

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

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## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 20 August 1992 and its shares are listed on The Stock Exchange of Hong Kong Limited.

During the year, the Group was engaged in the following principal activities:

- provision of multi-disciplinary of building services comprising, electrical engineering, water pumping and fire services, air-conditioning installation, plumbing and drainage, environmental engineering and extra low voltage systems engineering;
- project management; and
- trading of electrical and mechanical engineering materials and equipment.

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements, which prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain long term investments, as further explained below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and the net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Associates** *(Continued)*

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### **Fixed assets and depreciation**

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

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Fixed assets and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and properties held under	
medium term leases	2%
Furniture and office equipment	20%
Motor vehicles	20%
Leasehold improvements	3 years or over the terms of the lease, whichever is shorter

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

### **Long term investments**

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis.

The gains or losses arising from changes in the fair value of an investment are credited or charged to the profit and loss account in the period in which they arise.

### **Installation and maintenance contracts and contracts in progress**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed installation and maintenance overheads.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Installation and maintenance contracts and contracts in progress** *(Continued)*

Revenue from fixed price installation and maintenance contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified work performed to date to the estimated total contract sum of the relevant contracts. When the outcome of the contracts cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that is probable to be recoverable.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Income tax** *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

### **Foreign currency transactions**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### **Employee benefits**

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *Retirement benefits schemes*

The Group operates defined contribution retirement benefits schemes, including an Occupational Retirement Schemes Ordinance retirement benefits scheme (the "ORSO Scheme") and a Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees (including executive directors).

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees' basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of between 30% to 90% after completing three to nine years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Employee benefits** *(Continued)*

#### *Retirement benefits schemes (Continued)*

Under the MPF Scheme, contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The assets of both types of scheme are held separately from those of the Group in independently administered funds.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from installation and maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for "Installation and maintenance contracts and contracts in progress" above;
- (c) service income from broadband connectivity, on an accrual basis over the life of the service agreement;
- (d) project management income, when project management services are rendered; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the building services contracting business segment, which includes the provision of multi-disciplinary building services, comprising electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering and extra low voltage systems engineering;
- (b) the project management segment;
- (c) the trading of electrical and mechanical engineering materials and equipment segment; and
- (d) the provision of broadband connectivity services segment which was discontinued during the year ended 31 March 2002 (*note 6*).

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 4. SEGMENT INFORMATION *(Continued)*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

### Group

	(Continuing)		(Continuing)		(Continuing)		(Discontinued)					
	(Continuing)		(Continuing)		Trading of electrical		Provision					
	Building services		Project		and mechanical		of broadband					
	contracting business		management		engineering materials		connectivity		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	704,579	588,147	2,240	4,638	27,370	51,234	–	291	–	–	734,189	644,310
Intersegment sales	–	–	–	–	9,951	8,342	–	–	(9,951)	(8,342)	–	–
Total revenue	<u>704,579</u>	<u>588,147</u>	<u>2,240</u>	<u>4,638</u>	<u>37,321</u>	<u>59,576</u>	<u>–</u>	<u>291</u>	<u>(9,951)</u>	<u>(8,342)</u>	<u>734,189</u>	<u>644,310</u>
Segment results	<u>23,122</u>	<u>4,874</u>	<u>2,240</u>	<u>4,638</u>	<u>(2,707)</u>	<u>606</u>	<u>–</u>	<u>(458)</u>	<u>–</u>	<u>–</u>	<u>22,655</u>	<u>9,660</u>
Interest income and unallocated gains											1,842	2,718
Gain on dissolution of discontinued operations											4,105	–
Loss on dissolution of a subsidiary											(33)	–
Provision for amounts due from former subsidiaries											(2,179)	–
Unrealised holding losses on long term investments											(8,863)	(8,374)
Finance costs											(1,877)	(2,034)
Share of loss of an associate											–	(2)
Profit before tax											15,650	1,968
Tax											(4,418)	(4,872)
Profit/(loss) before minority interests											11,232	(2,904)
Minority interests											(9,427)	(11,781)
Net profit/(loss) from ordinary activities attributable to shareholders											<u>1,805</u>	<u>(14,685)</u>

## Group

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# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and, an appropriate proportion of contract revenue from long term installation and maintenance contracts during the year.

