



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in the following activities:

- the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and Mainland China; and
- property development and investment.

On 31 March 2004, the principal activities of the Group include the operation of fitness centers and trading of fitness equipment upon the acquisition of subsidiaries as detailed in note 31 to the financial statements.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements. This SSAP prescribes 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 the revised SSAP 12 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).

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 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;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.



31 March 2004

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) *(continued)*

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 27 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in note 3 and in note 27 to the financial statements.

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 remeasurement of certain fixed assets as further explained in the respective accounting policies 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.

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

Subsidiaries

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

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



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;
- (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;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence 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 a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in the jointly-controlled entity 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.



31 March 2004

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

Associates

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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 not more than 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves 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 eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.



31 March 2004

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

Goodwill *(continued)*

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of the SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.



31 March 2004

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

Negative goodwill (continued)

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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.



31 March 2004

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

Fixed assets and depreciation

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

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

In respect of fixed assets which are stated at valuation, the surplus or deficit on revaluation is taken to the fixed asset revaluation reserve. If this reserve, on an individual asset basis, is insufficient to cover a deficit, then the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. A subsequent surplus on revaluation is credited to the profit and loss account to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

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. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Leasehold land	Over the remaining lease terms
Buildings	2.5% on the straight-line basis
Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	15% on the reducing balance basis
Office equipment	15% on the reducing balance basis
Tools and equipment	15% on the reducing balance basis
Motor vehicles	15% on the reducing balance basis



31 March 2004

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

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

Inventories

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

Construction contracts

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

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

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

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

Properties held for sale

Properties under development which are intended for sale are included in properties held for sale and stated at the lower of cost and net realisable value, which is estimated by the directors based on the prevailing market conditions. Costs include all costs directly incurred in the properties under development, including development expenditure, borrowing costs and other direct costs.

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.



31 March 2004

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

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation rate for the period is based on the weighted average of the attributable costs of the borrowings. The capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Revenue recognition

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

- (a) from construction contracts, on the percentage of completion basis when the outcome of the contracts can be reasonably foreseen, after making due allowances for contingencies. Provision is made for any foreseeable losses as soon as such losses are anticipated by management;
- (b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) from the rendering of services, in the accounting period in which the services are rendered;
- (d) from the sale of property interests, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (e) rental income, on a time proportion basis over the lease terms;
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (g) management fee income, when services are rendered; and
- (h) dividend income, when the shareholders' right to receive payment has been established.



31 March 2004

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

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 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.

Retirement benefits

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 in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution pension scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the Group has operated both schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.



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.

Operating leases

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/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.

Foreign currencies

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.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.



31 March 2004

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

Provisions

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

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. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

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, associates 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 future 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



31 March 2004

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

Income tax *(continued)*

- in respect of deductible temporary differences associated with investments in subsidiaries, associates 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 future taxable profit will be available against which the temporary differences can be utilised.

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.

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, which are not restricted as to use.

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.



31 March 2004

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 construction business segment is engaged in construction contract work as a main contractor as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services;
- (b) the property development and investment segment is engaged in the development of residential properties and invests in prime office space for its rental income potential; and
- (c) the fitness club and related business segment is engaged in the operation of fitness centers, trading of fitness and medical equipment and the provision of related installation and maintenance services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group	Construction business		Property development and investment		Fitness club and related business		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment revenue:								
Sales to external customers	327,381	395,561	197,087	127,782	13,650	5,930	538,118	529,273
Other revenue	7,435	4,038	1,808	1,828	2	221	9,245	6,087
Total	<u>334,816</u>	<u>399,599</u>	<u>198,895</u>	<u>129,610</u>	<u>13,652</u>	<u>6,151</u>	<u>547,363</u>	<u>535,360</u>
Segment results	<u>24,743</u>	<u>3,555</u>	<u>29,053</u>	<u>15,290</u>	<u>136</u>	<u>773</u>	<u>53,932</u>	<u>19,618</u>
Interest income and dividend income							1,717	2,177
Gain on disposal of subsidiaries							535	1,780
Unallocated expenses							(8,182)	(12,957)
Impairment of goodwill							-	(229)
Amortisation of goodwill							(676)	-
Profit from operating activities							47,326	10,389
Finance costs							(3,349)	(3,118)
Share of profits and losses of:								
A jointly-controlled entity	(25)	-	-	-	-	-	(25)	-
Associates	565	2,968	-	-	(6,766)	-	(6,201)	2,968
Profit before tax							37,751	10,239
Tax							(17,697)	(4,986)
Profit before minority interests							20,054	5,253
Minority interests							3,340	3,307
Net profit attributable to shareholders							<u>23,394</u>	<u>8,560</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Construction business		Property development and investment		Fitness club and related business		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	168,113	137,110	319,325	417,752	44,177	3,667	531,615	558,529
Interests in a jointly-controlled entity	556	-	-	-	-	-	556	-
Interests in associates	3,204	18,126	-	-	4,162	(223)	7,366	17,903
Unallocated assets							1,216	6,837
Bank overdrafts included in segment assets	20,528	54,468	-	-	6,826	-	27,354	54,468
Total assets							568,107	637,737
Segment liabilities	99,559	114,084	97,126	180,515	33,434	2,507	230,119	297,106
Unallocated liabilities							14,308	10,474
Bank overdrafts included in segment assets	20,528	54,468	-	-	6,826	-	27,354	54,468
Total liabilities							271,781	362,048
Other segment information:								
Depreciation	1,915	2,606	605	437	66	29	2,586	3,072
Unallocated amounts							-	20
							2,586	3,092
Other non-cash expenses	2,090	5,415	2,039	384	679	-	4,808	5,799
Unallocated amounts							-	3,965
							4,808	9,764
Capital expenditure	206	801	66	1,578	47	53	319	2,432
Unallocated amounts							-	236
							319	2,668
Revaluation surplus/(deficit) on land and buildings recognised directly to equity	(437)	(13,088)	1,153	324	-	-	716	(12,764)



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)
Segment revenue:						
Sales to external customers	<u>231,308</u>	<u>252,481</u>	<u>306,810</u>	<u>276,792</u>	<u>538,118</u>	<u>529,273</u>
Other segment information:						
Segment assets	<u>162,342</u>	<u>100,583</u>	<u>378,411</u>	<u>482,686</u>	<u>540,753</u>	<u>583,269</u>
Bank overdrafts included in segment assets	<u>27,354</u>	<u>54,468</u>	<u>-</u>	<u>-</u>	<u>27,354</u>	<u>54,468</u>
					<u>568,107</u>	<u>637,737</u>
Capital expenditure	<u>218</u>	<u>542</u>	<u>101</u>	<u>2,126</u>	<u>319</u>	<u>2,668</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced, together with income from property development and investment.

