

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 1. CORPORATE INFORMATION

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the principal place of business of the Company is located at Units 1504-1507, 15th Floor, Kwun Tong Harbour Plaza, 182 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong. Subsequent to the balance sheet date, the principal place of business of the Company is changed to 14th Floor, Yau Lee Centre, 45 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group was principally involved in the undertaking of superstructure construction, foundation piling, substructure works, slope improvement, special construction projects and interior decoration works in Hong Kong Special Administrative Region ("Hong Kong SAR").

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements and has a significant impact thereon.

SSAP 12 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 principal impact of the revision of this SSAP on these financial statements is described below:

### Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- deferred tax liabilities have been recognised on the revaluation of the Group's leasehold land and buildings, plant and machinery and motor vehicles; and
- deferred tax assets have been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (continued)

### Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 25 to the financial statements and include a reconciliation between the accounting profit/loss and the tax credit for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 25 to the financial statements.

## 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 remeasurement of certain fixed assets, an investment property and short term investments, as explained in the respective accounting policies 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 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.

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

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities 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.

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

#### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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.

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 the net assets under the equity method of accounting, less any impairment losses.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years. In the case of jointly-controlled entities and associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the goodwill accounting policy above.

On disposal of subsidiaries, jointly-controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

#### **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.

#### **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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets, other than investment properties, are stated at cost or valuation 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.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

### 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 or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings	Over the lease terms
Plant and machinery	10%
Furniture and equipment	20%
Motor vehicles	20%

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.

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### **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 are 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

#### **Leased assets** *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Short term investments**

Short term investments are investments in investment funds held for trading purposes and are stated at their fair values at the balance sheet date. The gains or losses arising from changes in the fair values of the investment funds are credited or charged to the profit and loss account in the period in which they arise.

#### **Construction contracts**

Construction contracts are accounted for in the balance sheet as contract costs incurred plus recognised profits, less recognised losses and progress billings. 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 sub-contracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue is recognised based on the stage of completion of the construction work performed which is established by reference to the value of work certified to date by independent architects in comparison to the total contract value.

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.

#### **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 of 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 term deposits, which are not restricted as to use.

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

#### **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.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability 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, interests in jointly-controlled entities 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 the initial recognition of an asset or liability 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, interests in jointly-controlled entities 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.

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

#### **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) the value of construction work performed is recognised based on the stage of completion of the construction work performed which is established by reference to the value of work certified to date by independent architects in comparison to the total contract value, as further explained in the accounting policy for “Construction contracts” above;
- (b) management service income, when such service is rendered;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### **Employee benefits**

##### *Employment Ordinance long service payments*

Certain of the Group’s employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

##### *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in 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 assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

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

#### **Employee benefits** *(continued)*

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

#### **Foreign currencies**

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.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are organised 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) Superstructure construction works segment;
- (b) Foundation piling, substructure works and slope improvement works segment;
- (c) Special construction projects including civil engineering work, and electrical and mechanical works segment;
- (d) Interior decoration works segment; and
- (e) Corporate and others segment, which comprises the Group's investment holding, and trading of construction machines and plastic products.

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.

