

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th September, 2005

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

As described in the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2005, the Company underwent a group restructuring which involved, inter alia, the acquisition (the "Acquisition") from PYI Corporation Limited ("PYI", formerly known as Paul Y. - ITC Construction Holdings Limited) the entire equity interest in, and shareholder's loan to, Paul Y. Engineering Holdings (B.V.I.) Limited ("Paul Y Construction", formerly known as Paul Y. - ITC Construction Holdings (B.V.I.) Limited). Paul Y Construction and certain of its subsidiaries ("Paul Y Construction Group") were then principally engaged in building construction, civil engineering, project management and facilities management. The Acquisition was completed in January 2005.

The Acquisition has been accounted for as a reverse acquisition. For the purpose of the preparation of the Group's consolidated financial statements, Paul Y Construction Group is treated as the acquirer while the Group is deemed to have been acquired by the Paul Y Construction Group. The comparative condensed consolidated income statement, cash flow statement and statement of changes in equity for the six months ended 30th September, 2004 have been restated accordingly.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31st March, 2005, except that, in the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. In addition, the adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

### **Goodwill**

In previous periods, goodwill arising on acquisitions before 1st January, 2005 was capitalised and amortised over its estimated useful life. In the current period, the Group has applied the relevant transitional provisions in HKFRS 3 "Business Combinations", pursuant to which the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures have not been restated.

### **Owner-occupied leasehold interest in land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "prepaid land lease payments" under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

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For the six months ended 30th September, 2005

**Financial instruments**

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for investment in securities" ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities". "Investment securities" are carried at cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, the Group's equity securities are classified as "available-for-sale financial assets" which are carried at fair value, with changes in fair values recognised in equity. Balance of its investments in equity securities were re-measured at fair value with an adjustment of approximately HK\$1,521,000 to the previous carrying amounts of assets and the Group's accumulated losses at 1st April, 2005, which will be released to the income statement upon disposal or impairment of the relevant available-for-sale investments.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

**3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES**

The financial effects of the changes in accounting policies described above are summarised as follows:

(a) Effects on the results for the current and prior periods:

	Six months ended	
	30/9/2005	30/9/2004
	HK\$'000	HK\$'000
Decrease in amortisation of goodwill	3,712	–

(b) Effects on the balance sheet as at 31st March, 2005 and 1st April, 2005:

	As at 31/3/2005 (original stated) HK\$'000	Effect of HKAS 17 HK\$'000	As at 31/3/2005 (restated) HK\$'000	Effect of HKAS 39 HK\$'000	As at 1/4/2005 (restated) HK\$'000
Effects on assets and liabilities:					
Property, plant and equipment	109,717	(24,286)	85,431	–	85,431
Prepaid land lease payments					
– non-current	–	23,711	23,711	–	23,711
– current	–	575	575	–	575
Investment securities	389	–	389	(389)	–
Available-for-sale investments	–	–	–	1,910	1,910
	110,106	–	110,106	1,521	111,627
Effect on equity:					
Accumulated losses	(95,208)	–	(95,208)	1,521	(93,687)

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For the six months ended 30th September, 2005

**4. SEGMENT INFORMATION**

For management purposes, the Group's operations are currently organised into four operating divisions, namely building construction, civil engineering, project management and facilities management. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the six months ended 30th September, 2005 is presented below:

	Building construction HK\$'000	Civil engineering HK\$'000	Project management HK\$'000	Facilities management HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>						
External sales	1,008,967	438,146	6,044	1,919	-	1,455,076
Inter-segment sales	-	50,210	-	-	(50,210)	-
<b>Total</b>	<b>1,008,967</b>	<b>488,356</b>	<b>6,044</b>	<b>1,919</b>	<b>(50,210)</b>	<b>1,455,076</b>
<b>RESULT</b>						
Segment result	37,356	14,270	3,899	1,702		57,227
Unallocated corporate expenses						(18,023)
Other income						3,009
Finance costs						(5)
Share of results of associates	620	31	608	-		1,259
Share of results of jointly controlled entities	260	1,841	-	-		2,101
<b>Profit before taxation</b>						<b>45,568</b>

