

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 1. CORPORATE INFORMATION

The Group is engaged in a wide range of construction, civil engineering, renovation and other contract works in the public and private sectors in Hong Kong.

In the opinion of the directors, the ultimate holding company is Winhale Ltd. ("Winhale"), a company incorporated in the British Virgin Islands.

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"
- Interpretation 20 : "Income taxes – Recovery of revalued non-depreciable assets"

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

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax assets has been recognised for tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

Further details of these changes arising from them are included in the accounting policy for deferred tax in note 3 and in note 25 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

### 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 investment properties, 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 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

#### **Subsidiaries**

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

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

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company; or
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company.

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was accounted for directly in reserves, in the consolidated goodwill reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain in consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Goodwill** *(continued)*

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously accounted for directly in consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining in the consolidated goodwill reserve, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### **Related parties**

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

#### **Impairment of assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

|  |           |
|--|-----------|
| Leasehold improvements                   | 20%       |
| Machinery and equipment                  | 20% – 24% |
| Furniture, fixtures and office equipment | 20% – 24% |
| Motor vehicles                           | 30%       |

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

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 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.

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Construction, renovation and other contracts**

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

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified value of work performed to the contract sum for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

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

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

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Cash and cash equivalents

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

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

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Income tax** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

#### **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) construction, renovation and other contracts, based on the percentage of completion basis as further explained in the accounting policy for "Construction, renovation and other contracts" above;
- (b) work orders from contracts for alterations, additions, maintenance and repair, based on the value of individual work orders certified by relevant employers;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payments has been established.

#### **Dividends**

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

Interim dividends are simultaneously proposed and declared, because the Company's by-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.



## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Foreign currency transactions**

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

#### **Employee benefits**

##### *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.

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### *Pension schemes*

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

The Group also operated a Mandatory Provident Fund Exempted ORSO retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a way similar to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited employer's contributions.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 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.

### 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. During the two years ended 31 March 2003 and 2004, the Group's businesses were principally engaged in Hong Kong and the directors consider that the Group operates within a single geographical segment. Accordingly, no geographical segment information is presented.

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) the building construction segment engages in construction contract work as a main contractor or subcontractor, primarily in respect of building construction;
- (b) the civil engineering works segment engages in roadworks, drainage and sewerage works, water supply works, utilities engineering works and landslip preventive and remedial works to slopes and retaining walls; and
- (c) the renovation, repairs and maintenance segment engages in repairs, maintenance, renovation and fitting out of public housing and Government and other institutional buildings.

There were no inter-segment sales and transfers during the year (2003: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (continued)

Business segments

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

| Group  | Building construction |                  | Civil engineering works |                  | Renovation, repairs and maintenance |                  | Consolidated     |                                |
|--|-----------------------|------------------|-------------------------|------------------|-------------------------------------|------------------|------------------|--------------------------------|
|  | 2004<br>HK\$'000      | 2003<br>HK\$'000 | 2004<br>HK\$'000        | 2003<br>HK\$'000 | 2004<br>HK\$'000                    | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000<br>(Restated) |
| Segment revenue:   |                       |                  |                         |                  |                                     |                  |                  |                                |
| Contract revenue from external customers                         | <u>908,768</u>        | 399,502          | <u>152,153</u>          | 104,544          | <u>346,961</u>                      | 157,179          | <u>1,407,882</u> | <u>661,225</u>                 |
| Segment results  | <u>38,841</u>         | 17,158           | <u>10,091</u>           | 5,624            | <u>15,529</u>                       | 11,668           | <u>64,461</u>    | 34,450                         |
| Interest and unallocated revenue and gains                       |                       |                  |                         |                  |                                     |                  | <u>3,924</u>     | 2,668                          |
| Unallocated income/ (expenses), net                              |                       |                  |                         |                  |                                     |                  | <u>(20,402)</u>  | (23,268)                       |
| Profit from operating activities                                 |                       |                  |                         |                  |                                     |                  | <u>47,983</u>    | 13,850                         |
| Finance costs  |                       |                  |                         |                  |                                     |                  | <u>(1,872)</u>   | (1,688)                        |
| Share of profits and losses of jointly-controlled entities       |                       |                  |                         |                  |                                     |                  | <u>258</u>       | 7                              |
| Profit before tax  |                       |                  |                         |                  |                                     |                  | <u>46,369</u>    | 12,169                         |
| Tax  |                       |                  |                         |                  |                                     |                  | <u>(7,349)</u>   | (2,591)                        |
| Net profit from ordinary activities attributable to shareholders |                       |                  |                         |                  |                                     |                  | <u>39,020</u>    | <u>9,578</u>                   |

NOTES TO FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (continued)

