

# Notes to the Financial Statements

For the year ended 31st March, 2005

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Lucky Year Finance Limited (“Lucky Year”), an international business company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal operating subsidiaries, associates and jointly-controlled entities are set out in notes 18, 19 and 20, respectively.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 “Business Combinations”. HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Hence HKFRS 3 has no impact to the Group from 1st January, 2005 to 31st March, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005 except for the Hong Kong Interpretation 3 “Revenue – Pre-completion contracts for the Sale of Development Properties”. The early adoption of the interpretation has no impact on the Group’s financial performance for the year ended 31st March, 2004 as there was no revenue arising from pre-completion contracts for the sale of any development properties entered into during the year ended 31st March, 2004.

The Group is in the process of making an assessment of the impact of other new HKFRSs.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, associate or jointly-controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on the acquisition of an associate or a jointly-controlled entity is included within the carrying amount of the associate or jointly-controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet. Any impairment of goodwill will be recognised as an expense in the consolidated income statement immediately.

On disposal of a subsidiary, associate or jointly-controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition over the cost of acquisition.

## Notes to the Financial Statements *(Continued)*

For the year ended 31st March, 2005

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Negative goodwill** *(Continued)*

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly-controlled entity.

Negative goodwill arising on acquisition after 1st April, 2001, is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired depreciation assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly-controlled entity is deducted from the carrying value of that associate or jointly-controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses.

#### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

#### **Joint ventures**

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities.

The Group's interests in jointly-controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly-controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly-controlled entities is included in the consolidated income statement.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than leasehold improvements, over their estimated useful lives and after taking into account their estimate residual value, using the straight line method, at the following rates:

Leasehold land	5% or over the unexpired terms of the leases
Buildings	2% to 5%
Plant and machinery	10% to 30%
Motor vehicles	20% to 30%
Furniture, fixtures and equipment	20% to 33 <sup>1</sup> / <sub>3</sub> %

Depreciation on leasehold improvements is calculated to write off the cost of the leasehold improvements over their expected useful lives or the unexpired duration of the leases, whichever is the shorter.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Properties under development

Properties under development are stated at cost less accumulated impairment losses, if any, and include the cost of land, construction, financing and other related expenses, less any impairment losses.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

## Notes to the Financial Statements *(Continued)*

For the year ended 31st March, 2005

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investment properties** *(Continued)*

Investment properties are stated at their open market value based on annual professional valuation at the balance sheet date. Any revaluation increase and decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired terms of the relevant lease is 20 years or less.

#### **Properties held for sale**

Properties held for sale, consisting of completed properties and properties under development in respect of which the Group has established pre-sale programmes, are classified under current assets and 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 management estimates based on prevailing market conditions, on an individual property basis.

#### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investments in securities** *(Continued)*

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### **Construction contracts**

When the outcome of a construction contract can be estimated reliably, contract revenue and costs associated with the construction contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, or when each asset has been separately negotiated, or when the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

## Notes to the Financial Statements *(Continued)*

For the year ended 31st March, 2005

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment** *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Assets held under finance leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charged on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

#### **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:

- (i) sales of goods are recognised when goods are delivered and title has passed;
- (ii) revenue on construction contracts is recognised using the percentage of completion method by reference to the value of the construction work performed;
- (iii) rental income from property letting under operating leases is recognised on a straight-line basis over the term of the relevant lease;
- (iv) income from the sale of properties, 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 properties sold;

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Revenue recognition *(Continued)*

- (v) property management income, in the period in which services are rendered;
- (vi) interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rates applicable; and
- (vii) dividend income is recognised when the Group's rights to receive payments have been established.

#### Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, namely assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable and deductible.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



## Notes to the Financial Statements *(Continued)*

For the year ended 31st March, 2005

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation** *(Continued)*

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

#### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such exchange differences are recognised as income or as expenses in the period on which the operation is disposed of.

#### **Retirement benefit scheme contributions**

The retirement benefit scheme contributions charged to the income statement represent the amount of contributions payable by the Group under defined contribution retirement benefit scheme and defined contribution mandatory provident fund scheme.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 4. TURNOVER

Turnover for the year comprises:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Building construction and foundation piling	561,022	732,414
Sales of consumer goods and provision of maintenance services	680,693	632,989
Sales of properties	99,827	263,167
Rental income	70,061	50,197
Others	6,324	6,322
	<u>1,417,927</u>	<u>1,685,089</u>

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (i) Business segments

For management purposes, the Group is currently organised into five operating divisions including construction activities, garment activities, property development activities, property investment activities and others. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- (a) Construction activities : Building construction and foundation piling
- (b) Garment activities : Garment manufacture and trading
- (c) Property development activities : Properties for sale development
- (d) Property investment activities : Property investment
- (e) Others : Investment holding and provision of management services

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### (i) Business segments (Continued)

Segment information about these businesses is presented below:

#### Income statement

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>561,022</u>	<u>732,414</u>	<u>680,693</u>	<u>632,989</u>	<u>99,827</u>	<u>263,167</u>	<u>70,061</u>	<u>50,197</u>	<u>6,324</u>	<u>6,322</u>	<u>1,417,927</u>	<u>1,685,089</u>
Segment results	<u>(10,904)</u>	<u>29,833</u>	<u>(3,314)</u>	<u>(95,868)</u>	<u>(20,697)</u>	<u>(57,102)</u>	<u>33,721</u>	<u>212,870</u>	<u>5,346</u>	<u>1,600</u>	<u>4,152</u>	<u>91,333</u>
Net income from investments											<u>2,886</u>	<u>6,061</u>
Unallocated corporate expenses											<u>(1,430)</u>	<u>(1,420)</u>
Profit from operations											<u>5,608</u>	<u>95,974</u>
Finance costs											<u>(32,258)</u>	<u>(34,168)</u>
Gain on disposals of subsidiaries											<u>233,662</u>	<u>1,394</u>
Loss on deemed disposal of partial interests in a subsidiary												<u>(56,242)</u>
Write off of goodwill arising from acquisition of a subsidiary											<u>(2,463)</u>	<u>-</u>
Release of negative goodwill of subsidiaries											<u>59,507</u>	<u>58,511</u>
Share of results of associates	-	-	1	(2,077)	-	-	-	-	4,871	(7,242)	<u>4,872</u>	<u>(9,319)</u>
Share of results of jointly-controlled entities	-	-	5,614	4,434	4,267	86,260	-	-	-	-	<u>9,881</u>	<u>90,694</u>
Write off of debts due from jointly-controlled entities	-	-	-	-	(3,873)	(84,488)	-	-	-	-	<u>(3,873)</u>	<u>(84,488)</u>
Profit before taxation											<u>274,936</u>	<u>62,356</u>
Taxation credit/(charge)											<u>7</u>	<u>(4,126)</u>
Profit before minority interests											<u>274,943</u>	<u>58,230</u>
Minority interests											<u>(95,680)</u>	<u>(44,274)</u>
Net profit for the year											<u>179,263</u>	<u>13,956</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### (i) Business segments (Continued)