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

	Group	
	2004	2003
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Construction contracting and related businesses	327,381	395,561
Income from property development and investment	197,087	127,782
Fitness club and related business	13,650	5,930
	<u>538,118</u>	<u>529,273</u>
Other revenue and gains		
Interest income	1,561	2,054
Gross rental income	2,741	2,955
Management fee on construction projects	1,855	1,306
Management fee received from associates	1,125	779
Dividends income from listed long term investments	156	123
Gain on disposal/struck off of subsidiaries	535	1,780
Others	3,524	1,047
	<u>11,497</u>	<u>10,044</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

6. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

		Group	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Auditors' remuneration		1,303	1,048
Depreciation	12	2,586	3,092
Minimum lease payments under operating leases			
on land and buildings		764	783
Loss on disposal of fixed assets		89	628
Impairment of goodwill		–	229
Amortisation of goodwill	13	676	–
Impairment of deferred development costs		–	3,938
Rental income		(2,741)	(2,955)
Less: Outgoings		–	67
Net rental income		(2,741)	(2,888)
Provision for foreseeable losses of construction contracts		288	1,388
Provision for inventories		419	–
Provision/(write-back of provision) for doubtful debts		(625)	1,826
Provision for other receivables		2,162	2,612
Exchange losses/(gains), net		(75)	83
Staff costs (including directors' emoluments – note 8(a)):			
Wages and salaries		25,246	27,367
Pension scheme contributions		833	840
Less: Forfeited contributions*		(125)	(109)
Net pension scheme contributions		708	731
		25,954	28,098

* At 31 March 2004, there were no forfeited contributions available to the Group to reduce contributions to the pension scheme in future years (2003: Nil).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest expense on bank loans, overdrafts and other borrowings:		
wholly repayable within five years	4,319	7,856
wholly repayable after five years	255	–
Interest on convertible notes	33	161
Total finance costs	4,607	8,017
Less: Interest capitalised	(1,258)	(4,899)
	<u>3,349</u>	<u>3,118</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	300	300
Basic salaries and allowances	3,975	4,295
Pension scheme contributions	113	113
	<u>4,388</u>	<u>4,708</u>

Directors' fees of HK\$300,000 (2003: HK\$300,000) were paid to the independent non-executive directors of the Company during the year.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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

	2004	2003
	<i>Number of directors</i>	<i>Number of directors</i>
Nil – HK\$1,000,000	7	7
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>1</u>
	<u>8</u>	<u>8</u>

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

(b) Employees' emoluments

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and allowances	1,272	1,167
Pension scheme contributions	<u>44</u>	<u>47</u>
	<u>1,316</u>	<u>1,214</u>

The emoluments of each of the above non-director, highest paid individuals fell within the band of Nil to HK\$1,000,000 in both the years ended 31 March 2004 and 2003.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

9. 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 profit 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000
		(Restated)
Current – Hong Kong		
Charge for the year	2,357	1,285
Overprovision in prior years	–	(355)
Current – Elsewhere	13,245	4,227
Deferred (<i>note 27</i>)	1,862	(633)
	<u>17,464</u>	<u>4,524</u>
Share of tax attributable to associates	233	462
Total tax charge for the year	<u>17,697</u>	<u>4,986</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and its subsidiaries, a jointly-controlled entity and associates are domiciled 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:

	2004		Group		2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>37,751</u>		<u>10,239</u>			
Tax at the statutory tax rate of 17.5% (2003: 16%)	6,606	17.5	1,638	16.0		
Effect of different tax rates for companies operating in other jurisdictions	5,738	15.2	2,377	23.2		
Adjustments in respect of current tax of previous periods	–	–	(355)	(3.5)		
Income not subject to tax	(2,667)	(7.0)	(4,625)	(45.1)		
Expenses not deductible for tax	6,131	16.2	3,879	37.9		
Tax loss utilised from previous periods	(283)	(0.7)	(119)	(1.2)		
Tax losses not recognised	1,577	4.2	1,618	15.8		
Others, net	<u>595</u>	<u>1.5</u>	<u>573</u>	<u>5.6</u>		
Tax charge at effective rate	<u>17,697</u>	<u>46.9</u>	<u>4,986</u>	<u>48.7</u>		

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company is HK\$4,229,000 (2003: Nil (as restated)).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$23,394,000 (2003: HK\$8,560,000 (as restated)) and the weighted average of 4,544,515,000 (2003: 4,791,613,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of HK\$23,394,000 (2003: HK\$8,560,000 (as restated)) and the weighted average of 4,545,310,000 (2003: 4,803,559,000) shares in issue during the year.

A reconciliation of the weighted average number of shares used in the basic earnings per share calculation to that used in the diluted earnings per share calculation is as follows:

	2004	2003
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	4,544,515,000	4,791,613,000
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of the share options expiring on 21 February 2004 and 28 February 2004	<u>795,000</u>	<u>11,946,000</u>
Weighted average number of shares used in diluted earnings per share calculation	<u>4,545,310,000</u>	<u>4,803,559,000</u>

The deemed exercise of the full conversion rights of the convertible notes of KEL Holdings Limited, a listed subsidiary of the Company, and of the options expiring on 22 April 2003, 2 May 2003 and 22 January 2004, had anti-dilutive effects on the basic earnings per share and accordingly, have not been included in the diluted earnings per share calculation in the current or prior years.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

12. FIXED ASSETS

Group	Leasehold		Leasehold	Furniture	Office	Tools and	Motor	Total
	land and	land and						
	buildings	buildings	improvements	and	equipment	equipment	vehicles	
	situated in	situated in		fixtures				
	Hong Kong	Mainland						
	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost or valuation:								
At beginning of year	34,200	7,000	1,754	3,944	4,829	2,852	5,627	60,206
Additions	-	-	3	5	259	20	32	319
Acquisition of subsidiaries	-	-	2,238	-	858	6,153	-	9,249
Disposal of subsidiaries	-	-	-	-	(6)	-	-	(6)
Disposals	-	-	-	-	(202)	(6)	(337)	(545)
Revaluation surplus/(deficit)	(1,300)	1,000	-	-	-	-	-	(300)
At 31 March 2004	32,900	8,000	3,995	3,949	5,738	9,019	5,322	68,923
Analysis of cost or valuation:								
At cost	-	-	3,995	3,949	5,738	9,019	5,322	28,023
At 2004 valuation	32,900	8,000	-	-	-	-	-	40,900
	32,900	8,000	3,995	3,949	5,738	9,019	5,322	68,923
Accumulated depreciation:								
At beginning of year	-	-	1,310	2,500	3,071	2,047	4,116	13,044
Provided during the year	836	169	249	217	383	212	520	2,586
Disposal of subsidiaries	-	-	-	-	(6)	-	-	(6)
Disposals	-	-	-	-	(178)	(6)	(245)	(429)
Write back on revaluation	(356)	(153)	-	-	-	-	-	(509)
At 31 March 2004	480	16	1,559	2,717	3,270	2,253	4,391	14,686
Net book value:								
At 31 March 2004	32,420	7,984	2,436	1,232	2,468	6,766	931	54,237
At 31 March 2003	34,200	7,000	444	1,444	1,758	805	1,511	47,162



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

12. FIXED ASSETS (continued)

The Group's land and buildings located in Hong Kong and Mainland China were revalued at 31 August 2003 and 28 February 2004 at an aggregate open market value of HK\$32,900,000 and HK\$8,000,000, respectively, by B.I. Appraisals Limited, independent professionally qualified valuers, based on their existing use. A revaluation surplus of HK\$209,000 resulting from the revaluation has been charged to the fixed asset revaluation reserve. In the opinion of the directors, these revalued amounts are not materially different from their values as at 31 March 2004.

