

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Presentation

The Group's financial statements are prepared under the historical cost convention as modified by the revaluation of short-term investments, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

(b) Basis of Consolidation

The Group's financial statements include the financial statements of the Company and its subsidiaries, together with the Group's share of post-acquisition profit or loss and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(c) Negative Goodwill

Negative goodwill, which represents the excess of the fair value attributable to the separable net assets at the date of acquisition of an associate over the purchase consideration, is credited to capital reserve.

On disposal of an associate, the attributable amount of negative goodwill previously credited to capital reserve is included in the determination of the profit or loss on disposal of the associate.

(d) Turnover

Turnover mainly represents the following:

- (i) The aggregate amount of gross certified value earned from construction contracts, which include various maintenance and decoration projects; and
- (ii) Gross invoiced sales, net of discounts and returns, of building materials sold.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue Recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

(i) Contract revenue

To the extent that the outcome of the contract can be estimated reliably, revenue from construction contracts is recognised using the percentage of completion method, measured by reference to the percentage of revenue certified to date to estimated total contract value. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

(ii) Sale of building materials

Sale of building materials is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Fixed Assets and Depreciation

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

Properties under construction are stated at cost. No depreciation is provided until the properties are completed and used.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed Assets and Depreciation (Continued)

Depreciation of fixed assets is provided using the straight-line method over their estimated useful lives. The principal annual rates used are as follows:

Plant and machinery	10%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Motor launch	10%
Land and buildings in Hong Kong held under medium-term lease	2%
Leasehold improvements	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(g) Subsidiaries

A company is a subsidiary of another company if the latter controls more than half of the voting power of the former. Investments in subsidiaries in the accounts of the Company are carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends declared by the subsidiaries.

(h) Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting, whereby the investments are initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

Where, in the opinion of the directors, there is an impairment in value of an associate, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Other Investments

Other investments intended to be held on a continuing basis are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of other investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of other investments are reversed to the income statement when circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of other investments, any profit and loss thereon is accounted for in the income statement.

(j) Short-term Investments

Short-term investments are listed shares carried at fair value in the balance sheet. Any unrealised holding gain and loss on short-term investments is recognised in the income statement in the period when it arises.

Upon disposal or transfer of short-term investments, any profit or loss thereon is accounted for in the income statement.

(k) Patents

Patents represent amounts paid or payable in respect of the application of patents for construction related software and website hosting services. The amounts are capitalised in the balance sheet and are to be amortised over 4 years upon official granting of the patents by the relevant authorities.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Development Costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which meet the following criteria:

- * The technological feasibility of completing the product so that it will be available for use or sale;
- * Management's intention to complete the product and use or sell it;
- * The ability to use or sell the product;
- * The existence of a market for the product or, if it is to be used internally, the usefulness of the product;
- * The availability of adequate technical, financial and other resources to complete the development and to use or sell the product; and
- * The ability to measure the expenditure attributable to the product during its development reliably.

Development costs are stated at cost less accumulated amortisation. Capitalised development costs are amortised on a straight-line basis over their expected useful lives not exceeding four years.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Construction Contracts

The accounting policy for contract revenue is set out at Note 1(e)(i) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected total loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Amounts billed, but not yet paid by customers, for work performed on a contract are included in the balance sheet under "Trade debtors".

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Leases

(i) Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or long-term liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Leases (Continued)

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(q) Deferred Taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(r) Foreign Currency Translation

Companies within the Group maintain their books and records either in Hong Kong dollars or Chinese Renminbi ("functional currencies"). In the financial statements of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. All such exchange differences are dealt with the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of those subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and income and expense items are translated into Hong Kong dollars at the average exchange rate during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments, if material.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(1) PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Borrowing Costs

Interest is expensed as incurred, except for interest directly attributable to construction contracts which is capitalised as part of the contract cost. Interest is capitalised at the weighted average cost of the related borrowings up to the date of completion of the construction contract.

Other borrowing costs, including amortisation of a discount or premium relating to borrowings, amortisation of ancillary costs incurred in connection with arranging financing and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are expensed in the income statement.