##### Balance sheet

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>														
Segment assets	402,283	480,118	345,490	366,666	2,183,162	1,448,632	1,343,201	1,272,728	2,534,471	2,580,218	(2,514,766)	(2,751,689)	4,293,841	3,396,673
Interests in associates	-	-	611	611	14,857	14,857	-	-	44,356	40,214	-	-	59,824	55,682
Interests in jointly-controlled entities	-	-	15,954	2,679	36,371	3,697	-	-	-	-	-	-	52,325	6,376
Unallocated corporate assets													46,824	475,863
Consolidated total assets													4,452,814	3,934,594
<b>LIABILITIES</b>														
Segment liabilities	307,035	355,980	111,401	77,617	1,448,630	1,517,971	1,066,924	965,031	212,713	274,761	(2,514,766)	(2,751,689)	631,937	439,671
Unallocated corporate liabilities													1,800,933	1,930,057
Consolidated total liabilities													2,432,870	2,369,728
<b>OTHER INFORMATION</b>														
Additions to property, plant and equipment														
- The Group	20,164	14,239	9,639	2,836	31	1,120	-	410	510	336	-	-	30,344	18,941
- Acquired on acquisitions of subsidiaries	-	-	182	-	-	3,186	-	102	-	1,008	-	-	182	4,296
Depreciation and amortisation of property, plant and equipment	37,964	39,505	7,629	8,196	630	509	115	54	331	645	-	-	46,669	48,909

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### (ii) Geographical segments

The following table provides an analysis of the Group's turnover by geographical market:

	Turnover	
	2005 HK\$'000	2004 HK\$'000
Hong Kong	716,114	1,014,237
North America	419,273	409,808
Europe	250,322	240,217
Others	32,218	20,827
	<u>1,417,927</u>	<u>1,685,089</u>

The following is an analysis of the carrying amount of the segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	2,057,036	2,355,665	21,309	16,585
The People's Republic of China (other than Hong Kong) (the "PRC")	1,694,693	980,307	1,334	1,305
The Republic of Indonesia	145,883	156,252	7,701	1,051
Others	543,362	435,161	-	-
	<u>4,440,974</u>	<u>3,927,385</u>	<u>30,344</u>	<u>18,941</u>
Unallocated assets	11,840	7,209	-	-
	<u>4,452,814</u>	<u>3,934,594</u>	<u>30,344</u>	<u>18,941</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 6. PROFIT FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Owned assets	46,173	47,656
Assets held under finance leases	496	1,253
	<u>46,669</u>	<u>48,909</u>
Less: Amount capitalised in contract costs	(4,488)	(3,879)
	<u>42,181</u>	<u>45,030</u>
Staff costs (including directors' emoluments)	199,536	206,980
Less: Amount capitalised in contract costs	(65,957)	(70,771)
	<u>133,579</u>	<u>136,209</u>
Auditors' remuneration	2,814	2,565
Loss on disposals of property, plant and equipment	466	-
Minimum lease payment paid in respect of land and buildings	3,406	3,601
Unrealised loss on investments in securities	127	-
and after crediting:		
Dividend income from unlisted investments in securities	-	361
Interest income from investments in securities	-	1,227
Bank interest income	2,787	2,490
Other interest income	45	1,451
Exchange gain	6,874	3,964
Gain on disposals of property, plant and equipment	-	1,798
Gain on disposals of permanent textile quota entitlements	352	71
Write off of negative goodwill arising from acquisitions of subsidiaries (included in other operating income)	-	820
Gross rental income (included in turnover and other operating income)	74,403	51,045
Less: Outgoing expenses	(22,667)	(21,386)
	<u>51,736</u>	<u>29,659</u>
Unrealised gain on investments in securities	<u>-</u>	<u>123</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	(53,500)	(47,158)
Bank borrowings wholly repayable after five years	(1,094)	(1,820)
Other borrowings wholly repayable within five years	(2,202)	(97)
Finance leases	(86)	(117)
	<hr/>	<hr/>
Total borrowing costs	(56,882)	(49,192)
Less: Amount capitalised under property development projects	(24,624)	(15,024)
	<hr/>	<hr/>
	<b>(32,258)</b>	<b>(34,168)</b>

### 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (i) Information regarding directors' emoluments

	2005 HK\$'000	2004 HK\$'000
The emoluments paid to directors of the Company during the year are as follows:		
Directors' fees paid to independent non-executive directors	138	50
Emoluments paid to executive directors		
– Salaries	4,710	4,828
– Bonuses paid and payable	2,495	2,000
– Retirement benefit scheme contributions	–	118
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	<b>7,343</b>	<b>6,996</b>

The emoluments of directors fall within the following bands:

	Number of directors	
	2005	2004
Nil	1	5
HK\$1 to HK\$1,000,000	4	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	–
	<hr/>	<hr/>
	<b>7</b>	<b>9</b>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

#### (ii) Information regarding employees' emoluments

The five highest paid individuals of the Group in the year include two directors (2004: two directors). The emoluments of the remaining three highest paid individuals, who are not directors, are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries	3,445	2,321
Bonuses paid and payable	1,908	3,760
Retirement benefit scheme contributions	229	141
	<u>5,582</u>	<u>6,222</u>

The emoluments of these three individuals fall within the following bands:

	Number of employees	
	2005	2004
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	2
	<u>3</u>	<u>3</u>

### 9. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group operates defined contribution mandatory provident fund schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate. The MPF Schemes became effective on 1st December, 2000. Contributions made are based on a percentage, specific in the rule of relevant schemes, of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vested fully with the employees when contributed into the MPF Schemes except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Schemes.



## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 9. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS (Continued)

As an alternative, certain subsidiaries of the Company also operated defined contribution provident fund schemes (the “Provident Funds”) under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. Provident Funds operated in a similar way to the MPF Schemes, except that when an employee left the Provident Funds prior to his/her interest in the Group’s employer contributions being vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

	2005 <i>HK\$’000</i>	2004 <i>HK\$’000</i>
Contributions payable to the Group’s MPF Schemes	<u>4,949</u>	<u>5,244</u>
Contributions payable to the Group’s Provident Funds	731	1,068
Less: Forfeited contributions	<u>–</u>	<u>–</u>
	<u>731</u>	<u>1,068</u>
Contributions charged to the income statement	<u><u>5,680</u></u>	<u><u>6,312</u></u>

There are no forfeited contributions for both years.

### 10. LOSS ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN A SUBSIDIARY

In the prior year, loss on deemed disposal of partial interests in a subsidiary amounting to HK\$56,242,000 was as a result of the Company’s placement of 66,700,000 ordinary shares of Hon Kwok Land Investment Company, Limited (“Hon Kwok”) and conditional subscription of 66,700,000 of Hon Kwok’s new shares. The new shares ranked pari passu with the existing shares. The Company’s shareholding in Hon Kwok decreased from 69.39% to 57.83% accordingly.

Details of the transaction are set out in note 41(c).

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 11. SHARE OF RESULTS OF JOINTLY-CONTROLLED ENTITIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Share of operating profit	6,008	6,206
Waiver of debts	3,873	84,488
	<u>9,881</u>	<u>90,694</u>

During the year, a non-wholly owned subsidiary of the Company and its joint venture partner wrote off the debts which were non-recoverable from jointly-controlled entities. The corresponding debit of HK\$3,873,000 (2004: HK\$84,488,000) was recognised as write off of debts due from jointly-controlled entities whilst the corresponding credit of HK\$3,873,000 (2004: HK\$84,488,000) was recognised as share of results of jointly-controlled entities.