Had the Group's land and buildings been carried at cost less accumulated depreciation and impairment losses, they would have been included in the financial statements at approximately HK\$35,537,000 as at 31 March 2004 (2003: HK\$36,458,000).

The land and buildings at valuation included above are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Long term leases	11,900	–	11,900
Medium term leases	21,000	8,000	29,000
	<u>32,900</u>	<u>8,000</u>	<u>40,900</u>

Certain land and buildings of the Group are pledged to banks to secure banking facilities granted to the Group (note 25).

Certain fixed assets situated in Hong Kong with an aggregate carrying value of HK\$11,900,000 (2003: HK\$32,000,000) were leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

13. GOODWILL

The amounts of goodwill capitalised as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

HK\$'000

Cost:

At beginning of year	–
Arising from the acquisition of subsidiaries (note 31(a))	9,116
Arising from the acquisition of additional interest in a subsidiary	<u>12,961</u>

At 31 March 2004 22,077

Accumulated amortisation:

At beginning of year	–
Amortisation provided during the year	<u>676</u>

At 31 March 2004 676

Net book value:

At 31 March 2004 21,401

At 31 March 2003 –

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 and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

14. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	156,031	156,031
Due from subsidiaries	148,107	152,745
	304,138	308,776

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK\$45,902,000 which bears interest at 7% per annum (2003: Nil).

Details of the principal subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Beijing Chang De Architectural & Decoration Co., Ltd. (iii)*	People's Republic of China ("PRC")	RMB16,000,000	(iv)	–	60	Decoration engineering
Bless Honour Limited	Hong Kong/ PRC	HK\$2	Ordinary	–	74.8	Property investment
Deson Development Holdings Limited	British Virgin Islands/ Hong Kong	US\$200	Ordinary	100	–	Investment holding
Deson Development Limited	Hong Kong	HK\$20,000,100 HK\$20,000,000	Class A (i) Class B (ii)	–	100	Construction contracting and investment holding
Deson Ventures Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100	Investment holding



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

14. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries (continued):

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Hua Sheng International Real Estate Development (Shanghai) Co., Ltd. (iii)**	PRC	US\$6,400,000	(iv)	–	100	Property development
Fitness Concept Limited	Hong Kong	HK\$11,111,111	Ordinary	–	53.1	Investment holding
Fitness Concept Leisure Supplies Limited	Hong Kong	HK\$2	Ordinary	–	53.1	Trading and retailing of fitness and leisure equipment
KEL Holdings Limited	Bermuda/ Hong Kong	HK\$106,380,101	Ordinary	–	74.8	Investment holding
Kenworth Engineering Limited	Hong Kong	HK\$5,374,140 HK\$20,000,000 Preference (v)	Ordinary	–	74.8	Provision of electrical and mechanical engineering services
Medical Technologies Limited	Hong Kong	HK\$10,000	Ordinary	–	100	Trading of medical equipment
Penmark Limited	Hong Kong/ PRC	HK\$30	Ordinary	–	100	Property holding
Super Sight Investments Inc.	British Virgin Islands/ PRC	US\$1	Ordinary	–	100	Property development
Super Win Development Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100	Investment holding



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

14. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries (continued):

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wonderful Hope Limited	British Virgin Islands/ PRC	US\$1	Ordinary	-	100	Property development

* Sino-foreign owned joint venture enterprise.

** Wholly foreign-owned enterprise.

- (i) Pursuant to a resolution passed on 2 September 2003, the authorised share capital of the subsidiary was increased from HK\$20,000,100 to HK\$120,000,100 by the creation of 100,000,000 additional "A" ordinary voting share of HK\$1.00 each, ranking pari passu in all respects with existing share capital of the subsidiary. 20,000,000 "A" ordinary voting shares of HK\$1.00 each were issued at par to the Group during the year.
- (ii) These non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK\$100 trillion.
- (iii) The remittance of dividends to the Group from these subsidiaries operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by the subsidiaries.
- (iv) The issued or paid-up capital of these subsidiaries is not classified.
- (v) The holders of the preference shares have a cumulative preferential right to the company's profits at 10% of the normal amount of share capital, but are not entitled to receive notice of or attend or vote at any meeting of members or any meeting of directors.

During the year, the Group acquired an additional 9% equity interest in Fitness Concept Limited. Further details of this acquisition are set out in note 31(a) to the financial statements.

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	475	–
Due from a jointly-controlled entity	81	–
	<u>556</u>	<u>–</u>

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

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration/ operations	ownership interest	Percentage of voting power	profit sharing	Principal activities
Kenworth-Watfield Joint Venture Limited	Corporate	Hong Kong	50	50	50	Provision of electrical and mechanical engineering services

The jointly-controlled entity is held through subsidiaries.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

16. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	6,376	7,113
Due from associates	1,615	11,190
Due to associates	(625)	(400)
	7,366	17,903

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. In the prior year, an amount due from an associate of HK\$8,052,000 bore interest at prevailing market rates.

Particulars of the principal associates at the balance sheet date are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
Asia Construction Holdings Limited	Corporate	Hong Kong	Ordinary	49	Investment holding
Deson Metals Company Limited	Corporate	Hong Kong/ PRC	Ordinary	40	Trading of construction materials
Fuzhou Jiandi Concrete Co., Ltd. (ii)	Corporate	PRC	(i)	40	Manufacture of concrete products
Visonic Deson Limited	Corporate	Hong Kong	Ordinary	50	Selling, distributing and marketing of home security and automation products



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

16. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates at the balance sheet date are as follows (continued):

Name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
W & D Joint Venture Limited	Corporate	Hong Kong	Ordinary	45	Construction contracting

- (i) The issued or paid-up capital of this associate is not classified.
- (ii) The remittance of dividends to the Group from this associate operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by this associate.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

17. LONG TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed equity investment outside Hong Kong, at cost	6,153	6,153
Unlisted debt investment in Hong Kong, at cost	2,000	2,000
	<u>8,153</u>	<u>8,153</u>
Market value of listed equity investment outside Hong Kong at balance sheet date	<u>6,488</u>	<u>4,290</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

18. PROPERTIES HELD FOR SALE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Completed properties held for sale	211,712	243,486
Properties under development for sale	<u>68,548</u>	<u>108,611</u>
	<u>280,260</u>	<u>352,097</u>

The Group had no completed properties carried at net realisable value at 31 March 2004 (2003: Nil). Certain completed properties held for sale with an aggregate carrying value of HK\$40,386,000 (2003: HK\$59,115,000) were leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

Certain completed properties held for sale are pledged to banks to secure banking facilities granted to the Group (note 25).