An analysis of turnover and other revenue is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Turnover</b>		
Continuing operations:		
Building services contracting business	<b>704,579</b>	588,147
Project management	<b>2,240</b>	4,638
Trading of electrical and mechanical engineering materials and equipment	<b>27,370</b>	51,234
	<b>734,189</b>	644,019
Discontinued operations:		
Provision of broadband connectivity services	—	291
	<b>734,189</b>	644,310
<b>Other revenue</b>		
Interest income	<b>203</b>	568
Others	<b>1,639</b>	2,150
	<b>1,842</b>	2,718

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 6. DISCONTINUED OPERATIONS

In prior years, in view of a strategic plan by the Group to concentrate on its core activities, the directors determined to phase out the Group's broadband connectivity services business and it was substantially abandoned during the year ended 31 March 2002. In addition, certain of the Group's interest in a subsidiary, which was principally involved in the provision of design, installation and maintenance services of karaoke-on-demand systems, was disposed during the year ended 31 March 2002. Accordingly, the directors considered the aforesaid two businesses were discontinued operations during the year ended 31 March 2002.

During the year ended 31 March 2003, there were essentially no business activities of the broadband connectivity services. The subsidiary engaged in the broadband connectivity services business was in liquidation as of 31 March 2003 and was eventually dissolved in August 2003, which resulted in a net gain of approximately HK\$4,105,000 arising on the dissolution of the subsidiary being recorded in the consolidated profit and loss account for the year ended 31 March 2004.

The turnover, other revenue and gains, expenses, loss before tax and net loss for the year attributable to the discontinued operations are as follows:

	<b>Provision of broadband connectivity services</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
TURNOVER	—	291
Cost of sales	—	(756)
	<hr/>	<hr/>
Gross loss	—	(465)
Other revenue and gains	—	7
	<hr/>	<hr/>
Loss from operating activities	—	(458)
Finance costs	—	(20)
	<hr/>	<hr/>
Loss before tax	—	(478)
Tax	—	—
	<hr/>	<hr/>
Net loss for the year	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 6. DISCONTINUED OPERATIONS *(Continued)*

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	<b>Provision of broadband connectivity services</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Total assets	—	678
Total liabilities	—	(10,643)
	<hr/>	<hr/>
Net liabilities	—	(9,965)
	<hr/>	<hr/>

The net cash flows attributable to the discontinued operations are as follows:

	<b>Provision of broadband connectivity services</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating activities and net cash outflow	—	(950)
	<hr/>	<hr/>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>24,583</b>	43,188
Cost of installation	<b>609,008</b>	510,648
	<b>633,591</b>	553,836
Depreciation ( <i>note 14</i> )	<b>2,539</b>	3,087
Minimum lease payments under operating leases in respect of land and buildings	<b>1,425</b>	1,993
Auditors' remuneration	<b>800</b>	800
Staff costs (including directors' remuneration ( <i>note 9</i> )):		
Wages and salaries	<b>64,181</b>	64,217
Pension scheme contributions	<b>2,811</b>	2,982
Less: Forfeited contributions	<b>(1,038)</b>	(238)
Net pension contributions *	<b>1,773</b>	2,744
	<b>65,954</b>	66,961
Provision for doubtful debts	<b>109</b>	—
Recovery of previously provided doubtful debts	<b>(392)</b>	(754)
Loss on disposal of fixed assets	<b>7</b>	434

\* At 31 March 2004, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 8. FINANCE COSTS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	<b>1,110</b>	1,405
Bank charges	<b>716</b>	546
Interest on finance leases	<b>51</b>	83
	<b>1,877</b>	2,034

## 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	<b>250</b>	240
	<b>250</b>	240
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	<b>5,731</b>	3,880
Pension scheme contributions	<b>220</b>	153
	<b>5,951</b>	4,033
	<b>6,201</b>	4,273

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 9. DIRECTORS' REMUNERATION *(Continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>8</b>	6
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	3
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	—
	<u><b>11</b></u>	<u>9</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2003: two) non-director, highest paid employee for the year are as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>980</b>	2,044
Pension scheme contributions	<b>63</b>	129
	<u><b>1,043</b></u>	<u>2,173</u>

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	<b>Number of employees</b>	
	<b>2004</b>	2003
HK\$1,000,001 to HK\$1,500,000	<u><b>1</b></u>	<u>2</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 11. TAX

The Company is exempt from tax in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004.