### 12. TAXATION CREDIT/(CHARGE)

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The credit/(charge) for the year comprises:		
Hong Kong Profits Tax		
Current year	(1,032)	(7,971)
(Under)/over provision in prior years	(3,261)	24
Other jurisdictions	(1,630)	(2,947)
	<u>(5,923)</u>	<u>(10,894)</u>
Deferred taxation credit (note 23)	7,326	7,657
	<u>1,403</u>	<u>(3,237)</u>
Share of taxation of associates	(1,170)	(853)
Share of taxation of jointly-controlled entities	(226)	(36)
	<u>7</u>	<u>(4,126)</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits of the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 12. TAXATION CREDIT/(CHARGE) (Continued)

The taxation credit/(charge) for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>274,936</u>	<u>62,356</u>
Tax charge at Hong Kong Profits Tax rate at 17.5% (2004: 17.5%) on assessable income for the year	(48,114)	(10,912)
Tax effect of share of results of associates	(317)	(2,484)
Tax effect of share of results of jointly-controlled entities	1,503	1,050
Tax effect of expenses not deductible for tax purpose	(9,677)	(26,031)
Tax effect of income not taxable for tax purpose	69,168	50,567
(Under)/over provision in prior years	(3,261)	24
Tax effect of deferred taxation assets not recognised	(16,522)	(9,616)
Utilisation of tax losses previously not recognised	(740)	(5,742)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,782	1,464
Others	<u>2,185</u>	<u>(2,446)</u>
Taxation credit/(charge) for the year	<u>7</u>	<u>(4,126)</u>

### 13. DIVIDEND

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of 3 cents (2004: 2 cents) per ordinary share	<u>16,541</u>	<u>11,027</u>

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of HK\$179,263,000 (2004: HK\$13,956,000) and on 551,368,153 (2004: 551,368,153) shares in issue during the year.

There has been no dilutive effect on the basic earnings per share for the current year as the exercise prices of outstanding share options of an associate of the Group were higher than the average market price of its shares.

No disclosure of diluted earnings per share for the prior year is presented as the exercise of the outstanding share options of an associate of the Group would only serve to increase the earnings per share from the continuing ordinary activities.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings		Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	Hong Kong	Overseas					
	HK\$'000	HK\$'000					
<b>THE GROUP</b>							
<b>COST</b>							
At 1st April, 2004	80,997	69,920	12,781	417,507	9,598	33,508	624,311
Currency realignment	-	49	5	5	1	2	62
Acquisition of a subsidiary	-	-	-	98	56	28	182
Additions	-	3,665	373	22,161	2,765	1,380	30,344
Disposals	-	(1,547)	(17)	(1,235)	(2,468)	(3,120)	(8,387)
<b>At 31st March, 2005</b>	<b>80,997</b>	<b>72,087</b>	<b>13,142</b>	<b>438,536</b>	<b>9,952</b>	<b>31,798</b>	<b>646,512</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st April, 2004	13,409	20,465	11,873	247,473	7,693	26,624	327,537
Currency realignment	-	9	4	4	1	1	19
Provided for the year	1,642	1,908	361	39,117	967	2,674	46,669
Eliminated on disposals	-	(390)	(7)	(404)	(2,175)	(2,922)	(5,898)
<b>At 31st March, 2005</b>	<b>15,051</b>	<b>21,992</b>	<b>12,231</b>	<b>286,190</b>	<b>6,486</b>	<b>26,377</b>	<b>368,327</b>
<b>NET BOOK VALUES</b>							
<b>At 31st March, 2005</b>	<b>65,946</b>	<b>50,095</b>	<b>911</b>	<b>152,346</b>	<b>3,466</b>	<b>5,421</b>	<b>278,185</b>
At 31st March, 2004	67,588	49,455	908	170,034	1,905	6,884	296,774

Details of the leasehold land and buildings are as follows:

	2005 HK\$'000	2004 HK\$'000
Medium-term leases:		
Hong Kong	65,946	67,588
Overseas	48,181	47,427
Long leases in the PRC	1,914	2,028
	<b>116,041</b>	<b>117,043</b>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in the net book value of property, plant and equipment of the Group at 31st March, 2005 is an amount of HK\$12,542,000 (2004: HK\$9,568,000) in respect of assets held under finance leases.

	Furniture, fixtures and equipment HK\$'000
<b>THE COMPANY</b>	
COST	
At 1st April, 2004 and 31st March, 2005	72
DEPRECIATION	
At 1st April, 2004	70
Provided for the year	1
<b>At 31st March, 2005</b>	<b>71</b>
NET BOOK VALUES	
<b>At 31st March, 2005</b>	<b>1</b>
At 31st March, 2004	2

### 16. PROPERTIES UNDER DEVELOPMENT

	<b>THE GROUP</b>	
	2005 HK\$'000	2004 HK\$'000
At the beginning of the year	488,773	–
Arising on acquisitions of subsidiaries	–	346,976
Currency realignment	3,031	6,974
Additions	459,184	157,205
Disposals	(37,687)	(28,796)
Eliminated on disposals of subsidiaries	(330,715)	(1,192)
Eliminated on deemed disposal of subsidiaries	–	(1,739)
Write back of allowance for properties under development	–	9,345
At the end of the year	<b>582,586</b>	<b>488,773</b>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 16. PROPERTIES UNDER DEVELOPMENT (Continued)

Details of the properties under development are as follows:

	2005 HK\$'000	2004 HK\$'000
Medium-term leases in Hong Kong	3,582	327,506
Long leases in the PRC	579,004	127,255
Freehold property in Canada	–	34,012
	<u>582,586</u>	<u>488,773</u>

Properties under development included interest expenses and other borrowing costs of HK\$1,827,000 (2004: HK\$1,703,000) incurred and capitalised during the year.

### 17. INVESTMENT PROPERTIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
AT VALUATION		
At the beginning of the year	1,267,575	1,500
Arising on acquisitions of subsidiaries	–	1,068,875
Additions	3,212	5,498
Surplus arising from revaluation	58,613	191,702
	<u>1,329,400</u>	<u>1,267,575</u>
At the end of the year	<u>1,329,400</u>	<u>1,267,575</u>

The Group's investment properties at 31st March, 2005 were revalued on an open market value basis by Chesterton Petty Limited and Knight Frank, firms of international property consultants, as well as Henry Butcher Malaysia Sdn. Bhd., chartered surveyors. The revaluation resulted in a surplus of approximately HK\$58,613,000 (2004: HK\$191,702,000). HK\$34,130,000 (2004: HK\$4,459,000) (net of amount shared by minority interests and deferred taxation) has been credited to investment property revaluation reserve. In the prior year, approximately HK\$184,355,000 had also been credited to the consolidated income statement.

