<u>23,661</u>	<u>239,644</u>
Segment results of the Group	<u>22,997</u>	<u>4,959</u>	27,956
Interest and dividend income			<u>1,181</u>
Operating profit			29,137
Finance costs			(1,188)
Share of loss of a jointly controlled entity	(106)	–	<u>(106)</u>
Profit before taxation			27,843
Taxation			<u>(5,160)</u>
Profit for the year			<u>22,683</u>
Segment assets	119,266	11,786	131,052
Jointly controlled entities	1,314	–	1,314
Unallocated assets			4,874
Taxation recoverable			<u>62</u>
Total assets			<u>137,302</u>
Segment liabilities	64,535	3,538	68,073
Unallocated liabilities			3,491
Taxation payable			<u>804</u>
Total liabilities			<u>72,368</u>
Capital expenditure	2,589	447	3,036
Depreciation	<u>1,744</u>	<u>691</u>	<u>2,435</u>

Secondary reporting format: geographical segments

Over 90% of the activities of the Group during the year were carried out in Hong Kong. Accordingly, a geographical analysis is not presented.

Notes to the Accounts

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
Crediting		
Net exchange gain	167	–
Net unrealised gain on other investments	420	86
Gain on disposal of other investments	1,396	–
	<hr/>	<hr/>
Charging		
Staff costs, including directors' emoluments (<i>note 7</i>)	249,838	160,482
Depreciation	2,826	2,435
Auditors' remuneration	581	157
Loss on disposal of fixed assets	15	87
Provision for doubtful debts	8	27
Net exchange loss	–	47
Costs of brand-building program	4,284	–
Operating lease rental on land and buildings	3,151	2,620
	<hr/>	<hr/>

6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest expenses on		
– Overdrafts and bank loans	664	1,188
	<hr/>	<hr/>

7. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Wages and salaries		
– included in cost of sales	216,393	127,557
– included in general and administrative expenses	31,193	24,154
Retirement benefit costs (<i>note</i>)		
– annual contributions	7,480	3,543
– (write back of provision)/provision for special retirement benefit costs	(5,228)	5,228
	249,838	160,482

Note: The retirement benefit costs represent contributions paid and payable by the Group to the retirement fund schemes operated in Hong Kong and PRC as described in note 2(n)(iii) above (collectively "the Retirement Schemes").

Up to 30th September 2003, the rules of RFS provided for a 5% per annum guaranteed return of the total amount due to the members. With effect from 1st October 2003, the rules of RFS were amended to withdraw such guaranteed return. As at 31st March 2003, full provision amounting to HK\$5,228,000 was made by the Group to cover any of its pro rata share of the deficits between the vested liabilities due to RFS members and the assets of the scheme. Due to the improvement in the value of the underlying assets of the scheme from 1st April 2003 to 30th September 2003, the entire amount of such deficits was recovered and accordingly, the provision of HK\$5,228,000 was written back.

8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. The Mainland of China income tax has not been provided as the Group has no estimated assessable income derived in the Mainland of China for the year (2003: Nil).

	2004 HK\$'000	2003 HK\$'000
Current taxation		
– Hong Kong profits tax	5,995	5,105
– Underprovision in prior years	4	55
Deferred taxation relating to the origination and reversal of temporary differences (<i>note 24</i>)	4	–
	6,003	5,160

8. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Profit before taxation	37,320	27,843
Calculated at a taxation rate of 17.5% (2003: 16%)	6,531	4,455
Effect of different taxation rates in other countries	(218)	(16)
Underprovision in prior years	4	55
Income not subject to taxation	(968)	(190)
Expenses not deductible for taxation purposes	90	971
Recognition of previously unrecognised deferred tax assets	360	–
Unrecognised tax losses	204	114
Utilisation of previously unrecognised tax losses	–	(60)
Temporary difference not recognised	–	(169)
	6,003	5,160

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$8,398,000.

10. DIVIDENDS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Dividend paid by a subsidiary to its then shareholders before the Reorganisation (<i>note (a)</i>):		
Interim, paid	–	10,371
Dividends paid or declared by the Company:		
Interim, paid, of 2.0 HK cents (2003: Nil) per ordinary share	6,640	–
Final, proposed, of 3.0 HK cents (2003: Nil) per ordinary share (<i>note (b)</i>)	9,960	–
	16,600	10,371

Note:

- (a) The dividend rates and the number of shares ranking for the dividend in respect of the dividend paid by a subsidiary to its then shareholders before the Reorganisation are not presented as such information is not considered meaningful for the purpose of these accounts.
- (b) At a meeting held on 24th May 2004, the directors proposed a final dividend of 3.0 HK cents per ordinary share for the year ended 31st March 2004. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31st March 2005.

