

## 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, an international business company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 21, 22 and 23, respectively.

## 2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January, 2005 with the exception of Hong Kong Interpretation 3 “Revenue - pre-completion contracts for the sale of development properties” (“HK-INT 3”) which was early adopted in the consolidated financial statements for the year ended 31st March, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly-controlled entities have been changed as required by HKAS 1 “Presentation of financial statements”. The changes in presentation have been applied retrospectively. 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 and prior accounting years are prepared and presented.

For the year ended 31st March, 2006

## 2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

### Business combinations

In the current year, the Group has applied HKFRS 3 “Business combinations” (“HKFRS 3”) which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

#### *Goodwill*

In previous years, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$6,720,000 has been transferred to the Group’s retained profits on 1st April, 2005.

Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

#### *Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)*

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place.

In previous years, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in goodwill reserves, and negative goodwill arising on acquisitions after 1st April, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised negative goodwill of HK\$69,426,000 which was previously presented as a deduction from assets with a corresponding increase in the Group’s retained profits as at 1st April, 2005 (see note 3 for the financial impact).

**2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES** *(Continued)***Owner-occupied leasehold interest in land**

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 “Leases” (“HKAS 17”). 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 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. Comparative figures have been restated (see note 3 for the financial impact). 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.

**Financial instruments**

In the current year, the Group has applied HKAS 32 “Financial instruments: Disclosure and Presentation” (“HKAS 32”) and HKAS 39 “Financial instruments: Recognition and Measurement” (“HKAS 39”). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of 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 the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

For the year ended 31st March, 2006

## 2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Classification and measurement of financial assets and financial liabilities (Continued)*

By 31st March, 2005, the Group classified and measured its investments equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group has classified and measured its investments or equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans assets and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

On 1st April, 2005, the Group classified and measured its investments and equity securities in accordance with the transitional provisions of HKAS 39. As a result of the adoption of HKAS 39, the Group redesignated "investments in securities" amounting to HK\$53,105,000 as "available-for-sale investments" and HK\$635,000 as "financial assets at fair value through profit and loss" as at 1st April, 2005, respectively.

#### *Financial assets and financial liabilities other than debt and equity securities*

From 1st April, 2005 onwards, the Group has classified and measured 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. As mentioned above, financial assets under HKAS 39 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 carried at amortised cost using the effective interest method after initial recognition. These requirements of HKAS 39 did not have any material financial impact to the Group.

## 2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Derecognition*

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st April, 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1st April, 2005 have not been restated. As at 31st March, 2006, the Group's bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK\$6,026,000 have been recognised on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. This change in accounting policy has had no material effect on results for the current year.

#### **Investment properties**

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property" ("HKAS 40"). The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st April, 2005 onwards. The amount held in the investment property revaluation reserve of HK\$37,602,000 at 1st April, 2005 has been transferred to the Group's retained profits (see note 3 for the financial impact).

For the year ended 31st March, 2006

**2. APPLICATION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES** *(Continued)***Deferred taxes related to investment properties**

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied Hong Kong Standing Interpretations Committee Interpretation 21 "Income taxes - recovery of revalued non-depreciable assets" ("HK(SIC) Interpretation 21") which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (see note 3 for the financial impact).

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the consolidated financial statements of the Group, except that the Group is not yet in a position to determine the financial impact of HKAS 39 and HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosure <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>4</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) - INT 9	Reassessment of embedded derivatives <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st June, 2006.

For the year ended 31st March, 2006

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

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Increase in fair value changes of investment properties	244,159	–
Fair value gain on transfer of properties held for sales to investment properties	207,259	–
Decrease in release of negative goodwill of subsidiaries	(59,507)	–
Recognition of discount arising from acquisition of additional interest in a subsidiary	9,626	–
Increase in deferred taxation charge in respect of increase in fair value changes of investment properties	(87,579)	–
Increase in profit for the year	<u>313,958</u>	<u>–</u>
Attributable to:		
Equity holders of the parent	164,118	–
Minority interests	149,840	–
	<u>313,958</u>	<u>–</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)**

The cumulative effects of the application of the new HKFRSs on the Group as at 31st March, 2005 and 1st April, 2005 are summarised below:

	At 31st March, 2005 (originally stated) HK\$'000	Retrospective adjustments HK\$'000	At 31st March, 2005 (restated) HK\$'000	Prospective adjustments HK\$'000	At 1st April, 2005 (restated) HK\$'000
Balance sheet items					
<b>Impact of HKAS 17:</b>					
Property, plant and equipment	278,185	(15,425)	262,760	–	262,760
Prepaid lease payments	–	15,425	15,425	–	15,425
<b>Impact of HKAS 40:</b>					
Interests in associates	59,824	–	59,824	(532)	59,292
<b>Impact of HKFRS 3:</b>					
Negative goodwill	(69,426)	–	(69,426)	69,426	–
<b>Impact of HKAS 39:</b>					
Investments in securities – non-current	53,015	–	53,015	(53,015)	–
Available-for-sale investments	–	–	–	53,015	53,015
Investments in securities – current	635	–	635	(635)	–
Financial assets at fair value through profit and loss	–	–	–	635	635
<b>Impact of HK(SIC)-INT 21:</b>					
Deferred taxation liabilities	(50,488)	(2,626)	(53,114)	–	(53,114)
Other assets and liabilities	1,748,199	–	1,748,199	–	1,748,199
	<u>2,019,944</u>	<u>(2,626)</u>	<u>2,017,318</u>	<u>68,894</u>	<u>2,086,212</u>
Share capital and other reserves	392,552	–	392,552	–	392,552
Goodwill reserve	(6,720)	–	(6,720)	6,720	–
Investment property revaluation reserve	39,121	(1,519)	37,602	(37,602)	–
Retained profits	726,244	–	726,244	99,776	826,020
Minority interests	–	867,640	867,640	–	867,640
Total effects on equity	1,151,197	866,121	2,017,318	68,894	2,086,212
Minority interests	868,747	(868,747)	–	–	–
	<u>2,019,944</u>	<u>(2,626)</u>	<u>2,017,318</u>	<u>68,894</u>	<u>2,086,212</u>



For the year ended 31st March, 2006

**3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)**

The financial effects of the application of the new HKFRSs to the Group's equity at 1st April, 2004 are summarised below:

	As at 31st March, 2004 (originally stated) HK\$'000	Reclassification HK\$'000	As at 1st April, 2004 (restated) HK\$'000	Adjustments HK\$'000	As at 1st April, 2004 (restated) HK\$'000
Share capital and other reserves	373,965	-	373,965	-	373,965
Investment property revaluation reserve	4,459	-	4,459	(2,942)	1,517
Retained profits	563,522	-	563,522	-	563,522
Equity attributable to equity holders of the parent	941,946	-	941,946	(2,942)	939,004
Minority interests	-	622,920	622,920	(2,146)	620,774
Total equity	<u>941,946</u>	<u>622,920</u>	<u>1,564,866</u>	<u>(5,088)</u>	<u>1,559,778</u>
Minority interests	<u>622,920</u>	<u>(622,920)</u>	<u>-</u>	<u>-</u>	<u>-</u>

**4. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

**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.

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

##### **Basis of consolidation** *(Continued)*

All significant inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

##### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

##### **Goodwill**

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate and jointly-controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st April, 2001, the Group has discontinued amortisation from 1st April, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Goodwill** *(Continued)*

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill and any excess of an acquirer's interest in the net fair value of an acquirer's identifiable assets, liabilities and contingent liabilities over cost is accounted for as a discount on acquisition.

**Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")**

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly-controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly-controlled entity in the period in which the investment is acquired.