Details of the investment properties are as follows:

	2005 HK\$'000	2004 HK\$'000
Freehold land in Malaysia	142,100	187,775
Medium-term leases in Hong Kong	402,300	361,800
Long lease in Hong Kong	785,000	718,000
	<u>1,329,400</u>	<u>1,267,575</u>

All the Group's investment properties are rented out under operating leases.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	839,466	839,466
Amounts due from subsidiaries, net (note)	186,618	186,613
	<b>1,026,084</b>	<b>1,026,079</b>

*Note: The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.*

Details of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued ordinary shares/registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Apex Curtain Wall and Windows Company Limited	Hong Kong	Hong Kong	HK\$10,000	-	86.05	Contracting of building aluminium works
Champion Fine International Investments Inc.	Canada	Canada	C\$1	-	57.83	Property development
China Parking Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property holding
Chinney Builders and Foundation Company Limited	Hong Kong	Hong Kong	HK\$2	-	86.05	Building construction
Chinney Construction (BVI) Limited	British Virgin Islands	British Virgin Islands	US\$10,000	-	86.05	Investment holding
Chinney Construction Company, Limited	Hong Kong	Hong Kong	HK\$18,000,000	-	86.05	Building construction

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued ordinary shares/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Chinney Contractors Company Limited	British Virgin Islands	British Virgin Islands	US\$18,961	86.05	–	Investment holding
Chinney Property Management Limited	Hong Kong	Hong Kong	HK\$100	–	57.83	Property management
Cosmos Wealth Development Limited	Hong Kong	Hong Kong	HK\$1,000	–	57.83	Property development
CP Management Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Carpark management
Crown Honour Developments Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Provision of nominee services
Debest Development Limited	Hong Kong	Hong Kong	HK\$2	–	57.83	Property development
Dongguan Chinney Garments Limited	PRC	PRC	HK\$9,000,000*	–	100.00	Garment manufacture
Dongguan Marigold Industry City Developing Co., Ltd.	PRC	PRC	HK\$50,000,000**	–	100.00	Property holding and development
DrilTech Geotechnical Engineering Limited	Hong Kong	Hong Kong	HK\$10,000	–	86.05	Drilling, site investigation and related ground engineering construction
DrilTech Ground Engineering Limited	Hong Kong	Hong Kong	HK\$12,500,000	–	86.05	Drilling, site investigation and related ground engineering construction
Full Yip Development Limited	British Virgin Islands	Hong Kong	US\$1	–	57.83	Property holding and letting



## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/registered capital	Proportion of nominal value of issued ordinary shares/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Gateway Group Holdings Limited	British Virgin Islands	British Virgin Islands	US\$2,500,000	100.00	-	Investment holding
Gateway Trade and Development Company, Limited	Hong Kong	Hong Kong	HK\$9,000,000	-	100.00	Garment trading
Guangzhou Honkwok Fuqiang Land Development Ltd.	PRC	PRC	RMB183,795,038*	-	27.76***	Property development
Guangzhou Honkwok Hengsheng Land Development Ltd.	PRC	PRC	RMB90,000,000*	-	34.70***	Property development
Hon Cheong Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property holding and letting
Hon Kwok Land Investment (China) Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Investment holding
Hon Kwok Land Investment Company, Limited	Hong Kong	Hong Kong	HK\$400,238,501	57.83	-	Investment holding
Hon Kwok Land Investment (Shenzhen) Co., Ltd.	PRC	PRC	HK\$30,000,000*	-	57.83	Property development
Hon Kwok Project Management Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Project management
Hon Kwok Treasury Limited (formerly Honbest Investment Limited)	Hong Kong	Hong Kong	HK\$2	-	57.83	Financing

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued ordinary shares/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Honour Well Development Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property holding and letting
Island Parking Limited	British Virgin Islands	Hong Kong	US\$10	-	57.83	Property holding and letting
J.L. Chinney (Holdings) Company Limited	British Virgin Islands	British Virgin Islands	US\$1,250,000	100.00	-	Investment holding
J.L. Group Company Limited	Hong Kong	Hong Kong	HK\$8,000,000	-	100.00	Garment trading
J.L. Investment Company Limited	Hong Kong	Hong Kong	HK\$10,000	-	100.00	Property holding
King Capital Development Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property holding and letting
King Champion Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property holding and letting
Kin Wing Chinney (BVI) Limited	British Virgin Islands	British Virgin Islands	US\$208	-	86.05	Investment holding
Kin Wing Engineering Company Limited	Hong Kong	Hong Kong	HK\$10,000,000	-	86.05	Foundation piling
Kin Wing Foundations Limited	Hong Kong	Hong Kong	HK\$10,000	-	86.05	Foundation piling
Kin Wing Machinery & Transportation Limited	Hong Kong	Hong Kong	HK\$100	-	86.05	Equipment and machinery leasing
Kin Wing Treasury Limited	Hong Kong	Hong Kong	HK\$10,000	-	86.05	Financing

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary shares/ registered capital	Proportion of nominal value of issued ordinary shares/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Lido Parking Limited	British Virgin Islands	Hong Kong	US\$1	-	57.83	Property holding and letting
Multiway Apparel Limited (formerly Multi-Way Trading Limited)	Hong Kong	Hong Kong	HK\$5,000,000	-	100.00	Garment trading
Nanhai Xin Da Real Estate Development Co., Ltd.	PRC	PRC	HK\$90,480,000*	-	46.26***	Property development
One City Hall Place Limited	Canada	Canada	C\$100	-	43.37***	Property development
Pacific Corporate Services Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Provision of corporate services
PT. Prefash Wears Cemerlang	Republic of Indonesia	Republic of Indonesia	US\$500,000	-	100.00	Garment manufacture and trading
Royal Treasure Limited	Hong Kong	Hong Kong	HK\$2	100.00	-	Property holding
Shenzhen Honkwok Huaye Development Co., Ltd.	PRC	PRC	RMB50,000,000*	-	46.26***	Property development
Spark Eagle Development Limited	Hong Kong	Malaysia	HK\$2	-	57.83	Property holding and letting
Star World Property Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property development
Sunny Land Sdn. Bhd.	Malaysia	Malaysia	M\$2	-	57.83	Property management
Victory Venture Development Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property development
Wide Fame Investment Limited	Hong Kong	Hong Kong	HK\$2	-	57.83	Property development

### 18. INTERESTS IN SUBSIDIARIES (Continued)

- \* *These companies are registered as foreign owned enterprises.*
- \*\* *This company is a co-operative joint venture enterprise. Pursuant to an agreement entered into with the joint venture partner, the Group is:*
  - *obliged to contribute 100% of the registered capital of the company*
  - *entitled to 85% of the profit but has to bear all of the losses of the company*
  - *entitled to 100% of the residual net assets of the company upon winding up*
- \*\*\* *The Group held controlling indirect interest in these companies through a non-wholly owned subsidiary thus the Group has the power to direct the financial and operating policies of these companies and they are therefore accounted for as subsidiaries.*

Some shares in Hon Kwok were pledged to a bank to secure banking facilities granted.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of directors of the Company, result in particulars of excessive length.

