

# NOTES TO THE ACCOUNTS

31st March 2003

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, short-term investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for the current accounting period:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

Certain presentational changes have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised). The effects of adopting SSAP 34 (revised) are set out in the accounting policies below.

The Group has adopted paragraph 162 of SSAP 34 (revised) which is effective for periods commencing on or after 1st January 2003, in advance of its effective date.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one-half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(c) Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill is amortised over a period ranging from five to fifteen years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st April 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st April 2001, negative goodwill was taken directly to reserves on acquisition.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

**(d) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend income.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(e) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	10%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Motor launch	10%
Land and buildings held under medium-term lease	2% – 5%
Leasehold improvements	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

**(f) Property under development**

Property under development is under construction and intend to be held for investment purposes. The property is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(g) Assets under leases***(i) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over their estimated useful lives.

*(ii) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

**(h) Investments in securities***(i) Short-term investments*

Short-term investments are carried at fair value in the balance sheet. Any unrealised holding gain and loss on short-term investments is recognised in the profit and loss account in the period when it arises. Upon disposal or transfer of short-term investments, any profit or loss thereon is accounted for in the profit and loss account.

*(ii) 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 profit and loss account unless there is evidence that the decline is temporary.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(h) Investments in securities** *(Continued)***(ii) Other investments** *(Continued)*

Provisions against the carrying value of other investments are reversed to the profit and loss account 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 of other investments, any profit and loss thereon are accounted for in the profit and loss account.

**(i) Patents and trademarks**

Patents and trademarks, which represent costs incurred in respect of the application for patents and trademarks for construction-related software and website hosting services, are capitalised and amortised on a straight-line basis over a period of four years.

**(j) Research and development costs**

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than four years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Research costs are expensed as incurred.

**(k) Inventories**

Inventories represent building materials for sale and are stated at the lower of cost and net realisable value.

Cost, calculated on the first-in, first-out basis, 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 determined on the basis of anticipated sales proceeds less estimated selling expenses.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(l) Construction contracts in progress**

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to contract revenue certified to date as a percentage of total contract value. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

**(m) Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(n) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

**(o) Provisions**

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(p) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(q) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate using the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(r) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(s) Employee benefits**

Contributions to the defined contribution retirement scheme are charged to the profit and loss account in the year in which the contributions relate.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when there is a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

**(t) Revenue recognition****(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 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, taking into account the principal amounts outstanding and the interest rates applicable.

**(iv) Dividend income**

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



**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(u) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at weighted average rate for the year. Exchange differences arising are dealt with as a movement in reserves.

**(v) Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets, fixed assets and property under development.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

**2. TURNOVER, REVENUES AND SEGMENT INFORMATION**

The Group is principally engaged in contracting of building construction, maintenance and fitting-out projects. Revenues recognised during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Contracting of building construction, maintenance and fitting-out projects	<b>913,198</b>	744,469
Others	<b>20,794</b>	28,944
	<b>933,992</b>	773,413
Other revenues		
Dividend income on listed short-term investments	<b>41</b>	273
Interest income	<b>2,504</b>	6,235
	<b>2,545</b>	6,508
Total revenues	<b>936,537</b>	779,921

**Primary reporting format – business segments**

The Group is organised into two main business segments:

- Construction – Contracting of building construction, plumbing, maintenance and fitting-out projects
- Property development – Development of a property in Hong Kong

Other operations of the Group mainly comprise investment holding and the manufacture and supply of building materials neither of which are of a sufficient size to be reported separately.

**Secondary reporting format – geographical segments**

The Group's operation is primarily conducted in Hong Kong and over 90% of the Group's assets are located in Hong Kong. Therefore, no geographical segment information is presented.