The Group acquired a piece of land located in Shanghai (the "Lung Hua Land") in prior years. The Group has developed the Lung Hua Land into residential units. Pursuant to a supplementary agreement to the original land use rights agreement entered into between Hua Sheng International Real Estate Development (Shanghai) Co., Ltd., a subsidiary of the Group and the Shanghai Land Administration Bureau, 60% of the construction work needed to be completed by 31 December 2000. This target percentage was not met but the Group had obtained approval from the government to continue construction work. In the opinion of the directors, this delay in completion of construction will not have a material impact on the Group's interest in the properties. The project was completed as at 31 March 2004.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

19. CONSTRUCTION CONTRACTS

		Group	
		2004	2003
	Notes	HK\$'000	HK\$'000
Gross amount due from contract customers	(i)	17,599	19,568
Gross amount due to contract customers	(ii)	<u>(39,483)</u>	<u>(47,773)</u>
		<u>(21,884)</u>	<u>(28,205)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	(iii)	1,726,023	1,627,271
Less: Progress billings	(iii)	<u>(1,747,907)</u>	<u>(1,655,476)</u>
		<u>(21,884)</u>	<u>(28,205)</u>

Notes:

- (i) At 31 March 2004, retentions held by customers for contract work included in accounts receivable under current assets amounted to approximately HK\$2,126,000 (2003: HK\$1,553,000).
- (ii) At 31 March 2004, there were no advances received from customers for contract work included in accounts payable under current liabilities (2003: Nil).
- (iii) The amount of contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date include amounts of HK\$993,935,000 (2003: HK\$964,690,000), and the amount of progress billings includes amounts of HK\$998,132,000 (2003: HK\$970,167,000), which are mainly related to construction contracts under KEL Holdings Limited and its subsidiaries (the "KEL Group"), the majority of which have either been terminated or which have ceased, or which have had insignificant activities during the year. Since there are numerous disputes and claims between the KEL Group and its contract employers, suppliers, subcontractors and subcontractors' employees in respect of these contracts, the directors have not been able to negotiate and agree final completion accounts for these terminated, ceased or inactive construction contracts.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

20. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading goods	<u>7,160</u>	<u>996</u>

The carrying amounts of inventories carried at net realisable value included in the above balances was HK\$419,000 (2003: Nil).

21. ACCOUNTS RECEIVABLE

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

	Group					
	2004			2003		
	Balance	Provisions	Net	Balance	Provisions	Net
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 90 days	51,983	–	51,983	63,522	–	63,522
91 – 180 days	7,164	(234)	6,930	13,432	(75)	13,357
181 – 360 days	8,827	(4,926)	3,901	4,954	(6)	4,948
Over 360 days	50,211	(41,834)	8,377	51,690	(40,437)	11,253
	<u>118,185</u>	<u>(46,994)</u>	<u>71,191</u>	133,598	(40,518)	93,080
Retention money receivable	30,764	(28,638)	2,126	30,957	(29,404)	1,553
Total	<u>148,949</u>	<u>(75,632)</u>	<u>73,317</u>	<u>164,555</u>	<u>(69,922)</u>	<u>94,633</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. For retention receivables in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	34,884	34,605	342	165
Time deposits	32,781	34,830	–	–
Cash and cash equivalents	67,665	69,435	342	165
Less: Pledged time deposits for bank overdraft facilities	(32,781)	(27,856)	–	–
	<u>34,884</u>	<u>41,579</u>	<u>342</u>	<u>165</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi amounted to HK\$22,780,000 (2003: HK\$22,121,000).

23. ACCOUNTS PAYABLE

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Current – 90 days	47,437	79,619
91 – 180 days	2,818	841
181 – 360 days	541	388
Over 360 days	3,286	2,562
	<u>54,082</u>	<u>83,410</u>

24. PROVISION FOR SCHEME DEBTS

The KEL Group made a scheme debt provision in prior years. The directors of the KEL Group have estimated and provided for the expected claims of the scheme debts on a case-by-case basis. Further details of the scheme of arrangement has been disclosed in note 26 to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts, secured	27,354	54,468
Bank loans, secured	12,917	41,554
Trust receipt loans, secured	15,862	8,309
Other loan, secured	–	36,944
Other loan, unsecured	1,822	–
	<u>57,955</u>	<u>141,275</u>
Bank overdrafts repayable on demand	<u>27,354</u>	<u>54,468</u>
Bank loans repayable:		
Within one year or on demand	5,485	38,654
In the second year	721	2,900
In the third to fifth years, inclusive	2,405	–
Beyond five years	4,306	–
	<u>12,917</u>	<u>41,554</u>
Trust receipt loans repayable within one year	<u>15,862</u>	<u>8,309</u>
Other loan repayable:		
Within one year or on demand	258	36,944
In the second year	1,564	–
	<u>1,822</u>	<u>36,944</u>
	<u>57,955</u>	<u>141,275</u>
Portion classified as current liabilities	<u>(48,959)</u>	<u>(138,375)</u>
Long term portion	<u>8,996</u>	<u>2,900</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

- (a) The bank loans and the Group's banking facilities are secured by:
- (i) certain of the Group's completed properties held for sale situated in Mainland China, which had an aggregate carrying value at the balance sheet date of HK\$40,386,000 (2003: HK\$121,861,000);
 - (ii) certain of the Group's land and buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$32,420,000 (2003: HK\$34,200,000);
 - (iii) the pledge of certain of the Group's time deposits amounting to HK\$32,781,000 (2003: HK\$27,856,000); and
 - (iv) in the prior year, certain of the Group's properties under development situated in Mainland China, which had an aggregate carrying value of HK\$47,535,000 in 2003.
- (b) In the prior year, the Group's other loan was secured by the shares of a subsidiary, which held properties under development for sale with an aggregate carrying value at 31 March 2003 of approximately HK\$61,076,000, bore interest at 4% per annum, was repayable by instalments commencing on 31 March 2003, and was fully settled during the year.

