

*Notes to the Financial Statements*

FOR THE YEAR ENDED 31ST MARCH, 2002

**1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding while its subsidiaries are engaged in building construction, building maintenance and civil engineering.

**2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES**

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised standards has resulted in the following changes to the Group's accounting policies:

**Negative goodwill**

In adopting SSAP 30 "Business Combinations", the Group has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisitions prior to 1st April, 2001 is held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

The adoption of this revised accounting policy does not have any impact on the financial statements of the Group for the year.

**Leases**

The adoption of SSAP 14 (Revised) "Leases" has not resulted in any significant changes to the accounting treatment adopted for leases, accordingly no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the new requirements of SSAP 14 (Revised).

**Segment reporting**

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

**3. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention.

The principal accounting policies, which have been adopted by the Group in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong, are as follows:

**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group's interests in associates and jointly controlled entities on the basis set out below.

The results of subsidiaries, associates or jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement as from their respective dates of acquisition or up to the dates of disposal as the case may be.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Goodwill/negative goodwill

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

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

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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

#### (c) Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividend received.

#### (d) Associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in associate is stated at the Group's share of the net assets of the associate.

When the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

#### (e) Jointly controlled entities

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

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

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

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FOR THE YEAR ENDED 31ST MARCH, 2002

**3. PRINCIPAL ACCOUNTING POLICIES (continued)****(f) Construction contracts**

When the outcome of a building construction, building maintenance and civil engineering contract can be estimated reliably, contract costs are recognised to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of the construction contracts cannot be estimated reliably, 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.

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

**(g) Inventories**

Inventories representing raw materials of rocks are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis.

**(h) Property, plant and equipment**

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

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Depreciation is provided on the cost of property, plant and equipment on a reducing balance basis at the following rates per annum:

	<b>Barges and dredgers</b>	<b>Tower cranes</b>	<b>Computer equipment</b>	<b>Others</b>
Initial charge upon purchase	10%	20%	20%	20%
Annual charge	10%	15%	40%	20%

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

**(i) Revenue recognition**

When the outcome of a construction contract can be estimated reliably, revenue is recognised based on the percentage of completion, measured by reference to the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rates applicable.

Building services income is recognised when services are rendered.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (j) 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 values of the assets acquired, are charged to the consolidated income statement over the period of the relevant lease so as to produce a constant periodic rate of charge 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 consolidated income statement on a straight-line basis over the relevant lease terms.

#### (k) 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. 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, but 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.

#### (l) Foreign currency translation

The accounting records of the Group, its associates and jointly controlled entities are maintained in Hong Kong dollars. Transactions denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

#### (m) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### (n) Cash and cash equivalents

Cash and cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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FOR THE YEAR ENDED 31ST MARCH, 2002

**4. SEGMENT INFORMATION**

For management purposes, the Group is currently organised into two operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Turnover and segment information for the year ended 31st March, 2002 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>397,598</u>	<u>129,329</u>	<u>526,927</u>
<b>RESULT</b>			
Segment result	<u>28,346</u>	<u>(19,708)</u>	8,638
Unallocated corporate expenses			(2,873)
Interest income			<u>749</u>
Profit from operations			6,514
Interest expenses			(820)
Share of results of an associate			2,098
Share of results of jointly controlled entities	(396)	(20)	<u>(416)</u>
Profit before taxation			7,376
Taxation			<u>(526)</u>
Profit after taxation			<u>6,850</u>

All activities of the Group were carried out in Hong Kong.