11. EARNINGS PER SHARE

The calculation of basic earnings per share are based on the Group's profit attributable to shareholders of HK\$31,611,000 (2003: HK\$22,683,000).

The basic earnings per share is based on the weighted average number of 284,362,000 (2003: 240,000,000) ordinary shares in issue during the year. In determining the weighted average number of ordinary shares deemed to be in issue for year ended 31st March 2003, a total of 240,000,000 ordinary shares were deemed to be in issue since 1st April 2002 after taking into consideration of the effect of the capitalisation issue as detailed in note 22(b)(ii) and (d).

No diluted earnings per share for the year ended 31st March 2004 is presented as there were no dilutive potential ordinary shares outstanding during the year (2003: Nil).

12. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS**(a) Directors' emoluments**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	135	5
Salaries and allowances	2,603	1,659
Bonus	2,560	2,142
Retirement benefit costs	108	73
	<hr/> 5,406 <hr/>	<hr/> 3,879 <hr/>

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

Total emoluments payable to independent non-executive directors represent director's fees amounted to HK\$60,000.

The emoluments of the directors of the Company fell within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,500,000	4	4
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
	<hr/> 6 <hr/>	<hr/> 5 <hr/>

12. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group include two (2003: one) directors whose emoluments are included in note 12(a) above. The emoluments payable to the other three (2003: four) highest paid individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	2,707	3,409
Bonus	585	725
Retirement benefit costs	185	229
	<hr/> 3,477 <hr/>	<hr/> 4,363 <hr/>

The emoluments of the above individuals fell within the following bands:

	Number of individuals	
	2004	2003
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	3	4
	<hr/> 3 <hr/>	<hr/> 4 <hr/>

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

13. FIXED ASSETS

	Investment properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation					
At 1st April 2003	1,940	4,523	1,620	8,955	17,038
Additions	–	431	154	2,373	2,958
Disposals	–	–	(98)	(32)	(130)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March 2004	<u>1,940</u>	<u>4,954</u>	<u>1,676</u>	<u>11,296</u>	<u>19,866</u>
Accumulated depreciation					
At 1st April 2003	–	2,818	801	5,238	8,857
Charge for the year	–	741	281	1,804	2,826
Disposals	–	–	(74)	(32)	(106)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st March 2004	<u>–</u>	<u>3,559</u>	<u>1,008</u>	<u>7,010</u>	<u>11,577</u>
Net book value					
At 31st March 2004	<u>1,940</u>	<u>1,395</u>	<u>668</u>	<u>4,286</u>	<u>8,289</u>
At 31st March 2003	<u>1,940</u>	<u>1,705</u>	<u>819</u>	<u>3,717</u>	<u>8,181</u>

13. FIXED ASSETS (Continued)

The analysis of the cost or valuations at 31st March 2004 of the above assets is as follows:

	Investment properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	–	4,954	1,676	11,296	17,926
At professional valuation	1,940	–	–	–	1,940
	<u>1,940</u>	<u>4,954</u>	<u>1,676</u>	<u>11,296</u>	<u>19,866</u>

The analysis of the cost or valuations at 31st March 2003 of the above assets is as follows:

	Investment properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	–	4,523	1,620	8,955	15,098
At professional valuation	1,940	–	–	–	1,940
	<u>1,940</u>	<u>4,523</u>	<u>1,620</u>	<u>8,955</u>	<u>17,038</u>

Note: The investment properties are held on leases of between 10 and 50 years in Hong Kong.

The investment properties were revalued at 31st March 2004 on the basis of their open market value by independent professional property valuer, Knight Frank Hong Kong Limited.

14. SUBSIDIARIES

	Company 2004 HK\$'000
Unlisted shares, at cost	83,601
Amounts due from subsidiaries	21,176
	<u>104,777</u>

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of subsidiaries which, in the opinion of the directors, principally affected the results and assets of the Group, are set out in note 31 to the accounts.