Business segment information for the six months ended 30th September, 2004 is presented below:

	Building construction HK\$'000	Civil engineering HK\$'000	Project management HK\$'000	Facilities management HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>						
External sales	1,251,056	406,505	-	-	-	1,657,561
Inter-segment sales	-	1,440	-	-	(1,440)	-
<b>Total</b>	<b>1,251,056</b>	<b>407,945</b>	<b>-</b>	<b>-</b>	<b>(1,440)</b>	<b>1,657,561</b>
<b>RESULT</b>						
Segment result	17,047	30,267	-	-		47,314
Unallocated corporate expenses						(11,136)
Other income						268
Finance costs						(65)
Share of results of associates	2,061	(5)	-	-		2,056
Share of results of jointly controlled entities	-	119	-	-		119
<b>Profit before taxation</b>						<b>38,556</b>

Inter-segment sales are charged at market price or, where no market price is available, at terms determined and agreed by both parties.

Notes to the Condensed Consolidated Financial Statements *(continued)**For the six months ended 30th September, 2005***5. PROFIT BEFORE TAXATION**

Profit before taxation has been arrived at after charging:

	Six months ended	
	30/9/2005 HK\$'000	30/9/2004 HK\$'000
Depreciation and amortisation of property, plant and equipment	<b>10,997</b>	17,482
Less: Amount capitalised in respect of contracts in progress	<b>(714)</b>	(799)
	<b>10,283</b>	16,683
Amortisation of goodwill (included in administrative expenses)	–	1,153
Share of tax of associates (included in share of results of associates)	<b>331</b>	340
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	<b>390</b>	–

**6. TAXATION**

	Six months ended	
	30/9/2005 HK\$'000	30/9/2004 HK\$'000
The (credit) charge comprises:		
Hong Kong Profits Tax:		
Current period	<b>1,871</b>	21
Overprovision in prior periods	<b>(1,605)</b>	–
	<b>266</b>	21
Overseas taxation	–	113
Deferred taxation	<b>(447)</b>	1,138
Taxation attributable to the Company and its subsidiaries	<b>(181)</b>	1,272

Hong Kong Profits Tax is calculated at the rate of 17.5% (2004: 17.5%) of the estimated assessable profits for the period.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Condensed Consolidated Financial Statements *(continued)**For the six months ended 30th September, 2005***7. DIVIDENDS**

	Six months ended	
	30/9/2005 HK\$'000	30/9/2004 HK\$'000
Interim dividend – 3.0 HK cents (2004: Nil) per share	<b>17,391</b>	–

The amount of the interim dividend declared for the six months ended 30th September, 2005, which will be payable in scrip form with a cash option, has been calculated by reference to the 579,712,862 issued ordinary shares outstanding as at the date of this interim report.

During the period, a final dividend for the year ended 31st March, 2005 of 6.0 HK cents per share, amounting to approximately HK\$34,602,000, was approved by, and payable to, the shareholders.

**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended	
	30/9/2005 HK\$'000	30/9/2004 HK\$'000
Earnings:		
Earnings for the purposes of basic earnings per share	<b>45,754</b>	36,855
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>576,699,394</b>	400,000,000

Under the reverse acquisition method of accounting as described in note 1, the 400,000,000 ordinary shares issued by the Company to PYI to effect the Acquisition are deemed to be issued on 1st April, 2004 for the purpose of calculating the basic earnings per share.

Pursuant to the Acquisition and prior to 31st March, 2005, the Company issued and allotted 113,600,000 ordinary shares for the acquisition of entire equity interest in, and shareholder's loan to, Hidden Advantage Investments Limited and a further 45,070,995 ordinary shares by way of an open offer for additional working capital purpose. Details of these and other changes in the issued share capital of the Company are set out in the Group's annual consolidated financial statements for the year ended 31st March, 2005. At 31st March, 2005 and 30th September, 2005, the Company's ordinary shares in issue amounted to 576,699,394.