**BALANCE SHEET**

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	376,663	290,933	667,596
Interest in an associate			6,610
Interests in jointly controlled entities	4,519	4,755	9,274
Unallocated corporate assets			<u>56,083</u>
Consolidated total assets			<u>739,563</u>
<b>LIABILITIES</b>			
Segment liabilities	589,307	79,748	669,055
Unallocated corporate liabilities			<u>1,036</u>
Consolidated total liabilities			<u>670,091</u>

**OTHER INFORMATION**

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
Capital additions	82	100	182
Depreciation and amortisation	3,011	1,332	4,343

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002



## 4. SEGMENT INFORMATION (continued)

Turnover and segment information for the year ended 31st March, 2001 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>979,180</u>	<u>247,283</u>	<u>1,226,463</u>
<b>RESULT</b>			
Segment result	<u>(12,734)</u>	<u>(15,396)</u>	(28,130)
Unallocated corporate expenses			(3,209)
Interest income			<u>1,511</u>
Loss from operations			(29,828)
Interest expenses			(1,454)
Gain on disposal of interest in an associate			2,284
Share of results of associates			
Civil engineering		(1,171)	(1,171)
Unallocated			3,485
Share of results of jointly controlled entities	(412)	(106)	<u>(518)</u>
Loss before taxation			(27,202)
Taxation			<u>(542)</u>
Loss after taxation			<u>(27,744)</u>

All activities of the Group were carried out in Hong Kong.

### BALANCE SHEET

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	711,342	283,089	994,431
Interest in an associate			6,790
Interests in jointly controlled entities	1,297	8,391	9,688
Unallocated corporate assets			<u>19,839</u>
Consolidated total assets			<u>1,030,748</u>
<b>LIABILITIES</b>			
Segment liabilities	839,427	94,427	933,854
Unallocated corporate liabilities			<u>34,272</u>
Consolidated total liabilities			<u>968,126</u>

### OTHER INFORMATION

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
Capital additions	1,731	2,205	3,936
Depreciation and amortisation	3,496	2,445	5,941

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## 5. OTHER OPERATING INCOME

	2002	2001
	HK\$'000	HK\$'000
Building Services income	3,000	–
Interest income	749	1,511
Others	847	1,363
	<u>4,596</u>	<u>2,874</u>

## 6. PROFIT (LOSS) FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration	458	439
Depreciation:		
Owned assets	4,221	5,789
Assets held under finance leases	122	152
	<u>4,343</u>	<u>5,941</u>
Less: Amount capitalised to contract work	(3,134)	(4,543)
	<u>1,209</u>	<u>1,398</u>
Loss (gain) on disposal of property, plant and equipment	627	(142)
Less: Amount capitalised to contract work	(572)	–
	<u>55</u>	<u>(142)</u>
Operating lease charges:		
Premises	2,739	3,414
Plant and machinery	69,784	119,398
	<u>72,523</u>	<u>122,812</u>
Less: Amount capitalised to contract work	(69,859)	(119,555)
	<u>2,664</u>	<u>3,257</u>
Staff costs, including directors' emoluments ( <i>Note</i> )	80,808	134,354
Retirement benefits scheme contributions, net of forfeited contributions	1,056	2,084
Less: Amount capitalised to contract work	(54,343)	(99,714)
	<u>27,521</u>	<u>36,724</u>
Interest income	(749)	(1,511)

*Note:* Included in staff costs is an amount of HK\$5,495,000 (2001: HK\$4,378,000) in respect of redundancy payments made to staff.

## 7. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdraft wholly repayable within five years	739	1,373
Finance leases charges	81	81
	<u>820</u>	<u>1,454</u>

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

### 8. TAXATION

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax charge (credit):		
The Company and subsidiaries	–	–
Associate	528	558
Jointly controlled entities	(2)	(16)
	<u>526</u>	<u>542</u>

No provision for Hong Kong Profits Tax in the current and prior year had been made as the assessable profit were wholly absorbed by tax losses brought forward.

Details of the potential deferred tax not accounted for in the year are set out in note 25.

### 9. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of HK\$6,723,000 (2001: net loss of HK\$27,657,000) and on 249,000,000 (2001: weighted average of 237,219,178) shares in issue during the year.