Business segments (continued)

| Group   | Building construction |                  | Civil engineering works |                  | Renovation, repairs and maintenance |                  | Consolidated     |                  |
|---|-----------------------|------------------|-------------------------|------------------|-------------------------------------|------------------|------------------|------------------|
|   | 2004<br>HK\$'000      | 2003<br>HK\$'000 | 2004<br>HK\$'000        | 2003<br>HK\$'000 | 2004<br>HK\$'000                    | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Segment assets  | <u>257,178</u>        | <u>220,776</u>   | <u>33,626</u>           | <u>28,028</u>    | <u>17,512</u>                       | <u>37,466</u>    | <u>308,316</u>   | 286,270          |
| Interest in a jointly-controlled entity                   |                       |                  |                         |                  |                                     |                  | <u>22</u>        | (236)            |
| Unallocated assets  |                       |                  |                         |                  |                                     |                  | <u>174,316</u>   | <u>86,767</u>    |
| Total assets  |                       |                  |                         |                  |                                     |                  | <u>482,654</u>   | <u>372,801</u>   |
| Segment liabilities                                       | <u>220,376</u>        | <u>180,215</u>   | <u>27,101</u>           | <u>17,228</u>    | <u>26,139</u>                       | <u>6,951</u>     | <u>273,616</u>   | 204,394          |
| Unallocated liabilities                                   |                       |                  |                         |                  |                                     |                  | <u>10,724</u>    | <u>46,852</u>    |
| Total liabilities   |                       |                  |                         |                  |                                     |                  | <u>284,340</u>   | <u>251,246</u>   |
| Other segment information:                                |                       |                  |                         |                  |                                     |                  |                  |                  |
| Depreciation and amortisation                             |                       |                  |                         |                  |                                     |                  | <u>2,771</u>     | 2,427            |
| (Surplus)/deficit on revaluation of investment properties |                       |                  |                         |                  |                                     |                  | <u>(4,540)</u>   | 2,340            |
| Capital expenditure                                       |                       |                  |                         |                  |                                     |                  | <u>2,466</u>     | <u>2,420</u>     |

5. TURNOVER, REVENUE AND GAINS

Turnover represents the appropriate proportion of contract revenue from construction, renovation and other contracts.

An analysis of turnover, other revenue and gains is as follows:

|                                  | Group            |                  |
|----------------------------------|------------------|------------------|
|                                  | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Turnover – contract revenue      | <u>1,407,882</u> | <u>661,225</u>   |
| Other revenue                    |                  |                  |
| Interest income                  | <u>2,709</u>     | 1,504            |
| Sundry income                    | <u>471</u>       | 436              |
|                                  | <u>3,180</u>     | <u>1,940</u>     |
| Gains                            |                  |                  |
| Gain on disposal of fixed assets | <u>4</u>         | –                |
| Exchange gains, net              | <u>740</u>       | 728              |
|                                  | <u>744</u>       | <u>728</u>       |
|                                  | <u>3,924</u>     | <u>2,668</u>     |

NOTES TO FINANCIAL STATEMENTS

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

|  |              | <b>Group</b>                   |                         |
|--|--------------|--------------------------------|-------------------------|
|  | <i>Notes</i> | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
| Auditors' remuneration                                       |              | <b>728</b>                     | 630                     |
| Depreciation   | 14           | <b>1,909</b>                   | 1,566                   |
| (Surplus)/deficit on revaluation of investment properties*   | 14           | <b>(4,540)</b>                 | 2,340                   |
| Goodwill amortisation*                                       | 15           | <b>862</b>                     | 861                     |
| Staff costs (exclusive of directors' remuneration – note 8): |              |                                |                         |
| Salaries and wages   |              | <b>59,513</b>                  | 51,122                  |
| Pension scheme contributions                                 |              | <b>2,244</b>                   | 1,791                   |
| Less: Forfeited contributions**                              |              | <b>(189)</b>                   | –                       |
| Net pension contributions                                    |              | <b>2,055</b>                   | 1,791                   |
|  |              | <b>61,568</b>                  | 52,913                  |
| Minimum lease payments under operating leases:               |              |                                |                         |
| Land and buildings   |              | <b>823</b>                     | 578                     |
| Equipment  |              | <b>7,659</b>                   | 2,431                   |
| Gain on disposal of fixed assets                             |              | <b>(4)</b>                     | –                       |
| Government subsidies***                                      |              | <b>(435)</b>                   | (336)                   |
| Exchange gains, net  |              | <b>(740)</b>                   | (728)                   |
| Interest income  |              | <b>(2,709)</b>                 | (1,504)                 |

\* The (surplus)/deficit on revaluation of investment properties and amortisation of goodwill for the year are included in "Other operating income/(expenses), net" on the face of the consolidated profit and loss account.