15. JOINTLY CONTROLLED ENTITIES

	2004 HK\$'000	2003 HK\$'000
Share of net assets	541	1,314
Amount due from a jointly controlled entity	1,623	–
	2,164	1,314

Particulars of the jointly controlled entities of the Group at 31st March 2004 are set out as follows:

Name	Place of incorporation and operation	Principal activities	Effective percentage of interest held
<i>Interest held indirectly:</i>			
北京實創新昌物業管理 有限責任公司 (Beijing Strong Synergis Property Management Co., Ltd.)	PRC	Provision of property management and property management consulting services in Beijing	50%
新昌瑞安管理服務(上海) 有限公司 (Synergis Shui On Management Services (Shanghai) Ltd.)	Hong Kong	Investment holding	50%
新昌瑞安物業管理(上海) 有限公司 (Synergis Shui On Property Management (Shanghai) Co. Ltd.)	PRC	Provision of property management and facility management services in Shanghai	50%

Pursuant to joint venture agreement dated 2nd December 2003 between Billion World Limited, a wholly owned subsidiary of Shui On Holdings Limited, and Synergis Property & Facility Management (China) Limited, an indirect wholly owned subsidiary of the Company, an equity joint venture, Synergis Shui On Management Services (Shanghai) Limited, has been established in Hong Kong and engages in the provision of property management and facility management services in Shanghai through its wholly owned subsidiary, Synergis Shui On Property Management (Shanghai) Co. Ltd..

16. CONTRACTING WORK-IN-PROGRESS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Contract costs incurred plus attributable profits		
less foreseeable losses	1,074	1,676
Less: progress payments received and receivable	(563)	(667)
	<u>511</u>	<u>1,009</u>
Represented by:		
Amounts due from contract customers	<u>511</u>	<u>1,009</u>

17. ACCOUNTS AND OTHER RECEIVABLES

	2004 HK\$'000	2003 <i>HK\$'000</i>
Accounts receivable	51,500	25,436
Retention receivables	611	392
Other receivables	10,688	7,498
	<u>62,799</u>	<u>33,326</u>

The credit period of the Group's accounts receivable generally ranges from one to two months. The ageing analysis of accounts receivable is as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
0 to 30 days	18,148	15,183
31 to 60 days	10,956	7,673
61 to 90 days	12,662	1,984
Over 90 days	9,734	596
	<u>51,500</u>	<u>25,436</u>

18. OTHER INVESTMENTS

	2004 HK\$'000	2003 HK\$'000
Hong Kong		
– listed investments, at fair value	920	1,874
– unlisted investments, at fair value	8,203	–
	9,123	1,874

19. AMOUNTS DUE FROM/TO RELATED COMPANIES AND AN INTERMEDIATE HOLDING COMPANY

Amounts due from/to related companies and an intermediate holding company are unsecured, interest free and have no fixed terms of repayment.

20. ACCOUNTS PAYABLE AND ACCRUALS

	2004 HK\$'000	2003 HK\$'000
Accounts payable	17,303	4,616
Retention payables	119	177
Other payables and accruals	18,899	23,148
	36,321	27,941

The credit period of the Group's accounts payable generally ranges from one to two months. The ageing analysis of accounts payable is as follows:

	2004 HK\$'000	2003 HK\$'000
0 to 30 days	7,459	2,503
31 to 60 days	4,147	1,593
61 to 90 days	1,988	111
Over 90 days	3,709	409
	17,303	4,616

21. LONG-TERM BANK LOAN

	2004 HK\$'000	2003 HK\$'000
Unsecured bank loan wholly repayable within five years	20,000	40,000
Less: Amount due within one year included under current liabilities	(20,000)	(20,000)
	<u> </u>	<u> </u>
	–	20,000
	<u> </u>	<u> </u>

The Group's bank loan is repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	20,000	20,000
In the second year	–	20,000
	<u> </u>	<u> </u>
	20,000	40,000
	<u> </u>	<u> </u>

Subsequent to 31st March 2004, the Group has made a full repayment of bank loan and has no outstanding bank loan up to the date of this report.

22. SHARE CAPITAL

	Ordinary shares at HK\$0.10 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At the date of incorporation (note (a))	1,000,000	100
Increase in authorised ordinary share capital (note (b)(ii))	9,999,000,000	999,900
	<u> </u>	<u> </u>
At 31st March 2004	10,000,000,000	1,000,000
<i>Issued and fully paid:</i>		
At the date of incorporation (note (a))	–	–
Issue of shares arising from the Reorganisation (note (a) and (b)(ii))	10,000,000	1,000
Issue of shares by placing and public offer (note (c))	92,000,000	9,200
Capitalisation issue (note (d))	230,000,000	23,000
	<u> </u>	<u> </u>
At 31st March 2004	332,000,000	33,200
	<u> </u>	<u> </u>