**2. TURNOVER, REVENUES AND SEGMENT INFORMATION** (Continued)**Primary reporting format – business segments**

	Construction HK\$'000	Property Development HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Year ended 31st March 2003</b>					
External sales	913,198	–	20,794	–	933,992
Intersegment sales	49,075	–	61,577	(110,652)	–
Total sales	<u>962,273</u>	<u>–</u>	<u>82,371</u>	<u>(110,652)</u>	<u>933,992</u>
Segment results	<u>52,396</u>	<u>8</u>	<u>(3,669)</u>	<u>(33,002)</u>	15,733
Unallocated costs					<u>(2,839)</u>
Operating profit					12,894
Finance costs					(6,278)
Provision for impairment of patents, trademarks and development costs					(13,298)
Provision for impairment of interests in associated companies					(10,080)
Share of profits of associated companies					<u>3,641</u>
Loss before taxation					(13,121)
Taxation					<u>(5,595)</u>
Loss after taxation					(18,716)
Minority interests					<u>(260)</u>
Loss attributable to shareholders					<u>(18,976)</u>
Segment assets	664,401	381,212	152,280		1,197,893
Interests in associated companies					26,569
Unallocated assets					<u>16,986</u>
Total assets					<u>1,241,448</u>
Segment liabilities	(409,639)	(210,908)	(17,389)		(637,936)
Unallocated liabilities					<u>(5,477)</u>
Total liabilities					<u>(643,413)</u>
Capital expenditure	6,633	50,253	8,191		65,077
Depreciation	14,163	–	10,857		25,020
Other non-cash expenses	1,399	–	14,796		<u>16,195</u>

**2. TURNOVER, REVENUES AND SEGMENT INFORMATION** (Continued)**Primary reporting format – business segments** (Continued)

	Construction HK\$'000	Property Development HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Year ended 31st March 2002					
External sales	744,469	–	28,944	–	773,413
Intersegment sales	14,100	–	43,059	(57,159)	–
Total sales	<u>758,569</u>	<u>–</u>	<u>72,003</u>	<u>(57,159)</u>	<u>773,413</u>
Segment results	<u>32,644</u>	<u>(170)</u>	<u>(14,496)</u>	<u>(60)</u>	<u>17,918</u>
Unallocated costs					<u>(3,702)</u>
Operating profit					14,216
Finance costs					(4,688)
Share of profits of associated companies					809
Profit before taxation					10,337
Taxation					<u>(3,379)</u>
Profit after taxation					6,958
Minority interests					<u>(503)</u>
Profit attributable to shareholders					<u>6,455</u>
Segment assets	572,497	330,470	155,962		1,058,929
Interests in associated companies					37,175
Unallocated assets					<u>16,188</u>
Total assets					<u>1,112,292</u>
Segment liabilities	(305,645)	(166,222)	(16,819)		(488,686)
Unallocated liabilities					<u>(6,595)</u>
Total liabilities					<u>(495,281)</u>
Capital expenditure	4,342	329,977	13,663		347,982
Depreciation	14,746	–	10,289		25,035
Amortisation	–	–	1,230		1,230
Other non-cash expenses	2,927	–	2,738		<u>5,665</u>

**3. OPERATING PROFIT**

Operating profit is stated after charging/(crediting) the following:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Depreciation		
– Owned assets	<b>24,256</b>	23,755
– Leased fixed assets	<b>764</b>	1,280
	<b>25,020</b>	25,035
Operating lease rental of		
– Land and buildings	<b>4,417</b>	5,087
– Other equipment	<b>13,616</b>	13,743
	<b>18,033</b>	18,830
Cost of inventories	<b>49,982</b>	43,544
Provision for doubtful debts	<b>645</b>	1,674
Write-off of doubtful debts	<b>119</b>	259
Provision for impairment of value in other investments	<b>247</b>	2,161
Write-off of obsolete inventories	<b>548</b>	–
Auditors' remuneration	<b>960</b>	988
Unrealised losses on short-term investments	<b>1,073</b>	1,571
Loss/(gain) on disposal of fixed assets	<b>413</b>	(22)
Exchange gain, net	<b>(148)</b>	(160)

#### 4. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

##### (a) Directors' emoluments

The aggregate amounts of emoluments paid to Directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Executive Directors:		
Fees	—	—
Salaries	8,562	9,301
Performance-related bonus	774	1,106
Retirement benefits	384	428
	<u>9,720</u>	<u>10,835</u>
Independent Non-Executive Directors:		
Fees	750	750
	<u>10,470</u>	<u>11,585</u>

The emoluments of the Directors fell within the following bands:

Emolument bands	2003 Number of Directors	2002 Number of Directors
HK\$Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	—	1
HK\$5,000,001 – HK\$5,500,000	1	—
HK\$5,500,001 – HK\$6,000,000	—	1

**4. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Continued)**(b) Five highest-paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2002: two) individuals during the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries	1,708	1,854
Performance-related bonus	505	721
Retirement benefits	79	86
	<u>2,292</u>	<u>2,661</u>

The emoluments fell within the following bands:

Emolument bands	2003 Number of individuals	2002 Number of individuals
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>2</u>