As explained in note 2, all negative goodwill as at 1st April, 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

**Investments in subsidiaries**

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

**Interests in associates**

Associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

##### **Interests in associates** *(Continued)*

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

##### **Joint ventures**

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly-controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly-controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly-controlled entities recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

##### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets (disposal groups) previous carrying amount and fair value less costs to sell.

**4. 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.

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

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

**Properties under development**

Costs relating to the development of properties including the cost of land, construction, financing and other related expenses, are recognised using the specific identification method, and are capitalised and included as properties under development until such time they are transferred to properties for sale. Properties under development are stated at the lower of cost and net realisable value.

**Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

**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 (programmes in which the Group is entitled to contract a buyer prior to completion of the construction of the property), 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.

For the year ended 31st March, 2006

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### **Financial assets**

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are mainly those financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including retention monies receivable, debtors, amounts due from associates, amount due from jointly-controlled entities, loans to minority shareholders of subsidiaries and dividend receivable) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Financial instruments** *(Continued)***Financial assets** *(Continued)**Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment loss on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

*Bank balances, deposits and cash*

Bank balances, deposits and cash comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Financial liability and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

For the year ended 31st March, 2006

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

##### **Financial instruments** *(Continued)*

##### **Financial liability and equity** *(Continued)*

##### *Financial liabilities*

Financial liabilities including creditors and accrued charges, amounts due to jointly-controlled entities and amounts due to minority shareholders are subsequently measured at amortised cost, using the effective interest rate method.

##### *Bank borrowings*

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

##### **Inventories**

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



**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***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.

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.

For the year ended 31st March, 2006

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

##### **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 measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

- (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, neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred in respect of the transaction can be measured reliably;
- (v) property management income, in the period in which services are rendered;
- (vi) interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- (vii) dividend income is recognised when the shareholder's rights to receive payments have been established.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets 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.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**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.

For the year ended 31st March, 2006

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

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

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 base 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.

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**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Foreign currencies** *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign 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.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the entity's accounting policies which are described in note 4. Management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements within the next financial year.

**Deferred tax**

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the Group's ability to utilise tax benefits through future earnings. In case where the actual future profits generated are less than expected, a reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset of HK\$6,760,000 mainly arises from tax losses which are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. While the current financial models indicate that the tax losses can be utilised in future, any changes in assumptions, estimates and tax regulation can affect the recoverability of this deferred tax assets.

**6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include retention monies receivable, debtors, amounts due from associates, amounts due from jointly-controlled entities, loans to minority shareholders of subsidiaries, dividends receivables, pledged bank balances, bank balances and cash, creditors and accrued charges, amounts due to jointly-controlled entities, amounts due to minority shareholders of subsidiaries and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

For the year ended 31st March, 2006

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Price risk

The Group's financial assets at fair value through profit and loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

### Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have any policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

### Liquidity risk

The Group finances its operations by a combination of borrowings and equity. Adequate lines of credit are maintained to ensure the necessary liquidity is available when required. The management monitors the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

For the year ended 31st March, 2006

**7. TURNOVER**

Turnover for the year comprises:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Building construction and foundation piling	<b>691,137</b>	561,022
Sales of consumer goods	<b>610,669</b>	680,693
Sales of properties	<b>970,198</b>	99,827
Rental income	<b>77,264</b>	70,061
Others	<b>11,965</b>	6,324
	<b>2,361,233</b>	1,417,927

**8. 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 (unallocated) : Investment holding and provision of management services

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 8. 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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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	691,137	561,022	610,669	680,693	970,198	99,827	77,264	70,061	11,965	6,324	2,361,233	1,417,927
Segment results	(66,026)	(10,904)	(24,136)	(3,314)	376,827	(20,697)	292,367	33,721	5,251	5,346	584,283	4,152
Net income from investments											7,603	2,886
Unallocated corporate expenses											(3,008)	(1,430)
Finance costs											(82,214)	(32,258)
Share of results of associates	-	-	(155)	1	-	-	-	-	992	3,701	837	3,702
Share of results of jointly-controlled entities	(95)	-	4,048	5,553	503	4,102	-	-	(284)	-	4,172	9,655
Write off of debts due from jointly-controlled entities	-	-	-	-	-	(3,873)	-	-	-	-	-	(3,873)
Gain on disposal of subsidiaries											44,818	233,662
Loss on disposal of associates											(256)	-
Write off of goodwill arising from acquisition of a subsidiary											-	(2,463)
Discount on acquisition of additional interests in a subsidiary											9,626	-
Release of negative goodwill of subsidiaries											-	59,507
Profit before taxation											565,861	273,540
Taxation (charge) credit											(147,768)	1,403
Profit for the year											418,093	274,943



For the year ended 31st March, 2006

**8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**
**(i) Business segments (Continued)**
**Balance sheet**

	Construction activities		Garment activities		Property development activities		Property investment activities		Others		Elimination		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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
														(Restated)
<b>ASSETS</b>														
Segment assets	367,845	402,283	276,031	343,151	2,509,337	2,183,162	1,990,630	1,343,201	2,274,929	2,534,471	(2,281,141)	(2,514,766)	5,137,631	4,291,502
Interests in associates	-	-	201	611	-	6,156	-	-	45,840	44,356	-	-	46,041	51,123
Interests in jointly-controlled entities	3	-	20,002	15,954	43,931	30,442	-	-	-	-	-	-	63,936	46,397
Unallocated corporate assets													670,969	63,792
Consolidated total assets													5,918,577	4,452,814
<b>LIABILITIES</b>														
Segment liabilities	188,649	307,035	134,283	111,401	1,598,837	1,448,630	985,338	1,066,924	148,577	212,713	(2,281,141)	(2,514,766)	774,543	631,937
Unallocated corporate liabilities													2,584,920	1,803,559
Consolidated total liabilities													3,359,463	2,435,496
<b>OTHER INFORMATION</b>														
Additions to property, plant and equipment														
- The Group	5,803	20,164	8,416	9,639	4,819	31	154	-	784	510	-	-	19,976	30,344
- Acquired on acquisitions of subsidiaries	-	-	-	182	159	-	-	-	-	-	-	-	159	182
Depreciation and amortisation of property, plant and equipment	35,165	37,964	7,109	7,237	919	630	130	115	353	331	-	-	43,676	46,277
Amortisation of prepaid lease payments	-	-	397	392	-	-	-	-	-	-	-	-	397	392
(Gain) loss on disposal of property, plant and equipment	(384)	793	(386)	(327)	-	-	-	-	-	-	-	-	(770)	466
Allowance for bad and doubtful debts	15,546	-	7,222	6,196	-	3,873	-	-	-	-	-	-	22,768	10,069
Allowance for inventories	-	-	16,180	516	-	-	-	-	-	-	-	-	16,180	516

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

## (ii) Geographical segments

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

	Turnover	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	636,023	716,114
North America	350,491	419,273
Europe	238,896	250,322
The People's Republic of China (other than Hong Kong) (the "PRC")	926,792	11,820
Others	209,031	20,398
	<b>2,361,233</b>	<b>1,417,927</b>

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	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,249,404	1,792,311	12,518	21,309
PRC	2,192,605	1,564,317	6,747	1,334
North America	444,412	244,046	-	-
The Republic of Indonesia	108,203	143,924	699	7,701
Others	141,458	144,807	12	-
	<b>5,136,082</b>	3,889,405	<b>19,976</b>	30,344
Unallocated assets	782,495	563,409	-	-
	<b>5,918,577</b>	4,452,814	<b>19,976</b>	30,344