Diluted earnings per share is not presented as the exercise price of the share options outstanding during the year is higher than the fair value per share and accordingly the computation of diluted earnings per share does not assume their exercise.

Diluted loss per share for 2001 was not presented as the effect of exercise of the share options as referred to note 19 would be anti-dilutive in respect of that year.

### 10. PROPERTY, PLANT AND EQUIPMENT

	Barges and dredgers HK\$'000	Tower cranes HK\$'000	Furniture, fixtures, computer and office equipment HK\$'000	Motor vehicles HK\$'000	Plant, machinery, tools and equipment HK\$'000	Total HK\$'000
THE GROUP						
AT COST						
At 1st April, 2001	14,779	13,042	11,271	8,553	10,374	58,019
Additions	–	–	180	–	2	182
Disposals	–	–	(4,758)	(1,257)	(1,007)	(7,022)
At 31st March, 2002	<u>14,779</u>	<u>13,042</u>	<u>6,693</u>	<u>7,296</u>	<u>9,369</u>	<u>51,179</u>
ACCUMULATED DEPRECIATION						
At 1st April, 2001	7,668	8,409	8,695	5,849	8,080	38,701
Provided for the year	711	695	1,290	524	1,123	4,343
Eliminated on disposals	–	–	(4,648)	(776)	(500)	(5,924)
At 31st March, 2002	<u>8,379</u>	<u>9,104</u>	<u>5,337</u>	<u>5,597</u>	<u>8,703</u>	<u>37,120</u>
NET BOOK VALUES						
At 31st March, 2002	<u>6,400</u>	<u>3,938</u>	<u>1,356</u>	<u>1,699</u>	<u>666</u>	<u>14,059</u>
At 31st March, 2001	<u>7,111</u>	<u>4,633</u>	<u>2,576</u>	<u>2,704</u>	<u>2,294</u>	<u>19,318</u>

The carrying amount of the Group's motor vehicles includes HK\$489,000 (2001: HK\$611,000) in respect of assets held under finance leases.

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FOR THE YEAR ENDED 31ST MARCH, 2002

**11. INTERESTS IN SUBSIDIARIES**

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares	150,539	150,539
Loans to subsidiaries	170,564	164,564
Amounts due from subsidiaries	307,711	241,099
Impairment loss	(69,800)	(69,800)
	<u>559,014</u>	<u>486,402</u>

Loans to subsidiaries and amounts due from subsidiaries are unsecured, interest free and in the opinion of directors will not be repaid within the next twelve months from the balance sheet date.

Particulars regarding the subsidiaries of the Company at 31st March, 2002 are set out in note 29.

**12. INTEREST IN AN ASSOCIATE**

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net asset of an unlisted associate	<u>6,610</u>	<u>6,790</u>

Particulars regarding the associate of the Group at 31st March, 2002 are as follows:

Name of company	Place of incorporation/operation	Class of shares	Effective % of issued share capital held indirectly	Principal activities
Yue Xiu Concrete Company Limited	Hong Kong	Ordinary shares	25	Supply of ready-mixed concrete

In last year, Preussag Pipe Rehabilitation Hong Kong Limited, a company in which the Group had a 45% equity interest was disposed of for a consideration of HK\$19,448,000, resulting in a gain on disposal of HK\$2,284,000.

**13. INTERESTS IN JOINTLY CONTROLLED ENTITIES**

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets of jointly controlled entities	<u>9,274</u>	<u>9,688</u>

Particulars regarding the jointly controlled entities of the Group at 31st March, 2002 are set out in note 30.

## Notes to the Financial Statements

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	566,562	1,853,649
Progress billings	(368,276)	(1,878,149)
	<u>198,286</u>	<u>(24,500)</u>
Represented by:		
Due from customers for contract work included in current assets	211,841	175,084
Due to customers for contract work included in current liabilities	(13,555)	(199,584)
	<u>198,286</u>	<u>(24,500)</u>

### 15. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

Interim applications for progress payments in construction contracts are normally on a monthly basis and settled according to the contract terms.