**5. FINANCE COSTS**

	2003 HK\$'000	2002 HK\$'000
Interest on overdrafts and short-term bank loans	6,272	4,654
Interest on long-term bank loans wholly repayable within five years	5,788	3,450
Interest element of finance lease payments	<u>162</u>	<u>351</u>
Total borrowing costs incurred	12,222	8,455
Less:		
Interest capitalised in property under development	(5,788)	(3,450)
Transferred to construction cost	<u>(156)</u>	<u>(317)</u>
	<u>6,278</u>	<u>4,688</u>

The capitalisation rate applied to funds borrowed for the property under development (Note 11) is between 2.88% and 3.41% (2002: 3.29% and 5.09%) per annum.

**6. TAXATION**

- (a) Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Hong Kong profits tax	5,694	8,353
Over provisions in prior years	(24)	(2,741)
Deferred taxation	(102)	(2,644)
	<u>5,568</u>	<u>2,968</u>
Share of taxation attributable to associated companies	27	411
	<u>5,595</u>	<u>3,379</u>

- (b) Movement in deferred taxation comprises:

	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year	7,750	10,394
Reversal of net timing differences	(102)	(2,644)
	<u>7,648</u>	<u>7,750</u>

- (c) Deferred taxation has been provided in respect of accelerated depreciation allowances. There are no material deferred taxation not provided for in the accounts.



**7. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$232,000 (2002: profit of HK\$6,046,000).

**8. (LOSS)/EARNINGS PER SHARE**

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$18,976,000 (2002: profit of HK\$6,455,000) and on the weighted average of 440,949,600 (2002: 440,949,600) issued shares during the year.

Diluted earnings per share is not presented as there are no dilutive potential shares for the options granted under the Company's share option scheme.

**9. STAFF COSTS**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Salaries and wages (excluding Directors' emoluments)	<b>140,709</b>	151,585
Pension costs	<b>6,528</b>	6,563
	<b>147,237</b>	158,148

The Group contributes to the Mandatory Provident Fund Scheme (the "MPF Scheme") which was provided to all the employees in Hong Kong. The Group and each of the employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Employees' contributions are subject to a cap of monthly earnings of HK\$20,000. In addition to the mandatory contributions, the Group makes monthly voluntary contributions to the MPF Scheme at 5% of certain employees' earnings in excess of HK\$20,000. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

# NOTES TO THE ACCOUNTS

31st March 2003

## 10. FIXED ASSETS

	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Motor launch <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>							
Cost							
Balance at beginning of year	137,351	43,074	20,859	1,685	85,010	4,808	292,787
Additions	4,386	3,267	2,855	–	841	819	12,168
Disposals	(3,621)	(5,681)	(2,957)	–	–	(411)	(12,670)
<b>Balance at end of year</b>	<b>138,116</b>	<b>40,660</b>	<b>20,757</b>	<b>1,685</b>	<b>85,851</b>	<b>5,216</b>	<b>292,285</b>
Accumulated depreciation							
Balance at beginning of year	64,278	27,253	16,590	1,643	12,361	4,744	126,869
Charge for the year	12,922	6,389	3,428	42	2,204	35	25,020
Write-back on disposals	(3,395)	(5,423)	(2,844)	–	–	(111)	(11,773)
<b>Balance at end of year</b>	<b>73,805</b>	<b>28,219</b>	<b>17,174</b>	<b>1,685</b>	<b>14,565</b>	<b>4,668</b>	<b>140,116</b>
Net book value							
<b>At 31st March 2003</b>	<b>64,311</b>	<b>12,441</b>	<b>3,583</b>	<b>–</b>	<b>71,286</b>	<b>548</b>	<b>152,169</b>
At 31st March 2002	73,073	15,821	4,269	42	72,649	64	165,918

(a) Cost of land and buildings is made up as follows:

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Medium-term leasehold, at cost	65,255	20,596	85,851

**10. FIXED ASSETS (Continued)**

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

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2002</b>
		<b>HK\$'000</b>
Plant and machinery	—	7,377
Motor vehicles	<u>2,510</u>	<u>1,038</u>
Total	<u><b>2,510</b></u>	<u><b>8,415</b></u>

**11. PROPERTY UNDER DEVELOPMENT**

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2002</b>
		<b>HK\$'000</b>
Land costs	<b>299,800</b>	299,800
Development costs	<b>71,192</b>	26,727
Interest capitalised	<u><b>9,238</b></u>	<u>3,450</u>
	<u><b>380,230</b></u>	<u><b>329,977</b></u>

The property under development is held in Hong Kong under a long-term lease and is pledged as security for a bank loan (Note 22).