For the year ended 31st March, 2006

**9. FINANCE COSTS**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	<b>98,007</b>	53,500
Bank borrowings wholly repayable after five years	<b>2,891</b>	1,094
Other borrowings wholly repayable within five years	<b>184</b>	2,202
Finance leases	<b>433</b>	86
	<hr/>	<hr/>
Total borrowing costs	<b>101,515</b>	56,882
Less: Amount capitalised under property development projects	<b>(19,301)</b>	(24,624)
	<hr/>	<hr/>
	<b>82,214</b>	32,258
	<hr/> <hr/>	<hr/> <hr/>

**10. SHARE OF RESULTS OF JOINTLY-CONTROLLED ENTITIES**

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Share of results	<b>4,172</b>	5,782
Waiver of debts	–	3,873
	<hr/>	<hr/>
	<b>4,172</b>	9,655
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 11. PROFIT BEFORE TAXATION

	2006 HK\$'000	2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment		
Owned assets	42,327	45,781
Assets held under finance leases	1,349	496
	<u>43,676</u>	<u>46,277</u>
Less: Amount capitalised in contract costs	(4,399)	(4,488)
	<u>39,277</u>	<u>41,789</u>
Amortisation of prepaid lease payments	397	392
Staff costs (including directors' emoluments)	200,899	199,536
Less: Amount capitalised in contract costs	(59,456)	(65,957)
	<u>141,443</u>	<u>133,579</u>
Auditors' remuneration	3,814	2,814
Loss on disposal of property, plant and equipment	–	466
Minimum lease payment paid in respect of land and buildings	4,385	3,406
Unrealised loss on investments in securities	–	127
Share of tax of associates (included in share of results of associates)	1,071	1,170
Share of tax of jointly-controlled entities (included in share of results of jointly-controlled entities)	39	226
Allowance for bad and doubtful debts	22,768	10,069
Allowance for inventories	16,180	516
and after crediting:		
Bank interest income	3,787	2,787
Other interest income	70	45
Exchange gain	3,693	6,864
Fair value gain on financial assets at fair value through profit and loss	98	–
Gain on disposal of property, plant and equipment	770	–
Gain on disposal of permanent textile quota entitlements	–	352
Gross rental income from investment properties		
– included in turnover	77,264	70,061
– included in other operating income	9,276	4,342
	<u>86,540</u>	<u>74,403</u>
Less: Direct operating expenses from investment properties that generated rental income during the year	(34,859)	(22,667)
	<u>51,681</u>	<u>51,736</u>

For the year ended 31st March, 2006

**12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**
**(i) Information regarding directors' emoluments**

The emoluments paid or payable to each of the seven (2005: seven) directors were as follows:

	2006				2005	
	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance related incentive payments HK\$'000	Retirement benefits scheme contribution HK\$'000	Total HK\$'000	Total HK\$'000
			(Note)			
James WONG Sai-Wing	-	2,500	-	-	2,500	3,500
Madeline WONG May-Lung	-	-	-	-	-	-
William FAN Chung-Yue	50	-	-	-	50	50
Herman FUNG Man-Mei	-	2,160	540	-	2,700	3,655
Clement YOUNG Kwok-Hung	50	-	-	-	50	50
Johnny WONG Chung-Ah	50	-	-	-	50	50
Peter WONG Man-Kong	50	-	-	-	50	38
	<b>200</b>	<b>4,660</b>	<b>540</b>	<b>-</b>	<b>5,400</b>	<b>7,343</b>

Note: The performance related incentive payments are determined with reference to the operating results, individual performance and comparable market statistics during both years.

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

The five highest paid individuals of the Group in the year include two directors (2005: two directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals, who are not directors, are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries	3,436	3,445
Bonuses paid and payable	2,989	1,908
Retirement benefit scheme contributions	234	229
	<b>6,659</b>	<b>5,582</b>

For the year ended 31st March, 2006

**12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** (Continued)**(ii) Information regarding employees' emoluments** (Continued)

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

	Number of employees	
	2006	2005
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	<b>3</b>	<b>1</b>
	<b>3</b>	<b>3</b>
	<b>3</b>	<b>3</b>

**13. 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.

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.

For the year ended 31st March, 2006

**13. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS (Continued)**

	<b>2006</b> <b>HK\$'000</b>	2005 <b>HK\$'000</b>
Contributions payable to the Group's MPF Schemes	<b>2,052</b>	4,949
Contributions payable to the Group's Provident Funds	<b>749</b>	731
	<hr/>	<hr/>
Contributions charged to the income statement	<b>2,801</b>	5,680
	<hr/> <hr/>	<hr/> <hr/>

*Note: There are no forfeited contributions for both years.*

**14. TAXATION CHARGE (CREDIT)**

	<b>2006</b> <b>HK\$'000</b>	2005 <b>HK\$'000</b> (Restated)
The charge (credit) for the year comprises:		
Hong Kong Profits Tax		
Current year	<b>1,425</b>	1,032
Underprovision in prior years	<b>488</b>	3,261
Other jurisdictions	<b>63,080</b>	1,630
	<hr/>	<hr/>
	<b>64,993</b>	5,923
Deferred taxation charge (credit) (note 26)	<b>82,775</b>	(7,326)
	<hr/>	<hr/>
	<b>147,768</b>	(1,403)
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of 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, 2006

**14. TAXATION CHARGE (CREDIT) (Continued)**

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 (Restated)
Profit before taxation	<u>565,861</u>	<u>273,540</u>
Tax charge at Hong Kong Profits Tax rate at 17.5% (2005: 17.5%)	99,026	47,870
Tax effect of share of results of associates	(147)	(648)
Tax effect of share of results of jointly-controlled entities	(730)	(1,690)
Tax effect of expenses not deductible for tax purpose	20,222	9,677
Tax effect of income not taxable for tax purpose	(27,456)	(69,168)
Underprovision in prior years	488	3,261
Tax effect of deferred taxation assets not recognised	7,310	16,522
Utilisation of tax losses previously not recognised	(4,187)	(740)
Effect of different tax rates of subsidiaries operating in other jurisdictions	53,111	(5,782)
Others	<u>131</u>	<u>(705)</u>
Taxation charge (credit) for the year	<u>147,768</u>	<u>(1,403)</u>

**15. DIVIDEND**

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Proposed final dividend of 4 cents (2005: 3 cents) per ordinary share	<u>22,055</u>	<u>16,541</u>

The final dividend of 4 cents per ordinary share (2005: 3 cents) has been proposed by the directors and is subject to approval by the shareholders in the forth coming annual general meeting.



For the year ended 31st March, 2006

**16. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK\$189,838,000 (2005: HK\$179,263,000) and on 551,368,153 (2005: 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 and prior 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.