22. SHARE CAPITAL *(Continued)**Note:*

- (a) The Company was incorporated in Bermuda on 4th August 2003 with an authorised capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. 1,000,000 shares were allotted and issued nil paid to Hsin Chong Holdings (HK) Limited ("HCHK Holdings") on 5th August 2003.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company on 19th September 2003:
 - (i) the authorised share capital for the Company was increased from HK\$100,000 to HK\$1,000,000,000 by the creation of additional 9,999,000,000 shares of HK\$0.10 each; and
 - (ii) the Company acquired the entire issued share capital in Synergis Holdings (BVI) Limited ("Synergis BVI"), in consideration of and in exchange for which the Company (a) allotted and issued, credited as fully paid, an aggregate of 9,000,000 new shares to the then shareholders of Synergis BVI and (b) credited as fully paid at par the 1,000,000 shares allotted and issued nil paid to HCHK Holdings on 5th August 2003.
- (c) On 7th October 2003, 92,000,000 shares of HK\$0.10 each were allotted and issued for cash at HK\$0.75 per share (the "New Issue") by way of public offer and placing totalling HK\$69,000,000. The excess of HK\$59,800,000 over the par value of the shares issued was credited to the share premium account.
- (d) Also on 7th October 2003, 230,000,000 shares of HK\$0.10 each were allotted and issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 19th September 2003 by debiting an amount of HK\$23,000,000 of the share premium account of the Company arising from the New Issue.
- (e) The share capital presented in the consolidated balance sheet as at 31st March 2003 represented the share capital of the Company, arising from the transactions as described in note (a) and (b)(ii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as set out in note 1.

23. RESERVES

(a) Group

	Share premium HK\$'000	Merger reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April 2002	-	491	-	50,061	50,552
Profit attributable to shareholders	-	-	-	22,683	22,683
Interim dividend paid (note 10)	-	-	-	(10,371)	(10,371)
Repurchase of shares of a subsidiary (note (a))	-	-	-	(98)	(98)
Revaluation of properties	-	-	146	-	146
Issuance of shares of a subsidiary	-	1,022	-	-	1,022
At 1st April 2003	-	1,513	146	62,275	63,934
Profit attributable to shareholders	-	-	-	31,611	31,611
Interim dividend paid (note 10)	-	-	-	(6,640)	(6,640)
Repurchase of shares of a subsidiary (note (b))	-	-	-	(254)	(254)
Issuance of shares (note 22 (c))	59,800	-	-	-	59,800
Capitalisation issue (note 22 (d))	(23,000)	-	-	-	(23,000)
Share issuance costs	(10,887)	-	-	-	(10,887)
At 31st March 2004	25,913	1,513	146	86,992	114,564
Representing:					
Final dividend proposed				9,960	
Others				77,032	
Retained profits as at 31st March 2004				86,992	
Company and subsidiaries	25,913	1,513	146	87,871	115,443
Jointly controlled entities	-	-	-	(879)	(879)
As at 31st March 2004	25,913	1,513	146	86,992	114,564
Company and subsidiaries	-	1,513	146	62,381	64,040
Jointly controlled entities	-	-	-	(106)	(106)
As at 31st March 2003	-	1,513	146	62,275	63,934

(b) Company

	Share premium HK\$'000	Contributed surplus (note (c)) HK\$'000	Retained profits HK\$'000	Total HK\$'000
At the date of incorporation	-	-	-	-
Profit attributable to shareholders (note 9)	-	-	8,398	8,398
Interim dividend paid (note 10)	-	-	(6,640)	(6,640)
Issuance of shares	25,913	82,601	-	108,514
At 31st March 2004	25,913	82,601	1,758	110,272

23. RESERVES (Continued)

Note:

- (a) On 6th March 2003, 292 non-voting ordinary 'B' shares of Synergis Management Services Limited ("SMS"), a subsidiary of the Group, of HK\$1.00 each were repurchased at a total consideration of HK\$97,867 when one of the employees under the Employee Share Subscription Scheme ("ESSS") left the Group.
- (b) On 2nd June 2003, 584 non-voting ordinary "B" shares of SMS of HK\$1.00 each were repurchased by SMS from two employees pursuant to the ESSS at a total consideration of HK\$254,049 when the employees left the Group.
- (c) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus.
- (d) Distributable reserves of the Company at 31st March 2004 amounted to HK\$84,359,000 (2003: Nil).

24. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the deferred tax liabilities/(assets) account is as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Deferred taxation charged to consolidated profit and loss account and as at 31st March (<i>note 8</i>)	4	—

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$1,014,000 (2003: HK\$624,000) to carry forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Charged to consolidated profit and loss account and as at 31st March	481	—

24. DEFERRED TAXATION (Continued)

Deferred tax assets

	2004 HK\$'000	Tax losses 2003 HK\$'000
Credited to consolidated profit and loss account and as at 31st March	477	–

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	(477)	–
Deferred tax liabilities	481	–
	4	–

25. OPERATING LEASE COMMITMENTS

- (a) The future aggregate minimum lease rental expenses in respect of land and buildings under non-cancellable operating leases of the Group are payable in the following periods:

	2004 HK\$'000	2003 HK\$'000
Within one year	3,090	224
In the second to fifth years inclusive	269	47
	3,359	271

- (b) The future aggregate minimum lease rental expenses in respect of office equipment under non-cancellable operating leases of the Group are payable in the following periods:

	2004 HK\$'000	2003 HK\$'000
Within one year	34	–
In the second to fifth years inclusive	100	–
	134	–

26. CAPITAL COMMITMENTS

Capital commitments of the Group for equipment

	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for	24,973	–
Contracted but not provided for	1,537	581

27. NOTES TO CASH FLOW STATEMENTS**(a) Reconciliation of operating profit to cash generated from operations**

	2004 HK\$'000	2003 HK\$'000
Operating profit	38,757	29,137
Net unrealised gain on other investments	(420)	(86)
Depreciation	2,826	2,435
Interest income	(505)	(1,095)
Dividend income	(144)	(86)
Loss on disposal of fixed assets	15	87
Gain on disposal of other investments	(1,396)	–
Operating profit before working capital changes	39,133	30,392
Increase in amount due from a jointly controlled entity	(373)	–
Decrease/(increase) in contracting work-in-progress	498	(554)
Increase in accounts receivable and other receivables	(29,493)	(734)
Increase in utility deposits and prepayments	(1,270)	(1,726)
Decrease/(increase) in net amounts due from related companies	2,242	(2,521)
Increase in accounts payable and accruals	8,388	15,157
(Decrease)/increase in amount due to an intermediate holding company	(3,096)	2,147
(Decrease)/increase in deferred income	(101)	64
Cash generated from operations	15,928	42,225

27. NOTES TO CASH FLOW STATEMENTS (Continued)

(b) Analysis of changes in financing during the year

	Bank loans <i>HK\$'000</i>	Share capital including share premium <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>	Dividend payable <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April 2002	40,000	1,000	–	–	41,000
Interim dividend of a subsidiary (note 10)	–	–	–	10,371	10,371
Cash outflow from financing	–	–	–	(10,371)	(10,371)
As at 1st April 2003	40,000	1,000	–	–	41,000
Interim dividend (note 10)	–	–	–	6,640	6,640
Cash inflow/(outflow) from financing	(20,000)	58,113	754	(6,640)	32,227
Minority interest's share of loss	–	–	(294)	–	(294)
As at 31st March 2004	20,000	59,113	460	–	79,573

28. RELATED PARTY TRANSACTIONS

The following is a summary of the significant related party transactions carried out in the Group during the year:

	Note	2004 HK\$'000	2003 HK\$'000
Public relation services income from a related company	(a)	–	330
Administration support fee from			
– intermediate holding company	(b)	–	560
– a related company	(b)	200	932
Site security services income from related companies	(c)	467	1,755
Repair and maintenance fee from a related company	(d)	189	276
Service charges to			
– ultimate holding company	(e)	(1,415)	(3,613)
– related companies	(e)	(1,600)	(1,282)
Commission fee to intermediate and ultimate holding companies	(f)	(135)	(196)
Rental expenses to			
– intermediate holding company	(g)	(2,383)	(2,253)
– related companies	(g)	(309)	(86)
Insurance expense to a fellow subsidiary	(h)	(3,257)	(1,822)
Facility management income from related companies	(i)	893	303
Copying services income from related companies	(j)	639	364
Cleaning services income from			
– intermediate holding company	(k)	407	492
– related companies	(k)	1,198	345

28. RELATED PARTY TRANSACTIONS (Continued)

Note:

Related companies are entities which have common shareholders and directors with the Company.