(2) TURNOVER

Contribution to the Group's turnover by principal activity is as follows:

	2001 \$'000	2000 \$'000
Contracting of building construction, maintenance and decoration projects	1,713,508	1,962,768
Sale of building materials	56,066	66,627
Others	11,767	12,553
Total	<u>1,781,341</u>	<u>2,041,948</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(3) PROFIT BEFORE TAXATION

Profit before taxation is determined after charging (crediting) the following:

	2001 \$'000	2000 \$'000
Depreciation		
– Owned assets	20,208	15,307
– Assets held under finance lease contracts	4,439	6,299
	<u>24,647</u>	<u>21,606</u>
Less: Amount recorded as construction costs	<u>(10,950)</u>	<u>(10,961)</u>
	<u>13,697</u>	<u>10,645</u>
Staff costs (excluding directors)	184,807	201,373
Less: Amount recorded as construction costs	<u>(138,040)</u>	<u>(160,184)</u>
	<u>46,767</u>	<u>41,189</u>
Amortisation of development costs	287	–
Cost of inventories	87,513	77,406
Provision for doubtful debts	2,000	5,000
Provision for inventory obsolescence	–	921
Write-off of obsolete inventory	585	–
Loss on disposal of fixed assets	5,560	319
Auditors' remuneration	1,180	1,100

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(3) PROFIT BEFORE TAXATION (Continued)

Profit before taxation is determined after charging (crediting) the following: (Continued)

	2001 \$'000	2000 \$'000
Operating lease rental of		
– Land and buildings	4,169	2,141
– Other equipment	31,043	33,577
	<u>35,212</u>	<u>35,718</u>
Less: Amount recorded as construction costs	<u>(30,464)</u>	<u>(33,668)</u>
	<u>4,748</u>	<u>2,050</u>
Interest element of finance lease contract payments	671	1,220
Less: Amount recorded as construction costs	<u>(310)</u>	<u>(857)</u>
	<u>361</u>	<u>363</u>
Unrealised losses on short-term investments	1,154	–
Realised losses on short-term investments	2,589	–
Interest on overdrafts and bank loans repayable within five years	6,299	22,792
Less: Amount recorded as construction costs	<u>(5,069)</u>	<u>(16,930)</u>
	<u>1,230</u>	<u>5,862</u>
Exchange loss, net	182	957
Gain on disposal of investment in associates	–	(4,633)
Rental income from investment properties	–	(200)
Interest income on bank deposits	(14,907)	(8,149)
Dividend income	–	(131)
Construction contract revenue	<u>(1,713,508)</u>	<u>(1,962,768)</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(4) DIRECTORS' EMOLUMENTS AND FIVE HIGHEST-PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments disclosed in accordance with Section 161(1) of the Companies Ordinance are as follows:

	2001 \$'000	2000 \$'000
Independent Non-executive Directors	<u>708</u>	<u>750</u>
Executive Directors:		
Fees	–	–
Salaries	11,879	9,317
Performance-related bonus	1,580	1,270
Contribution to pension schemes	<u>440</u>	<u>413</u>
	<u>13,899</u>	<u>11,000</u>
	<u>14,607</u>	<u>11,750</u>

The Directors received emoluments in the following bands during the year:

	2001 <i>Number of Directors</i>	2000 <i>Number of Directors</i>
Up to \$1,000,000	3	4
\$1,000,001 – \$1,500,000	1	–
\$2,000,001 – \$2,500,000	2	2
\$5,500,001 – \$6,000,000	–	1
\$8,000,001 – \$8,500,000	<u>1</u>	<u>–</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(4) DIRECTORS' EMOLUMENTS AND FIVE HIGHEST-PAID INDIVIDUALS (Continued)

(b) Five highest-paid individuals

The five highest-paid individuals included three (2000 – three) Executive Directors whose emoluments are disclosed in (a) above. The details of the emoluments of the other two (2000 – two) individuals are as follows:

	2001 \$'000	2000 \$'000
Salaries	1,894	1,792
Performance-related bonus	1,030	950
Contribution to pension schemes	87	85
	<u>3,011</u>	<u>2,827</u>

The emoluments of the other two highest-paid individuals fell within the following bands:

	2001 Number of Employees	2000 Number of Employees
\$1,000,001 – \$1,500,000	1	1
\$1,500,001 – \$2,000,000	<u>1</u>	<u>1</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(5) TAXATION

(a) Taxation in the consolidated income statement represents:

	2001 \$'000	2000 \$'000
Company and subsidiaries		
Provision for Hong Kong profits tax in respect of the estimated assessable profit for the year at 16% (2000 – 16%)	10,779	5,089
Under (Over) provision of prior year profits tax	867	(392)
(Reversal of) Provision for deferred taxation	(1,950)	3,785
	<u>9,696</u>	<u>8,482</u>
Associates	<u>635</u>	<u>604</u>
	<u>10,331</u>	<u>9,086</u>

(b) Movement in deferred taxation comprises:

	2001 \$'000	2000 \$'000
Balance, beginning of year	12,344	8,559
(Reversal of) Provision for net timing differences	(1,950)	3,785
	<u>10,394</u>	<u>12,344</u>

(c) Deferred taxation as of year end arose from:

	2001 \$'000	2000 \$'000
Accelerated depreciation allowances	8,510	11,253
Tax losses	–	(25)
Others	1,884	1,116
	<u>10,394</u>	<u>12,344</u>

There was no other material unprovided deferred taxation as at 31st March, 2001.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(6) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately \$17,593,000 (2000 – \$22,219,000) dealt with in the financial statements of the Company.