\*\* As at 31 March 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

\*\*\* Subsidies have been received from Vocational Training Council, an institution established by the government, for providing on-the-job training for graduate engineers. There are no unfulfilled conditions or contingencies relating to these subsidies.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

**7. FINANCE COSTS**

|  | <b>Group</b>            |              |
|--|-------------------------|--------------|
|  | 2004<br><i>HK\$'000</i> |              |
|  | 2003<br><i>HK\$'000</i> |              |
| Interest on bank loans, overdrafts and trust receipt loans | 1,870                   | 1,684        |
| Interest on finance leases                                 | 2                       | 4            |
|  | <u>1,872</u>            | <u>1,688</u> |

**8. DIRECTORS' REMUNERATION**

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

|   | <b>Group</b>            |              |
|---|-------------------------|--------------|
|   | 2004<br><i>HK\$'000</i> |              |
|   | 2003<br><i>HK\$'000</i> |              |
| Fees:                                     |                         |              |
| Independent non-executive directors       | 300                     | 300          |
| Other emoluments for executive directors: |                         |              |
| Salaries, allowances and benefits in kind | 4,090                   | 4,054        |
| Performance related bonuses               | 1,500                   | –            |
| Pension scheme contributions              | 36                      | 36           |
|   | <u>5,626</u>            | <u>4,090</u> |
|   | <u>5,926</u>            | <u>4,390</u> |

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

|                                 | <b>Number of directors</b> |          |
|---------------------------------|----------------------------|----------|
|                                 | 2004                       | 2003     |
| Nil – HK\$ 1,000,000            | 2                          | 2        |
| HK\$ 1,000,001 – HK\$ 1,500,000 | –                          | 2        |
| HK\$ 1,500,001 – HK\$ 2,000,000 | 2                          | 1        |
| HK\$ 2,000,001 – HK\$ 2,500,000 | 1                          | –        |
|                                 | <u>5</u>                   | <u>5</u> |

**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**8. DIRECTORS' REMUNERATION** *(continued)*

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

During the year, no share option of the Company was granted to the directors in respect of their services to the Group.

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

|   | <b>Group</b>    |             |
|---|-----------------|-------------|
|   | <b>2004</b>     | 2003        |
|   | <b>HK\$'000</b> | HK\$'000    |
| Salaries, allowances and benefits in kind | <b>1,820</b>    | 1,943       |
| Pension scheme contributions              | <b>30</b>       | 30          |
|   | <hr/>           | <hr/>       |
|   | <b>1,850</b>    | 1,973       |
|   | <hr/> <hr/>     | <hr/> <hr/> |

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

|                               | <b>Number of employees</b> |             |
|-------------------------------|----------------------------|-------------|
|                               | <b>2004</b>                | 2003        |
| Nil – HK\$1,000,000           | <b>2</b>                   | 1           |
| HK\$1,000,001 – HK\$1,500,000 | <b>-</b>                   | 1           |
|                               | <hr/>                      | <hr/>       |
|                               | <b>2</b>                   | 2           |
|                               | <hr/> <hr/>                | <hr/> <hr/> |

NOTES TO FINANCIAL STATEMENTS

31 March 2004

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004.

|                                       | Group            |                                |
|---------------------------------------|------------------|--------------------------------|
|                                       | 2004<br>HK\$'000 | 2003<br>HK\$'000<br>(Restated) |
| Current – Hong Kong:                  |                  |                                |
| Charge for the year                   | 7,384            | 1,534                          |
| Under/(over) provision in prior years | (138)            | 3                              |
| Deferred (note 25)                    | 103              | 1,054                          |
| Total tax charge for the year         | <u>7,349</u>     | <u>2,591</u>                   |

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

|   | Group         |             |               |             |
|---|---------------|-------------|---------------|-------------|
|   | 2004          |             | 2003          |             |
|   | HK\$'000      | %           | HK\$'000      | %           |
| Profit before tax   | <u>46,369</u> |             | <u>12,169</u> |             |
| Tax at the statutory tax rate                             | 8,115         | 17.5        | 1,947         | 16.0        |
| Adjustments in respect of current tax of previous periods | (138)         | (0.3)       | 3             | 0.0         |
| Income not subject to tax                                 | (964)         | (2.1)       | (158)         | (1.3)       |
| Expenses not deductible for tax                           | 204           | 0.4         | 587           | 4.8         |
| Effect on opening deferred tax of increase in rate        | 11            | 0.0         | –             | –           |
| Others  | 121           | 0.3         | 212           | 1.8         |
| Tax charge at the Group's effective rate                  | <u>7,349</u>  | <u>15.8</u> | <u>2,591</u>  | <u>21.3</u> |

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was approximately HK\$9,278,000 (2003 (restated): HK\$9,740,000).



**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**12. DIVIDENDS**

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Interim – HK0.5 cent (2003: Nil) per ordinary share                  | <b>4,224</b>                   | –                |
| Proposed final – HK0.5 cent (2003: HK0.5 cent)<br>per ordinary share | <b>4,704</b>                   | 4,224            |
|  | <b>8,928</b>                   | 4,224            |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**13. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK\$39,020,000 (2003 (restated): HK\$9,578,000), and the weighted average of 854,500,672 (2003: 844,800,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 March 2004 and 2003 have not been calculated as the Company had no dilutive potential ordinary shares during these years.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