The following table summarises the impact of adoption of new HKFRSs on basic earnings per share:

	Impact on basic earnings per share	
	2006 <i>HK cents</i>	2005 <i>HK cents</i>
Reported figures before adjustments	4.6	32.5
Adjustments arising from the adoption of new HKFRSs	29.8	–
Restated	<u>34.4</u>	<u>32.5</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings		Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	Hong Kong HK\$'000	Overseas HK\$'000					
<b>THE GROUP</b>							
<b>COST</b>							
At 1st April, 2004							
As originally stated	80,997	69,920	12,781	417,507	9,598	33,508	624,311
Effect on adoption of HKAS 17	-	(18,936)	-	-	-	-	(18,936)
As restated	80,997	50,984	12,781	417,507	9,598	33,508	605,375
Currency realignment	-	29	5	5	1	2	42
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)
At 31st March, 2005, as restated	80,997	53,131	13,142	438,536	9,952	31,798	627,556
Currency realignment	-	830	152	141	39	88	1,250
Transfer from properties held for sale	-	14,625	-	-	-	-	14,625
Acquisition of a subsidiary	-	-	-	-	40	119	159
Transfer to investment properties	(1,300)	-	-	-	-	-	(1,300)
Disposal of subsidiaries	-	-	-	-	-	(78)	(78)
Additions	-	5,931	3,754	4,963	1,957	3,371	19,976
Disposals	-	-	-	(3,957)	(1,482)	(6,901)	(12,340)
Transfer to assets classified as held for sale	(9,257)	(25,162)	(2,768)	(36,109)	(2,260)	(5,626)	(81,182)
At 31st March, 2006	70,440	49,355	14,280	403,574	8,246	22,771	568,666
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st April, 2004							
As originally stated	13,409	20,465	11,873	247,473	7,693	26,624	327,537
Effect on adoption of HKAS 17	-	(3,135)	-	-	-	-	(3,135)
As restated	13,409	17,330	11,873	247,473	7,693	26,624	324,402
Currency realignment	-	5	4	4	1	1	15
Provided for the year	1,642	1,516	361	39,117	967	2,674	46,277
Eliminated on disposals	-	(390)	(7)	(404)	(2,175)	(2,922)	(5,898)
At 31st March, 2005, as restated	15,051	18,461	12,231	286,190	6,486	26,377	364,796
Currency realignment	-	164	130	119	16	63	492
Transfer to investment properties	(243)	-	-	-	-	-	(243)
Provided for the year	1,620	1,620	827	35,827	1,471	2,311	43,676
Eliminated on disposals	-	-	-	(3,436)	(1,417)	(6,745)	(11,598)
Transfer to assets classified as held for sale	(1,426)	(13,840)	(1,558)	(28,773)	(1,078)	(4,243)	(50,918)
At 31st March, 2006	15,002	6,405	11,630	289,927	5,478	17,763	346,205
<b>NET BOOK VALUES</b>							
At 31st March, 2006	55,438	42,950	2,650	113,647	2,768	5,008	222,461
At 31st March, 2005	65,946	34,670	911	152,346	3,466	5,421	262,760

For the year ended 31st March, 2006

**17. PROPERTY, PLANT AND EQUIPMENT** (Continued)

Details of the leasehold land and buildings are as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Medium-term leases:		
Hong Kong	<b>55,438</b>	65,946
Overseas	<b>23,490</b>	32,756
Long leases in the PRC	<b>19,460</b>	1,914
	<u><b>98,388</b></u>	<u>100,616</u>

Included in the net book value of property, plant and equipment of the Group at 31st March, 2006 is an amount of HK\$11,193,000 (2005: HK\$12,542,000) in respect of assets held under finance leases.

	<b>Furniture, fixtures and equipment</b> <i>HK\$'000</i>
<b>THE COMPANY</b>	
<b>COST</b>	
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	<u>72</u>
<b>DEPRECIATION</b>	
At 1st April, 2004	70
Provided for the year	<u>1</u>
At 31st March, 2005	71
Provided for the year	<u>1</u>
<b>At 31st March, 2006</b>	<u>72</u>
<b>NET BOOK VALUES</b>	
<b>At 31st March, 2006</b>	<u><u>–</u></u>
At 31st March, 2005	<u><u>1</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**17. PROPERTY, PLANT AND EQUIPMENT** (Continued)

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land	2% or over the unexpired terms of the leases, whichever is the shorter
Buildings	2% to 5%
Plant and machinery	10% to 30%
Motor vehicles	20% to 30%
Furniture, fixtures and equipment	20% to 33 $\frac{1}{3}$ %

**18. PROPERTIES UNDER DEVELOPMENT**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At the beginning of the year	<b>582,586</b>	488,773
Currency realignment	<b>17,662</b>	3,031
Arising on acquisition of subsidiaries	<b>594,754</b>	–
Additions	<b>258,550</b>	459,184
Disposals	–	(37,687)
Eliminated on disposal of subsidiaries	<b>(243,668)</b>	(330,715)
	<b>1,209,884</b>	582,586

Details of the properties under development are as follows:

	<b>2006</b>		2005	
	<b>HK\$'000</b>		HK\$'000	
Medium-term leases in Hong Kong	<b>3,582</b>	3,582		
Long leases in the PRC	<b>1,206,302</b>	579,004		
	<b>1,209,884</b>	582,586		

Properties under development included interest expenses and other borrowing costs of HK\$489,000 (2005: HK\$1,827,000) incurred and capitalised during the year.

For the year ended 31st March, 2006

**19. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments represent property interest in leasehold land in the PRC under medium-term leases.

Analysed for reporting purposes as:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current	397	395
Non-current	<u>15,035</u>	<u>15,030</u>
	<u><b>15,432</b></u>	<u>15,425</u>

**20. INVESTMENT PROPERTIES**

	<b>THE GROUP</b>	
	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
FAIR VALUE		
At the beginning of the year	1,329,400	1,267,575
Additions	6,745	3,212
Arising on acquisition of subsidiaries	11,500	–
Transfer from properties held for sale	394,231	–
Transfer from property, plant and equipment	1,057	–
Increase in fair value recognised in the consolidated income statement	244,159	–
Surplus arising from revaluation	<u>–</u>	<u>58,613</u>
At the end of the year	<u><b>1,987,092</b></u>	<u>1,329,400</u>

The fair value of the Group's investment properties at 31st March, 2006 has been arrived at on the basis of a valuation carried out by Savills Valuation and Professional Services Limited, Knight Frank Hong Kong Limited and Chesterton Petty Limited, independent qualified professional valuers not connected with the Group, and except for the investment property located in Malaysia whose carrying amount at the balance sheet was stated by reference to its subsequent disposal value. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**20. INVESTMENT PROPERTIES** (Continued)

Details of the investment properties are as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Freehold land in Malaysia	<b>139,600</b>	142,100
Medium-term leases in Hong Kong	<b>503,260</b>	402,300
Medium-term leases in PRC	<b>394,232</b>	–
Long lease in Hong Kong	<b>950,000</b>	785,000
	<b><u>1,987,092</u></b>	<b><u>1,329,400</u></b>

All the Group's investment properties are held for the purpose of rental under operating leases and/or capital appreciation.

**21. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b><u>846,413</u></b>	<b><u>839,466</u></b>

For the year ended 31st March, 2006

**21. INVESTMENTS IN SUBSIDIARIES (Continued)**

Details of the Company's principal subsidiaries at 31st March, 2006 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 effectively 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
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
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	-	58.81	Property management
Chinney Treasury Limited	Hong Kong	Hong Kong	HK\$1	100	-	Financing
Cosmos Wealth Development Limited	Hong Kong	Hong Kong	HK\$1,000	-	58.81	Property development
CP Parking Limited (formerly CP Management Limited)	Hong Kong	Hong Kong	HK\$2	-	58.81	Carpark management
Debest Development Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property development

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 21. INVESTMENTS 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 effectively held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
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	–	58.81	Property holding and letting
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	–	28.23	Property development
Guangzhou Honkwok Hengsheng Land Development Ltd	PRC	PRC	RMB220,000,000	–	35.29	Property development
Guangzhou Hua Yin Land Development Co., Ltd.	PRC	PRC	RMB8,000,000	–	52.93	Property development