The Directors are of the opinion that there is no impairment in the value of the property under development at 31st March 2003.

## 12. DEVELOPMENT COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
<b>Cost</b>		
Balance at beginning of year	7,915	8,538
Additions	4,688	3,877
Disposals	—	(4,500)
	<hr/>	<hr/>
Balance at end of year	12,603	7,915
	<hr/>	<hr/>
<b>Accumulated amortisation and accumulated impairment losses</b>		
Balance at beginning of year	1,482	4,787
Amortisation for the year	—	1,195
Write-back on disposals	—	(4,500)
Provision for impairment during the year	8,826	—
	<hr/>	<hr/>
Balance at end of year	10,308	1,482
	<hr/>	<hr/>
<b>Net book value</b>		
At 31st March 2003	2,295	6,433
	<hr/>	<hr/>
At 31st March 2002	6,433	3,751
	<hr/>	<hr/>

- (a) Development costs mainly represent expenditures incurred to develop a unique type of partition for office use, and construction-related computer software and website hosting services.
- (b) Although the construction-related computer software developed and the website hosting services have started to generate income for the Group, the uncertainty of the future economy in Hong Kong has rendered it difficult to reasonably estimate the amount of future cash flows to be derived from the sales as well as the use of the construction-related technologies in construction contracts. As a result, management has made a provision against the remaining unamortised balance of the related development costs. The construction-related computer software and website hosting services are being employed in the Group construction contracts and have resulted in a more efficient and effective construction process, which would ultimately benefit the customers. The Group will continue to market the software and utilise its construction related technology in its construction work for the long-term benefit of its construction business.

**13. PATENTS AND TRADEMARKS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Cost</b>		
Balance at beginning of year	<b>3,645</b>	1,238
Additions	<b>862</b>	2,407
	<hr/>	<hr/>
Balance at end of year	<b>4,507</b>	3,645
	<hr/>	<hr/>
<b>Accumulated amortisation and accumulated impairment losses</b>		
Balance at beginning of year	<b>35</b>	–
Amortisation for the year	<b>–</b>	35
Provision for impairment during the year	<b>4,472</b>	–
	<hr/>	<hr/>
Balance at end of year	<b>4,507</b>	35
	<hr/>	<hr/>
<b>Net book value</b>		
At 31st March 2003	<b>–</b>	3,610
	<hr/>	<hr/>
At 31st March 2002	<b>3,610</b>	1,238
	<hr/>	<hr/>

- (a) Patents and trademarks represent costs incurred to apply for patent and trademark rights in relation to the development of construction-related computer software and website hosting services.
- (b) In relation to the provision made against the development cost incurred on the construction-related computer software and website hosting services as described in Note 12(b), a provision has been made against the remaining unamortised balance of the associated cost of patents and trademarks.

**14. LOANS TO EMPLOYEES**

The Group provides housing loans to certain employees and the loans are secured by second mortgage of the related properties of the employees. The repayment period ranges from two to twelve years with interest at 1% below prime rate. Amounts receivable within one year of approximately HK\$543,000 (2002: HK\$626,000) are included in prepayments, deposits and other receivables.

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	276,075	276,075
Advances to subsidiaries	85,000	88,150
	<u>361,075</u>	<u>364,225</u>

The directors are of the opinion that there is no impairment in the value of interests in subsidiaries at 31st March 2003.

The following is a list of the principal subsidiaries at 31st March 2003:

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
Australian Development Holdings Pty. Limited	Australia	A\$2	Investment holding	–	100%	100%
Bellaglade Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%
Century Score Limited	Hong Kong	HK\$2	Investment in real estate properties	–	100%	100%
Chapman Engineering Consultant Company Limited	Hong Kong	HK\$100	Building services engineering consultant	–	60%	60%
Koshen Engineering Limited	Hong Kong	HK\$10,000	Provision of design, consulting and project management services	–	100%	60%