14. FIXED ASSETS

| Group                           | Investment properties<br>HK\$'000 | Leasehold improvements<br>HK\$'000 | Machinery and equipment<br>HK\$'000 | Furniture, fixtures and office equipment<br>HK\$'000 | Motor vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------------|-----------------------------------|------------------------------------|-------------------------------------|--|----------------------------|-------------------|
| Cost or valuation:              |                                   |                                    |                                     |  |                            |                   |
| At 1 April 2003                 | 12,260                            | 971                                | 3,185                               | 4,319  | 2,543                      | 23,278            |
| Additions                       | -                                 | 833                                | 380                                 | 913  | 340                        | 2,466             |
| Disposals                       | -                                 | -                                  | (161)                               | (10)   | (55)                       | (226)             |
| Surplus on revaluation (note 6) | 4,540                             | -                                  | -                                   | -  | -                          | 4,540             |
| At 31 March 2004                | 16,800                            | 1,804                              | 3,404                               | 5,222  | 2,828                      | 30,058            |
| Accumulated depreciation:       |                                   |                                    |                                     |  |                            |                   |
| At 1 April 2003                 | -                                 | 473                                | 2,546                               | 2,604  | 1,830                      | 7,453             |
| Provided during the year        | -                                 | 333                                | 304                                 | 721  | 551                        | 1,909             |
| Disposals                       | -                                 | -                                  | (161)                               | (6)  | (55)                       | (222)             |
| At 31 March 2004                | -                                 | 806                                | 2,689                               | 3,319  | 2,326                      | 9,140             |
| Net book value:                 |                                   |                                    |                                     |  |                            |                   |
| At 31 March 2004                | 16,800                            | 998                                | 715                                 | 1,903  | 502                        | 20,918            |
| At 31 March 2003                | 12,260                            | 498                                | 639                                 | 1,715  | 713                        | 15,825            |
| Analysis of cost or valuation:  |                                   |                                    |                                     |  |                            |                   |
| At cost                         | -                                 | 1,804                              | 3,404                               | 5,222  | 2,828                      | 13,258            |
| At 31 March 2004 valuation      | 16,800                            | -                                  | -                                   | -  | -                          | 16,800            |
|                                 | 16,800                            | 1,804                              | 3,404                               | 5,222  | 2,828                      | 30,058            |

The net book value of the fixed assets of the Group held under finance leases was included in the total amount of motor vehicles at 31 March 2004, was HK\$ 170,000 (2003: Nil).

The Group's investment properties are situated in Hong Kong and are held under medium term leases. The investment properties were revalued on 31 March 2004 by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$ 16,800,000 (2003: HK\$ 12,260,000) on an open market, existing use basis.

At 31 March 2004, the investment properties of the Group with an aggregate carrying value of HK\$ 16,500,000 (2003: HK\$ 12,000,000) were pledged to secure general banking facilities granted to the Group (note 23).

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 15. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet arising from the acquisition of subsidiaries after 1 April 2001 is as follows:

#### Group

|  | HK\$'000 |
|--|----------|
| Cost:  |          |
| At 1 April 2003 and 31 March 2004              | 17,230   |
| Accumulated amortisation:                      |          |
| At 1 April 2003                                | 1,651    |
| Amortisation provided during the year (note 6) | 862      |
| At 31 March 2004                               | 2,513    |
| Net book value:                                |          |
| At 31 March 2004                               | 14,717   |
| At 31 March 2003                               | 15,579   |

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP to remain in the consolidated goodwill reserve.

The amount of goodwill remaining in the consolidated goodwill reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was approximately HK\$5,035,000 as at 1 April 2003 and 31 March 2004. The amount of goodwill is stated at its cost.

### 16. INTERESTS IN SUBSIDIARIES

|                          | <b>Company</b>   |                  |
|--------------------------|------------------|------------------|
|                          | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Unlisted shares, at cost | <b>64,147</b>    | 64,147           |
| Due from subsidiaries    | <b>80,495</b>    | 77,852           |
| Due to subsidiaries      | <b>(230)</b>     | (28,238)         |
|                          | <b>144,412</b>   | 113,761          |

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

**16. INTERESTS IN SUBSIDIARIES** *(continued)*

Particulars of the principal subsidiaries are as follows:

| Name                                 | Place of incorporation/<br>registration<br>and operations | Nominal value of issued and paid-up capital   | Percentage of equity attributable to the Company |          | Principal activities   |
|--------------------------------------|---|---|--|----------|--|
|                                      |   |   | Direct   | Indirect |  |
| Profit Chain Investments Limited     | British Virgin Islands/<br>Hong Kong                      | US\$70,000<br>Ordinary  | 100  | –        | Investment holding   |
| Able Engineering Company Limited     | Hong Kong   | HK\$3,789,000<br>Ordinary<br>HK\$11,211,000<br>Non-voting deferred<br><i>(Note a)</i> | –  | 100      | Building construction, maintenance and civil engineering works |
| Gold Vantage Limited                 | Hong Kong   | HK\$100<br>Ordinary   | –  | 100      | Property holding   |
| Excel Engineering Company Limited    | Hong Kong   | HK\$11,000,000<br>Ordinary  | –  | 100      | Building construction, maintenance and civil engineering works |
| Gadelly Construction Company Limited | Hong Kong   | HK\$3,700,000<br>Ordinary   | –  | 100      | Construction and plant hiring                                  |
| Able Contractors Limited             | Hong Kong   | HK\$10,000<br>Ordinary  | –  | 100      | Building construction  |
| Able Maintenance Company Limited     | Hong Kong   | HK\$10,000<br>Ordinary  | –  | 100      | Building construction and maintenance works                    |

Note:

- (a) The deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 16. INTERESTS IN SUBSIDIARIES *(continued)*

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.