Included in trade and other debtors, deposits and prepayments are trade receivables of HK\$273,937,000 (2001: HK\$316,109,000) with an aged analysis as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 60 days	105,703	152,321
61 – 90 days	1,193	727
More than 90 days	167,041	163,061
	<u>273,937</u>	<u>316,109</u>

### 16. CREDITORS, DEPOSITS AND ACCRUALS

Included in creditors, deposits and accruals are trade payables of HK\$112,159,000 (2001: HK\$160,844,000) with an aged analysis as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 60 days	50,247	109,458
61 – 90 days	12,722	8,293
More than 90 days	49,190	43,093
	<u>112,159</u>	<u>160,844</u>

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## 17. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amount payable under finance leases:				
Within one year	73	440	60	359
In the second to fifth year inclusive	—	73	—	60
	<u>73</u>	<u>513</u>	<u>60</u>	<u>419</u>
Less: future finance charges	(13)	(94)	—	—
Present value of lease obligations	<u>60</u>	<u>419</u>	<u>60</u>	<u>419</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			(60)	(359)
Amount due for settlement after 12 months			<u>—</u>	<u>60</u>

The Group leased certain of its motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31st March, 2002, the average effective borrowing rate was 14%. 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.

## 18. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and do not have fixed repayment terms. As agreed with the directors of the subsidiaries, demand for repayment will not be made within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current liability.

## 19. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
Authorised:		
At the beginning and end of the year ended 31st March, 2002 and 2001	<u>600,000,000</u>	<u>60,000</u>
Issue and fully paid:		
At 1st April, 2000	229,000,000	22,900
Issue of new shares	<u>20,000,000</u>	<u>2,000</u>
At 31st March, 2001 and 2002	<u>249,000,000</u>	<u>24,900</u>

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FOR THE YEAR ENDED 31ST MARCH, 2002

### 19. SHARE CAPITAL (continued)

Pursuant to a subscription agreement on 24th August, 2000, Wealthy Town Investments Limited subscribed 20,000,000 new shares of HK\$0.1 each in the Company at a price of HK\$0.21 per share, representing a discount of approximately 16% to the closing market price of the Company's shares on 9th September, 2000. The proceeds were used to reduce borrowings and to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 22nd September, 2000, and ranked pari passu with other shares in issue in all respects.

There was no change in the share capital of the Company during the year ended 31st March, 2002.

#### Share Option Scheme

Particulars of the options outstanding during the year are as follows:

Price per share payable on exercise of option	Period during which options are exercisable	Number of shares issuable under option		
		Outstanding at the beginning of the year	Cancelled/Lapsed	Outstanding at the end of the year
HK\$0.3248	03/09/1998 – 02/09/2001	8,400,000	8,400,000	–
HK\$0.3552	19/09/1998 – 06/10/2001	3,948,000	3,948,000	–
		<u>12,348,000</u>	<u>12,348,000</u>	<u>–</u>

All the options granted had been lapsed during the year.

### 20. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At 1st April, 2000	–	–	56,942	6,216	63,158
Net loss for the year	–	–	–	(27,657)	(27,657)
Shares issued at premium	1,856	–	–	–	1,856
	<u>1,856</u>	<u>–</u>	<u>56,942</u>	<u>(21,441)</u>	<u>37,357</u>
At 31st March, 2001	1,856	–	56,942	(21,441)	37,357
Net profit for the year	–	–	–	6,723	6,723
	<u>1,856</u>	<u>–</u>	<u>56,942</u>	<u>(14,718)</u>	<u>44,080</u>
At 31st March, 2002	1,856	–	56,942	(14,718)	44,080
<b>THE COMPANY</b>					
At 1st April, 2000	–	106,176	–	(52,893)	53,283
Net loss for the year	–	–	–	(17,809)	(17,809)
Share issued at premium	1,856	–	–	–	1,856
	<u>1,856</u>	<u>106,176</u>	<u>–</u>	<u>(70,702)</u>	<u>37,330</u>
At 31st March, 2001	1,856	106,176	–	(70,702)	37,330
Net loss for the year	–	–	–	(2,334)	(2,334)
	<u>1,856</u>	<u>106,176</u>	<u>–</u>	<u>(73,036)</u>	<u>34,996</u>
At 31st March, 2002	1,856	106,176	–	(73,036)	34,996