- (a) Public relation services income represents fees earned on public relation services rendered to related companies at fixed monthly fees and were based on the level of public relation services rendered.
- (b) Fees received from intermediate holding company and a related company represent administrative services and accountancy services provided by the Group and the fees were charged based on costs incurred.
- (c) Site security services income received from related companies represents fees earned on security services rendered to related companies. The prices and terms were comparable to those with third parties.
- (d) Repair and maintenance income represents fees earned on repair and maintenance works rendered to a related company. The prices and terms were comparable to those with third parties.
- (e) Services charges paid to ultimate holding company and a related company represent administrative services provided by the ultimate holding company and the related company to the Group and were reimbursed at cost based on time and expenses allocated to the Group.
- (f) An intermediate and ultimate holding companies provide guarantees in respect of the Group's performance under various property management contracts and certain bank loans to the Group. Commission fee was calculated at 0.125% on the amounts of guarantees granted by the intermediate and ultimate holding companies. The rate of commission fee was determined with reference to prevailing market rate and comparable to those with third parties.
- (g) Rental expenses paid to intermediate holding company and related companies were based on the floor area occupied by the Group at prevailing market rate.
- (h) A fellow subsidiary company provides certain general insurance policy to the Group and guarantees to third parties in respect of the Group's performance under various property management contracts. Insurance expenses thereon were charged at prices and terms comparable to those with third parties.
- (i) Facility management income represents fixed monthly fee earned on facility management services rendered to related companies. The prices and terms were comparable to those with third parties.
- (j) Copying services income represents fees earned on copying services rendered to related companies. The prices and terms were comparable to those with third parties.
- (k) Cleaning services income represents fees earned on cleaning services rendered to an intermediate holding company and related companies. The prices and terms were comparable to those with third parties.

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business and at normal commercial terms.

29. ULTIMATE HOLDING COMPANY

The directors regard Hsin Chong International Holdings Limited, a company incorporated in Bermuda, as being the ultimate holding company.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24th May 2004.

31. SUBSIDIARIES

Name	Place of incorporation and operation	Principal activities	Issued and paid up/ registered capital	Effective percentage of interest held
<i>Interest held directly:</i>				
Synergis Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	Investment holding	100,000 ordinary shares of HK\$0.1 each	100%
<i>Interest held indirectly:</i>				
Synergis Management Services Limited (formerly named as Hsin Chong Real Estate Management Limited)	Hong Kong	Provision of property management services and investment holdings	206,837 ordinary shares of HK\$1 each	100%
Service Pro Limited	Hong Kong	Sales of cleaning related products, provision of copying services and property holding	2 ordinary shares of HK\$1 each	100%
Hsin Sheng Security Services Limited	Hong Kong	Provision of security services	2 ordinary shares of HK\$1 each	100%
Optimum Engineering Limited	Hong Kong	Provision of repair and maintenance services	2 ordinary shares of HK\$1 each	100%
Laundrimate Service Limited	Hong Kong	Provision of laundry services	2 ordinary shares of HK\$1 each	100%
Master Clean Service Limited	Hong Kong	Provision of cleaning services	2 ordinary shares of HK\$1 each	100%
Synergis Property & Facility Management (China) Limited (formerly named as Hsin Chong Property Management (China) Limited)	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%

Notes to the Accounts

31. SUBSIDIARIES (Continued)

Name	Place of incorporation and operation	Principal activities	Issued and paid up/ registered capital	Effective percentage of interest held
<i>Interest held indirectly: (Continued)</i>				
Synergis Facility Management Limited (formerly named as Hsin Chong Facility Management Limited)	Hong Kong	Provision of facilities management services	2 ordinary shares of HK\$1 each	100%
Focus Success Management Limited	British Virgin Islands/ Hong Kong	Investment holding	1 ordinary share of US\$1 each	100%
Synergis Property & Facility Management (Beijing) Limited (formerly named as Hsin Chong Property Management (Beijing) Limited)	British Virgin Islands/ Hong Kong	Investment holding	1 ordinary share of US\$1 each	100%
Synergis Property & Facility Management (Guangzhou) Limited (formerly named as Hsin Chong Property Management (Guangzhou) Limited)	British Virgin Islands/ Hong Kong	Investment holding	1 ordinary share of US\$1 each	100%
新昌物業管理(深圳)有限公司 (Synergis Property Management (Shenzhen) Co., Ltd.)	PRC	Provision of property management, repair and maintenance of sophisticated equipment and indoor cleaning services in Shenzhen	RMB1,000,000	100%
廣州新昌建恒物業管理有限公司 (Guangzhou Synergis CDC Property Management Co., Ltd.)	PRC	Provision of property management and project management consulting services in Guangzhou	RMB2,000,000	60%