### 17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

|                                    | <b>Group</b>                   |                         |
|------------------------------------|--------------------------------|-------------------------|
|                                    | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
| Share of net assets                | <b>3,597</b>                   | 3,264                   |
| Due to a jointly-controlled entity | <b>(3,575)</b>                 | (3,500)                 |
|                                    | <b>22</b>                      | (236)                   |

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity is as follows:

| Name           | Business structure | Place of incorporation/<br>registration<br>and operations | Percentage of      |              |                | Principal activity    |
|----------------|--------------------|---|--------------------|--------------|----------------|-----------------------|
|                |                    |   | Ownership interest | Voting power | Profit sharing |                       |
| AWG-JV Limited | Corporate          | Hong Kong   | 50                 | 50           | 50             | Building construction |

The above investment in a jointly-controlled entity is indirectly held by the Company.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

18. CONSTRUCTION, RENOVATION AND OTHER CONTRACTS

|  | <b>2004</b>        | <b>Group</b>     |
|--|--------------------|------------------|
|  | <b>HK\$'000</b>    | 2003<br>HK\$'000 |
| Gross amount due from customers for contract works                             | <b>104,607</b>     | 78,508           |
| Gross amount due to customers for contract works                               | <b>(59,227)</b>    | (27,346)         |
|  | <b>45,380</b>      | 51,162           |
| Contract costs incurred plus recognised profits less recognised losses to date | <b>2,231,020</b>   | 770,369          |
| Less: Progress billings  | <b>(2,185,640)</b> | (719,207)        |
|  | <b>45,380</b>      | 51,162           |

As at 31 March 2004, retentions receivable included in accounts receivable amounted to approximately HK\$25,915,000 (2003: HK\$15,897,000).

19. ACCOUNTS RECEIVABLE

The payment terms of contract works are stipulated in the relevant construction contracts.

An aged analysis of accounts receivable as at the balance sheet date is as follows:

|               | <b>2004</b>     | <b>Group</b>     |
|---------------|-----------------|------------------|
|               | <b>HK\$'000</b> | 2003<br>HK\$'000 |
| 1 – 3 months  | <b>160,125</b>  | 134,631          |
| 4 – 6 months  | <b>373</b>      | 5,774            |
| Over 6 months | <b>8,162</b>    | 11,211           |
|               | <b>168,660</b>  | 151,616          |

As at 31 March 2004, accounts receivable of approximately HK\$72 million (2003: HK\$50 million) was assigned to banks to secure banking facilities granted to the Group. In addition, as at 31 March 2003, accounts receivable of HK\$13 million was pledged for bank loans granted to the Group.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                            | Group            |                  | Company          |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Prepayments                | 20,647           | 16,275           | –                | –                |
| Deposits and other debtors | 28,735           | 45,436           | 7                | 6                |
|                            | <u>49,382</u>    | <u>61,711</u>    | <u>7</u>         | <u>6</u>         |

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

|                                       | Group            |                  | Company          |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2004<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| Cash and bank balances                | 49,526           | 9,670            | 6,401            | 61               |
| Time deposits                         | 74,754           | 40,128           | 17,702           | 7,613            |
|                                       | <u>124,280</u>   | <u>49,798</u>    | <u>24,103</u>    | <u>7,674</u>     |
| Less: Pledged time deposits:          |                  |                  |                  |                  |
| Pledged for bank overdraft facilities | (2,000)          | (14,607)         | –                | –                |
| Pledged for other banking facilities  | (19,758)         | (7,613)          | (17,702)         | (7,613)          |
|                                       | <u>102,522</u>   | <u>27,578</u>    | <u>6,401</u>     | <u>61</u>        |

The time deposits pledged to banks were to secure general banking facilities granted to the Group (note 23).

22. ACCOUNTS PAYABLE/TRADE PAYABLES TO RELATED PARTIES

An aged analysis of accounts payable as at the balance sheet date is as follows:

|               | Group            |                  |
|---------------|------------------|------------------|
|               | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
| 1 – 3 months  | 200,751          | 158,921          |
| 4 – 6 months  | 5,881            | 7,396            |
| Over 6 months | 8,058            | 10,756           |
|               | <u>214,690</u>   | <u>177,073</u>   |

As at 31 March 2004, retentions payable included in accounts payable under current liabilities amounted to approximately HK\$30,996,000 (2003: HK\$20,362,000).

Trade payables to related parties are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

**23. INTEREST-BEARING BANK AND OTHER BORROWINGS**

|  |             | <b>Group</b>                   |                         |
|--|-------------|--------------------------------|-------------------------|
|  | <i>Note</i> | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
| Bank overdrafts, secured                 |             | -                              | 5,636                   |
| Trust receipt loans, secured             |             | -                              | 3,639                   |
| Bank loans, secured                      |             | <b>80</b>                      | 34,851                  |
| Current portion of finance lease payable | 24          | <b>50</b>                      | -                       |
|  |             | <hr/> <b>130</b> <hr/>         | <hr/> 44,126 <hr/>      |

The banking facilities granted to the Group by certain banks as at 31 March 2004 were secured by:

- (a) charges over the Group's time deposits of approximately HK\$21,758,000 (2003: HK\$22,220,000);
- (b) the investment properties of the Group with an aggregate carrying value at the balance sheet date of approximately HK\$16,500,000 (2003: HK\$12,000,000); and
- (c) assignment of accounts receivable related to certain construction contracts of the Group.