26. CONVERTIBLE NOTES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	7,285	8,065
Exercise of convertible notes	(29)	–
Redemption of convertible notes	(7,256)	–
Exercise of put options by certain note holders during the year	–	(780)
At 31 March	<u>–</u>	<u>7,285</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

26. CONVERTIBLE NOTES (continued)

In prior years, the Company entered into a conditional debt restructuring and share subscription agreement ("DRA") with KEL Holdings Limited ("KEL") and certain of its subsidiaries. The DRA became unconditional on 10 August 2000. Three schemes of arrangement involving KEL and its two subsidiaries, Kenworth Engineering Limited and Kenworth Group Limited, were set up under Section 166 of the Hong Kong Companies Ordinance (collectively referred to as the "Schemes"), according to the terms of the restructuring proposal.

Under the Schemes, for every HK\$10,000 of its Scheme debt, KEL issued convertible notes (the "Notes") in the principal amount of HK\$187.50 to the Scheme creditor on 30 August 2000. The Notes bore interest at a rate of 2% per annum and were convertible into new shares of KEL at a conversion price of HK\$0.10 per share (the "Conversion Price") at any time up to 1 September 2003, being the third anniversary of the date of the issue. The Conversion Price was subject to certain adjustments as defined in the Notes instrument.

Upon maturity of the convertible notes on 1 September 2003, KEL repaid the principal amount outstanding to the convertible note holders.

27. DEFERRED TAX

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

Deferred tax assets

Group	2004		
	Losses available for offset against future taxable profit HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2003			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,229	730	1,959
As restated	1,229	730	1,959
Deferred tax charged to the profit and loss account during the year (note 9)	(967)	(539)	(1,506)
Gross deferred tax assets at 31 March 2004	262	191	453



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

27. DEFERRED TAX (continued)

Deferred tax liabilities

Group	2004		Total HK\$'000
	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	
At 1 April 2003			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	351	730	1,081
As restated	351	730	1,081
Deferred tax charged/(credited) to the profit and loss account during the year (note 9)	(20)	376	356
Deferred tax credited to fixed asset revaluation reserve during the year	–	(507)	(507)
Gross deferred tax liabilities at 31 March 2004	<u>331</u>	<u>599</u>	<u>930</u>
Net deferred tax liabilities at 31 March 2004			<u>(477)</u>

Deferred tax assets

Group	2003		Total HK\$'000
	Losses available for offset against future taxable profit HK\$'000	Others HK\$'000	
At 1 April 2002			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,104	207	1,311
As restated	1,104	207	1,311
Deferred tax credited to the profit and loss account (note 9)	125	523	648
Gross deferred tax assets at 31 March 2003	<u>1,229</u>	<u>730</u>	<u>1,959</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

27. DEFERRED TAX (continued)

Deferred tax liabilities

Group	2003		Total HK\$'000
	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	
At 1 April 2002			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	377	2,977	3,354
As restated	377	2,977	3,354
Deferred tax charged/(credited) to the profit and loss account during the year (note 9)	(26)	41	15
Deferred tax credited to fixed asset revaluation reserve during the year	–	(2,288)	(2,288)
Gross deferred tax liabilities at 31 March 2003	<u>351</u>	<u>730</u>	<u>1,081</u>
Net deferred tax assets at 31 March 2003			<u>878</u>

The Group has tax losses arising in Hong Kong of HK\$89,298,000 (2003: HK\$87,721,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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 associates as the Group has no liability to additional tax should such amounts be remitted.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

27. DEFERRED TAX (continued)

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 deferred tax asset as at 31 March 2004 by HK\$453,000 and 2003 by HK\$1,959,000, and an increase in the Group's deferred tax liabilities as at 31 March 2004 by HK\$930,000 and 2003 by HK\$1,081,000. As a consequence, the Group's fixed asset revaluation reserve as at 31 March 2004 has been increased by HK\$507,000 and in 2003 decreased by HK\$672,000. The consolidated net profit attributable to shareholders for the year ended 31 March 2004 has been decreased by HK\$1,862,000 and in 2003 been increased by HK\$633,000, and the consolidated retained profits as at 1 April 2003 have been increased by HK\$1,550,000 and 2002 by HK\$917,000, as detailed in the Group's reserves.

Deferred tax assets

Company	2004 Losses available for offset against future taxable profit HK\$'000
At 1 April 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	1,229
As restated	1,229
Deferred tax charged to the profit and loss account during the year	(967)
At 31 March 2004	262
At 1 April 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	1,104
As restated	1,104
Deferred tax credited to the profit and loss account during the year	125
At 31 March 2003	1,229



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

28. SHARE CAPITAL

Shares

	2004	2003
	HK\$'000	HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:		
4,668,779,496 (2003: 4,791,612,750) ordinary shares of HK\$0.01 each	<u>46,688</u>	<u>47,916</u>

During the year, the movements in share capital were as follows:

- (i) The Company repurchased a total of 479,161,254 of its own shares on the Stock Exchange at a price of HK0.04 per share, for a total consideration, before expenses, of HK\$19,166,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$4,791,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium account (note 30).
- (ii) 256,000,000 share options were exercised at the subscription price of approximately HK\$0.02946 per share resulting in the issue of 256,000,000 shares, for a total cash consideration, before expenses, of HK\$7,541,000.
- (iii) 100,328,000 shares were issued for cash at a subscription price of HK\$0.033 per share, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$3,311,000.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

28. SHARE CAPITAL (continued)

Shares (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2002 and 2003	4,791,612,750	47,916	104,015	151,931
Arising on repurchase of shares (i)	(479,161,254)	(4,791)	(14,375)	(19,166)
Arising on exercise of share options (ii)	256,000,000	2,560	4,981	7,541
Arising on exercise of warrants (iii)	100,328,000	1,003	2,308	3,311
	<u>(122,833,254)</u>	<u>(1,228)</u>	<u>(7,086)</u>	<u>(8,314)</u>
Share repurchase expenses	–	–	(1,281)	(1,281)
At 31 March 2004	<u>4,668,779,496</u>	<u>46,688</u>	<u>95,648</u>	<u>142,336</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

28. SHARE CAPITAL (continued)

Shares (continued)

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares of HK\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
November 2003	<u>479,161,254</u>	<u>0.04</u>	<u>0.04</u>	<u>20,447</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital was decreased by the nominal value of these shares. The premium paid on repurchase was charged against the share premium account.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

Warrants

Pursuant to an ordinary resolution passed on 14 August 2002, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 13 August 2002, resulting in 958,323,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 each at a subscription price of HK\$0.033 per share, payable in cash and subject to adjustment, from the date of issue to 14 August 2004, both dates inclusive.