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments

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

	Superstructure construction works		Foundation piling, substructure works and slope improvement works		Special construction projects		Interior decoration works		Corporate and others		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:														
Sales to external customers	363,652	196,038	75,218	125,099	29,241	47,450	45,849	10,181	8,055	1,099	-	-	522,015	379,867
Intersegment sales	1,600	-	1,481	1,292	15,286	21,731	1,628	4,421	-	-	(19,995)	(27,444)	-	-
Other revenue	1,589	11,442	6,609	7,044	968	584	-	57	692	72	-	-	9,858	19,199
Intersegment revenue	-	-	590	80	-	-	-	-	-	-	(590)	(80)	-	-
<b>Total</b>	<b>366,841</b>	<b>207,480</b>	<b>83,898</b>	<b>133,515</b>	<b>45,495</b>	<b>69,765</b>	<b>47,477</b>	<b>14,659</b>	<b>8,747</b>	<b>1,171</b>	<b>(20,585)</b>	<b>(27,524)</b>	<b>531,873</b>	<b>399,066</b>
Segment results	1,020	13,727	1,389	8,181	(5,449)	905	6,234	(1,144)	(1,321)	(559)	3,162	435	5,035	21,545
Interest income and other unallocated revenue and gains													1,906	996
Unallocated expenses													(21,234)	(20,182)
Profit/(loss) from operating activities													(14,293)	2,359
Finance costs													(232)	(96)
Share of profits and losses of:														
Jointly-controlled entities	4,205	1,721	5	343	6,865	183	-	-	(1,547)	491	-	-	9,528	2,738
Associates	-	-	-	-	-	-	-	-	2,532	(4)	-	-	2,532	(4)
Profit/(loss) before tax													(2,465)	4,997
Tax													219	392
Profit/(loss) before minority interests													(2,246)	5,389
Minority interests													(616)	(1,134)
Net profit/(loss) from ordinary activities attributable to shareholders													(2,862)	4,255

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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

	Superstructure construction works		Foundation piling, substructure works and slope improvement works		Special construction projects		Interior decoration works		Corporate and others		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	84,958	77,364	47,090	53,093	19,893	14,983	4,573	5,577	27,358	25,380	(243)	(608)	183,629	175,789
Interests in associates	-	-	-	-	-	-	-	-	2,456	-	-	-	2,456	-
Interests in jointly-controlled entities	4,168	(381)	5	343	6,519	8,655	-	-	19,982	10,544	-	-	30,674	19,161
Unallocated assets													45,697	45,847
Total assets													262,456	240,797
Segment liabilities	65,758	44,659	24,745	24,188	13,393	11,909	2,532	1,700	22,300	27,549	589	871	129,317	110,876
Unallocated liabilities													16,079	9,827
Total liabilities													145,396	120,703
Minority interests													3,018	2,602
Other segment information:														
Depreciation	892	718	3,199	3,487	2,684	3,100	7	12	579	566	-	-	7,361	7,883
Other non-cash expenses/(income), net	4,415	102	(3,133)	(5,800)	442	51	705	280	1,940	(721)	-	-	4,369	(6,088)
Unallocated other non-cash expenses, net													-	(1,325)
Capital expenditure	324	204	-	-	70	-	13	-	140	823	-	-	547	1,027
Deficit on revaluation recognised directly in equity	510	2	469	1,024	306	35	-	-	-	10	-	-	1,285	1,071
Surplus on revaluation recognised directly in equity	(213)	(276)	(349)	(418)	(74)	(1,846)	-	-	-	(3)	-	-	(636)	(2,543)

### (b) Geographical segments

Over 90% of the Group's revenue and assets are derived from customers and operations based in the Hong Kong SAR and accordingly, no further analysis of the Group's geographical segments is presented.

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## 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of the gross value of work earned from superstructure construction, foundation piling, substructure works, slope improvement works, special construction projects and interior decoration works. All significant intra-group transactions within the Group have been eliminated on consolidation.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover:		
Undertaking of construction contract works	522,015	379,867
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Other revenue:		
Interest income	314	311
Service fee income	5,318	3,995
Rental income from investment properties	181	113
Rental income from machinery held for operating lease purposes	1,054	1,149
Others	2,416	649
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	9,283	6,217
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Gains:		
Gain on disposal of subsidiaries	1,161	–
Gain on dilution of interests in a subsidiary	–	78
Write-off of long outstanding payables	1,320	13,900
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	2,481	13,978
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Total other revenue and gains	11,764	20,195
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## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of services provided	514,176	366,659
Depreciation	7,361	7,883
Less: Amounts capitalised in construction contracts	(3,799)	(3,917)
	<hr/> 3,562	<hr/> 3,966
Minimum lease payments under operating leases:		
Leasehold land and buildings	1,469	1,436
Plant and machinery	2,385	5,835
Less: Amounts capitalised in construction contracts	(2,385)	(5,732)
	<hr/> –	<hr/> 103
Auditors' remuneration	680	530
Staff costs (excluding directors' remuneration – note 8)		
Wages and salaries	41,854	44,886
Pension scheme contributions	1,149	1,868
Less: Amounts capitalised in construction contracts	(31,529)	(29,091)
	<hr/> 11,474	<hr/> 17,663