In addition, the Company had provided corporate guarantees against certain of the Group's banking facilities up to an extent of HK\$117,164,000 (2003: HK\$150,000,000) as at 31 March 2004.



**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**24. FINANCE LEASE PAYABLE**

The Group leased a motor vehicle for its construction business. The lease is classified as finance lease and has remaining lease terms of four years as at 31 March 2004.

At 31 March 2004, 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 |
|---|------------------------|------------------------|---|---|
|   | 2004<br>HK\$'000       | 2003<br>HK\$'000       | 2004<br>HK\$'000                        | 2003<br>HK\$'000                        |
| Amounts payable:                                    |                        |                        |   |   |
| Within one year                                     | 56                     | –                      | 50                                      | –                                       |
| In the second year                                  | 56                     | –                      | 50                                      | –                                       |
| In the third to fifth years, inclusive              | 88                     | –                      | 79                                      | –                                       |
| Total minimum finance lease payments                | 200                    | –                      | 179                                     | –                                       |
| Future finance charges                              | (21)                   | –                      |   |   |
| Total net finance lease payable                     | 179                    | –                      |   |   |
| Portion classified as current liabilities (note 23) | (50)                   | –                      |   |   |
| Long term portion                                   | 129                    | –                      |   |   |

**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**25. DEFERRED TAX**

The movement in deferred tax liabilities and assets during the year is as follows:

**Group**

|   | <b>Accelerated<br/>tax<br/>depreciation</b><br><i>HK\$'000</i> | <b>Losses<br/>available<br/>for offset<br/>against<br/>future<br/>taxable<br/>profit</b><br><i>HK\$'000</i> |
|---|--|---|
| At 1 April 2002:  |  |   |
| As previously reported  | 120  | –   |
| Prior year adjustment:  |  |   |
| SSAP 12 – restatement of deferred tax                                   | –  | (1,054)   |
|   | <hr/>  | <hr/>   |
| As restated   | 120  | (1,054)   |
| Deferred tax charged to the profit and loss account<br><i>(note 10)</i> | –  | 1,054   |
|   | <hr/>  | <hr/>   |
| Gross deferred tax liabilities/(assets) at 31 March 2003                | <u>120</u>   | <u>–</u>  |
| At 1 April 2003   | 120  | –   |
| Deferred tax charged to the profit and loss account<br><i>(note 10)</i> | 103  | –   |
|   | <hr/>  | <hr/>   |
| Gross deferred tax liabilities/(assets) at 31 March 2004                | <u>223</u>   | <u>–</u>  |

**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**25. DEFERRED TAX** *(continued)*  
**Company**

|  | <b>Accelerated<br/>tax<br/>depreciation</b><br><i>HK\$'000</i> | <b>Losses<br/>available<br/>for offset<br/>against<br/>future<br/>taxable<br/>profit</b><br><i>HK\$'000</i> |
|--|--|---|
| At 1 April 2002:   |  |   |
| As previously reported                                   | –  | –   |
| Prior year adjustment:                                   |  |   |
| SSAP 12 – restatement of deferred tax                    | –  | (958)   |
|  | <hr/>  | <hr/>   |
| As restated  | –  | (958)   |
| Deferred tax charged to the profit and loss account      | –  | 958   |
|  | <hr/>  | <hr/>   |
| Gross deferred tax liabilities/(assets) at 31 March 2003 | –  | –   |
|  | <hr/>  | <hr/>   |
| At 1 April 2003  | –  | –   |
| Deferred tax charged to the profit and loss account      | –  | –   |
|  | <hr/>  | <hr/>   |
| Gross deferred tax liabilities/(assets) at 31 March 2004 | –  | –   |
|  | <hr/>  | <hr/>   |

|   | <b>Group</b>                   |                         | <b>Company</b>                 |                         |
|---|--------------------------------|-------------------------|--------------------------------|-------------------------|
|   | <b>2004</b><br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> | <b>2004</b><br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Net deferred tax assets recognised on the balance sheet date      | –                              | –                       | –                              | –                       |
| Net deferred tax liabilities recognised on the balance sheet date | <b>223</b>                     | 120                     | –                              | –                       |
|   | <hr/>                          | <hr/>                   | <hr/>                          | <hr/>                   |
|   | <b>223</b>                     | 120                     | –                              | –                       |
|   | <hr/>                          | <hr/>                   | <hr/>                          | <hr/>                   |

The Group has tax losses arising in Hong Kong of approximately HK\$175,000 (2003: Nil). Subject to the confirmation of the tax losses from tax authority, these tax losses are available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

**25. DEFERRED TAX** (continued)

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint venture as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's and the Company's deferred tax assets as at 31 March 2002 by HK\$1,054,000 and HK\$958,000, respectively. As a consequence, the consolidated net profit attributable to shareholders of the Group and the net profit of the Company for the year ended 31 March 2003 have been decreased by HK\$1,054,000 and HK\$958,000, respectively, the consolidated retained profits as at 1 April 2002 have been increased by HK\$1,054,000, and the accumulated losses of the Company as at 1 April 2002 have been decreased by HK\$958,000, as detailed in the consolidated statement of changes in equity and note 28(b) to the financial statements.