During the year, 100,328,000 warrants were exercised resulting in the issue of 100,328,000 shares of HK\$0.01 each at a price of HK\$0.033 per share. At the balance sheet date, the Company had 857,995,000 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 857,995,000 additional shares of HK\$0.01 each with gross issue proceeds of approximately HK\$28,314,000.



31 March 2004

29. SHARE OPTION SCHEME

The particulars in relation to each share option scheme of the Company or any of its subsidiaries that are required under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34 are disclosed below:

(a) Share option schemes of the Company

On 14 August 2002, the share option scheme of the Company adopted on 21 May 1997 ceased to operate and a new share option scheme (the "Deson Scheme") was adopted on the same date to comply with the requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect.

The Company operates the Deson Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Deson Scheme include the Company's directors, including independent non-executive directors, the Company's shareholders and other employees of the Group. The Deson Scheme became effective on 14 August 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 Deson Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Deson 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 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Deson Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

29. SHARE OPTION SCHEME (continued)

(a) Share option schemes of the Company (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

At 31 March 2004, no share options were outstanding under the Deson Scheme and none of Deson's directors or Deson Group's employees were granted share options during the year.

At 31 March 2004, no share options were outstanding under the Deson Scheme and none of Deson's directors or Deson Group's employees were granted share options during the year.

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares ***	
	At 1 April 2003	Exercise during the year	Lapsed during the year	At 31 March 2004				At grant date of options HK\$	At exercise date of options HK\$
Wang Ke Duan	2,000,000	-	(2,000,000)	-	23 Oct 00	23 April 01 to 22 April 03	0.0384	0.054	-
	3,000,000	(3,000,000)	-	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
	5,000,000	(3,000,000)	(2,000,000)	-					
Tjia Boen Sien	26,000,000	(26,000,000)	-	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
	35,000,000	(35,000,000)	-	-	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864	0.038	0.045
	61,000,000	(61,000,000)	-	-					
Wang Jing Ning	3,000,000	-	(3,000,000)	-	23 Oct 00	23 April 01 to 22 April 03	0.0384	0.054	-
	5,000,000	(5,000,000)	-	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
	8,000,000	(5,000,000)	(3,000,000)	-					
Keung Kwok Cheng	5,000,000	(5,000,000)	-	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
Kong Kwok Fai	5,000,000	-	(5,000,000)	-	23 Oct 00	23 April 01 to 22 April 03	0.0384	0.054	-
	4,000,000	(4,000,000)	-	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
	9,000,000	(4,000,000)	(5,000,000)	-					
Sub-total	88,000,000	(78,000,000)	(10,000,000)	-					



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

29. SHARE OPTION SCHEME (continued)

(a) Share option schemes of the Company (continued)

Name or category of participant	At 1 April 2003	Exercise during the year	Lapsed during the year	At 31 March 2004	Date of grant of share options*	Exercise period of share options	Exercise price	Price of Company's shares ***	
							of share options**	At grant date of options	At exercise date of options
							HK\$	HK\$	HK\$
Other employees									
In aggregate	11,500,000	-	(11,500,000)	-	23 Oct 00	23 April 01 to 22 April 03	0.0384	0.054	-
	3,000,000	-	(3,000,000)	-	3 Nov 00	3 May 01 to 2 May 03	0.04032	0.052	-
	67,000,000	(48,000,000)	(19,000,000)	-	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088	0.039	0.045
	35,000,000	(35,000,000)	-	-	22 Aug 01	22 Feb 02 to 21 Feb 04	0.02880	0.035	0.045
	95,000,000	(95,000,000)	-	-	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864	0.038	0.047
	<u>211,500,000</u>	<u>(178,000,000)</u>	<u>(33,500,000)</u>	<u>-</u>					
	<u>299,500,000</u>	<u>(256,000,000)</u>	<u>(43,500,000)</u>	<u>-</u>					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's share disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

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



31 March 2004

29. SHARE OPTION SCHEME *(continued)*

(b) Share option scheme of KEL

KEL operates a share option scheme (the "KEL Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the KEL Group's operations. Eligible participants of the KEL Scheme include full-time employees (including executive directors), of KEL. The KEL Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the KEL Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the KEL Scheme is limited to 25% of the aggregate number of KEL's shares for the time being issued and are issuable under the KEL Scheme.

The offer of a grant of share options may be accepted within 30 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 commences after a certain vesting period and ends on a date which is not later than three years from the date of the offer of the share options or the expiry date of the KEL Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion and will be the higher of a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the offer date, and the nominal value of the shares of KEL.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In accordance with the revised rules, it is possible for KEL to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17.

At 31 March 2004, no share options were outstanding under the KEL Scheme and none of KEL's directors or KEL Group's employees were granted share options during the year.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

30. RESERVES

(a) Group

	Share premium account	Contributed surplus	Fixed asset revaluation reserve	Capital reserve	Capital redemption reserve	Exchange fluctuation reserve	Reserve funds	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002:									
As previously reported	104,015	15,262	22,792	5,753	786	173	-	74,556	223,337
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	27	-	(2,960)	-	-	-	-	917	(2,043)
As restated	104,015	15,262	19,832	5,753	786	173	-	75,473	221,294
Release upon disposal of subsidiaries	-	-	-	-	-	(206)	-	-	(206)
Deficit on revaluation of land and buildings	-	-	(15,052)	-	-	-	-	-	(15,052)
Provision for deferred tax liabilities credited to revaluation reserve (as restated)	-	-	2,288	-	-	-	-	-	2,288
Net profit for the year (as restated)	-	-	-	-	-	-	-	8,560	8,560
At 31 March 2003	104,015	15,262	7,068	5,753	786	(33)	-	84,033	216,884



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

30. RESERVES (continued)

(a) Group (continued)