# NOTES TO FINANCIAL STATEMENTS

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## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES *(continued)*

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

	2004 HK\$'000	2003 HK\$'000
Loss/(gain) on disposal of fixed assets *	909	(3)
Loss on disposal of short term investments *	14	–
Unrealised holding gain on short term investments	–	(1,325)
Write-off of amounts due from contract customers *	401	–
Write-off of an amount due from a jointly-controlled entity *	–	282
Write-off of an amount due from an associate *	420	–
Write-off of an amount due from a related company	–	54
Provision for an amount due from an associate	–	878
Reversal of provision for an amount due from a related company	–	(3,044)
Write back of provision for amounts due from contract customers, net *	(722)	(7,206)
Provision for prepayments, deposits, other debtors and other assets *	2,011	2,056
Deficit/(surplus) arising from revaluations of an investment property and leasehold land and buildings <i>(note 12)</i> *	(240)	451
Deficit arising from revaluation of plant and machinery and motor vehicles <i>(note 12)</i> *	1,649	474
Surplus arising from revaluation of plant and machinery and motor vehicles <i>(note 12)</i> *	(73)	(30)
	1,576	444

\* These items are included in "Other operating income/(expenses), net" on the face of the consolidated profit and loss account.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	519	96
Finance leases	5	27
	<hr/>	
Total interest	524	123
Less: Interest capitalised	(292)	(27)
	<hr/>	
	232	96
	<hr/>	

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	209	561
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	5,242	5,544
Pension scheme contributions	60	60
	<hr/>	
	5,511	6,165
	<hr/>	

The amount of directors' remuneration which is directly attributable to construction activities and is capitalised in construction contracts amounted to HK\$795,000 (2003: HK\$797,000).

The directors' remuneration shown above does not include the estimated monetary value of the Group's owned premises provided rent-free to a director. The estimated rental value of such accommodation was HK\$96,000 (2003: HK\$110,000) for the year ended 31 March 2004.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

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

	Number of directors 2004	Number of directors 2003
Nil – HK\$1,000,000	12	9
HK\$1,000,001 – HK\$1,500,000	3	2
HK\$1,500,001 – HK\$2,000,000	–	1
	15	12

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

The five highest paid individuals during the year included four (2003: four) directors, details of whose remuneration are set out above. The remuneration paid to the remaining (2003: one) non-director, highest paid individual for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries and other allowances	1,257	1,444
Pension scheme contributions	12	12
	1,269	1,456

The remuneration of the non-director, highest paid individual fell within the HK\$1,000,001 – HK\$1,500,000 band.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. The applicable Hong Kong profits tax rate for the prior year was 16.0%. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/04, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004.

No provision for Hong Kong profits tax had been made during the year ended 31 March 2003 as the Group did not generate any taxable profits in Hong Kong during that year.

	2004 HK\$'000	2003 HK\$'000 (Restated)
Group:		
Charge for the year	600	–
Overprovision in prior year	–	(1)
Deferred tax credit, net ( <i>note 25</i> )	(895)	(391)
	(295)	(392)
Share of tax attributable to associates	76	–
Tax credit for the year	(219)	(392)

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 9. TAX (continued)

A reconciliation of the tax credit applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax credit at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Group			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(2,465)		4,997	
Tax at the statutory tax rate in Hong Kong	(431)	17.5	799	16.0
Effect on opening deferred tax of increase in rates	–	–	60	1.2
Income not subject to tax	(301)	12.2	(3,113)	(62.3)
Expenses not deductible for tax	3,352	(136.0)	2,136	42.7
Tax loss not recognised	2,876	(116.7)	1,258	25.2
Tax losses utilised from previous periods	(4,706)	190.9	(1,081)	(21.6)
Others	(1,009)	41.0	(451)	(9.0)
Tax credit at the Group's effective rate	(219)	8.9	(392)	(7.8)