**26. SHARE CAPITAL**

**Shares**

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Authorised:  |                                |                  |
| 4,000,000,000 (2003: 4,000,000,000)<br>ordinary shares of HK\$0.025 each | <u><b>100,000</b></u>          | <u>100,000</u>   |
| Issued and fully paid:   |                                |                  |
| 940,758,000 (2003: 844,800,000)<br>ordinary shares of HK\$0.025 each     | <u><b>23,519</b></u>           | <u>21,120</u>    |

On 16 February 2004, Winhale, the ultimate holding company, sold 95,958,000 existing ordinary shares of the Company at HK\$0.5 per share to a number of independent investors (the "Placees"), pursuant to the placing agreement dated 10 February 2004 signed with a placing agent (the "Placing Agent"). On 24 February 2004, the Company allotted an aggregate of 95,958,000 new ordinary shares of the Company at HK\$0.5 per share to Winhale pursuant to the top-up subscription agreement entered into between the Company and Winhale on the same date as the placing agreement. The closing market price of the ordinary share of the Company on 10 February 2004, on which the terms of the issues were fixed, was HK\$0.64. The resulting proceeds, before expenses, of HK\$47,979,000, are intended to be used for funding construction contracts to be secured in Mainland China by the Group.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### 26. SHARE CAPITAL *(continued)*

In relation to the above placing and top-up subscription of shares, the Company further entered into a deed of undertaking dated 10 February 2004, whereby the Company provided an undertaking to the Placing Agent that it would, subject to certain conditions, grant to each Placee an option to subscribe for one new share of the Company for every placing share purchased from Winhale. Subsequent to the balance sheet date, the conditions as stipulated in the deed of undertaking were fulfilled and an aggregate 95,958,000 share options were granted to the Placees. The share options are exercisable at an exercise price of HK\$0.8 per share within 36 months commencing from the date of the relevant deed of option.

### 27. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 5 August 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "2002 Share Option Scheme") and the termination of the share option scheme adopted on 17 August 2000 (the "2000 Share Option Scheme").

The purpose of the 2002 Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2002 Share Option Scheme include full-time employees, including any executive and non-executive directors of the Group. The 2002 Share Option Scheme became effective on 8 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date when the 2002 Share Option Scheme was approved by the shareholders of the Company in a general meeting. The maximum number of shares issuable under share options to each eligible participant in the 2002 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within seven days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than ten years from the date of the offer of the share options.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

### **27. SHARE OPTION SCHEME** *(continued)*

The exercise price of the share options is determinable by the directors, but should not be less than the higher of (i) the closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of the shares of the Company.

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

No option was granted, exercised, cancelled or lapsed under either the 2000 Share Option Scheme or 2002 Share Option Scheme at any time.

### **28. 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 25 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Group's shares, over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of subsidiaries remains in the consolidated goodwill reserve as explained in note 15 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 March 2004

**28. RESERVES** (continued)**(b) Company**

|                                       | <b>Share<br/>premium<br/>account</b> | <b>Contributed<br/>surplus</b> | <b>Retained<br/>profits/<br/>(accumulated<br/>losses)</b> | <b>Total</b>    |
|---------------------------------------|--------------------------------------|--------------------------------|---|-----------------|
| <i>Notes</i>                          | <i>HK\$'000</i>                      | <i>HK\$'000</i>                | <i>HK\$'000</i>   | <i>HK\$'000</i> |
| At 1 April 2002:                      |                                      |                                |   |                 |
| As previously reported                | 31,603                               | 63,948                         | (6,102)   | 89,449          |
| Prior year adjustment:                |                                      |                                |   |                 |
| SSAP 12 – restatement of deferred tax | –                                    | –                              | 958   | 958             |
| As restated                           | 31,603                               | 63,948                         | (5,144)   | 90,407          |
| Net profit for the year (as restated) | –                                    | –                              | 9,740   | 9,740           |
| Proposed final 2003 dividend          | –                                    | –                              | (4,224)   | (4,224)         |
| At 31 March 2003                      | 31,603                               | 63,948                         | 372   | 95,923          |
| Issue of shares                       | 26<br>45,580                         | –                              | –   | 45,580          |
| Share issue expenses                  | 26<br>(1,792)                        | –                              | –   | (1,792)         |
| Net profit for the year               | –                                    | –                              | 9,278   | 9,278           |
| Interim 2004 dividend                 | 12<br>–                              | –                              | (4,224)   | (4,224)         |
| Proposed final 2004 dividend          | 12<br>–                              | –                              | (4,704)   | (4,704)         |
| At 31 March 2004                      | <u>75,391</u>                        | <u>63,948</u>                  | <u>722</u>  | <u>140,061</u>  |

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981 (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

**29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**

**Major non-cash transaction**

During the year, the Group entered into finance lease arrangement in respect of a motor vehicle with a capital value at the inception of the lease of HK\$242,000 (2003: Nil).