### 19. INTERESTS IN ASSOCIATES

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	<b>51,123</b>	46,981
Amounts due from associates (note)	<b>8,701</b>	8,701
	<b>59,824</b>	55,682
	<b>59,824</b>	55,682

*Note: The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.*

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 19. INTERESTS IN ASSOCIATES (Continued)

The market values of an associate listed on the Stock Exchange held by the Group at 31st March are as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
1,153,957,982 (2004: 1,153,957,982) shares of Chinney Alliance Group Limited ("Chinney Alliance") at a closing price of HK\$0.025 (2004: HK\$0.018) each	<u>28,849</u>	<u>20,771</u>

The Group has 29.10% equity interest in the issued share capital of its principal associate, Chinney Alliance, an investment holding company incorporated in Bermuda, with its subsidiaries engaged in trading and manufacture of industrial products in Hong Kong.

The above lists the associate of the Group which, in the opinion of the directors of the Company, principally affected the results or form a substantial portion of the net assets of the Group.

Extracts from the financial statements of Chinney Alliance, the major associate of the Company, are set out in note 42(a).

### 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets less liabilities	46,397	(7,914)
Amounts due from jointly-controlled entities, net (note)	<u>5,928</u>	<u>14,290</u>
	<u>52,325</u>	<u>6,376</u>

*Note: The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors of the Company, the amounts will not be repaid within the next twelve months from the balance sheet date.*

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Details of the Company's principal jointly-controlled entities at 31st March, 2005 are as follows:

Name of jointly-controlled entity	Place of incorporation/operation	Proportion of nominal value of issued ordinary shares held by the Company		Principal activities
		Directly	Indirectly	
		%	%	
2012829 Ontario Inc.	Canada	–	28.92	Property development
King Success Limited	Hong Kong	–	28.92	Property development
SGA Holdings Limited	British Virgin Islands/ Hong Kong	–	50	Garment trading

The above table lists the jointly-controlled entities of the Group, which in the opinion of the directors of the Company, principally affected the results or form a substantial portion of the net assets of the Group.

Extracts from the financial statements of the major jointly-controlled entities of the Group are set out in note 42(b).

### 21. GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
<b>COST</b>	
Arising on acquisition of a subsidiary during the year and balance at 31st March, 2005	2,463
<b>IMPAIRMENT</b>	
Recognised during the year and balance at 31st March, 2005	<u>2,463</u>
<b>CARRYING VALUE</b>	
<b>At 31st March, 2005</b>	<u><u>–</u></u>

At the balance sheet date, the Group identified an indicator of impairment in the carrying amount of its goodwill. As a result, the goodwill of HK\$2,463,000 was fully written off.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 22. NEGATIVE GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
GROSS AMOUNT	
Arising on acquisitions during the year	209,627
Transfer of capital reserve arising from the acquisition of an associate in prior years	4,581
Eliminated upon deemed disposal	<u>(35,685)</u>
At 31st March, 2004 and 31st March, 2005	<u>178,523</u>
RELEASED TO INCOME	
Released in the year	58,511
Eliminated upon deemed disposal	<u>(8,921)</u>
At 31st March, 2004	49,590
Released in the year	<u>59,507</u>
<b>At 31st March, 2005</b>	<b><u>109,097</u></b>
CARRYING AMOUNT	
<b>At 31st March, 2005</b>	<b><u><u>69,426</u></u></b>
At 31st March, 2004	<u><u>128,933</u></u>

The negative goodwill is released to income on a straight-line basis of three years, the remaining weighted average useful life of the depreciable assets acquired.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 23. DEFERRED TAXATION

The following are the major deferred taxation assets/(liabilities) recognised by the Group and movements thereon during the current and prior periods:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>					
At 1st April, 2003	(34,887)	-	4,696	165	(30,026)
Credit/(charge) to income during the year	5,547	-	2,115	(5)	7,657
Charge to equity during the year Arising on acquisition of subsidiaries	-	(1,104)	-	-	(1,104)
	(1,335)	(30,817)	-	-	(32,152)
At 31st March, 2004	(30,675)	(31,921)	6,811	160	(55,625)
Credit to income during the year	4,200	-	3,118	8	7,326
Credit to equity during the year	-	1,104	-	-	1,104
Release upon disposal of properties under development	-	1,982	-	-	1,982
<b>At 31st March, 2005</b>	<b>(26,475)</b>	<b>(28,835)</b>	<b>9,929</b>	<b>168</b>	<b>(45,213)</b>

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred taxation assets	<b>5,275</b>	2,900
Deferred taxation liabilities	<b>(50,488)</b>	(58,525)
	<b>(45,213)</b>	(55,625)

At the balance sheet date, the Group and the Company had unused tax losses of HK\$1,502,108,000 (2004: HK\$814,618,000) and HK\$61,522,000 (2004: HK\$64,484,000), respectively available to offset against future profits. A deferred taxation has been recognised in respect of HK\$56,737,000 (2004: HK\$38,920,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining HK\$1,445,371,000 (2004: HK\$775,698,000) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.



## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 24. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
Equity securities:						
Listed shares	-	-	635	762	635	762
Unlisted						
– at cost (note 1)	50,563	-	-	-	50,563	-
– capital contributions (note 2)	2,452	1,510	-	-	2,452	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>
Total:						
Listed – Hong Kong	-	-	635	762	635	762
Unlisted	53,015	1,510	-	-	53,015	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>
Market value of listed securities	-	-	635	762	635	762
Carrying amount analysed for reporting purposes as:						
Current	-	-	635	762	635	762
Non-current	53,015	1,510	-	-	53,015	1,510
	<u>53,015</u>	<u>1,510</u>	<u>635</u>	<u>762</u>	<u>53,650</u>	<u>2,272</u>

#### Notes:

1. In the current year, a non-wholly owned subsidiary acquired a 90% equity interest in a company operating in Mainland China and the non-wholly owned subsidiary intends to dispose of 45% equity interest of the company to an independent third party subsequent to the balance sheet date. The management of the non-wholly owned subsidiary considers control of the company to be temporary because it is acquired and held with a view to its subsequent partial disposal in the near future, and accordingly the company was not consolidated as at the balance sheet date.
2. Included in capital contributions which are stated at carrying value is the Group's 8% (2004: 11%) equity interest in the registered capital of Gansu Longhai Chinney Construction Engineering Co., Ltd., a company which is established in the PRC. During the year, HK\$500,000 (2004: HK\$2,000,000) registered capital was repatriated to the Group.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 25. INVENTORIES

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	36,422	33,739
Work in progress	42,533	45,945
Finished goods	4,736	7,057
	<u>83,691</u>	<u>86,741</u>

At 31st March, 2005, the carrying value of finished goods that was carried at net realisable value amounted to HK\$260,000 (2004: Nil).

At 31st March, 2004, the carrying value of raw materials that was carried at net realisable value amounted to HK\$31,610,000.

Cost of inventories recognised as expense for the year amounted to HK\$659,840,000 (2004: HK\$588,304,000).

### 26. PROPERTIES HELD FOR SALE

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	960,378	–
Arising on acquisitions of subsidiaries	–	1,017,104
Additions	361,705	311,391
Exchange realignment	12,357	7,165
Eliminated on deemed disposal of subsidiaries	–	(1,739)
Eliminated on sales of properties	(125,038)	(373,543)
	<u>1,209,402</u>	<u>960,378</u>

At 31st March, 2005, the carrying amount of properties held for sale carried at net realisable value amounted to HK\$145,962,000 (2004: HK\$238,191,000).