(7) DIVIDENDS

The Directors declared an interim dividend on 18th December, 2000 of 1.6 cents (2000 – nil) per Consolidated Share, totalling \$7,083,938 (2000 – nil), which was paid on 16th March, 2001. Consolidation of the Company's shares occurred on 18th October, 2000 and is described more fully in Note 18(b) to the financial statements.

The Directors recommend the payment of a final dividend of 1.4 cents (2000 – 2.8 cents) per Consolidated Share, totalling \$6,173,294 (2000 – \$12,396,891), for the year ended 31st March, 2001.

(8) EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

Earnings per share and diluted earnings per share have been calculated based on the audited consolidated profit attributable to shareholders for the year of \$32,154,000 (2000 – \$30,325,000) and the weighted average number of 440,779,479 shares (2000 – 332,767,160 shares) in issue during the year.

The weighted average number of shares, for the purposes of earnings per share calculation, has been adjusted for the effect of consolidation of shares during the year as described in Note 18(b) to the financial statements.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(9) FIXED ASSETS

(a) Movements in fixed assets of the Group during the year are as follows:

	2001							2000	
	Properties under construction \$'000	Plant and machinery \$'000	Furniture, fixtures and office equipment \$'000	Motor vehicles \$'000	Motor launch \$'000	Land and buildings \$'000	Leasehold improve- ments \$'000	Total \$'000	Total \$'000
Cost									
Balance, beginning of year	89	132,166	28,954	22,004	1,685	85,022	4,722	274,642	255,184
Additions	762	15,852	12,796	922	–	51	86	30,469	24,125
Inter-category transfer	(140)	140	–	–	–	–	–	–	–
Disposals	–	(10,039)	(3,612)	(6,395)	–	–	–	(20,046)	(4,667)
Balance, end of year	711	138,119	38,138	16,531	1,685	85,073	4,808	285,065	274,642
Accumulated depreciation									
Balance, beginning of year	–	42,509	20,268	15,385	1,334	8,221	4,722	92,439	74,096
Charge for the year	–	14,249	4,780	3,141	168	2,304	5	24,647	21,606
Written back on disposals	–	(3,446)	(3,382)	(5,806)	–	–	–	(12,634)	(3,263)
Balance, end of year	–	53,312	21,666	12,720	1,502	10,525	4,727	104,452	92,439
Net book value									
Balance, end of year	711	84,807	16,472	3,811	183	74,548	81	180,613	182,203
Balance, beginning of year	89	89,657	8,686	6,619	351	76,801	–	182,203	181,088

- (b) The Group's land and buildings are held in Hong Kong under medium-term leases. As at 31st March, 2001, the land, with net book value of approximately \$32,698,000 (2000 – \$33,425,000) included in the above analysis, is held under a crown lease in Hong Kong which extends to the year 2047.
- (c) The properties under construction mainly represent the costs incurred to construct the office building near the semi-precast plant in Shenzhen, Mainland China.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(9) FIXED ASSETS (Continued)

(d) The net book value of fixed assets held under finance lease contracts comprises:

	2001 \$'000	2000 \$'000
Plant and machinery	8,264	18,509
Furniture, fixtures and office equipment	–	39
Motor vehicles	1,045	3,241
	<u> </u>	<u> </u>
Total	9,309	21,789

(10) DEVELOPMENT COSTS

Development costs of the Group mainly represent expenditure incurred to develop a unique type of partition for office use and construction related computer software and website hosting services.

	2001 \$'000	2000 \$'000
Cost		
Balance, beginning of year	6,031	4,978
Additions	2,507	1,053
	<u> </u>	<u> </u>
Balance, end of year	8,538	6,031
Accumulated amortisation		
Balance, beginning of year	4,500	4,500
Amortisation for the year	287	–
	<u> </u>	<u> </u>
Balance, end of year	4,787	4,500
Net book value		
Balance, end of year	3,751	1,531
	<u> </u>	<u> </u>
Balance, beginning of year	1,531	478
	<u> </u>	<u> </u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(11) PATENTS

Patents represent costs incurred to apply for patent rights in relation to the Group's development of construction related computer software and website hosting services.

