

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended September 30, 2001*

### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

### **2. Principal accounting policies**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended March 31, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new accounting policy.

#### **Goodwill**

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to April 1, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after April 1, 2001 is capitalized and amortized over its estimated useful life. Goodwill arising on acquisition of associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity.

### 3. Segment information

An analysis of the Group's turnover and (loss) profit from operations by principal activity is as follows:

	For the six months ended September 30, 2001			
	Construction and maintenance work HK\$'000	Manufacturing and trading HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment turnover				
External	199,172	17,925	-	217,097
Inter-segment	-	669	(669)	-
Total turnover	<u>199,172</u>	<u>18,594</u>	<u>(669)</u>	<u>217,097</u>
Segment results	<u>(6,760)</u>	<u>(1,090)</u>	<u>-</u>	(7,850)
Interest income				<u>2,213</u>
Loss from operations				<u>(5,637)</u>
	For the six months ended September 30, 2000			
	Construction and maintenance work HK\$'000	Manufacturing and trading HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment turnover				
External	565,669	28,476	-	594,145
Inter-segment	-	900	(900)	-
Total turnover	<u>565,669</u>	<u>29,376</u>	<u>(900)</u>	<u>594,145</u>
Segment results	<u>6,460</u>	<u>(1,893)</u>	<u>-</u>	4,567
Interest income				<u>2,587</u>
Profit from operations				<u>7,154</u>

### 3. Segment information – continued

An analysis of the Group's turnover and (loss) profit from operations by geographical market, is as follows:

	For the six months ended September 30, 2001				
	Hong Kong HK\$'000	People's Republic of China (the "PRC") excluding Hong Kong HK\$'000	Other Asia Pacific countries HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment turnover					
External	200,066	-	17,031	-	217,097
Inter-segment	<u>669</u>	<u>-</u>	<u>-</u>	<u>(669)</u>	<u>-</u>
Total turnover	<u>200,735</u>	<u>-</u>	<u>17,031</u>	<u>(669)</u>	<u>217,097</u>
Segment results	<u>(7,278)</u>	<u>(892)</u>	<u>320</u>	<u>-</u>	<u>(7,850)</u>
Interest income					<u>2,213</u>
Loss from operations					<u>(5,637)</u>
	For the six months ended September 30, 2000				
	Hong Kong HK\$'000	PRC excluding Hong Kong HK\$'000	Other Asia Pacific countries HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment turnover					
External	569,742	226	24,177	-	594,145
Inter-segment	<u>900</u>	<u>-</u>	<u>-</u>	<u>(900)</u>	<u>-</u>
Total turnover	<u>570,642</u>	<u>226</u>	<u>24,177</u>	<u>(900)</u>	<u>594,145</u>
Segment results	<u>4,882</u>	<u>(706)</u>	<u>391</u>	<u>-</u>	<u>4,567</u>
Interest income					<u>2,587</u>
Profit from operations					<u>7,154</u>

#### 4. (Loss) profit from operations

(Loss) profit from operations has been arrived at after charging:

	Six months ended September 30,	
	2001	2000
	HK\$'000	HK\$'000
Depreciation and amortization of property, plant and equipment	1,787	2,451
Amortization of goodwill	<u>214</u>	<u>-</u>

#### 5. Gain on deemed disposal of a subsidiary

During the six months ended September 30, 2001, the Group's interest in a subsidiary was diluted by further capital injections made by other shareholders and a new shareholder of the subsidiary. As a result of such deemed disposal, the subsidiary was reclassified as an associate of the Group and the gain on the deemed disposal amounted to HK\$2,141,000. The subsidiary disposed of did not make any significant contribution to the Group's cash flows or results during the period.

#### 6. Taxation

	Six months ended September 30,	
	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	-	500
Share of tax on results of associates	174	-
Share of tax on results of jointly controlled entities	-	3
	<u>174</u>	<u>503</u>

No provision for Hong Kong Profits Tax has been made for the period as the Group did not have any assessable profit arising in Hong Kong. The amount charged for the six months ended September 30, 2000 represented Hong Kong Profits Tax calculated at 16% of the assessable profit for that period.