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	<b>4,590</b>	5,245
Overprovision in prior years	<b>(66)</b>	(66)
Deferred ( <i>note 26</i> )	<b>(106)</b>	(307)
	<hr/>	<hr/>
Total tax charge for the year	<b><u>4,418</u></b>	<u>4,872</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for Hong Kong to the tax expense at the effective tax rate is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b><u>15,650</u></b>	<u>1,968</u>
Tax at the statutory tax rate of 17.5% (2003: 16%)	<b>2,739</b>	315
Effect on opening deferred tax of increase in rates	—	24
Adjustments in respect of current tax of previous periods	<b>(66)</b>	(66)
Income not subject to tax	<b>(728)</b>	(25)
Expenses not deductible for tax	<b>2,320</b>	1,669
Tax losses utilised from previous periods	<b>(802)</b>	(340)
Tax losses not recognised	<b>1,002</b>	3,231
Others	<b>(47)</b>	64
	<hr/>	<hr/>
Tax charge at the Group's effective rate	<b><u>4,418</u></b>	<u>4,872</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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## 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was approximately HK\$2,529,000 (2003: HK\$37,003,000) *(note 28(b))*.

## 13. EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) per share were based on:

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Earnings/(loss)</b>		
Net profit/(loss) attributable to shareholders, used in		
basic earnings/(loss) per share calculations	<b><u>1,805</u></b>	<u>(14,685)</u>
<b>Shares</b>		
Number of ordinary shares in issue during the		
year used in basic earnings/(loss) per share		
calculations	<b><u>463,721,600</u></b>	<u>463,721,600</u>

The diluted earnings/(loss) per share amounts for the years ended 31 March 2004 and 2003 have not been disclosed as no diluting events existed during the two years.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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**14. FIXED ASSETS****Group**

	<b>Leasehold land and properties</b> <i>HK\$'000</i>	<b>Furniture and office equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Leasehold improvements</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Cost:					
At beginning of year	22,378	10,249	4,505	2,045	39,177
Additions	—	105	—	—	105
Disposals	—	(552)	—	(295)	(847)
<b>At 31 March 2004</b>	<b>22,378</b>	<b>9,802</b>	<b>4,505</b>	<b>1,750</b>	<b>38,435</b>
Accumulated depreciation:					
At beginning of year	3,318	8,056	3,055	1,572	16,001
Depreciation provided during the year	447	968	815	309	2,539
Disposals	—	(545)	—	(295)	(840)
<b>At 31 March 2004</b>	<b>3,765</b>	<b>8,479</b>	<b>3,870</b>	<b>1,586</b>	<b>17,700</b>
Net book value					
<b>At 31 March 2004</b>	<b>18,613</b>	<b>1,323</b>	<b>635</b>	<b>164</b>	<b>20,735</b>
At 31 March 2003	19,060	2,193	1,450	473	23,176

The Group's leasehold land and properties are located in Hong Kong and are held under medium-term leases.

At 31 March 2004, certain of the Group's leasehold land and properties with net book value of approximately HK\$16,100,000 (2003: HK\$16,500,000) were pledged to secure general banking facilities granted to the Group.

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2004 amounted to approximately HK\$468,000 (2003: HK\$648,000).