	2001 \$'000	2000 \$'000
Cost		
Balance, beginning of year	–	–
Additions	1,238	–
	<u>1,238</u>	<u>–</u>
Balance, end of year	1,238	–
Accumulated amortisation		
Balance, beginning of year	–	–
Amortisation for the year	–	–
	<u>–</u>	<u>–</u>
Balance, end of year	–	–
Net book value		
Balance, end of year	1,238	–
	<u>1,238</u>	<u>–</u>
Balance, beginning of year	–	–
	<u>–</u>	<u>–</u>

(12) LOANS TO EMPLOYEES

The Group has provided housing loans to certain employees. The repayment period ranges from 2 to 12 years with interest at prime rate minus 1 per cent, depending on the terms of the individual loan agreements. Amounts due within one year of approximately \$548,000 (2000 – \$193,000) are included in prepayments, deposits and other receivables.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES

(a) Interests in subsidiaries in the accounts of the Company as at 31st March, 2001 comprise:

	2001 \$'000	2000 \$'000
Unlisted shares, at cost	51,575	51,575
Capital contributed to a subsidiary	224,500	224,500
	<u>276,075</u>	<u>276,075</u>

The Directors are of the opinion that there is no impairment in the value of interests in subsidiaries as at 31st March, 2001.

(b) Particulars of principal subsidiaries as at 31st March, 2001 are:

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Company	Subsidiaries	
Australian Development Holdings Pty. Limited	Australia	Australia	A\$2	Investment holding	–	100%	100%
Bellaglade Company Limited	Hong Kong	Hong Kong	\$2	Property holding	–	100%	100%
Century Score Investment Limited	Hong Kong	Hong Kong	\$2	Investment in real estate properties	–	100%	100%
Chapman Engineering Consultant Company Limited	Hong Kong	Hong Kong	\$100	Building services engineering consultant	–	60%	60%
Koshen Engineering Limited	Hong Kong	Hong Kong	\$10,000	Provision of design, consulting and project management services	–	100%	60%
Lucky Fame Investment Limited	Hong Kong	Hong Kong	\$2	Investment in real estate properties	–	100%	100%
Ming Hop Company Limited	Hong Kong	Hong Kong	\$500,000	Sourcing of construction materials and execution of plumbing work	–	100%	100%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES (Continued)

(b) Particulars of principal subsidiaries as at 31st March, 2001 are: (Continued)

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by Company Subsidiaries		Group equity interest
Nanjing Autocon Technology Company Limited	Mainland China	Mainland China	US\$500,000	Development and sale of construction equipment and computer software	–	100%	100%
Nanjing Nanda VH Software Intelligence Company Limited	Mainland China	Mainland China	Rmb1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	Hong Kong	\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	Hong Kong	\$2	Property holding	–	100%	100%
SPS Company Limited	Hong Kong	Hong Kong	\$2	Manufacturing and trading	–	100%	100%
Trendplot Investments Limited	Hong Kong	Hong Kong	\$2	Provision of management services	–	100%	100%
VHBuild Company Limited	Hong Kong	Hong Kong	\$2	Provision of website hosting services	–	100%	100%
VHCOME Company Limited	Hong Kong	Hong Kong	\$2	Business to business sale of construction materials	–	100%	100%
VHSoft Company Limited	Hong Kong	Hong Kong	\$5,000,000	Computer software development	–	100%	100%
VHSoft I.P. Company Limited	Hong Kong	Hong Kong	\$2	Patent holding	–	100%	100%
VHSoft Technologies Company Limited	Hong Kong	Hong Kong	\$2	Computer software development	–	100%	100%
Yau Lee Building Construction and Decoration Company Limited	Hong Kong	Hong Kong	\$100,000	Building construction, maintenance and decoration	–	100%	100%
Yau Lee Construction Company Limited	Hong Kong	Hong Kong	\$100,000,000	Building construction	–	100%	100%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(13) INTERESTS IN SUBSIDIARIES (Continued)

(b) Particulars of principal subsidiaries as at 31st March, 2001 are: (Continued)