For the year ended 31st March, 2006

**21. INVESTMENTS 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 effectively held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Hon Cheong Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property holding and letting
Hon Kwok Land Investment (China) Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Investment holding
Hon Kwok Land Investment Company, Limited	Hong Kong	Hong Kong	HK\$400,238,501	58.81	-	Investment holding
Hon Kwok Land Investment (Shenzhen) Co., Ltd.	PRC	PRC	HK\$30,000,000*	-	58.81	Property development
Hon Kwok Project Management Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Project management
Hon Kwok Treasury Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Financing
Honour Well Development Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property holding and letting
Island Parking Limited	British Virgin Islands	Hong Kong	US\$10	-	58.81	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	-	58.81	Property holding and letting
King Champion Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property holding and letting

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 21. INVESTMENTS 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 effectively held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
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\$20,000,000	–	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
Lido Parking Limited	British Virgin Islands	Hong Kong	US\$1	–	58.81	Property holding and letting
Multiway Apparel Limited	Hong Kong	Hong Kong	HK\$5,000,000	–	100.00	Garment trading
One City Hall Place Limited	Canada	Canada	C\$100	–	44.11***	Property development
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 Guanghai Investment Co., Ltd.	PRC	PRC	RMB200,000,000	–	47.05***	Property development
Shenzhen Honkwok Huaye Development Co., Ltd.	PRC	PRC	RMB50,000,000*	–	47.05***	Property development

For the year ended 31st March, 2006

**21. INVESTMENTS 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 effectively held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Spark Eagle Development Limited	Hong Kong	Malaysia	HK\$2	-	58.81	Property holding and letting
Star World Property Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property development
Victory Venture Development Limited	Hong Kong	Hong Kong	HK\$2	-	58.81	Property development
Wise Pacific Investment Limited	Hong Kong	Hong Kong	HK\$10,000	-	35.30	Money lending

\* *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.*

Certain 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<u>45,841</u>	<u>51,123</u>
Amounts due from associates (note)	<u>-</u>	<u>8,701</u>

*Note: The amounts were unsecured, non-interest bearing and had no fixed repayment terms.*

The directors of the Company consider that the carrying amounts of amounts due from associates approximate to their fair values.

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

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
46,158,319 (2005: 1,153,957,982) shares of Chinney Alliance Group Limited ("Chinney Alliance") at a closing price of HK\$0.32 (2005: HK\$0.025) each	<u>14,771</u>	<u>28,849</u>

Pursuant to a special resolution of Chinney Alliance passed on 6th June, 2005, every twenty-five shares of Chinney Alliance with a nominal value of HK\$0.01 each were consolidated into one new share of nominal value of HK\$0.25 each.

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.

Chinney Alliance is a company listed on the Stock Exchange and has a 31st December financial year end date. For the purpose of accounting for the result of the associate in the Group's financial statements, the latest financial statements of the associate have been used.

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.

For the year ended 31st March, 2006

**22. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES (Continued)**

The summarised financial information extracted from the most recently published audited financial statements of Chinney Alliance, the major associate of the Group, are set out as follows:

**Chinney Alliance Group Limited****Consolidated income statement**

For the year ended 31st December, 2005

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Turnover	<u>1,015,001</u>	<u>1,044,491</u>
Profit for the year	<u>3,452</u>	<u>12,940</u>

**Consolidated balance sheet**

At 31st December, 2005

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Other non-current assets	60,803	70,264
Current assets	377,770	448,902
Current liabilities	(279,222)	(358,708)
Non-current liabilities	<u>(1,883)</u>	<u>(6,185)</u>
Net assets	<u>157,468</u>	<u>154,273</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES/AMOUNTS DUE FROM JOINTLY-CONTROLLED ENTITIES**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>27,648</b>	46,397
Goodwill on acquisition	<b>16,286</b>	–
	<b>43,934</b>	46,397
Amounts due from jointly-controlled entities (note)	–	5,928

*Note: The amounts were unsecured, non-interest bearing and had no fixed repayment terms.*

The directors of the Company consider that the carrying amounts of amounts due from jointly-controlled entities approximate to their fair values.

Details of the Company's principal jointly-controlled entities at 31st March, 2006 are as follows:

Name of jointly-controlled entity	Place of incorporation/operation	Proportion of nominal value of issued ordinary shares effectively held by the Company		Principal activity
		Directly	Indirectly	
		%	%	
2012829 Ontario Inc.	Canada	–	28.92	Property development
Foshan Nanhai XinDa Land Development Ltd.	PRC	–	29.41	Property development
Guangzhou Lian Cheng Real Estate Co., Ltd.	PRC	–	29.41	Property development
King Success Limited	Hong Kong	–	28.92	Property development
SGA Holdings Limited	British Virgin Islands/ Hong Kong	–	50.00	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.

For the year ended 31st March, 2006

**23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES/AMOUNTS DUE FROM JOINTLY-CONTROLLED ENTITIES (Continued)**

The summarised financial information in respect of the Group's principal jointly-controlled entities are as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Financial position</b>		
Non-current assets	<u>217,002</u>	<u>6,419</u>
Current assets	<u>271,900</u>	<u>218,486</u>
Non-current liabilities	<u>295,584</u>	<u>39,808</u>
Current liabilities	<u>127,167</u>	<u>98,770</u>
<b>Results for the year</b>		
Turnover	<u>454,455</u>	<u>490,058</u>
Profit for the year	<u>8,345</u>	<u>19,310</u>

**24. GOODWILL**

	<b>THE GROUP</b> 2005 HK\$'000
<b>COST</b>	
Arising on acquisition of a subsidiary during the year ended 31st March, 2005 and balance at 31st March, 2005 and 2006	2,463
Arising on acquisition of additional interests in a subsidiary	32,572
Disposal of subsidiaries	<u>(32,572)</u>
At 31st March, 2006	<u>2,463</u>
<b>IMPAIRMENT</b>	
Recognised during the year ended 31st March, 2005 and balance at 31st March, 2005 and 2006	<u>2,463</u>
At 31st March, 2005 and 2006	<u>–</u>

In the prior year, 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, 2006

**25. NEGATIVE GOODWILL**

	<b>THE GROUP</b> <i>HK\$'000</i>
GROSS AMOUNT	
At 1st April, 2004 and 31st March, 2005	178,523
Derecognised upon the application of HKFRS 3 at 31st March, 2005	<u>(178,523)</u>
<b>At 31st March, 2006</b>	<u>–</u>
RELEASED TO INCOME	
At 1st April, 2004	49,590
Released in the year	<u>59,507</u>
At 31st March, 2005	109,097
Derecognised upon the application of HKFRS 3 at 31st March, 2005	<u>(109,097)</u>
<b>At 31st March, 2006</b>	<u>–</u>
CARRYING AMOUNT	
<b>At 31st March, 2006</b>	<u>–</u>
At 31st March, 2005	<u>69,426</u>

Until 31st March, 2005, negative goodwill is released to income on a straight line basis of three year, representing the remaining weighted average useful life of the depreciable assets required.

As explained in note 2, all negative goodwill arising on acquisition prior to 1st April, 2005 was derecognised as a result of the application of HKFRS 3.