	Share premium account	Contributed surplus	Fixed asset revaluation reserve	Capital reserve	Capital redemption reserve	Exchange fluctuation reserve	Reserve funds	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003:									
As previously reported	104,015	15,262	7,740	5,753	786	(33)	-	82,483	216,006
Prior year adjustment:									
SSAP 12 – restatement of deferred tax	27	-	(672)	-	-	-	-	1,550	878
As restated	104,015	15,262	7,068	5,753	786	(33)	-	84,033	216,884
Repurchase of shares	(14,375)	-	-	-	4,791	-	-	(4,791)	(14,375)
Share repurchase expenses	(1,281)	-	-	-	-	-	-	-	(1,281)
Arising on exercise of share options	4,981	-	-	-	-	-	-	-	4,981
Arising on exercise of warrants	2,308	-	-	-	-	-	-	-	2,308
Exchange realignment	-	-	-	-	-	36	-	-	36
Release upon disposal of subsidiaries	-	-	-	(1,494)	-	908	-	-	(586)
Surplus on revaluation of land and buildings	-	-	209	-	-	-	-	-	209
Provision for deferred tax liabilities credited to revaluation reserve	-	-	507	-	-	-	-	-	507
Net profit for the year	-	-	-	-	-	-	-	23,394	23,394
Transfer to reserve funds	-	-	-	-	-	-	3,260	(3,260)	-
At 31 March 2004	<u>95,648</u>	<u>15,262</u>	<u>7,784</u>	<u>4,259</u>	<u>5,577</u>	<u>911</u>	<u>3,260</u>	<u>99,376</u>	<u>232,077</u>
Reserves retained by:									
Company and subsidiaries	95,648	15,262	7,784	4,259	5,577	1,882	3,260	86,029	219,701
A jointly-controlled entity	-	-	-	-	-	-	-	(25)	(25)
Associates	-	-	-	-	-	(971)	-	13,372	12,401
31 March 2004	<u>95,648</u>	<u>15,262</u>	<u>7,784</u>	<u>4,259</u>	<u>5,577</u>	<u>911</u>	<u>3,260</u>	<u>99,376</u>	<u>232,077</u>
Company and subsidiaries (restated)	104,015	15,262	7,068	5,753	786	938	-	68,451	202,273
Associates	-	-	-	-	-	(971)	-	15,582	14,611
31 March 2003	<u>104,015</u>	<u>15,262</u>	<u>7,068</u>	<u>5,753</u>	<u>786</u>	<u>(33)</u>	<u>-</u>	<u>84,033</u>	<u>216,884</u>



31 March 2004

30. RESERVES *(continued)*

(a) Group *(continued)*

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, prior to 1 April 2002, are HK\$13,380,000 and HK\$8,082,000, respectively, as at 31 March 2003 and 31 March 2004. The amount of goodwill is stated at its cost of HK\$80,921,000, less impairment of HK\$67,541,000.

The contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor, pursuant to the Group reorganisation on 21 May 1997.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

30. RESERVES (continued)

(b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002:					
As previously reported	104,015	155,531	786	477	260,809
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	–	–	–	1,104	1,104
As restated	104,015	155,531	786	1,581	261,913
Net loss for the year (as restated)	–	–	–	–	–
At 31 March 2003	<u>104,015</u>	<u>155,531</u>	<u>786</u>	<u>1,581</u>	<u>261,913</u>
At 1 April 2003:					
As previously reported	104,015	155,531	786	352	260,684
Prior year adjustment:					
SSAP 12 – restatement of deferred tax	–	–	–	1,229	1,229
As restated	104,015	155,531	786	1,581	261,913
Repurchase of shares	(14,375)	–	4,791	(4,791)	(14,375)
Share repurchase expenses	(1,281)	–	–	–	(1,281)
Arising on exercise of share options	4,981	–	–	–	4,981
Arising on exercise of warrants	2,308	–	–	–	2,308
Net profit for the year	–	–	–	4,229	4,229
At 31 March 2004	<u>95,648</u>	<u>155,531</u>	<u>5,577</u>	<u>1,019</u>	<u>257,775</u>

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation on 21 May 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a distribution may be made out of the contributed surplus provided that the Company will be able to pay its liabilities as they fall due and subsequent to the distribution, the aggregate amount of its total liabilities, as well as its issued share capital and share premium, is less than the realisable value of its assets.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	2004 HK\$'000	2003 HK\$'000
Net assets acquired:			
Interests in associates		(62)	–
Fixed assets	12	9,249	140
Inventories		5,572	632
Accounts receivable		10,971	678
Prepayments, deposits and other receivables		2,891	34
Prepaid tax		–	84
Cash and cash equivalents		1,274	149
Accounts payable		(4,858)	(242)
Other payables and accruals		(10,888)	(991)
Interest-bearing bank and other borrowings		(14,517)	(713)
Tax payable		(61)	–
Minority interests		(380)	–
		<u>(809)</u>	<u>(229)</u>
Goodwill on acquisition	13	9,116	229
		<u>8,307</u>	<u>–</u>
Satisfied by:			
Cash		1,000	–
Reclassified to interests in subsidiaries from interests in associates		7,307	–
		<u>8,307</u>	<u>–</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of subsidiaries *(continued)*

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

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	(1,000)	–
Cash and cash equivalents acquired	1,274	149
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>274</u>	<u>149</u>

On 31 March 2004, the Group has acquired an additional 9% equity interest in Fitness Concept Limited ("FCL"), which became a subsidiary from that date. FCL is engaged in the distribution of fitness equipment and the operation and management of fitness centers. The purchase consideration of HK\$1,000,000 which was paid at the acquisition date by cash.

Except for the share of loss after tax of the associate of HK\$6,482,000 during the year, the subsidiaries acquired at year end date made no contribution to the Group's turnover or consolidated profit after tax and before minority interests for the year ended 31 March 2004.

The subsidiary acquired in the prior year contributed HK\$5,930,000 to the Group's turnover and HK\$754,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2003.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal/struck off of subsidiaries

		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of/struck off:			
Other receivables		69	14
Cash and bank balances		–	3,473
Gross amount due to contract customers		–	(4,515)
Other payables and accruals		(18)	(1,722)
Tax payable		–	(22)
Minority interests		–	(937)
		<u>51</u>	<u>(3,709)</u>
Gain on disposal/struck off of subsidiaries	5	535	1,780
Release of exchange fluctuation reserve		908	(206)
Release of capital reserves		(1,494)	–
Reclassified as interests in associates		–	2,135
		<u>–</u>	<u>–</u>
Satisfied by:			
Cash		<u>–</u>	<u>–</u>

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	–	–
Cash and bank balances disposed of	–	(3,473)
	<u>–</u>	<u>–</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>–</u>	<u>(3,473)</u>

The subsidiaries disposed of/struck off during the year made no significant contribution to the Group's turnover or consolidated profit after tax and before minority interests for the year ended 31 March 2004.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees of banking facilities granted to:				
Subsidiaries	–	–	222,090	219,100
Associates	–	31,300	–	17,300
	<u>–</u>	<u>31,300</u>	<u>222,090</u>	<u>236,400</u>
Guarantee of repayment of other loan granted to a subsidiary	–	–	–	36,945
Financial assistance to subsidiaries	–	–	50,000	50,000
	<u>–</u>	<u>31,300</u>	<u>272,090</u>	<u>323,345</u>

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of HK\$35,668,000 (2003: HK\$71,359,000) were utilised by the subsidiaries as at 31 March 2004.



31 March 2004

32. CONTINGENT LIABILITIES *(continued)*

- (b) In October 2000, Kenworth Engineering Limited ("Kenworth"), a 74.8% owned subsidiary of the Group as at 31 March 2004, received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of the Schemes and the process commenced in August 2002 upon the appointment of the arbitrator. As at the date of these financial statements, a security deposit of HK\$5 million has been paid by the KEL Group to the arbitrator and both Kenworth and the main contractor are in the process of submitting information to the arbitrator for assessment. The Scheme Administrator is required to await the arbitrator's decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. The Scheme Administrator is in the process of examining the grounds for claim and the outcome of the assessment cannot be determined at this stage.