Properties held for sale included interest expense and other borrowing costs totalling HK\$22,797,000 (2004: HK\$13,321,000) incurred and capitalised during the year.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 27. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Contracts in progress at the balance sheet date comprised:		
Contract costs incurred	<b>4,965,708</b>	4,951,401
Add: Recognised profits less recognised losses	<b>506,130</b>	540,251
	<u>5,471,838</u>	<u>5,491,652</u>
Less: Progress billings	<b>(5,455,866)</b>	(5,534,179)
	<u><b>15,972</b></u>	<u>(42,527)</u>
Represented by:		
Amounts due from customers shown under current assets	<b>48,048</b>	43,407
Amounts due to customers shown under current liabilities	<b>(32,076)</b>	(85,934)
	<u><b>15,972</b></u>	<u>(42,527)</u>

Staff costs, hiring charges for plant and machinery and depreciation charges of HK\$65,957,000 (2004: HK\$70,771,000), HK\$16,145,569 (2004: HK\$6,597,000) and HK\$4,488,000 (2004: HK\$3,879,000), respectively, were included in contract costs. No borrowing costs were capitalised in either year.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 28. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of approximately HK\$102,830,000 (2004: HK\$242,364,000). The aging analysis of trade debtors is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Current to 30 days	75,785	192,407
31 to 60 days	13,379	39,043
61 to 90 days	6,136	2,412
Over 90 days	7,530	8,502
Total	<u>102,830</u>	<u>242,364</u>

The Group allows an average credit period of 30 days to its trade customers.

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are followed up closely by management and are provided in full in case of non-recoverability.

### 29. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of approximately HK\$99,359,000 (2004: HK\$118,771,000). The aging analysis of trade creditors is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Current to 30 days	52,701	71,912
31 to 60 days	28,933	26,228
61 to 90 days	6,086	13,929
Over 90 days	11,639	6,702
Total	<u>99,359</u>	<u>118,771</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 30. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum payments		Present value of minimum payments	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The maturity of the Group's obligations under finance leases is as follows:				
Within one year	3,379	1,504	3,095	1,457
Due after one year but within two years	2,472	938	2,278	898
Due after two years but within five years	4,722	78	4,562	62
	<u>10,573</u>	<u>2,520</u>	<u>9,935</u>	<u>2,417</u>
Less: Future finance charges	(638)	(103)	-	-
Present value of lease obligations	<u>9,935</u>	<u>2,417</u>	<u>9,935</u>	<u>2,417</u>
Less: Amount due within one year shown under current liabilities			<u>3,095</u>	<u>1,457</u>
Amount due after one year			<u>6,840</u>	<u>960</u>

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. For the year ended 31st March, 2005, the average effective borrowing rate was 3.25%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 31. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	<b>34,832</b>	40,595	-	-
Bank loans	<b>1,668,320</b>	1,826,714	<b>64,500</b>	12,500
	<b>1,703,152</b>	1,867,309	<b>64,500</b>	12,500
Unsecured bank loans and overdrafts due within a period of:				
Less than one year or on demand	<b>112,969</b>	118,909	-	2,500
More than one year but not exceeding two years	<b>541,387</b>	-	-	-
More than two years but not exceeding five years	<b>77,393</b>	-	-	-
	<b>731,749</b>	118,909	-	2,500
Secured bank loans and overdrafts due within a period of:				
Less than one year or on demand	<b>287,395</b>	416,567	<b>64,500</b>	10,000
More than one year but not exceeding two years	<b>51,033</b>	131,652	-	-
More than two years but not exceeding five years	<b>589,958</b>	1,186,035	-	-
More than five years	<b>43,017</b>	14,146	-	-
	<b>971,403</b>	1,748,400	<b>64,500</b>	10,000
Total bank borrowings	<b>1,703,152</b>	1,867,309	<b>64,500</b>	12,500
Less: Amount due within one year or on demand and shown under current liabilities	<b>400,364</b>	535,476	<b>64,500</b>	12,500
Amount due after one year	<b>1,302,788</b>	1,331,833	-	-

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 31. BANK BORROWINGS (Continued)

The secured bank loans and overdrafts of the Group are secured by the following assets of the Group with carrying amounts as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Inventories	19,500	35,100
Investment properties (note)	1,327,000	1,265,875
Property, plant and equipment	128,494	148,695
Properties under development	–	323,924
Properties held for sale	385,762	295,837
Shares in associates, stated at the Group's share of the associates' net assets	44,355	40,215
Trade debtors	35,100	35,100
Bank balances	76,400	137,874
	<u>2,016,611</u>	<u>2,282,620</u>

Certain banking facilities of the Company are secured by certain shares in subsidiaries held by the Company with carrying value of HK\$767,426,000 (2004: HK\$767,422,000).

*Note: Certain assignments for rental income that related to investment properties are also pledged for security of bank loans.*

### 32. LOANS TO/AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms, except for loans to the minority shareholders of non-wholly owned subsidiaries, which are bearing interest at normal commercial rate. As agreed with minority shareholders of subsidiaries, the amounts due to minority shareholders will not be repaid within the next twelve months from the balance sheet date.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 33. SHARE CAPITAL

	Number of shares 2005 & 2004	Amount 2005 & 2004 HK\$'000
Ordinary shares of HK\$0.25 each:		
Authorised:		
At the beginning and the end of the year	1,000,000,000	<u>250,000</u>
Issued and fully paid:		
At the beginning and the end of the year	551,368,153	<u>137,842</u>

### 34. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital/ (goodwill) reserve HK\$'000	Dividend reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st April, 2004	267,569	(35,893)	(6,580)	11,027	4,459	563,522	804,104
Share of reserves of associates attributable to the Group	-	6	(98)	-	532	-	440
Exchange differences arising from translation of financial statements denominated in foreign currencies	-	6,487	-	-	-	-	6,487
Impairment loss on capital reserve	-	-	(42)	-	-	-	(42)
Surplus on revaluation of investment properties attributable to the Group	-	-	-	-	34,130	-	34,130
Net profit for the year	-	-	-	-	-	179,263	179,263
Dividend paid	-	-	-	(11,027)	-	-	(11,027)
Proposed final dividend	-	-	-	16,541	-	(16,541)	-
<b>At 31st March, 2005</b>	<u>267,569</u>	<u>(29,400)</u>	<u>(6,720)</u>	<u>16,541</u>	<u>39,121</u>	<u>726,244</u>	<u>1,013,355</u>
Attributable to:							
The Company and subsidiaries	267,569	(29,409)	(7,858)	16,541	38,589	663,878	949,310
Associates	-	9	1,138	-	532	(40,986)	(39,306)
Jointly-controlled entities	-	-	-	-	-	103,352	103,351
<b>At 31st March, 2005</b>	<u>267,569</u>	<u>(29,400)</u>	<u>(6,720)</u>	<u>16,541</u>	<u>39,121</u>	<u>726,244</u>	<u>1,013,355</u>



## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 34. RESERVES (Continued)