No diluted earnings per share has been presented as no potential ordinary shares were outstanding during both periods.



Notes to the Condensed Consolidated Financial Statements *(continued)**For the six months ended 30th September, 2005***9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK\$4,279,000 (2004: HK\$2,148,000) on property, plant and equipment to expand and upgrade its operating capacity. The Group also disposed of property, plant and equipment with an aggregate carrying value of approximately HK\$2,911,000 (2004: HK\$1,796,000).

**10. DEBTORS, DEPOSITS AND PREPAYMENTS**

The Group's credit terms for contracting business are negotiated at terms determined and agreed with its trade customers.

The following is an aged analysis of trade debtors at the reporting date:

	30/9/2005 HK\$'000	31/3/2005 HK\$'000
Within 90 days	<b>241,622</b>	327,311
More than 90 days and within 180 days	<b>16,345</b>	2,794
More than 180 days	<b>67,600</b>	66,175
	<b>325,567</b>	396,280

**11. CREDITORS AND ACCRUED EXPENSES**

The following is an aged analysis of trade creditors at the reporting date:

	30/9/2005 HK\$'000	31/3/2005 HK\$'000
Within 90 days	<b>213,498</b>	217,410
More than 90 days and within 180 days	<b>4,976</b>	1,129
More than 180 days	<b>14,741</b>	17,052
	<b>233,215</b>	235,591

**12. BANK BORROWINGS**

	30/9/2005 HK\$'000	31/3/2005 HK\$'000
Bank borrowings comprise:		
Bank loan	<b>105,000</b>	180,000
Bank overdrafts	<b>21,306</b>	6,984
	<b>126,306</b>	186,984

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For the six months ended 30th September, 2005

**13. CONTINGENT LIABILITIES**

	30/9/2005 HK\$'000	31/3/2005 HK\$'000
Outstanding performance bonds in respect of construction contracts	<b>130,908</b>	310,503

In addition, a subsidiary of the Company is a defendant in a lawsuit brought during 2002 claiming approximately HK\$1,733,000 relating to the outstanding sum of the contract works done by a sub-contractor, Swee Kheng & Aster Marble Company Limited ("Swee Kheng"). The subsidiary filed a defence and counterclaim claiming payment from Swee Kheng of a sum of approximately HK\$162,000. The subsidiary has contested the claim vigorously and no provision has been made in the financial statements.

**14. COMMITMENTS**

	30/9/2005 HK\$'000	31/3/2005 HK\$'000
Expenditure in respect of acquisition of equity investments contracted for but not provided in the financial statements	–	48,126

**15. RELATED PARTY TRANSACTIONS**

During the period, the Group entered into the following transactions with the subsidiaries and associates of PYI, its ultimate holding company, and the subsidiaries of ITC Corporation Limited ("ITC"), a substantial shareholder of PYI:

Class of related party	Nature of transactions	Six months ended	
		30/9/2005 HK\$'000	30/9/2004 HK\$'000
Associates and jointly controlled entities of the Group	Construction works charged by the Group	–	41,813
	Purchase of concrete products by the Group	<b>112</b>	36
	Subcontracting fees charged to the Group	–	1,917
	Project management fee charged by the Group	<b>825</b>	300
	Service fee charged by the Group	<b>29</b>	66
Fellow subsidiaries of the Group	Construction works charged by the Group	<b>242</b>	370
	Rentals and related building management fee charged to the Group	<b>5,706</b>	2,304
	Rentals charged by the Group	–	86
	Interest charged to the Group	–	345
Associates of PYI	Project management fee charged by the Group	–	770
Subsidiaries of ITC	Purchase of building materials and related installation works by the Group	–	16
Other related companies	Subcontracting fees charged by the Group	–	7
	Service fee charged to the Group	–	423

Other related companies are companies under common directorship or common control with ITC.