Pursuant to relevant laws and regulations in the PRC, excluding Hong Kong, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax reduction for the next three years. No provision for PRC income tax has been made for the six months ended September 30, 2001 as the Group's PRC subsidiaries were still within the PRC income tax exemption period during the six months ended September 30, 2001.

## **7. Dividend**

The directors do not recommend the payment of an interim dividend for the period ended September 30, 2001 (six months ended September 30, 2000: NIL). No dividend was paid during the period.

## **8. (Loss) earnings per share**

The calculation of basic (loss) earnings per share is based on the loss attributable to shareholders for the six months ended September 30, 2001 of HK\$9,967,000 (six months ended September 30, 2000: profit of HK\$1,813,000) and on 482,761,963 (six months ended September 30, 2000: the weighted average of 482,760,870) shares in issue during the period.

No diluted loss per share has been presented for the six months ended September 30, 2001 as the exercise and conversion of the Company's share options and warrants would result in a decrease in loss per share.

No diluted earnings per share has been presented for the six months ended September 30, 2000 as the subscription price of the Company's warrants was greater than the average market price of the Company's shares for that period.

## **9. Movements in investment properties and property, plant and equipment**

The directors are of the opinion that the market value of the Group's investment properties as at September 30, 2001 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognized in respect of the Group's investment properties in the period.

During the period, the Group disposed of grab dredgers with a carrying value of HK\$12,347,000 for a consideration of HK\$15,000,000, resulting in a gain on disposal of HK\$2,653,000.

## **10. Movements in investments in securities**

- (a) In April 2001, the Group entered into an agreement to subscribe for a convertible note with a principal amount of HK\$12,000,000, issued by a company which acts as an investment holding company with a portfolio of strategic investments in e-commerce business and broadband communications.

The convertible note bears interest at 4% per annum, payable semi-annually in arrears commencing on October 25, 2001 and is redeemable at par together with accrued interest not later than April 24, 2003. Prior to April 24, 2003, the Group is entitled to convert the convertible note into ordinary shares up to 25% of the enlarged capital of the convertible note issuer.

- (b) In June 2001, out of the entire principal amount of the convertible note of HK\$14,000,000, which was purchased by the Group during the year ended March 31, 2001, HK\$5,250,000 of the convertible note was redeemed at par together with accrued interest while the remaining HK\$8,750,000 of the convertible note was convertible into 2,666,667 shares, representing 25% of the enlarged capital of the convertible note issuer (see note 14).

#### 11. Trade and other receivables

The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days.

Included in trade and other receivables are trade receivables of HK\$320,648,000 (March 31, 2001: HK\$299,601,000) and the aged analysis is as follows:

	As at September 30, 2001 HK\$'000	As at March 31, 2001 HK\$'000
Within 30 days	44,689	98,315
More than 30 days and within 90 days	53,954	55,957
More than 90 days and within 180 days	54,534	96,229
Over 180 days	167,471	49,100
	<u>320,648</u>	<u>299,601</u>

Included above are trade receivables from an associate amounting to HK\$2,685,000 (March 31, 2001: HK\$2,685,000).

#### 12. Pledged bank deposits

At the balance sheet date, the Group's bank deposits of HK\$8,200,000 (March 31, 2001: HK\$8,200,000) were pledged to financial institutions to secure general credit facilities granted to the Group.

### 13. Trade and other payables

Included in trade and other payables are trade payables of HK\$311,054,000 (March 31, 2001: HK\$315,786,000) and the aged analysis is as follows:

	As at September 30, 2001 HK\$'000	As at March 31, 2001 HK\$'000
Within 30 days	45,295	92,707
More than 30 days and within 90 days	50,313	76,007
More than 90 days and within 180 days	56,309	93,942
Over 180 days	159,137	53,130
	<u>311,054</u>	<u>315,786</u>

### 14. Acquisition of an associate

As a result of the partial conversion of a convertible note by the Group in June 2001, the Group acquired a 25% interest in the convertible note issuer, which is a company principally engaged in the manufacturing of smart card and plastic card and development and provision of related systems. The investment has been accounted for as an associate.

The effect of the acquisition is summarised as follows:

	HK\$'000
Net assets acquired	5,395
Goodwill arising on acquisition	<u>3,355</u>
	<u>8,750</u>
Satisfied by:	
Conversion of part of a convertible note	<u>8,750</u>

The associate did not make any significant contribution to the results of the Group during the period.