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
Ming Hop Company Limited	Hong Kong	HK\$500,000	Sourcing of construction materials and execution of plumbing work	–	100%	100%
Nanjing Autocon Technology Company Limited (Note a)	Mainland China	US\$500,000	Development and sale of construction equipment and computer software	–	100%	100%
Nanjing Nanda VH Software Intelligence Company Limited (Note b)	Mainland China	RMB1,500,000	Development and sale of computer software	–	70%	70%
Right Motive Limited	Hong Kong	HK\$6,000	Property holding	–	100%	100%
Solid Star Company Limited	Hong Kong	HK\$2	Property holding	–	100%	100%
SPS Company Limited	Hong Kong	HK\$2	Manufacturing and trading of office partition	–	100%	100%
Trendplot Investments Limited	Hong Kong	HK\$2	Provision of management services	–	100%	100%
VHBuild Company Limited	Hong Kong	HK\$2	Provision of website hosting services	–	100%	100%
VHCOME Company Limited	Hong Kong	HK\$2	Business to business sale of construction materials	–	100%	100%
VHSoft Company Limited	Hong Kong	HK\$5,000,000	Computer software development	–	100%	100%

## NOTES TO THE ACCOUNTS

31st March 2003

### 15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
VHSoft I.P. Company Limited	Hong Kong	HK\$2	Patent holding	–	100%	100%
VHSoft Technologies Company Limited	Hong Kong	HK\$2	Computer software development	–	100%	100%
Yau Lee Building Construction and Decoration Company Limited	Hong Kong	HK\$100,000	Building construction, maintenance and fitting-out	–	100%	100%
Yau Lee Construction Company Limited	Hong Kong	HK\$100,000,000	Building construction, maintenance and fitting-out	–	100%	100%
Yau Lee Construction Materials & Technology Limited	Hong Kong	HK\$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	HK\$2	Investment holding	–	100%	100%
Yau Lee Equipment Leasing Limited	Hong Kong	HK\$2	Investment in real estate properties	–	100%	100%
Yau Lee Investment Limited	The Cook Islands/ Hong Kong	US\$100	Investment holding	100%	–	100%



**15. INTERESTS IN SUBSIDIARIES (Continued)**

Name	Place of incorporation/ operation	Particulars of issued capital	Principal activities	Percentage of issued share capital held by		Group
				Company	Subsidiaries	
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	HK\$10,000,000	Sale of precast products	–	100%	100%
Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited (Note a)	Mainland China	RMB39,076,066	Manufacture of precast products	–	100%	100%
Yau Sing Building Materials Company Limited	Hong Kong	HK\$500,000	Investment holding	–	63%	63%
Yau Lee Property Management Limited	Hong Kong	HK\$2	Provision of property management services	–	100%	100%

(a) These subsidiaries are wholly foreign-owned enterprises established in Mainland China.

(b) The subsidiary is a contractual joint venture established in Mainland China.

## 16. INTERESTS IN ASSOCIATED COMPANIES

	2003		2002	
	Group HK\$'000	Company HK\$'000	Group HK\$'000	Company HK\$'000
Share of net assets	6,501	—	2,962	—
Amounts due from associated companies	30,148	637	35,391	486
Amounts due to associated companies	—	—	(1,178)	—
	36,649	637	37,175	486
Less: Provision for impairment in interests in associated companies (Note c)	(10,080)	—	—	—
	26,569	637	37,175	486

(a) The following is a list of the principal associated companies at 31st March 2003:

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Percentage of issued share capital held by		Group
				Subsidiaries	Associated companies	
Bonland Investment Limited	Hong Kong	HK\$100	Investment holding	30%	—	30%
Bonjoy Company Limited	Hong Kong	HK\$100	Provision of shipping transportation services and investment holding	—	100%	30%
Shunde Yau Lee Building Components Company Limited ("Shunde Yau Lee") (Note b)	Mainland China	US\$1,707,714	Manufacture of building materials	52.7%	—	33.2%

**16. INTERESTS IN ASSOCIATED COMPANIES (Continued)**

(a) (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital	Principal activities	Percentage of issued share capital held by		Group
				Subsidiaries	Associated companies	
Yau Lee Development Company Limited ("YLDC") (Note c)	Hong Kong	HK\$100	Property development	50%	–	50%
Yau Lee Property Development (China) Company Limited	Hong Kong	HK\$200	Investment holding	46%	–	46%

- (b) One of the subsidiaries of the Group has a 52.7% interest in Shunde Yau Lee. However, the subsidiary can only appoint 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 which is therefore accounted for as an associated company.
- (c) The Company has an indirect interest of 25% in Fuli Building, a residential and commercial property project in Shunde, Mainland China, which was jointly developed by YLDC and a Chinese party. Due to the sluggishness of the Shunde property market, an impairment provision has been made to reflect the Group's proportionate share of the recoverable value in Fuli Building.
- (d) The amounts due from and to associated companies are unsecured, interest-free and have no fixed repayment terms.
- (e) Except as disclosed above, the Directors are of the opinion that there is no other impairment in the value of interests in associated companies at 31st March 2003.