## 10. 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 HK\$2,709,000 (2003: HK\$1,358,000) (note 28(b)).

## 11. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$2,862,000 (2003: net profit of HK\$4,255,000 (as restated)) and the weighted average of 287,500,000 (2003: 287,500,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the two years ended 31 March 2004 have not been presented because the Company had no potential ordinary shares outstanding which had a dilutive effect on the basic earnings/(loss) per share for these years.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 12. FIXED ASSETS

Group

	Investment property HK\$'000	Medium term leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>						
At beginning of year	1,420	1,780	22,312	8,173	1,340	35,025
Additions	–	–	–	474	73	547
Disposals	–	–	(1,296)	–	(150)	(1,446)
Acquisition of a subsidiary (note 29(a))	–	–	–	13	–	13
Disposal of subsidiaries	–	–	–	(234)	–	(234)
Revaluations	80	120	(8,316)	–	(188)	(8,304)
<b>At 31 March 2004</b>	<b>1,500</b>	<b>1,900</b>	<b>12,700</b>	<b>8,426</b>	<b>1,075</b>	<b>25,601</b>
<b>Accumulated depreciation:</b>						
At beginning of year	–	–	–	6,338	–	6,338
Provided during the year	–	40	5,606	835	880	7,361
Written back on disposals	–	–	(72)	–	(135)	(207)
Disposal of subsidiaries	–	–	–	(158)	–	(158)
Revaluations	–	(40)	(5,534)	–	(745)	(6,319)
<b>At 31 March 2004</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7,015</b>	<b>–</b>	<b>7,015</b>
<b>Net book value:</b>						
<b>At 31 March 2004</b>	<b>1,500</b>	<b>1,900</b>	<b>12,700</b>	<b>1,411</b>	<b>1,075</b>	<b>18,586</b>
<b>At 31 March 2003</b>	<b>1,420</b>	<b>1,780</b>	<b>22,312</b>	<b>1,835</b>	<b>1,340</b>	<b>28,687</b>
<b>Analysis of cost or valuation:</b>						
At cost	–	–	–	8,426	–	8,426
At valuation	1,500	1,900	12,700	–	1,075	17,175
<b>At 31 March 2004</b>	<b>1,500</b>	<b>1,900</b>	<b>12,700</b>	<b>8,426</b>	<b>1,075</b>	<b>25,601</b>
At cost	–	–	–	8,173	–	8,173
At valuation	1,420	1,780	22,312	–	1,340	26,852
<b>At 31 March 2003</b>	<b>1,420</b>	<b>1,780</b>	<b>22,312</b>	<b>8,173</b>	<b>1,340</b>	<b>35,025</b>

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 12. FIXED ASSETS (continued)

Company

	Furniture and equipment <i>HK\$'000</i>
Cost:	
At beginning of year	1,934
Additions	127
<hr/>	
At 31 March 2004	2,061
<hr/>	
Accumulated depreciation:	
At beginning of year	703
Provided during the year	412
<hr/>	
At 31 March 2004	1,115
<hr/>	
Net book value:	
At 31 March 2004	946
<hr/>	
At 31 March 2003	1,231
<hr/>	

The investment property is situated in Hong Kong SAR and is held under medium term leases. At 31 March 2004, the investment property was carried at valuation performed by LCH (Asia-Pacific) Surveyors Limited ("LCH"), independent professionally qualified valuers, on the open market, existing use basis at HK\$1,500,000, and a surplus of HK\$80,000 arising therefrom has been credited to the profit and loss account (note 6). The investment property is leased to third parties under operating leases, further summary details of which are included in note 30 to the financial statements. Further particulars of the Group's investment property are included in page 86 of this annual report.