**30. CONTINGENT LIABILITIES**

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

|   | <b>Group</b>                   |                         | <b>Company</b>                 |                         |
|---|--------------------------------|-------------------------|--------------------------------|-------------------------|
|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> | <b>2004</b><br><b>HK\$'000</b> | 2003<br><i>HK\$'000</i> |
| Trade debtors factored with recourse  | -                              | 12,836                  | -                              | -                       |
| Guarantees in respect of performance bonds in favour of contract customers      | <b>24,102</b>                  | 2,000                   | -                              | -                       |
| Guarantees given to banks in connection with facilities granted to subsidiaries | -                              | -                       | <b>117,164</b>                 | 150,000                 |
|   | <b>24,102</b>                  | 14,836                  | <b>117,164</b>                 | 150,000                 |

As at 31 March 2004, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to an extent of approximately HK\$24,431,000 (2003: HK\$44,126,000).



**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**30. CONTINGENT LIABILITIES** *(continued)*

(b) At the balance sheet date, the Group had the following outstanding litigation:

- (i) On 3 January 2003, a High Court action was brought by a subcontractor against the Group for a claim of subcontracting fee of approximately HK\$2.6 million. As at the date of approval of these financial statements, the directors consider that, given the nature of the claim, it is not possible to estimate the eventual outcome of the claims with reasonable certainty at this stage. After consulting with the Group's lawyer, the directors are of the opinion that the Group has valid defences, and consider that any resulting liability would not have material impact on the Group's financial statements.
- (ii) On 14 August 2003, a High Court action was brought by an employee against the Group and another respondent in respect of a claim for employees' compensation of approximately HK\$2.4 million under the common law for personal injuries sustained by the employee in an accident arising out of and in the course of his employment.

On 18 March 2004, a District Court action was brought by an employee against the Group and another respondent in respect of a claim for employees' compensation under the Employee's Compensation Ordinance for personal injury sustained by the employee in an accident occurred in the course of his employment.

No settlements have been reached for the above actions up to the date of approval of these financial statements and no judgement has been made against the Group in respect of the claims. The directors are of the opinion that the claims will be covered by insurance and would not have material adverse impact on the Group's financial statements.

- (c) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$1.5 million (2003: HK\$1.3 million) as at 31 March 2004, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that there will be a material future outflow of resources from the Group.

Save as disclosed above, as at 31 March 2004, the Company and the Group had no other material contingent liabilities.

**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**31. OPERATING LEASE ARRANGEMENTS**

**As lessee**

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

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | <b>Group</b>             |                         |
|---|--------------------------|-------------------------|
|   | 2004<br><i>HK\$'000</i>  | 2003<br><i>HK\$'000</i> |
| Within one year                         | <b>779</b>               | 726                     |
| In the second to fifth years, inclusive | <b>1,397</b>             | –                       |
|   | <hr/> <b>2,176</b> <hr/> | <hr/> 726 <hr/>         |

**32. COMMITMENTS**

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

|                                    | <b>Group</b>              |                         |
|------------------------------------|---------------------------|-------------------------|
|                                    | 2004<br><i>HK\$'000</i>   | 2003<br><i>HK\$'000</i> |
| Contracted, but not provided for:  |                           |                         |
| Purchases of investment properties | <b>8,174</b>              | –                       |
| Investments in joint ventures      | <b>6,212</b>              | –                       |
|                                    | <hr/> <b>14,386</b> <hr/> | <hr/> – <hr/>           |

At the balance sheet date, the Company did not have any significant commitments.

**NOTES TO FINANCIAL STATEMENTS**

31 March 2004

**33. RELATED PARTY TRANSACTIONS**

In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

|  | <b>Group</b>                         |
|--|--------------------------------------|
|  | 2004<br><i>HK\$'000</i>              |
| Subcontracting fees paid to close family members of Mr. Ngai Chun Hung | 2003<br><i>HK\$'000</i><br><br>9,545 |
|  | <b>9,177</b>                         |

The terms for the subcontracting construction fees were determined in accordance with relevant agreements entered into between the Group and the relevant related parties, with reference to the Group's estimated costs. The directors of the Company consider that the above transactions were carried out in the ordinary course of business.

**34. POST BALANCE SHEET EVENTS**

- (a) On 29 April 2004, the Company entered into deeds of option pursuant to which 95,958,000 share options were granted to the Placees. Further details of the granting of share options to the Placees are included in note 26 to the financial statements.
- (b) On 16 April 2004, the Group entered into a provisional sale and purchase agreement, whereby the Group agreed to purchase a residential detached house in Hong Kong from a third party for a consideration of HK\$40 million. The formal sale and purchase agreement was signed on 12 May 2004 and the transaction was completed in June 2004.

**35. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the 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, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 19 July 2004.