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Company	Subsidiaries	
Yau Lee Construction Materials & Technology Limited	Hong Kong	Hong Kong	\$2	Sale of building materials and precast products	–	100%	100%
Yau Lee Construction Materials & Technology Limited	The British Virgin Islands	Hong Kong	US\$2	Sale of precast products	–	100%	100%
Yau Lee Environmental Development Limited	Hong Kong	Hong Kong	\$2	Investment holding	–	100%	100%
Yau Lee Equipment Leasing Limited (formerly known as “Global Winner Investment Limited”)	Hong Kong	Hong Kong	\$2	Equipment leasing	–	100%	100%
Yau Lee Investment Limited	The Cook Islands	Hong Kong	US\$100	Investment holding	100%	–	100%
Yau Lee Technology Limited	The British Virgin Islands	Hong Kong	US\$1	Investment holding and trading of construction equipment and development of computer control software	–	100%	100%
Yau Lee Wah Concrete Precast Products Company Limited	Hong Kong	Hong Kong	\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited	Mainland China	Mainland China	Rmb39,076,066	Manufacture of precast products	–	100%	100%
Yau Sing Building Materials Company Limited	Hong Kong	Hong Kong	\$500,000	Investment holding	–	63%	63%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(14) INTERESTS IN ASSOCIATES

(a) Interests in associates comprise:

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Group's share of attributable net assets of associates	3,677	–	6,933	–
Amounts due from associates	38,088	548	45,180	363
Amounts due to associates	(266)	–	(12)	–
	<u>41,499</u>	<u>548</u>	<u>52,101</u>	<u>363</u>

(b) Particulars of principal subsidiaries as at 31st March, 2001 are:

Name of Company	Country of Incorporation	Country of Operation	Issued and fully paid share capital	Principal activities	% of issued ordinary share capital held by		Group equity interest
					Subsidiaries	Associates	
Bestlink Shipping Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services	–	100%	30%
Bonland Investment Limited	Hong Kong	Hong Kong	\$100	Investment holding	30%	–	30%
Bonjoy Company Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services and investment holding	–	100%	30%
Rich Fame Shipping Limited	Hong Kong	Hong Kong	\$100	Provision of shipping transportation services	–	100%	30%
Shunde Yau Lee Building Components Company Limited ("Shunde Yau Lee")	Mainland China	Mainland China	US\$1,707,714	Manufacture of building materials	52.7%	–	33.2%
Yau Lee Development Company Limited ("YLDC")	Hong Kong	Hong Kong	\$100	Property development	50%	–	50%
Yau Lee Property Development (China) Company Limited	Hong Kong	Hong Kong	\$200	Investment holding	46%	–	46%

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(14) INTERESTS IN ASSOCIATES (Continued)

- (c) The Company has an indirect interest of 25% in Fuli Building, a residential and commercial property project in Shunde PRC, which was jointly developed by YLDC and a Chinese party.
- (d) One of the subsidiaries of the Group has a 52.7% interest in Shunde Yau Lee. Despite the controlling interest, the subsidiary appoints the same number of members to the Board of Directors of Shunde Yau Lee as the other shareholder. Consequently, the Group does not have control over the operational and financial matters of Shunde Yau Lee. The Directors believe that the Group exercises significant influence over Shunde Yau Lee and as a result, this investment is accounted for using the equity method of accounting.
- (e) The amounts due from and to associates are unsecured, interest free and have no fixed repayment terms.
- (f) The Directors are of the opinion that there is no impairment in the value of interests in associates as at 31st March, 2001.

(15) OTHER INVESTMENTS

- (a) Other investments comprise:

	2001		2000	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	976	–	976	–
Listed shares in Hong Kong, at cost	1,455	–	1,455	–
	<u>2,431</u>	<u>–</u>	<u>2,431</u>	<u>–</u>

The market value of the Group's investment in listed shares in Hong Kong as at 31st March, 2001 was approximately \$404,000 (2000 – \$1,648,000).

- (b) In January 1995, one of the subsidiaries of the Group entered into an agreement with Nanjing FEAT Advanced Sciences and Technology Industry Corp. ("Nanjing FEAT") in Mainland China to engage in the development and trading of environmental products. The Group has a 60% interest in Nanjing FEAT and has injected the agreed capital contribution of RMB1,000,000.