The medium term leasehold land and buildings are situated in Hong Kong SAR. At 31 March 2004, the leasehold land and buildings were carried at valuation performed by LCH, on the open market, vacant possession basis at HK\$1,900,000, and a surplus of HK\$160,000 arising therefrom has been credited to the profit and loss account (note 6).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 12. FIXED ASSETS (continued)

At 31 March 2004, the plant and machinery and motor vehicles were carried at valuation performed by LCH, on the fair market value, continued use basis at HK\$12,700,000 and HK\$1,075,000, respectively. A deficit of HK\$1,649,000, a surplus of HK\$73,000, a deficit of HK\$1,285,000 and a surplus of HK\$636,000 arising from these revaluations have been charged to the profit and loss account (note 6), credited to the profit and loss account (note 6), debited to the asset revaluation reserve and credited to the asset revaluation reserve, respectively. The directors believe that the carrying value of furniture and equipment of HK\$1,411,000 approximates their fair values as at 31 March 2004 and, in view of the immateriality of the individual amount involved, a professional valuation has not been carried out on these assets.

Had the Group's fixed assets been stated at cost less accumulated depreciation, the carrying amounts of leasehold land and buildings, plant and machinery, and motor vehicles as at 31 March 2004 would have been restated at HK\$5,294,000, HK\$15,197,000 and HK\$933,000, respectively.

At 31 March 2003, the net book value of assets held under finance leases included in the total amount of plant and machinery amounted to HK\$1,800,000.

Certain of the Group's fixed assets with an aggregate carrying value of HK\$3,400,000 (2003: HK\$3,200,000) have been pledged as security in respect of banking facilities granted to the Group as at 31 March 2004. Further details regarding the pledge of fixed assets are set out in note 23 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 13. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

	Group Goodwill HK\$'000
Cost:	
At beginning of year	–
Acquisition of a subsidiary ( <i>note 29 (a)</i> )	2,429
<hr/>	
At 31 March 2004	2,429
<hr/>	
Accumulated amortisation:	
At beginning of year	–
Amortisation provided during the year	–
<hr/>	
At 31 March 2004	–
<hr/>	
Net book value:	
At 31 March 2004	2,429
<hr/>	
At 31 March 2003	–
<hr/>	

## 14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	30,984	19,542
Share of net deficiency in assets ( <i>note 31 (ii)</i> )	(310)	(381)
<hr/>		
	30,674	19,161
<hr/>		

The amounts due from jointly-controlled entities are classified as current assets under accounts receivable (note 17) and other receivables (note 18).

The Group's share of net profits of jointly-controlled entities for the year amounted to HK\$9,528,000 (2003: HK\$2,738,000).

The Group's share of retained profits of jointly-controlled entities at the balance sheet date amounted to HK\$5,731,000 (2003: HK\$5,203,000).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Voting power controlled by the Group	Percentage of equity interest and profit sharing attributable to the Group	Principal activities
AWG-JV Limited	Corporate	Hong Kong	50.0	50.0	Foundation piling works
Costain-China Harbour Joint Venture *	Unincorporated	Hong Kong	33-1/3	40.0	Foundation piling works
CCL Joint Venture *	Unincorporated	Hong Kong	33-1/3	33.0	Superstructure construction
China Harbour-Transfield Joint Venture *	Unincorporated	Hong Kong	25.0	15.3	Drainage improvement
W. Hing-Kentech Joint Venture	Unincorporated	Hong Kong	60.0	70.0	Superstructure construction
MLL-CWF Joint Venture *	Unincorporated	Hong Kong	50.0	40.0	Foundation piling works
China Harbour-CWF Joint Venture *	Unincorporated	Hong Kong	50.0	49.0	Foundation piling works
Veolia Water (Zhuhai) Wastewater Treatment Company Limited (Formerly "Vivendi Water (Zhuhai) Wastewater Treatment Company Limited") *	Corporate	People's Republic of China (the "PRC")	25.0	24.0	Provision of wastewater treatment service

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 14. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

Particulars of the principal jointly-controlled entities: *(continued)*

Name	Business structure	Place of incorporation/ registration and operations	Voting power controlled by the Group	Percentage of equity interest and profit sharing attributable to the Group	Principal activities
Veolia Water (Zhuhai) Wastewater Treatment Operations Company Limited (Formerly "Vivendi Water (Zhuhai) Wastewater Treatment Operations Company Limited") *	Corporate	PRC	25.0	23.4	Provision of wastewater treatment management service

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the jointly-controlled entities of the Group 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 jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

## 15. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	2,456	–

The amounts due from associates are classified as current assets under other receivables (note 18).