Pursuant to an agreement dated 18 October 2000 entered into between Kenworth and KEL, KEL agreed to discharge the liabilities of Kenworth under the Schemes by the allotment of certain redeemable cumulative preference shares by Kenworth.



31 March 2004

32. CONTINGENT LIABILITIES *(continued)*

In the prior year, the KEL Group appointed an independent chartered surveyor to estimate its potential exposure under the above two claims. According to the report of the surveyor, the maximum exposure of the above claims amounted to HK\$70 million. The directors consider that the KEL Group has valid defences against the claim and based on existing evidence believe that it is not probable that any material loss will be suffered by the KEL Group. In addition, as the arbitration proceedings are in a preliminary stage, it is not currently possible to estimate the eventual outcome of the claims but the directors currently consider that no provision needs to be made in the financial statements.

Pursuant to the DRA, the Company has undertaken to procure that the KEL Group be granted credit facilities of up to HK\$50 million. In addition to this credit facility amount, to the extent that any contingent liabilities of KEL, Kenworth and Kenworth Group Limited, a wholly-owned subsidiary of KEL, to be settled under the Schemes, are not met by the available cash of the KEL Group, the Company will procure that sufficient cash be made available to KEL Group to meet such contingent liabilities. As at 31 March 2004, no such facilities have been utilised by the KEL Group (2003: Nil).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its fixed assets (note 12) and certain of its completed properties held for sale (note 18) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2004	2003
	HK\$'000	HK\$'000
Within one year	1,565	2,439
In the second to fifth years, inclusive	1,150	1,641
	<u>2,715</u>	<u>4,080</u>

(b) As lessee

Certain office properties leased by the Group are under operating lease arrangements, with leases negotiated for terms ranging from one to ten years.

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

	2004	2003
	HK\$'000	HK\$'000
Within one year	7,924	875
In the second to fifth years, inclusive	18,068	2,976
After five years	18,148	340
	<u>44,140</u>	<u>4,191</u>

The Company had no operating lease arrangements as at 31 March 2004 (2003: Nil).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

34. COMMITMENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Capital commitments contracted for	—	1,413

The Company had no material commitments as at 31 March 2004 (2003: Nil).

35. POST BALANCE SHEET EVENTS

1. On 18 February 2004, the KEL Group entered into conditional agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua Resource Investment Limited ("Xin Hua") and its related shareholders' loans (collectively referred to as the "Xin Hua Acquisition") for HK\$29,500,000. The consideration for the Xin Hua Acquisition was satisfied by way of issuing 295,000,000 shares of KEL at HK\$0.10 each.

The Xin Hua Acquisition constituted a discloseable transaction for the Group under the Listing Rules. The Xin Hua Acquisition was completed on 30 April 2004.

2. On 18 February 2004, KEL entered into a conditional placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each. The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the placing agreement, KEL granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

The issuance of the placing shares and the option shares constituted a major transaction for the Group under the Listing Rules and was approved by Sparta Assets Limited, the controlling shareholder of the Company, Mr. Tjia Boen Sien, and Mr. Wang Jing Ning who together hold approximately 50.08% in the shares of the Company. On 30 April 2004, 400,000,000 shares of KEL were issued at HK\$0.10 each to the placees resulting in a cash inflow of HK\$40,000,000 before expenses.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

35. POST BALANCE SHEET EVENTS *(continued)*

- On 18 February 2004, the Company entered into a conditional agreement with KEL to disposal of the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan (collectively referred to as the "Penmark Disposal") at a consideration of HK\$7,500,000. The consideration was satisfied by issuing 75,000,000 shares of KEL at HK\$0.10 each. KEL also granted to the Company an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

As the Company is a controlling shareholder of KEL having a shareholding interest of approximately 74.8% in KEL, the Penmark Disposal constituted a connected transaction for the Company under the Listing Rules. The transaction was approved by the shareholders of the Company at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

- On 18 February 2004, the Company entered into a conditional agreement with KEL to acquire the entire issued share capital of Kenworth Group Limited and its shareholder's loan (the "Kenworth Acquisition") for HK\$7,000,000. The consideration was paid by the Company in cash.

The Kenworth Acquisition has been aggregated with the Subscription (as defined in (5) below) and as a result, the Subscription and the Kenworth Acquisition constituted disclosable transactions for the Group under the Listing Rules. As the Group is a controlling shareholder of KEL having a shareholding interest of 74.8% in KEL, the Subscription and the Kenworth Acquisition also constituted connected transactions for the Group under the Listing Rules. The transactions were approved by the Company's shareholders at a special general meeting on 16 April 2004 and were completed on 30 April 2004.

- On 18 February 2004, Super Win Development Limited ("Super Win"), a subsidiary of the Company, entered into a conditional subscription agreement with KEL. KEL would issue 325,000,000 new shares (the "Subscription Shares") to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000 (the "Subscription"). Pursuant to the subscription agreement, Super Win would be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

35. POST BALANCE SHEET EVENTS (continued)

The Subscription was aggregated with the Kenworth Acquisition and as a result, the Subscription and the Kenworth Acquisition constituted discloseable transactions for the Group under the Listing Rules. As the Group is a controlling shareholder of KEL having a shareholding interest of 74.8% in KEL, the Subscription and the Kenworth Acquisition also constituted connected transactions for the Group under the Listing Rules. The Subscription and the Kenworth Acquisition were approved by the shareholders of the Company at a special general meeting on 16 April 2004. The transactions were completed on 30 April 2004.

36. RELATED PARTY TRANSACTIONS

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

		Group	
		2004	2003
	Notes	HK\$'000	HK\$'000
Management fees paid to an associate	(1)	121	140
Management fees received from associates	(1)	1,125	779
Interest incomes from an associate	(2)	416	117
Rental income from an associate	(3)	546	546
Purchases of goods from an associate	(4)	280	454
Renovation service provided to an associate	(5)	333	529

Notes:

- (1) The management fees were charged by reference to costs incurred for services provided by or to the Group.
- (2) The interest income relates to advances to the associate, details of which are set out in note 16 to the financial statements.
- (3) The rental income was calculated by reference to open market rentals.
- (4) The purchases from the associate were made according to the published prices and conditions offered by the associate to its major customers.
- (5) The service fees were charged pursuant to the terms and conditions of the renovation service agreements with reference to the prevailing market conditions at the time of the parties entering into the agreement.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 "Income taxes" 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 comparative amounts have been restated to conform with the current year's presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 July 2004.