The Directors are of the opinion that the Group has no control and does not exercise any influence over the operations of Nanjing FEAT and therefore, the investment is recorded at cost.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(16) NET CURRENT ASSETS

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
CURRENT ASSETS				
Cash and bank balances	57,065	563	91,193	406
Time deposits (Note 26)	208,353	12,399	145,917	12,259
Trade debtors, net (Notes 23 & 24)	220,227	–	321,404	–
Inventories, net (Note 22)	9,887	–	15,668	–
Prepayments, deposits and other receivables	26,965	316	31,535	318
Prepaid tax	452	–	3,188	46
Gross amount due from customers for contract work (Note 24)	184,801	–	239,297	–
Short-term investments	4,694	–	–	–
Due from subsidiaries (Note 29(a))	–	361,086	–	324,155
Due from related parties (Note 29(a))	27	27	22	22
Total current assets	<u>712,471</u>	<u>374,391</u>	<u>848,224</u>	<u>337,206</u>
CURRENT LIABILITIES				
Short-term bank loans	–	–	103,500	–
Payable to suppliers and subcontractors (Note 28)	143,067	–	123,895	–
Accruals, retention payable and other liabilities	94,106	142	87,246	91
Dividend payable	6,173	6,173	12,397	12,397
Taxes payable	10,252	358	3,173	–
Gross amount due to customers for contract work (Note 24)	84,749	–	167,464	–
Current portion of finance lease obligations (Note 17)	6,919	–	8,214	–
Due to subsidiaries (Note 29(a))	–	82,897	–	43,434
Due to related parties (Note 29(a))	1,320	–	1,246	–
Total current liabilities	<u>346,586</u>	<u>89,570</u>	<u>507,135</u>	<u>55,922</u>
NET CURRENT ASSETS	<u>365,885</u>	<u>284,821</u>	<u>341,089</u>	<u>281,284</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(17) LONG-TERM LIABILITIES

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Due to minority shareholders, net	<u>5,076</u>	<u>–</u>	<u>4,140</u>	<u>–</u>
Obligations under finance lease contracts				
– Repayable within one year	6,919	–	8,214	–
– Repayable in the second to fifth years	<u>797</u>	<u>–</u>	<u>1,761</u>	<u>–</u>
	7,716	–	9,975	–
Amounts due within one year included under current liabilities (Note 16)	<u>(6,919)</u>	<u>–</u>	<u>(8,214)</u>	<u>–</u>
	<u>797</u>	<u>–</u>	<u>1,761</u>	<u>–</u>
Deferred taxation (Note 5(b))	<u>10,394</u>	<u>–</u>	<u>12,344</u>	<u>–</u>
	16,267	–	18,245	–

The balances due to minority shareholders are unsecured, interest free and not repayable within the next year.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL

(a) Authorised:

	2001 \$'000	2000 \$'000
1,000,000,000 shares of \$0.2 each		
(2000 – 4,000,000,000 shares of \$0.05 each)	<u>200,000</u>	<u>200,000</u>

(b) Issued and fully paid:

2001		2000	
Number of shares of \$0.2 each	Nominal value \$'000	Number of shares of \$0.05 each	Nominal value \$'000
<u>440,949,600</u>	<u>88,190</u>	<u>1,770,984,402</u>	<u>88,549</u>

Pursuant to an ordinary resolution passed on 17th October, 2000, every four issued or unissued shares of \$0.05 each in the capital of the Company were consolidated into one share of \$0.2 each (the "Consolidated Shares") on 18th October, 2000. As a result of this consolidation of shares, the number of authorised shares of the Company decreased from 4,000,000,000 shares to 1,000,000,000 shares and the number of issued and fully paid shares of the Company decreased from 1,770,984,402 shares to 442,746,100 shares.

Subsequent to the consolidation of the shares, the Company repurchased 1,796,500 issued shares at an aggregate price of approximately \$614,000. These shares were subsequently cancelled and the Company's issued number of shares were reduced from 442,746,100 shares to 440,949,600 shares. The nominal value of the cancelled shares of approximately \$359,000 was credited to a capital redemption reserve.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL (Continued)

(c) Share Option Schemes

Under the terms of the Share Option Scheme which became effective on 5th August, 1991 (the "1991 Share Option Scheme"), the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the 1991 Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The 1991 Share Option Scheme remains in force for a period of 10 years.

On 25th August, 1997, pursuant to the 1991 Share Option Scheme, certain employees and the Directors were granted options to subscribe for a number of shares of \$0.05 each in the Company. Options to subscribe for a total of 45,940,000 shares of \$0.05 each were outstanding as at 31st March, 2001. As a result of the consolidation of shares described in (b) above, the number of shares granted under the 1991 Share Option Scheme was adjusted to 11,485,000 shares of \$0.2 each. The subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. No granted options were exercised during the year.

On 17th October, 2000, the Company adopted a new share option scheme (the "2000 Share Option Scheme") which replaced the 1991 Share Option Scheme mentioned above. Upon adoption of the 2000 Share Option Scheme, no further options will be granted under the 1991 Share Option Scheme but in all other respects, the provisions of the 1991 Share Option Scheme shall remain in full force and effect in respect of options which have been granted prior to the adoption of the 2000 Share Option Scheme and which shall continue to be exercisable in accordance with their terms of issue.