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 15. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>33,116</b>	33,116
Due from subsidiaries	<b>148,903</b>	143,695
	<hr/>	<hr/>
	<b>182,019</b>	176,811
Provision for impairment	<b>(120,019)</b>	(112,275)
	<hr/>	<hr/>
	<b>62,000</b>	64,536
	<hr/>	<hr/>

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Group are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ecotech Engineering Limited	Hong Kong	HK\$650,001	—	89.99	Design, installation and maintenance of waste-water treatment systems
Ever Billion Engineering Limited	Hong Kong	HK\$100	—	100	Provision of building and electrical maintenance services
Shun Cheong Automation Systems Limited	Hong Kong	HK\$2,000,000	—	85	Design and installation of computer control systems and building automation projects

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shun Cheong Electrical Engineering Company Limited	Hong Kong	HK\$4,100,000	—	100	Design, installation, repair and maintenance of electrical and mechanical systems
Shun Cheong Electrical Supplies Company Limited	Hong Kong	HK\$100,000	—	100	General trading of materials and equipment for electrical installation
Shun Cheong M & E Limited	Hong Kong	HK\$663,000	—	100	Trading of electrical generators and uPVC conduits and trunking systems
Shun Cheong Management Limited	Hong Kong	HK\$2	—	100	Provision of management services
Shun Cheong Real Estates Limited	Hong Kong	HK\$10,000	—	100	Property holding
Shun Wing Construction & Engineering Company Limited	Hong Kong	HK\$1,000	—	50.1	Provision of building and electrical maintenance services

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

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

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tinhawk Company Limited	Hong Kong	HK\$2,000,000	—	90	Installation and maintenance of water pumps and fire prevention and fighting systems
Westco Airconditioning Limited	Hong Kong	HK\$4,100,000	—	100	Design, installation and maintenance of heating ventilation and air-conditioning systems

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 16. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets of an associate	<u>—</u>	<u>—</u>

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MIT Shun Cheong Company Limited	Corporate	Hong Kong	50	Inactive

## 17. LONG TERM INVESTMENTS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Listed equity investments in Hong Kong, at market value	<b>411</b>	166
Unlisted investments, at fair value	<u><b>3,257</b></u>	<u>12,365</u>
	<u><b>3,668</b></u>	<u>12,531</u>

As at 31 March 2004, the Group held 7.7% equity interests in an unlisted company with fair value of HK\$3,257,000 and 10.47%, 8.91% and 22.33% equity interests in three unlisted companies with nil fair values, as estimated by the directors.

The unlisted investment with a carrying value of HK\$3,257,000 (2003: HK\$4,329,000) was stated at its fair value as at 31 March 2004 as estimated by the directors based on its latest available audited financial statements. The remaining three unlisted investments with nil aggregate carrying value (2003: HK\$8,036,000) were stated at their fair values as at 31 March 2004 as estimated by the directors, based on their latest available unaudited financial information and the estimated recoverable amounts.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 18. GROSS AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Gross amount due from contract customers	<b>84,798</b>	86,453
Gross amount due to contract customers	<b>(61,827)</b>	(83,514)
	<b><u>22,971</u></b>	<u>2,939</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	<b>3,138,146</b>	2,473,677
Less: Progress billings	<b>(3,115,175)</b>	(2,470,738)
	<b><u>22,971</u></b>	<u>2,939</u>

## 19. INVENTORIES

Inventories comprise electrical cables, conduits, wiring accessories, light fittings and switch gear.

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Merchandise for sale	<b><u>3,248</u></b>	<u>3,499</u>

As at 31 March 2004, no inventories were carried at net realisable value or pledged as security for any liability of the Group (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 20. TRADE AND OTHER RECEIVABLES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>108,948</b>	133,525
Other receivables	<b>34,971</b>	27,379
	<b><u>143,919</u></b>	<u>160,904</u>

The Group grants its trade customers' credit periods normally ranging from cash on delivery to 60 days. A longer credit period is granted to a few customers with long business relationships with the Group and strong financial positions.