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

### 20. RESERVES (continued)

Notes:

- (a) Contributed surplus represents the difference arising between the value of total net assets of subsidiaries, associates and jointly controlled entities acquired and the nominal amount of the Company's shares issued at the time of reorganisation in 1996, adjusted for dividends paid out of the contributed surplus subsequent to the reorganisation. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
- (i) the company, or would, after the payment, be, unable to pay its liabilities as they become due; or
  - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (b) As at 31st March, 2002, the Company's reserves available for distribution to shareholders amounted to HK\$33,140,000 (2001: HK\$35,474,000).
- (c) Reserves of the Group at the balance sheet date include the Group's share of the post-acquisition profits of:

	2002 HK\$'000	2001 HK\$'000
An associate	4,110	4,290
Jointly controlled entities	4,774	5,188
	<u>8,884</u>	<u>9,478</u>

### 21. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit (loss) before taxation	7,376	(27,202)
Share of results of associates	(2,098)	(2,314)
Share of results of jointly controlled entities	416	518
Interest income	(749)	(1,511)
Interest expenses	820	1,454
Depreciation	1,209	1,398
Loss (gain) on disposal of property, plant and equipment	55	(142)
Gain on disposal of interest in an associate	-	(2,284)
(Increase) decrease in amounts due from customers for contract work	(34,904)	16,555
Decrease in inventories	5,340	5,104
Decrease in trade and other debtors, deposits and prepayments	243,116	24,201
Decrease in retention money receivable	109,899	18,402
Decrease in amounts due to customers for contract work	(184,808)	(56,150)
Decrease in creditors, deposits and accruals	(18,687)	(72,811)
(Decrease) increase in bills payable	(114)	114
Decrease in retention money payable	(60,197)	(7,646)
Net cash inflow (outflow) from operating activities	<u>66,674</u>	<u>(102,314)</u>

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002



### 22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Obligations under finance leases HK\$'000	Bank loans HK\$'000	Minority interest HK\$'000
<b>THE GROUP</b>				
Balance at 1st April, 2000	22,900	778	–	452
Cash inflow (outflow) from financing	–	(359)	32,000	–
Issue of ordinary shares	3,856	–	–	–
Minority's share of loss	–	–	–	(87)
	<u>26,756</u>	<u>419</u>	<u>32,000</u>	<u>365</u>
Balance at 31st March, 2001	26,756	419	32,000	365
Cash outflow from financing	–	(359)	(32,000)	–
Minority's share of profit	–	–	–	127
	<u>26,756</u>	<u>60</u>	<u>–</u>	<u>492</u>
Balance at 31st March, 2002	<u>26,756</u>	<u>60</u>	<u>–</u>	<u>492</u>

### 23. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	55,875	19,570
Bank overdraft	(3)	(2)
	<u>55,872</u>	<u>19,568</u>

### 24. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
	<u>240</u>	<u>240</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	463	2,227
Retirement benefit scheme contributions	21	94
	<u>484</u>	<u>2,321</u>
	<u>724</u>	<u>2,561</u>

Emoluments of the directors fall within the following bands:

Bands	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	5
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>7</u>	<u>6</u>

In 2001, the five highest paid individuals included one director whose emoluments were disclosed above.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

### 24. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

The emoluments of the five (2001: remaining four) highest paid individuals for the year were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	6,732	4,296
Retirement benefit scheme contributions	286	149
	<u>7,018</u>	<u>4,445</u>