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital/ (goodwill) reserve HK\$'000	Dividend reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003	267,569	(44,387)	(6,779)	11,027	-	560,593	788,023
Share of reserves of associates attributable to the Group	-	(328)	4,780	-	-	-	4,452
Exchange differences arising from translation of financial statements denominated in foreign currencies	-	7,941	-	-	-	-	7,941
Transfer of capital reserve arising from the acquisition of an associate in prior years to negative goodwill	-	-	(4,581)	-	-	-	(4,581)
Release of exchange reserve upon disposal of a subsidiary	-	881	-	-	-	-	881
Surplus on revaluation of investment properties attributable to the Group	-	-	-	-	4,459	-	4,459
Net profit for the year	-	-	-	-	-	13,956	13,956
Dividend paid	-	-	-	(11,027)	-	-	(11,027)
Proposed final dividend	-	-	-	11,027	-	(11,027)	-
At 31st March, 2004	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>
Attributable to:							
The Company and subsidiaries	267,569	(35,896)	(7,816)	11,027	4,459	519,343	758,686
Associates	-	3	1,236	-	-	(44,688)	(43,449)
Jointly-controlled entities	-	-	-	-	-	88,867	88,867
At 31st March, 2004	<u>267,569</u>	<u>(35,893)</u>	<u>(6,580)</u>	<u>11,027</u>	<u>4,459</u>	<u>563,522</u>	<u>804,104</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 34. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st April, 2003	267,569	11,027	465,719	744,315
Net profit for the year	–	–	19,488	19,488
Dividend paid	–	(11,027)	–	(11,027)
Proposed final dividend	–	11,027	(11,027)	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 1st April, 2004	267,569	11,027	474,180	752,776
Net profit for the year	–	–	82,638	82,638
Dividend paid	–	(11,027)	–	(11,027)
Proposed final dividend	–	16,541	(16,541)	–
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st March, 2005</b>	<b><u>267,569</u></b>	<b><u>16,541</u></b>	<b><u>540,277</u></b>	<b><u>824,387</u></b>

In addition to the retained profits of the Company which are distributable to shareholders, the share premium account of the Company can be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 35. ACQUISITIONS OF SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Net (liabilities)/assets acquired:		
Property, plant and equipment	182	4,296
Properties under development	-	346,976
Investment properties	-	1,068,875
Interest in an associate	-	14,857
Interests in jointly-controlled entities	-	2,504
Properties held for sale	-	1,017,104
Debtors and prepayments	849	85,368
Taxation recoverable	-	58
Bank balances and cash	-	166,649
Creditors and accrued charges	(3,494)	(175,521)
Customers' deposits	-	(10,078)
Bank overdrafts	-	(868)
Shareholders' loan	-	(191,867)
Taxation payable	-	(345)
Bank borrowings	-	(1,269,974)
Amounts due to minority shareholders	-	(61,615)
Minority interests	-	(376,984)
Deferred taxation liabilities	-	(32,152)
	<u>(2,463)</u>	<u>587,283</u>
Assignment of shareholders' loan	-	191,867
Negative goodwill arising from acquisitions	-	(209,627)
Write off of goodwill/(negative goodwill) arising from acquisitions	<u>2,463</u>	<u>(820)</u>
Consideration given	<u>-</u>	<u>568,703</u>
Satisfied by:		
Cash	-	42,210
Reclassification of interests in an associate upon the former associate becoming a subsidiary	-	385,493
Settlement of convertible guaranteed bonds	-	141,000
	<u>-</u>	<u>568,703</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 35. ACQUISITIONS OF SUBSIDIARIES (Continued)

Analysis of net outflow of cash and cash equivalents in connection with the acquisitions of subsidiaries:

	2005 HK\$'000	2004 HK\$'000
Cash consideration	-	(42,210)
Bank balances and cash acquired	-	166,649
Bank overdrafts acquired	-	(868)
	<u>-</u>	<u>123,571</u>

The subsidiary acquired during the year ended 31st March, 2005 did not have any significant impact to the Group's turnover and profit from operations.

In the prior year, the subsidiaries acquired contributed HK\$317,686,000 and HK\$139,689,000 to the Group's turnover and profit before taxation.

### 36. DISPOSALS OF SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Net assets/(liabilities) disposed of:		
Properties under development	330,715	1,192
Creditors and accrued charges	-	(450)
Amount due to minority shareholders of subsidiaries	-	(5,226)
Bank borrowings	(164,206)	-
Minority interests	-	3,198
	<u>166,509</u>	<u>(1,286)</u>
Release of exchange reserve	-	881
Gain on disposal of subsidiaries	233,662	1,394
	<u>400,171</u>	<u>989</u>
Satisfied by cash consideration received, net	<u>400,171</u>	<u>989</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 36. DISPOSALS OF SUBSIDIARIES (Continued)

Analysis of net cash inflow of cash and cash equivalents in connection with the disposals of subsidiaries:

	2005 HK\$'000	2004 HK\$'000
Cash consideration, net	<u>400,171</u>	<u>989</u>

The subsidiaries disposed of during the years ended 31st March, 2005 and 2004 did not have any significant impact to the Group's turnover and profit from operations.

### 37. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the contracts of HK\$9,140,000 (2004: HK\$2,028,000).

In the prior year, part of the consideration for the purchase of a subsidiary comprised assignment of shareholders' loan and redemption of convertible guaranteed bonds. Further details of the acquisition are set out in note 35 above.

### 38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
(a) Extent of general banking facilities guaranteed by the Group/Company which were utilised at the balance sheet date by:				
– subsidiaries	–	–	53,032	105,477
– jointly-controlled entities	92,701	110,105	–	–
Bills discounted with recourse	3,408	6,051	–	–
	<u>96,109</u>	<u>116,156</u>	<u>53,032</u>	<u>105,477</u>

### 38. CONTINGENT LIABILITIES (Continued)

- (b) Certain subsidiaries of Chinney Contractors Company Limited were involved in legal proceedings or claims against them in the ordinary course of their respective business activities. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK\$41,011,000 as at 31st March, 2005 (2004: HK\$67,961,000). The directors of the Company consider that, after taking into account of the legal advices obtained, these proceedings and claims were made without valid grounds and accordingly, no provision for any potential liabilities is considered necessary.

Certain subsidiaries of the Group have appealed against additional tax assessments of approximately HK\$6,159,000 raised by the Hong Kong Inland Revenue Department (“IRD”) regarding the taxability of certain profits recognised in prior years. By the decision of the Board of Review on 14th February, 2005 (“Decision”), the Group was ordered to pay IRD the sum of HK\$5,370,135 (being HK\$3,168,986 plus interest of HK\$2,201,149). At the balance sheet date, a provision had been made in the financial statements with respect of this Decision.

- (c) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of Hon Kwok, Joint Peace Investment Limited (“Joint Peace”), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for loss of rental income or loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by Hon Kwok’s solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the Amended Statement of Claim was sent by Hon Kwok’s solicitors to the plaintiff’s solicitors.

Following consultation with Hon Kwok’s legal advisers (in their capacity as the legal advisers of Joint Peace), the directors of the Company have formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary in the Group’s financial statements. There has been no further progress of the claim so far up to the date of this report.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 39. OPERATING LEASE ARRANGEMENTS

#### The Group as lessor

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with tenants in respect of investment properties fall due:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	30,444	34,712
In the second to fifth year inclusive	22,730	35,171
Beyond five years	–	8,182
	<u>53,174</u>	<u>78,065</u>

The Company had no commitments under operating leases.