For the year ended 31st March, 2006

**26. DEFERRED TAXATION**

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

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i> (Restated)
<b>THE GROUP</b>					
At 1st April, 2004					
As originally stated	(30,675)	(31,921)	6,811	160	(55,625)
Effect of changes in accounting policies (see note 3)	-	(5,088)	-	-	(5,088)
At 1st April, 2004, as restated	(30,675)	(37,009)	6,811	160	(60,713)
Credit to income during the year	4,200	-	3,118	8	7,326
Credit to equity during the year	-	3,566	-	-	3,566
Release upon disposal of properties under development	-	1,982	-	-	1,982
At 31st March, 2005, as restated	(26,475)	(31,461)	9,929	168	(47,839)
Credit (charge) to income during the year	3,561	(87,579)	1,411	(168)	(82,775)
Disposal of subsidiaries	-	11,172	-	-	11,172
Transfer to assets (liabilities) classified as held for sale	2,068	-	(3,429)	-	(1,361)
At 31st March, 2006	<u>(20,846)</u>	<u>(107,868)</u>	<u>7,911</u>	<u>-</u>	<u>(120,803)</u>

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Deferred taxation assets	6,760	5,275
Deferred taxation liabilities	<u>(127,563)</u>	<u>(53,114)</u>
	<u>(120,803)</u>	<u>(47,839)</u>

At the balance sheet date, the Group and the Company had unused tax losses of HK\$1,520,516,000 (2005: HK\$1,502,108,000) and HK\$56,603,000 (2005: HK\$61,522,000), respectively available to offset against future profits. A deferred taxation has been recognised in respect of HK\$65,200,000 (2005: HK\$56,737,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining HK\$1,455,316,000 (2005: HK\$1,445,371,000) 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, 2006

**27. INVESTMENTS IN SECURITIES**

Upon the application of HKAS 39 on 1st April, 2005, investment in securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details). Investment in securities as at 31st March, 2005 are set out below.

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

*Notes:*

- In the prior year, a non-wholly owned subsidiary acquired a 90% equity interest in a company operating in Mainland China and the non-wholly owned subsidiary had intended to dispose of 45% equity interest of the company to an independent third party. The management of the non-wholly owned subsidiary considered that they exercised no control or significant influence on the company, and accordingly, the results of the company were not consolidated into that of the Group for the year ended 31st March, 2005.*
- Included in capital contributions which were stated at carrying value is the Group's 8% 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 ended 31st March, 2005, HK\$500,000 registered capital was repatriated to the Group.*

For the year ended 31st March, 2006

**28. AVAILABLE-FOR-SALE INVESTMENTS**

Details of available-for-sale investments as at 31st March, 2006 are set out below:

	<b>THE GROUP</b> <i>HK\$'000</i>
Unlisted equity securities	1,300

The unlisted investments represent investment in Yongfengli Fashion (Shenzhen) Co. Ltd., a company incorporated in the PRC and engaged in the garment manufacture and trading businesses. They are measured at cost less impairment at each balance sheet date since their fair values cannot be measured reliably.

**29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**

Financial assets at fair value through profit and loss as at 31st March, 2006 are set out below:

	<b>THE GROUP</b> <i>HK\$'000</i>
Listed equity investments in Hong Kong	733

The fair value of financial assets at fair value through profit and loss are determined based on the quoted market bid prices available on the Stock Exchange.

**30. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	2,411	36,422
Work in progress	14,470	42,533
Finished goods	—	4,736
	<u>16,881</u>	<u>83,691</u>

Cost of inventories recognised as expense for the year amounted to HK\$496,275,000 (2005: HK\$659,840,000).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**31. PROPERTIES HELD FOR SALE**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
At the beginning of the year	<b>1,209,402</b>	960,378
Additions	<b>735,114</b>	361,705
Transfer to properties, plant and equipment	<b>(14,625)</b>	–
Transfer to investment properties	<b>(186,972)</b>	–
Currency realignment	<b>35,502</b>	12,357
Eliminated on sales of properties	<b>(766,146)</b>	(125,038)
	<u><b>1,012,275</b></u>	<u>1,209,402</u>
At the end of the year	<u><b>1,012,275</b></u>	<u>1,209,402</u>

Properties held for sale included completed properties of HK\$451,578,000 (2005: HK\$149,062,000) and incomplete properties with established pre-sale programme of HK\$560,697,000 (2005: HK\$1,060,340,000).

Interest expense and other borrowing costs incurred and capitalised in respect of incomplete properties were HK\$18,812,000 (2005: HK\$22,797,000).

**32. DEBTORS AND PREPAYMENTS**

Included in debtors and prepayments are trade debtors of HK\$255,059,000 (2005: HK\$102,830,000). The aging analysis of trade debtors is as follows:

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>217,385</b>	75,785
31 to 60 days	<b>8,791</b>	13,379
61 to 90 days	<b>10,554</b>	6,136
Over 90 days	<b>18,329</b>	7,530
	<u><b>255,059</b></u>	<u>102,830</u>
Total	<u><b>255,059</b></u>	<u>102,830</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.

The directors consider the carrying amounts of the Group's debtors at 31st March, 2006 approximate to their fair values.

For the year ended 31st March, 2006

**33. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK**

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<b>HK\$'000</b>
Contracts in progress at the balance sheet date comprised:		
Contract costs incurred	<b>5,339,458</b>	4,965,708
Add: Recognised profits less recognised losses	<b>475,940</b>	506,130
	<b>5,815,398</b>	5,471,838
Less: Progress billings	<b>(5,823,124)</b>	(5,455,866)
	<b>(7,726)</b>	15,972
Represented by:		
Amounts due from customers shown under current assets	<b>55,446</b>	48,048
Amounts due to customers shown under current liabilities	<b>(63,172)</b>	(32,076)
	<b>(7,726)</b>	15,972

Staff costs, hiring charges for plant and machinery and depreciation charges of HK\$59,456,000 (2005: HK\$65,957,000), HK\$37,590,000 (2005: HK\$16,145,569) and HK\$4,399,000 (2005: HK\$4,488,000), respectively, were included in contract costs.

**34. AMOUNTS DUE FROM/TO SUBSIDIARIES****THE COMPANY**

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company consider the carrying amounts of amounts due from/to subsidiaries approximate to their fair values.

**35. AMOUNTS DUE FROM ASSOCIATES/JOINTLY-CONTROLLED ENTITIES****THE GROUP**

The amounts are unsecured, non-interest bearing and repayable on demand. The directors of the Company consider the carrying amounts of the amounts due from associates/jointly-controlled entities approximate to their fair values.

For the year ended 31st March, 2006

### **36. LOANS TO MINORITY SHAREHOLDERS OF SUBSIDIARIES**

#### **THE GROUP**

The amounts are unsecured, bear interest at 5% and are repayable on demand. The directors of the Company consider the carrying amounts of loans to minority shareholders of subsidiaries approximate to their fair values.

### **37. PLEDGED BANK BALANCES**

#### **THE GROUP**

The amounts represent deposits pledged to bank to secure banking facilities granted to the Group and guarantees given on behalf of the Group. The deposits carried an average interest rate of 2.0% (2005: 2.0%). The directors of the Company consider the carrying amounts of the Group's pledged bank balances at 31st March, 2006 approximate to their fair values.

### **38. BANK BALANCES AND CASH**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less, and carry interests ranging from 2% to 4% (2005: 1% to 3%) for annum.

The directors of the Company consider the carrying amount of the Group's bank balances, deposits and cash at 31st March, 2006 approximates to the fair value.

For the year ended 31st March, 2006

**39. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE**

On 24 July, 2006, the Group resolved to dispose of certain subsidiaries and associates which are engaged in garment and manufacturing segment. The assets and liabilities attributable to these companies, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated balance sheet. The net proceeds from the disposal are expected to be approximate to the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

	<b>THE GROUP</b>
	<b>2006</b>
	<b>HK\$'000</b>
Property, plant and equipment	30,264
Interests in associates	200
Interests in jointly-controlled entities	20,002
Deferred taxation assets	1,761
Inventories	53,673
Debtors and prepayments	54,900
Amounts due from associates	3,649
Amounts due from jointly-controlled entities	1,552
Taxation recoverable	808
Cash and bank balances	1,333
	<hr/>
Total assets classified as held for sale	<b>168,142</b>
	<hr/> <hr/>
Creditors and accrued charges	44,998
Taxation payable	501
Bank overdrafts	9,724
Bank borrowings – amount due within one year	103,896
Deferred taxation liabilities	400
	<hr/>
Total liabilities associated with assets classified as held for sale	<b>159,519</b>
	<hr/> <hr/>

On 24th July, 2006, the Group entered into a sale and purchase agreement to dispose of the above companies. The disposal will be completed not later than 24th October, 2006 and the beneficial ownership will be passed to the acquirer once the disposal is completed. In the opinion of directors, the gain on disposal of those companies is minimal by reference to the carrying value of the net assets of the above companies as at 31st March 2006.