**17. OTHER INVESTMENTS**

	<b>2003</b>		<b>2002</b>	
	<b>Group HK\$'000</b>	<b>Company HK\$'000</b>	<b>Group HK\$'000</b>	<b>Company HK\$'000</b>
Listed shares in Hong Kong, at cost less provision	<b>23</b>	–	270	–
Guaranteed unit trust fund	<b>5,461</b>	<b>5,461</b>	5,461	5,461
	<b>5,484</b>	<b>5,461</b>	5,731	5,461
Market value of listed shares	<b>23</b>	–	270	–

The Directors are of the opinion that there is no other impairment that is other than temporary in the value of other investments at 31st March 2003.

**18. RESTRICTED DEPOSITS**

Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans.

**19. TRADE DEBTORS**

	<b>Group</b>	
	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
Trade debtors	<b>149,085</b>	144,956
Less: Provision for doubtful debts	<b>(2,319)</b>	(1,674)
	<b>146,766</b>	143,282

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

**19. TRADE DEBTORS (Continued)**

The aging analysis of the trade debtors of the Group after provision is as follows:

	<b>2003</b> <b>HK\$'000</b>	<b>2002</b> <b>HK\$'000</b>
Not yet due	<b>130,607</b>	129,842
Overdue by:		
0-30 days	<b>7,272</b>	3,023
31-90 days	<b>777</b>	3,715
91-180 days	<b>551</b>	3,516
over 180 days	<b>7,559</b>	3,186
	<b>146,766</b>	<b>143,282</b>

**20. INVENTORIES**

	<b>2003</b> <b>HK\$'000</b>	<b>Group</b> <b>2002</b> <b>HK\$'000</b>
Raw materials	<b>2,507</b>	3,276
Finished goods	<b>6,377</b>	5,199
	<b>8,884</b>	<b>8,475</b>

**21. CONSTRUCTION CONTRACTS IN PROGRESS**

	<b>2003</b> <b>HK\$'000</b>	<b>Group</b> <b>2002</b> <b>HK\$'000</b>
Contract costs incurred plus attributable profits less foreseeable losses to date	<b>9,178,083</b>	8,229,176
Less: Progress billings to date	<b>(8,917,180)</b>	(8,019,592)
	<b>260,903</b>	<b>209,584</b>
Included in current assets/(liabilities) under the following captions:		
Due from customers on construction contracts	<b>277,570</b>	215,282
Due to customers on construction contracts	<b>(16,667)</b>	(5,698)
	<b>260,903</b>	<b>209,584</b>

**21. CONSTRUCTION CONTRACTS IN PROGRESS (Continued)**

- (a) Retention receivables from customers in respect of construction contracts in progress amounting to HK\$39,045,000 (2002: HK\$17,515,000) and HK\$8,767,000 (2002: HK\$39,474,000) are classified under long-term trade debtors and trade debtors respectively.
- (b) The Board of Directors has indicated that the Group will instigate a formal arbitration process with one of its customers as provided for in the construction contract in an attempt to reach a satisfactory 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 HK\$93,000,000, a portion of which is included in "Due from customers on construction contracts" in the consolidated balance sheet at 31st March 2003 based on an external consultant's evaluation of the likely recoverable amount.

**22. LONG-TERM LIABILITIES**

	<b>2003</b> <b>HK\$'000</b>	<b>Group</b> 2002 HK\$'000
Obligations under finance lease contracts		
– Repayable within one year	1,567	3,881
– Repayable in the second to fifth years	188	102
	1,755	3,983
Amounts due within one year included under current liabilities	(1,567)	(3,881)
	188	102
Long-term bank loans wholly repayable within five years	210,900	164,900
Amounts due within one year included under current liabilities	(210,900)	–
	–	164,900
	188	165,002

The bank loans are wholly repayable on 30th October 2003. Interest is charged on the outstanding balance at HIBOR plus 1.5%. The bank loan is secured by the property under development (Note 11).