All of the properties held have committed tenants with lease terms ranging from one to five years.

#### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	4,221	3,164
In the second to fifth year inclusive	4,029	2,134
Beyond five years	1,472	–
	<u>9,722</u>	<u>5,298</u>

The Company had no operating lease commitments at the balance sheet date.

At 31st March, 2005, a jointly-controlled entity had annual commitments payable under non-cancellable operating leases for land and buildings falling due within one year and in the second to fifth year inclusive amounting to HK\$518,000 (2004: HK\$1,212,000) and HK\$792,000 (2004: HK\$3,217,000), respectively. The Group's share of these operating lease commitments amounted to HK\$259,000 (2004: HK\$606,000) and HK\$396,000 (2004: HK\$1,609,000), respectively.

Operating lease payments represent rental payable by the Group for certain land and buildings. Leases are negotiated for an average term of not more than three years.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 40. CAPITAL COMMITMENTS

The Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$545,543,000 (2004: HK\$309,325,000) at the balance sheet date.

The Company did not have any significant capital commitments at the balance sheet date.

### 41. RELATED PARTY TRANSACTIONS

(a) Set out below are the significant transactions between the Group and other related parties during the year:

	Notes	2005 HK\$'000	2004 HK\$'000
Interest received from investment in securities of a former associate	(i)	–	1,227
Net interest received from jointly-controlled entities	(ii)	–	185
Management fee income received from an associate	(iii)	2,000	2,000
Commissions paid to the ultimate holding company	(iv)	2,625	2,188
Legal and professional fees paid to a firm to which a director of the Company is a consultant	(v)	527	1,064
Fee paid by a jointly-controlled entity for sales handled	(vi)	1,547	–
Write off of debts due from jointly-controlled entities	(vii)	<u>3,873</u>	<u>84,488</u>

Notes:

- (i) The amount represented interest at a fixed coupon rate of 10% per annum relating to the 10% convertible guaranteed bonds issued by Hon Kwok and due on April 2003. The bonds were repaid in the prior year.
- (ii) The amounts due from certain jointly-controlled entities, which amounted to HK\$668,000 as at 31st March, 2004, were unsecured, interest-bearing at prevailing market rates and repayable on demand.
- (iii) The management fee based on underlying costs incurred for the associate.
- (iv) The amount represented payment by Hon Kwok as a subsidiary of the Company to Lucky Year for the provision of cash security for certain bank loans granted to Hon Kwok. The commissions were agreed and charged on bases taking into consideration the average borrowing costs of Hon Kwok and its subsidiaries.
- (v) The directors consider that the provision of legal and professional services was made according to the standard prices and conditions similar to those offered to their clients of the firm.
- (vi) The fee was paid to a subsidiary by a jointly-controlled entity for handling of sales on the latter's behalf.
- (vii) During the year, a non-wholly owned subsidiary and a joint venture partner wrote off the debts amounting to HK\$3,873,000 (2004: HK\$84,488,000) which were non-recoverable from jointly-controlled entities.



## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 41. RELATED PARTY TRANSACTIONS (Continued)

- (b) On 31st March, 2003, Hon Kwok entered into an agreement for a bridging facility with the Company whereby the Company agreed to provide financing to Hon Kwok to partly finance the redemption of convertible guaranteed bonds. Interest paid on the bridging finance facilities provided by the Company during the year ended 31st March, 2004 was HK\$2,486,000.
- (c) On 25th February, 2004, the Company and Hon Kwok entered into a placing agreement for the Company to place 66,700,000 existing shares of Hon Kwok of HK\$1 each at the placing price of HK\$1.65 per share. Pursuant to the placing agreement, the Company has conditionally agreed to subscribe for 66,700,000 new shares of Hon Kwok at the placing price. Upon the completion of the placing and subscription, the Company's shareholding in Hon Kwok decreased from 69.39% to 57.83%.
- (d) On 3rd March, 2004, Multi-Investment Group Limited ("MIG"), an indirect wholly-owned subsidiary of the Company, entered into a placing agreement with a placing agent pursuant to which MIG agreed to place 468,000,000 existing shares of Chinney Alliance of HK\$0.01 each at the placing price of HK\$0.02 per share to more than six dependent third parties. Concurrently on the same day, MIG entered into a top-up subscription agreement with Chinney Alliance relating to the subscription for 660,000,000 new shares of Chinney Alliance of HK\$0.01 each at the issue price of HK\$0.02 per share. The subscription was completed on 16th March, 2004. After the completion of the placing of existing shares and the subscription of new shares, MIG remains to be interested in approximately 29.1% of the issued share capital of Chinney Alliance.
- (e) Except for an amount of HK\$20,000,000 due from a subsidiary carried interest at prevailing market rates in 2004, the amounts due from/to subsidiaries and associates are unsecured, non-interest bearing and repayable on demand in both years.

The amounts due from/to jointly controlled entities are unsecured, interest bearing at the prevailing market rates and repayable on demand in both years.

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATE/JOINTLY-CONTROLLED ENTITIES

- (a) The following information is extracted from the most recent published audited financial statements of the Group's major associate:

#### Chinney Alliance Group Limited

##### Consolidated income statement

For the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>1,073,103</u>	<u>852,722</u>
Operating profit/(loss)	20,501	(20,477)
Share of profits less losses of jointly-controlled entities	<u>(3,542)</u>	<u>(3,991)</u>
Profit/(loss) before tax	16,959	(24,468)
Taxation	<u>(4,019)</u>	<u>(2,932)</u>
Profit/(loss) before minority interests	12,940	(27,400)
Minority interests	<u>(220)</u>	<u>(418)</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>12,720</u>	<u>(27,818)</u>

##### Consolidated balance sheet

At 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
Fixed assets	36,545	30,938
Goodwill	–	1,759
Interests in associates	28,279	34,299
Other non-current assets	5,440	3,542
Current assets	448,902	357,663
Current liabilities	<u>(358,708)</u>	<u>(298,754)</u>
Non-current liabilities	(6,185)	(2,821)
Minority interests	<u>(1,912)</u>	<u>(1,692)</u>
Net assets	<u>152,361</u>	<u>124,934</u>

## Notes to the Financial Statements (Continued)

For the year ended 31st March, 2005

### 42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATE/JOINTLY-CONTROLLED ENTITIES (Continued)

(b) Extracts of the financial statements as at 31st March, 2005 of the Group's principal jointly-controlled entities are as follows:

	2005 HK\$'000	2004 HK\$'000
<b>2012829 Ontario Inc.</b>		
Non-current assets	75,600	–
Non-current liabilities	<u>(75,600)</u>	<u>–</u>
<b>King Success Limited*</b>		
Current assets	15,112	37,145
Current liabilities	(5,302)	(21,484)
Non-current liabilities	(12,177)	(18,181)
Income	400	29,640
Net profit for the year	<u>153</u>	<u>42,131</u>
<b>SGA Holdings Limited</b>		
Non-current assets	829	684
Current assets	129,849	112,912
Current liabilities	(98,770)	(108,239)
Income	480,274	380,577
Net profit for the year	<u>11,160</u>	<u>8,804</u>

\* The financial year end of this company is 31st December.