For the year ended 31st March, 2006

#### 40. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK\$91,464,000 (2005: HK\$99,359,000). The aging analysis of trade creditors is as follows:

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>55,478</b>	52,701
31 to 60 days	<b>18,879</b>	28,933
61 to 90 days	<b>6,026</b>	6,086
Over 90 days	<b>11,081</b>	11,639
	<hr/>	<hr/>
Total	<b>91,464</b>	99,359
	<hr/> <hr/>	<hr/> <hr/>

The director consider the carrying amounts of the Group's creditors and accrued charges at 31st March, 2006 approximate to their fair values.

#### 41. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

##### THE GROUP

At 31st March, 2006, the amounts are unsecured, non-interest bearing and repayable on demand.

The directors of the Company consider that the carrying amounts of amounts due to minority shareholders of subsidiaries approximate to their fair values.

At 31st March, 2005, the amounts were unsecured, non-interest bearing and had no fixed repayment terms. As agreed with minority shareholders of subsidiaries, the amounts due to minority shareholders were not be repaid within the next twelve months from the balance sheet date.



For the year ended 31st March, 2006

**42. OBLIGATIONS UNDER FINANCE LEASES**

	<b>THE GROUP</b>			
	<b>Minimum payments</b>		<b>Present value of</b>	
	<b>2006</b>		<b>minimum payments</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
The maturity of the Group's obligations under finance leases is as follows:				
Within one year	<b>2,625</b>	3,379	<b>2,227</b>	3,095
Due after one year but within two years	<b>5,107</b>	2,472	<b>4,732</b>	2,278
Due after two years but within five years	–	4,722	–	4,562
	<u><b>7,732</b></u>	<u>10,573</u>	<u><b>6,959</b></u>	<u>9,935</u>
Less: Future finance charges	<u><b>(773)</b></u>	<u>(638)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u><b>6,959</b></u>	<u>9,935</u>	<u><b>6,959</b></u>	<u>9,935</u>
Less: Amount due within one year shown under current liabilities			<u><b>(2,227)</b></u>	<u>(3,095)</u>
Amount due after one year			<u><b>4,732</b></u>	<u>6,840</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 (2005: 4 years). For the year ended 31st March, 2006, the average effective borrowing rate was 4.25% (2005: 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.

The carrying amount of the Group's finance lease obligations as at the balance sheet date is not expected to be significantly different from the fair value.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 43. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank overdrafts	27,043	34,832	-	-
Bank loans	2,385,353	1,668,320	31,000	64,500
	<u>2,412,396</u>	<u>1,703,152</u>	<u>31,000</u>	<u>64,500</u>
Secured	1,721,574	971,403	31,000	64,500
Unsecured	690,822	731,749	-	-
	<u>2,412,396</u>	<u>1,703,152</u>	<u>31,000</u>	<u>64,500</u>
Carrying amount repayable:				
Less than one year or on demand	570,589	400,364	31,000	64,500
More than one year but not more than two years	713,344	592,421	-	-
More than two years but not more than three years	1,018,417	280,417	-	-
More than three years but not more than four years	57,030	361,903	-	-
More than four years but not more than five years	2,316	25,030	-	-
More than five years	50,700	43,017	-	-
	<u>2,412,396</u>	<u>1,703,152</u>	<u>31,000</u>	<u>64,500</u>
Less: Amount due within one year or on demand and shown under current liabilities	<u>(570,589)</u>	<u>(400,364)</u>	<u>(31,000)</u>	<u>(64,500)</u>
Amount due after one year	<u>1,841,807</u>	<u>1,302,788</u>	<u>-</u>	<u>-</u>

For the year ended 31st March, 2006

**43. 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:

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Inventories		
Included in asset-held-for-sale	<b>35,100</b>	–
Not included in asset-held-for-sale	–	19,500
Investment properties (note)	<b>1,299,300</b>	1,327,000
Property, plant and equipment		
Included in asset-held-for-sale	<b>23,993</b>	–
Not included in asset-held-for-sale	<b>11,343</b>	128,494
Properties under development	<b>716,334</b>	–
Properties held for sale	<b>795,895</b>	385,762
Shares in associates, stated at the Group's share of the associates' net assets	<b>45,841</b>	44,355
Trade debtors		
Included in asset-held-for-sale	<b>19,500</b>	–
Not included in asset-held-for-sale	–	35,100
Bank balances	<b>65,948</b>	76,400
	<b>3,013,254</b>	2,016,611

Certain banking facilities of the Company and the Group are secured by certain shares in subsidiaries held by the Company with carrying value of HK\$774,378,000 (2005: HK\$767,426,000).

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

The directors consider the carrying value of the bank borrowings approximates to its fair value.

The average interest rate during the year was 6% (2005: 5%).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**44. SHARE CAPITAL**

	<b>Number of shares 2006 &amp; 2005</b>	<b>Amount 2006 &amp; 2005 HK\$'000</b>
Ordinary shares of HK\$0.25 each:		
Authorised:		
At the beginning and the end of the year	1,000,000,000	250,000
Issued and fully paid:		
At the beginning and the end of the year	551,368,153	137,842

**45. RESERVES****THE GROUP**

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on pages 11 and 12.

At 31st March, 2006, the retained profits of the Group included accumulated losses of HK\$46,793,000 (2005: accumulated losses of HK\$51,698,000) retained by associates of the Group.

At 31st March, 2006, the retained profits of the Group included accumulated losses of HK\$50,133,000 (2005: accumulated losses of HK\$42,103,000) retained by jointly controlled entities.

	<b>Share premium HK\$'000</b>	<b>Dividend reserve HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
<b>THE COMPANY</b>				
At 1st April, 2004	267,569	11,027	474,180	752,776
Profit for the year	–	–	82,638	82,638
Dividend paid	–	(11,027)	–	(11,027)
2005 Proposed final dividend	–	16,541	(16,541)	–
At 31st March, 2005	267,569	16,541	540,277	824,387
Profit for the year	–	–	35,398	35,398
Dividend paid	–	(16,541)	–	(16,541)
2006 Proposed final dividend	–	22,055	(22,055)	–
At 31st March, 2006	267,569	22,055	553,620	843,244

**45. RESERVES** *(Continued)*

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 issue bonus shares issuable to shareholders of the Company.

**46. ACQUISITIONS OF SUBSIDIARIES**

- a. On 11th October, 2005, a non-wholly owned subsidiary of the Group acquired a 47.05% effective interest in registered capital of Shenzhen Guanghai Investment Co., Ltd. for a consideration of HK\$197,539,000. The acquisition has been accounted for by the purchase method of accounting.
- b. In the prior year, a non-wholly owned subsidiary of the Group acquired a 90% equity interest in registered capital of Guangzhou Hua Yin Land Development Co., Ltd., a company operating in Mainland China, and the non-wholly owned subsidiary had intended to dispose of 45% equity interest of the company to an independent third party. The management considered they exercised no control or significant influence on the company and, accordingly, the results of the company were not consolidated into that of the Group for the year ended 31st March, 2005.