An aged analysis for trade receivables as at the balance sheet date, based on invoice date and net of provisions for bad and doubtful debts, is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>78,411</b>	106,582
31 – 60 days	<b>17,261</b>	9,329
61 – 90 days	<b>6,010</b>	5,160
Over 90 days	<b>7,266</b>	12,454
	<b><u>108,948</u></b>	<u>133,525</u>

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Cash and bank balances	<b>4,631</b>	14,238	<b>75</b>	76
Time deposits	<b>32,298</b>	39,935	<b>—</b>	—
	<b>36,929</b>	54,173	<b>75</b>	76
Less: Pledged time deposits (note 23)	<b>(26,800)</b>	(27,348)	<b>—</b>	—
Cash and cash equivalents	<b>10,129</b>	26,825	<b>75</b>	76

## 22. TRADE PAYABLES

An aged analysis for trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>13,725</b>	22,527
31 – 60 days	<b>8,805</b>	9,190
Over 60 days	<b>8,098</b>	13,073
	<b>30,628</b>	44,790

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 23. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Bank overdrafts:		
Secured	<b>17,143</b>	16,086
Bank loans:		
Secured	<b>3,333</b>	7,333
Unsecured	<b>9,798</b>	13,655
	<b>30,274</b>	37,074
Bank overdrafts repayable within one year or on demand	<b>17,143</b>	16,086
Bank loans repayable:		
Within one year or on demand	<b>3,333</b>	4,000
In the second year	—	3,333
Trust receipt loans repayable within three months from date of advance	<b>9,798</b>	13,655
	<b>30,274</b>	37,074
Portion classified as current liabilities	<b>(30,274)</b>	(33,741)
Long term portion	—	3,333

The Group's banking facilities, including overdrafts, term loans, letters of credit and bank guarantees of approximately HK\$93,500,000 (2003: HK\$108,500,000) are secured by bank deposits of the Group of approximately HK\$26,800,000 (2003: HK\$27,348,000) and certain of the Group's leasehold land and properties with a net book value of approximately HK\$16,100,000 (2003: HK\$16,500,000).

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 24. FINANCE LEASE PAYABLES

The Group leases motor vehicles for its building services contracting business. These leases are classified as finance leases and have remaining lease terms within one year.

As at 31 March 2004, the total future minimum lease payments under finance leases and their present values were as follows:

### Group

	<b>Minimum lease payments 2004 HK\$'000</b>	<b>Minimum lease payments 2003 HK\$'000</b>	<b>Present value of minimum lease payments 2004 HK\$'000</b>	<b>Present value of minimum lease payments 2003 HK\$'000</b>
Amounts payable:				
Within one year	<b>214</b>	322	<b>180</b>	270
In the second year	<b>—</b>	214	<b>—</b>	180
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	<b>214</b>	536	<b>180</b>	450
			<hr/>	<hr/>
Future finance charges	<b>(34)</b>	(86)		
	<hr/>	<hr/>		
Total finance lease payables	<b>180</b>	450		
Portion classified as current liabilities	<b>(180)</b>	(270)		
	<hr/>	<hr/>		
Long term portion	<b>—</b>	180		
	<hr/>	<hr/>		

## 25. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The loans from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 26. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities, which comprised the tax effect of the accumulated tax depreciation, and the cumulative differences in profit relating to incomplete long term installation and maintenance contracts, during the year, were as follows:

### Group

	Accumulated tax depreciation		Cumulative differences in profit relating to incomplete long term installation and maintenance contracts		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	—	—	253	560	253	560
Deferred tax charged/ (credited) to the profit and loss account during the year (2003: including a charge of HK\$24,000 due to the effect of a change in tax rates) (note 11)	147	—	(253)	(307)	(106)	(307)
At 31 March	<u>147</u>	<u>—</u>	<u>—</u>	<u>253</u>	<u>147</u>	<u>253</u>

The Group has tax losses arising in Hong Kong of HK\$37,675,000 (2003: HK\$37,475,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or the future profit streams are unpredictable.

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group has no liability to additional tax should such amounts be remitted.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 27. SHARE CAPITAL

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<i>Authorised:</i>		
800,000,000 ordinary shares of HK\$0.10 each	<u><b>80,000</b></u>	<u>80,000</u>
<i>Issued and fully paid:</i>		
463,721,600 ordinary shares of HK\$0.10 each	<u><b>46,372</b></u>	<u>46,372</u>

There were no movements in share capital for both years.