Their emoluments fall within the following bands:

Bands	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	–

### 25. DEFERRED TAXATION

At the balance sheet date, the major components of potential deferred tax assets (liabilities) of the Group not recognised in the financial statements were as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing difference because of:		
Excess of tax allowances over depreciation	(1,419)	(1,974)
Unutilised tax losses	30,390	31,570
	<u>28,971</u>	<u>29,596</u>

The amount of the unprovided deferred tax (charge) credit for the year was as follows:

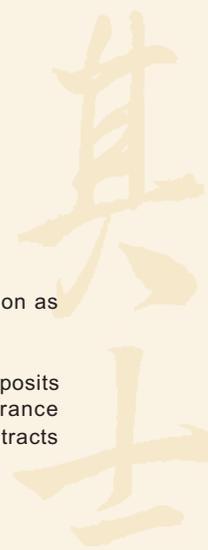
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	555	4
Tax losses utilising	(1,180)	(6,138)
	<u>(625)</u>	<u>(6,134)</u>

No deferred tax asset has been recognised in the financial statements as it is uncertain whether the asset will crystallise in the foreseeable future.

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002



### 26. PLEDGE OF ASSETS

At 31st March, 2002, the benefits under a construction contract have been pledged to a financial institution as security in connection with the credit facilities granted to the Group.

At 31st March, 2001, the Group's receivables of HK\$6,828,000 included under trade and other debtors, deposits and prepayments and the benefits under three construction contracts have been pledged to an insurance company and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the Group.

### 27. COMMITMENTS AND CONTINGENT LIABILITIES

As at the balance sheet date, there were:

- (a) Rentals payable by the Group for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Premises		Plant, barges and dredgers	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,950	2,746	4,143	9,074
In the second to fifth year inclusive	281	2,429	–	–
	<u>2,231</u>	<u>5,175</u>	<u>4,143</u>	<u>9,074</u>

Leases are negotiated for an average term of one to two years with fixed monthly rentals over the terms of the leases.

- (b) Capital commitments of the Group authorised but not contracted for in respect of:

	2002 HK\$'000	2001 HK\$'000
Acquisition of property, plant and equipment	<u>127</u>	<u>43</u>

- (c) Guarantees issued by the Company to the extent of approximately HK\$39,755,000 (2001: HK\$164,735,000) and HK\$2,500,000 (2001: HK\$2,500,000) to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the Company's subsidiaries and a jointly controlled entity, respectively.
- (d) The Group had contingent liabilities for long services payments to employees who have completed the required number of years of service and under the Employment Ordinance are eligible for long service payments on termination of their employment under certain circumstances, amounting to approximately HK\$2,281,000 (2001: HK\$3,433,000).

*Notes to the Financial Statements*

FOR THE YEAR ENDED 31ST MARCH, 2002

**28. RELATED PARTY TRANSACTIONS**

Chevalier International Holdings Limited ("CIHL"), a substantial shareholder of the Company, and Lam Woo & Company Limited ("LWCL"), a jointly controlled entity of the Company, and their respective subsidiaries and associates are regarded as related parties for the purpose of Statement of Standard Accounting Practice 20 "Related Party Disclosures" issued by the Hong Kong Society of Accountants. Details of the material transactions between the Group and CIHL and LWCL groups are as follows:

- (a) The Company entered into an agreement with CIHL, under which CIHL shall provide accounting, treasury, electronic data processing, company secretarial and personnel management services to the Group for a term of one year ended on 31st March, 2002 at a management fee calculated at 0.3% of the aggregate turnover of the operating subsidiaries of the Company. The management fee paid to CIHL under this agreement for the year ended 31st March, 2002 amounted to HK\$1,584,000 (2001: HK\$3,679,000).
- (b) An agreement was made between CIHL and the Company whereby the Group may source electrical and mechanical equipment and building materials from time to time from CIHL group at consideration determined with reference to market prices. Purchases and value of work completed during the year amounted to HK\$44,292,000 (2001: HK\$4,158,000).
- (c) During the year ended 31st March, 2002, the Group paid rentals determined with reference to market rates of HK\$2,242,000 (2001: HK\$2,835,000) to CIHL group for premises occupied by the Group.
- (d) The Group entered into contracts with reference to market rates for civil engineering work and building works with LWCL. A total amount of HK\$44,536,000 (2001: HK\$56,227,000) was received and receivable from LWCL for the work done during the year.
- (e) During the year, the Group received a lump sum building services fee of HK\$3,000,000 (2001: Nil) from CIHL group for the services provided by the Group.
- (f) The Group has maintained insurance policies with CIHL group, including public liability insurance, employees compensation insurance and contractors all risk insurance. The aggregate insurance premium charged by CIHL group during the year amounted to HK\$5,221,000 (2001: HK\$5,665,000).
- (g) In August 2000, a wholly-owned subsidiary of the Company entered into an agreement with CIHL to dispose of its 45% interest in Preussag Pipe Rehabilitation Hong Kong Limited ("PPRHK") together with the receivable from PPRHK at a total consideration of HK\$21,248,000. The transaction was completed in October 2000.

At the balance sheet date, the Group has outstanding balances arising from business transactions with related parties which are unsecured, non-interest bearing and have no fixed terms of repayment, as follows:

	Amounts due from		Amount due to	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CIHL group	36,189	101,617	9,771	27,104
LWCL	2,962	16,137	–	–
	<u>39,151</u>	<u>117,754</u>	<u>9,771</u>	<u>27,104</u>

The above balances have been disclosed in the consolidated balance sheet under "Trade and other debtors, deposits and prepayments", "Retention money receivable", "Creditors, deposit and accruals" and "Retention money payable", as appropriate.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2002

## 29. SUBSIDIARIES

Name of company	Place or country of incorporation/operation	Class of shares	Issued and paid up capital	Number of shares	Effective % of issued share capital held		Principal activities
					Directly	Indirectly	
Austin Assets Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$1	1	–	100	Investment holding
CCH (BVI) Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$50,000	50,000	100	–	Investment holding
Cherson Limited	Hong Kong	Ordinary	HK\$100	100	–	100	Investment holding
Chevalier (Construction) Company Limited	Hong Kong	Ordinary	HK\$60,500,000	60,500,000	–	99.67	Building construction
Chevalier Construction (Hong Kong) Limited	Hong Kong	Ordinary Deferred (Note)	HK\$1,000 HK\$10,000	100 1,000	– –	100 –	Building construction
Chevalier (Civil Engineering) Limited	Hong Kong	Ordinary Deferred (Note)	HK\$45,837,002 HK\$24,964,002	45,837,002 24,964,002	– –	100 –	Civil engineering
Chevalier Civil Engineering (Hong Kong) Limited	Hong Kong	Ordinary	HK\$100	100	–	100	Civil engineering
Smart Key Limited	Hong Kong	Ordinary	HK\$100	100	–	100	Investment holding

*Note:* The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the balance sheet date.

*Notes to the Financial Statements*

FOR THE YEAR ENDED 31ST MARCH, 2002

**30. JOINTLY CONTROLLED ENTITIES**

Name of company	Form of business structure	Place of incorporation/operation	Class of shares	Effective % of share capital/ownership held indirectly	Principal activities
Lam Woo & Company Limited	Incorporated	Hong Kong	Ordinary	50	Civil engineering
Lam Woo Construction Limited	Incorporated	Hong Kong	Ordinary	50	Building maintenance
Lam Woo/Chevalier Joint Venture	Joint Venture	Hong Kong	–	30	Civil engineering

The Group's entitlement to share in the results of its jointly controlled entities is in proportion to its ownership interest.