Under the 2000 Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. Subject to adjustment as a result of any alteration in the capital structure of the Company, the subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the 2000 Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The 2000 Share Option Scheme remains in force for a period of 10 years. As at 31st March, 2001, no share options were granted under the 2000 Share Option Scheme.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(18) SHARE CAPITAL (Continued)

(c) Share Option Schemes (Continued)

In addition, VHSoft Technologies Company Limited ("VHSoft"), a wholly owned subsidiary of the Group, adopted a share option scheme on 17th October, 2000 (the "VHSoft Share Option Scheme"). Under the VHSoft Share Option Scheme, the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of VHSoft options to subscribe for shares in VHSoft in accordance with the terms of the VHSoft Share Option Scheme. Subject to adjustment as a result of any alteration in the capital structure of VHSoft, the subscription price is not less than the nominal value of the shares of VHSoft. The maximum number of shares in respect of which options may be granted under the VHSoft Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of VHSoft, represents 10% of the issued share capital of VHSoft from time to time. The VHSoft Share Option Scheme remains in force for a period of 5 years or expires on the date on which an application for the initial public offering of the shares of VHSoft on an international recognised stock exchange is submitted, whichever is earlier. As at 31st March, 2001, no share options were granted under the VHSoft Share Option Scheme.

(19) SHARE PREMIUM

The share premium represents the premium received on shares issued.

Movements during the year are as follows:

	2001		2000	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Balance, beginning of year	415,430	415,430	384,976	384,976
Provision arising from Rights Issue	–	–	34,239	34,239
Direct expenses of Rights Issue	–	–	(3,785)	(3,785)
Balance, end of year	415,430	415,430	415,430	415,430

(20) CAPITAL RESERVE

The amount represents the negative goodwill arising from the acquisition of an associate in 1997.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(21) RETAINED PROFITS

	2001 \$'000	2000 \$'000
Company	145,615	141,893
Subsidiaries	(44,707)	(61,023)
Associates	5,300	7,055
	<u> </u>	<u> </u>
Total	106,208	87,925

The entire amount of the retained profits of the Group as at 31st March, 2001 is distributable.

(22) INVENTORIES

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Raw materials	5,164	–	7,868	–
Finished goods	4,723	–	8,721	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	9,887	–	16,589	–
Less: Provision for inventory obsolescence	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	–	–	(921)	–
	9,887	–	15,668	–

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(23) TRADE DEBTORS

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Trade debtors	224,051	–	326,404	–
Less: Provision for bad and doubtful debts	(3,824)	–	(5,000)	–
	<u>220,227</u>	<u>–</u>	<u>321,404</u>	<u>–</u>

Aging analysis of trade debtors after provision is as follows:

	2001		2000	
	Group \$'000	Company \$'000	Group \$'000	Company \$'000
Not yet due	208,585	–	288,656	–
Overdue by:				
0–30 days	6,471	–	15,918	–
31–90 days	2,130	–	10,383	–
91–180 days	1,293	–	906	–
over 180 days	1,748	–	5,541	–
	<u>220,227</u>	<u>–</u>	<u>321,404</u>	<u>–</u>

The trade debtors are due after 21 days to one year depending on the nature of services or products.

(24) CONSTRUCTION CONTRACTS

- (a) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in “Gross amount due from/to customers for contract work” as at 31st March, 2001, was approximately \$8,039 million (2000 – \$8,046 million).

In respect of construction contracts in progress at the balance sheet date, the amount of retention receivable from customers, recorded under “Long-term trade debtors” and “Trade debtors” included in current assets (Note 16) as at 31st March, 2001, was approximately \$26,850,000 (2000 – \$26,557,000) and \$40,136,000 (2000 – \$56,785,000) respectively.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(24) CONSTRUCTION CONTRACTS (Continued)

- (b) Subsequent to the year end, the Group has indicated to one of its customers that the Group is considering mediation as an attempt to reach an early commercial settlement on outstanding claims made by the Group relating to one of its completed construction contracts. The amount of the claims made by the Group under this contract including amounts receivable on contract work is approximately \$170 million, a portion of which is included in "Gross amount due from customers for contract work" in the consolidated balance sheet as at 31st March, 2001 based on an external consultant's evaluation of the likely recoverable amount.