**23. PAYABLE TO SUPPLIERS AND SUBCONTRACTORS**

The aging analysis of the payable to suppliers and subcontractors of the Group is as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Not yet due	<b>95,342</b>	59,558
Overdue by:		
0-30 days	<b>6,784</b>	6,922
31-90 days	—	—
91-180 days	—	—
over 180 days	<b>377</b>	—
	<b>102,503</b>	<b>66,480</b>

**24. SHARE CAPITAL**

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Authorised:		
1,000,000,000 shares of HK\$0.2 each	<b>200,000</b>	200,000
Issued and fully paid:		
440,949,600 shares of HK\$0.2 each	<b>88,190</b>	88,190

**24. SHARE CAPITAL** *(Continued)***(a) Share Option Schemes**

On 17th October 2000, the Company adopted a share option scheme (the “Share Option Scheme”) under which 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 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 Share Option Scheme remains in force for a period of 10 years. At 31st March 2003, no share options have been granted under the Share Option Scheme.

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 internationally recognised stock exchange is submitted, whichever is earlier. At 31st March 2003, no share options have been granted under the VHSoft Share Option Scheme.



## 25. OTHER RESERVES AND RETAINED PROFITS

Group	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2002	415,430	359	113,032	528,821
Loss for the year	—	—	(18,976)	(18,976)
<b>At 31st March 2003</b>	<b>415,430</b>	<b>359</b>	<b>94,056</b>	<b>509,845</b>
Representing:				
Company and subsidiaries	415,430	359	84,744	500,533
Associated companies	—	—	9,312	9,312
<b>At 31st March 2003</b>	<b>415,430</b>	<b>359</b>	<b>94,056</b>	<b>509,845</b>
At 1st April 2001	415,430	359	112,750	528,539
Profit for the year	—	—	6,455	6,455
2001 Final dividend declared and paid	—	—	(6,173)	(6,173)
<b>At 31st March 2002</b>	<b>415,430</b>	<b>359</b>	<b>113,032</b>	<b>528,821</b>
Representing:				
Company and subsidiaries	415,430	359	107,334	523,123
Associated companies	—	—	5,698	5,698
<b>At 31st March 2002</b>	<b>415,430</b>	<b>359</b>	<b>113,032</b>	<b>528,821</b>

**25. OTHER RESERVES AND RETAINED PROFITS (Continued)**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>Company</b>		
Retained profits		
Balance at beginning of year	<b>151,661</b>	151,788
(Loss)/profit for the year	<b>(232)</b>	6,046
2001 Final dividend declared and paid	<u>—</u>	<u>(6,173)</u>
Balance at end of year	<b><u>151,429</u></b>	<b><u>151,661</u></b>

The entire amount of retained profits of the Group and the Company at 31st March 2003 is distributable.

**26. BANKING FACILITIES**

The Group had total banking facilities in respect of overdrafts, short-term bank loans, bank guarantees and trade financing of approximately HK\$693 million (2002: HK\$665 million), of which HK\$432 million (2002: HK\$317 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$143 million (2002: HK\$128 million).
- (b) Guarantees of approximately HK\$788 million (2002: HK\$770 million) given by the Company.
- (c) Investment in unit trust of approximately HK\$5 million (2002: HK\$5 million).
- (d) Trade receivables of certain construction contracts.
- (e) Property under development (Note 11).

**27. COMMITMENTS AND CONTINGENT LIABILITIES**

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. At 31st March 2003, 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 HK\$1,084 million (2002: HK\$1,269 million) extending to various dates, the latest being March 2005.
- (c) Guarantees in respect of performance bonds that amount to approximately HK\$3 million (2002: HK\$3 million) in favour of the Group's customers.
- (d) Guarantees in respect of hire purchase amount to HK\$3 million (2002: HK\$9 million) in favour of certain subsidiaries.
- (e) The future aggregate minimum lease rental payable under non-cancellable operating lease is as follows:

	<b>2003</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2002</b>
		<b>HK\$'000</b>
Land and buildings		
– Not later than one year	<b>3,109</b>	2,772
– Later than one year and not later than five years	<b>7,660</b>	6,466
– Later than five years	<b>41,242</b>	44,613
	<b>52,011</b>	53,851
Other equipment		
– Not later than one year	<b>238</b>	41
– Later than one year and not later than five years	<b>47</b>	65
	<b>285</b>	106
	<b>52,296</b>	53,957

### 28. RELATED PARTY TRANSACTIONS

- (a) The balances due from and to 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.

### 29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 16th July 2003.