## 28. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002	110,632	14,009	132	(69,404)	55,369
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(37,003)</u>	<u>(37,003)</u>
At 31 March 2003 and 1 April 2003	110,632	14,009	132	(106,407)	18,366
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,529)</u>	<u>(2,529)</u>
<b>At 31 March 2004</b>	<u><b>110,632</b></u>	<u><b>14,009</b></u>	<u><b>132</b></u>	<u><b>(108,936)</b></u>	<u><b>15,837</b></u>

The contributed surplus represents the difference between the aggregate net asset value of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries under a Group reorganisation in 1992. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Dissolution of subsidiaries, net

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Net liabilities disposed of:		
Cash and bank balances	<b>651</b>	—
Trade receivables	<b>442</b>	—
Prepayments, deposits and other assets	<b>150</b>	—
Trade payables	<b>(4,984)</b>	—
Other payables and accruals	<b>(543)</b>	—
Minority shareholders' loan	<b>(5,600)</b>	—
Minority interest	<b>5,812</b>	—
	<b>(4,072)</b>	—
Gain on dissolution of discontinued operations	<b>4,105</b>	—
Loss on dissolution of a subsidiary	<b>(33)</b>	—
	<b>—</b>	<b>—</b>

An analysis of the net outflow of cash and cash equivalents in respect of the dissolution of subsidiaries is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Cash consideration	—	—
Cash and bank balances disposed of	<b>(651)</b>	—
Net outflow of cash and cash equivalents in respect of the dissolution of subsidiaries	<b>(651)</b>	—

The results of the subsidiaries dissolved during the year ended 31 March 2004 had no significant impact on the Group's consolidated turnover or to the consolidated profit before minority interests for that year.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 30. RELATED PARTY TRANSACTIONS

Save as disclosed in note 25 to the financial statements, the Group had the following material transactions with related companies during the year:

	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
Billing of building maintenance works and building services installation works to Chinney Construction Company, Limited	(i)	<b>268,515</b>	274,343
Payment to Diyixian.com Limited ("Diyixian") of rental for server co-location at Diyixian's data centres and for access to the Internet together with related set-up charges	(ii)	—	192
Purchase of merchandise from Chinney Alliance Engineering Limited	(iii)	<b>1,155</b>	808
Management fee paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Company Limited, a subsidiary of the Company, for the provision of management services of a building maintenance contract		<b>6,510</b>	5,091
Sub-contracting charge paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Company Limited, a subsidiary of the Company, for the completion of work orders of a building maintenance contract		<b>92,310</b>	81,670

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

31 March 2004

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## 30. RELATED PARTY TRANSACTIONS *(Continued)*

*Notes:*

- (i) Chinney Construction Company, Limited is a company in which Dr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric, the directors of the Company, have indirect beneficial interests.
- (ii) Diyixian was a minority shareholder of Speedlink Limited, a former subsidiary of the Company which was dissolved in August 2003.
- (iii) Chinney Alliance Engineering Limited is a wholly-owned subsidiary of Chinney Alliance Group Limited, a company listed on The Stock Exchange of Hong Kong Limited, which is a substantial shareholder of the Company. Dr. Wong Sai Wing, James and Mr. Yu Sek Kee, Stephen, the directors of the Company, are also directors of Chinney Alliance Group Limited.

In the opinion of the directors, the above transactions were conducted at mutually agreed rates in the normal course of the Group's business.

## 31. CONTINGENT LIABILITIES

As at 31 March 2004, the Company had provided guarantees of HK\$68,000,000 (2003: HK\$83,000,000) in total in respect of banking facilities granted to its subsidiaries, of which approximately HK\$54,301,000 (2003: HK\$82,800,000) were utilised as at the balance sheet date.

At the balance sheet date, the Group had no significant contingent liabilities (2003: Nil).

## 32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Within one year	<b>734</b>	1,641
In the second to fifth years, inclusive	<b>64</b>	577
	<b>798</b>	2,218

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

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31 March 2004

## 33. COMMITMENTS

Apart from those disclosed in note 32, at the balance sheet date, neither the Group nor the Company had any significant commitments.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 July 2004.