During the year ended 31st March, 2006, a debt assignment programme of the company was completed. The plan for a partial disposal of the company was abandoned and the management considered that full control on the company has now been obtained. Accordingly, the Group has consolidated the results of the company in the current year.

- c. On 9th November, 2005, the Group acquired an effective 86.05% interest in Jackson Mercantile Trading Company Limited for a consideration of HK\$7,800,000. The acquisition has been accounted for by the acquisition method of accounting.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

## 46. ACQUISITIONS OF SUBSIDIARIES (Continued)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net assets (liabilities) acquired:		
Property, plant and equipment	159	182
Properties under development	594,754	–
Investment properties	11,500	–
Retention monies receivable	744	–
Debtors and prepayments	5,458	849
Amounts due from customers for contract work	85	–
Bank balances and cash	9,825	–
Creditors and accrued charges	(41,444)	(3,494)
Bank borrowings	(259,808)	–
Amounts due to minority shareholders	(259)	–
Minority interests	(39,131)	–
	<u>281,883</u>	<u>(2,463)</u>
Write off of goodwill arising from acquisitions	–	2,463
	<u>281,883</u>	<u>–</u>
Consideration given	<u>281,883</u>	<u>–</u>
Satisfied by:		
Cash paid	231,320	–
Investment purchased in prior year	50,563	–
	<u>281,883</u>	<u>–</u>

For the year ended 31st March, 2006

**46. ACQUISITIONS OF SUBSIDIARIES** (Continued)

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

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Cash consideration paid	<b>(231,320)</b>	–
Bank balances and cash acquired	<b>9,825</b>	–
	<b><u>(221,495)</u></b>	<b><u>–</u></b>

The acquiree's carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required.

The subsidiaries acquired during the year ended 31st March, 2006 did not have any significant impact to the Group's operating results and cash flows.

If the acquisitions made during the year ended 31st March, 2006 had been completed on 1st April, 2005, the impact to total Group's revenue for the year and profit for the year would be minimal. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1st April, 2005, nor is it intended to be a projection of future results.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**47. DISPOSALS OF SUBSIDIARIES**

On 28th October, 2005, the Group disposed of 50% of the issued share capital of Rich Central Limited and assigned related shareholder's loans amounting to HK\$44,963,000, for a cash consideration of HK\$45,658,000. In addition, the Group disposed of 50% of the issued share capital of Foralmist Holdings Ltd. on 28th February, 2006 and assigned related shareholder's loans amounting to HK\$73,207,000 for a cash consideration of HK\$128,532,000.

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net assets disposed of:		
Goodwill	<b>32,572</b>	–
Property, plant and equipment	<b>78</b>	–
Properties under development	<b>243,668</b>	330,715
Other receivables	<b>119</b>	–
Bank balances and cash	<b>2,446</b>	–
Creditors and accrued charges	<b>(3,600)</b>	–
Shareholders' loan of subsidiaries	<b>(236,341)</b>	–
Bank borrowings	–	(164,206)
Deferred taxation liabilities	<b>(11,172)</b>	–
	<b>27,770</b>	166,509
Release of exchange reserve	<b>(2,161)</b>	–
Gain on disposal of subsidiaries	<b>44,818</b>	233,662
	<b>70,427</b>	400,171
Satisfied by:		
Cash consideration received	<b>174,190</b>	400,171
Assignment of shareholders' loan	<b>(118,170)</b>	–
Interests in jointly-controlled entities	<b>14,407</b>	–
	<b>70,427</b>	400,171



For the year ended 31st March, 2006

**47. DISPOSALS OF SUBSIDIARIES (Continued)**

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cash consideration	<b>174,190</b>	400,171
Bank balances and cash disposed of	<b>(2,446)</b>	–
	<b>171,744</b>	400,171

The subsidiaries disposed did not have any significant impact to the Group's operating results and cash flows.

**48. MAJOR NON-CASH TRANSACTIONS**

For the year ended 31st March, 2005, 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.

**49. CONTINGENT LIABILITIES**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(a) Extent of general banking facilities guaranteed by the Group/Company which were utilised at the balance sheet date by:				
– subsidiaries	–	–	<b>538</b>	53,032
– jointly-controlled entities	–	92,701	–	–
Bills discounted with recourse	–	3,408	–	–
	<b>–</b>	<b>96,109</b>	<b>538</b>	<b>53,032</b>

For the year ended 31st March, 2006

**49. 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\$31,004,000 as at 31st March, 2006 (2005: HK\$41,011,000). 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.
- (c) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited (“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. The plaintiff was dissolved on 5 November 2004 pursuant to a court order.

- (d) At 31st March, 2006, a subsidiary of Hon Kwok has given guarantees to a maximum extent of approximately HK\$28,000,000 (2005: HK\$11,269,000) to banks for housing loans extended by the banks to the purchasers of the Group’s properties. The entire guarantees were released subsequent to the balance sheet date.

For the year ended 31st March, 2006

**50. OPERATING LEASE ARRANGEMENTS****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:

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>33,688</b>	30,444
In the second to fifth year inclusive	<b>19,529</b>	22,730
	<u><b>53,217</b></u>	<u>53,174</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.

**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:

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>4,185</b>	4,221
In the second to fifth year inclusive	<b>5,451</b>	4,029
Beyond five years	<b>1,256</b>	1,472
	<u><b>10,892</b></u>	<u>9,722</u>

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

At 31st March, 2006, 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\$1,073,000 (2005: HK\$518,000) and HK\$1,546,000 (2005: HK\$792,000), respectively. The Group's share of these operating lease commitments amounted to HK\$536,500 (2005: HK\$259,000) and HK\$773,000 (2005: HK\$396,000), respectively.

Leases are negotiated for an average term of not more than two years.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2006

**51. CAPITAL COMMITMENTS**

The Group had authorised and contracted capital commitments in respect of leasehold improvement and property development expenditure amounting to approximately HK\$209,672,000 (2005: HK\$545,543,000) at the balance sheet date.

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

**52. RELATED PARTY TRANSACTIONS**

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Rental income received from jointly-controlled entities	659	–
Management fee income received from an associate	2,000	2,000
Commissions paid to the ultimate holding company	2,625	2,625
Legal and professional fees paid to a firm to which a director of the Company is a consultant	349	527
Fee paid by a jointly-controlled entity for safes handled	–	1,547
Write off of debts from jointly-controlled entities	–	3,873
	<u>          </u>	<u>          </u>

**53. POST BALANCE SHEET EVENTS**

- (a) On 16th March, 2006, a wholly-owned subsidiary of Hon Kwok entered into a sale and purchase agreement with the minority shareholder of Shenzhen Honkwok Huaye Development Co., Ltd. (“Honkwok Huaye”) for the acquisition of the remaining 20% equity interest in Honkwok Huaye for a cash consideration of RMB10,000,000 (equivalent to HK\$9,662,000). This transaction was completed on 13th June, 2006.
- (b) On 12th June, 2006, a wholly-owned subsidiary of Hon Kwok entered into a sale and purchase agreement with an independent third party to dispose of an investment property situated in Kuala Lumpur, Malaysia, for a consideration of RM70,000,000 (equivalent to HK\$142,100,000). This transaction is scheduled to be completed on the expiry of six months from the date of the sale and purchase agreement or such an earlier date as the purchaser may elect by giving three-month prior notice in writing to the Group. In the opinion of the directors, no material gain or loss on disposal would be resulted.
- (c) On 27th June, 2006, Hon Kwok, through its wholly-owned subsidiary, issued an aggregate principal amount of HK\$280,000,000 at 3.5% per annum guaranteed convertible bonds due by 2011. The initial conversion price at which a share of Hon Kwok will be issued on conversion will be HK\$4.00.