(25) PENSION SCHEMES

A defined contribution pension scheme is provided to all the employees eligible and employed by the Group in Hong Kong (the "Employees"). The Group is required to make monthly contributions to the scheme at 5% of the Employees' monthly salary but the Employees are not required to contribute to the scheme. Employees under the defined contribution scheme are entitled to 100% of the employer's contribution and the accrued interest upon retirement or leaving the Group after completing 10 years of service from the date of joining the Group, or at a scale of between 30% and 90% after completing 3 to 9 years of service from the date of joining the Group.

During the year, the employer's contribution charged to the consolidated income statement under the defined contribution scheme amounted to approximately \$5,948,000 (2000 – \$5,758,000).

Since 1st December, 2000, the Group has arranged for its Employees in Hong Kong to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced during the year. Under the MPF Scheme, the Group and each of the Employees make monthly contributions to the scheme at 5% of the Employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the Employees' contributions are subject to a cap of monthly earnings of \$20,000. For those Employees with monthly earnings less than \$4,000, the Employees' contributions are voluntary.

During the year, the aggregate amount of employer's contribution made by the Group to the MPF Scheme was approximately \$2,318,000. The Group's contributions to the MPF Scheme are charged to the consolidated income statement in the period to which they relate.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(26) BANKING FACILITIES

As at 31st March, 2001, the Group had total banking facilities in respect of overdrafts, short-term bank loans, bank guarantees and trade financing of approximately \$352 million (2000 – \$375 million), none of which (2000 – \$104 million) had been utilised. As at 31st March, 2001, these banking facilities were secured by:

- (a) time deposits of approximately \$134 million (2000 – \$142 million);
- (b) guarantees of approximately \$408 million (2000 – \$439 million) given by the Company; and
- (c) progress billings of certain construction contracts.

(27) COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2001, the Group had the following outstanding commitments and contingent liabilities:

- (a) In the normal course of its business, the Group is subject to various claims under its construction contracts. As at 31st March, 2001, the Group had various liquidated damages claims on certain contracts for which the Group has filed extension of time claims with the customers. The amount of the ultimate liquidated damages, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.
- (b) Commitments under various contracts entered into in the normal course of business to complete construction and other contracts with a total value of approximately \$474 million (2000 – \$1,235 million) extending to various dates, the latest being January 2003.
- (c) Guarantees in respect of performance bonds which amounted to approximately \$5 million (2000 – \$90 million) in favour of the Group's customers.
- (d) Guarantees in respect of lease, hire purchase or instalment loan facilities to third parties which amounted to approximately \$9 million (2000 – \$17 million) in favour of certain subsidiaries.

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(27) COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

- (e) Operating lease commitments at 31st March, 2001 amounted to approximately \$55,550,000 (2000 – \$54,274,000). Such operating lease commitments as at 31st March, 2001, payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:

	Group	
	2001	2000
	\$'000	\$'000
Land and buildings		
– expiring in the first year	1,142	102
– expiring in the second to fifth years inclusive	1,392	180
– expiring over the fifth year	1,187	1,186
	<u>3,721</u>	<u>1,468</u>
Other equipment		
– expiring in the first year	46	60
	<u>46</u>	<u>60</u>
Total	<u>3,767</u>	<u>1,528</u>

(28) PAYABLE TO SUPPLIERS AND SUBCONTRACTORS

Aging analysis of payable to suppliers and subcontractors is as follows:

	2001		2000	
	Group	Company	Group	Company
	\$'000	\$'000	\$'000	\$'000
Not yet due	132,661	–	105,584	–
Overdue by:				
0–30 days	10,400	–	17,358	–
31–90 days	6	–	920	–
91–180 days	–	–	1	–
over 180 days	–	–	32	–
	<u>143,067</u>	<u>–</u>	<u>123,895</u>	<u>–</u>

Notes to the Financial Statements

31st March, 2001 (Amounts expressed in Hong Kong dollars unless otherwise stated)

(29) RELATED PARTY TRANSACTIONS

- (a) The balances due from/to subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms.
- (b) The loans to subsidiaries are unsecured, interest free and not repayable within the next year.

(30) SUBSEQUENT EVENT

In May 2001, the Group entered into an agreement to purchase a parcel of land in Causeway Bay at a consideration of \$275 million. The purchase was partly financed by a mortgage loan from a bank.

(31) PRIOR YEAR ADJUSTMENTS

In the prior year, as a result of the adoption of the revised Statement of Standard Accounting Practice Number 1 "Presentation of Financial Statements" issued by the Hong Kong Society of Accountants, the accounting policy for pre-operating expenditures was changed from a straight-line amortisation basis over 5 years to being expensed as incurred. The change in accounting policy was retrospectively applied which resulted in an adjustment of \$4,598,000 to the beginning retained profits of the prior year.