The Group's share of net profits of associates for the year amounted to HK\$2,456,000 (2003: net losses of HK\$4,000).

The Group's share of retained profits of associates at the balance sheet date was HK\$2,456,000 (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 15. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity interest attributable to the Group	Principal activities
Centriline Asia Limited * #	Corporate	Hong Kong	50.0	Dormant
CLJV Limited *	Corporate	Hong Kong	50.0	Property investment
Design Landscapes International (HK) Company Limited *	Corporate	Hong Kong	25.0	Provision of landscaping services
Design Landscapes International (Group) Company Limited *	Corporate	Hong Kong	50.0	Provision of landscaping services

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

# Centriline Asia Limited is in the process of members' voluntary liquidation.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	53,662	53,662
Due from subsidiaries	178,483	180,731
	232,145	234,393
Provisions for impairment and amounts due from subsidiaries	(125,494)	(125,094)
	106,651	109,299
Due from subsidiaries classified as current assets	(22,761)	(11,704)
	83,890	97,595

The amounts due from subsidiaries are unsecured and interest-free. Except for an amount of HK\$83,890,000 (2003: HK\$86,027,000), of which the Company has undertaken not to demand repayment on or before 31 March 2005, the remaining balances have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held</i>				
Wing Hing Group (BVI) Limited	British Virgin Islands	Ordinary HK\$320,000	100	Investment holding
CWS International Trading Limited	British Virgin Islands	Ordinary US\$10	100	Investment holding

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries: (continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
<i>Indirectly held</i>				
W. Hing Construction Company Limited	Hong Kong	Ordinary HK\$102,300,100 Deferred * HK\$2,380,000	100	Superstructure construction
CWF Piling & Civil Engineering Company Limited	Hong Kong	Ordinary HK\$48,500,000 Deferred * HK\$1,500,000	100	Foundation piling works
Anpoint Engineering Limited	Hong Kong	Ordinary HK\$13,000,000	100	Electrical and mechanical construction
Asian Creator Engineering Limited	Hong Kong	Ordinary HK\$10	100	Specialised building works
Sunny Engineering Limited	Hong Kong	Ordinary HK\$1,000	100	Machine leasing
Goodcome Investment Limited	Hong Kong	Ordinary HK\$100	55	Property development and construction
W H China (Holdings) Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
W H Interior Design and Contracting Company Limited	Hong Kong	Ordinary HK\$2	100	Interior decoration

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries: (continued)

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
<i>Indirectly held (continued)</i>				
W H Projects Management Limited	Hong Kong	Ordinary HK\$2	100	Provision of consultation services
Federal Contractors Limited	Hong Kong	Ordinary HK\$10	60	Foundation piling works
JCL Engineering Limited (formerly known as "TCJV Construction Company Limited")	Hong Kong	Ordinary HK\$10,000	91	Foundation piling works
SprayTec Engineering Limited	Hong Kong	Ordinary HK\$2	100	Trading of construction machines
CSP (HK) Limited	Hong Kong	Ordinary HK\$10	60	Superstructure construction
TCL Piling Specialist Limited ("TCL") **	Hong Kong	Ordinary HK\$1,920,002	61	Foundation piling works
CHEC-CWF Joint Venture	Hong Kong	–	51	Foundation piling works
Supertact Plastics Company Limited ("Supertact") #	Hong Kong	Ordinary HK\$4,000,000	100	Trading of plastic products

\* The deferred shares carry no rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of the company. In the winding-up of a company, holders of the deferred shares are entitled to receive amounts paid-up or credited as paid-up on shares after the holders of the ordinary shares of the company have received a total return of HK\$1,000,000,000 per share.

As at 31 March 2004, all these deferred shares were owned by Wing Hing Group (BVI) Limited.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

\*\* An option exists for the minority shareholders of TCL to acquire from the Group an interest of 1% to 8% shareholding in TCL currently held by the Group at a consideration equivalent to the Group's original cost paid for the acquisition of the underlying shares.

# This subsidiary was acquired during the year. For further details, please refer to note 29 (a) to the financial statements.

## 17. ACCOUNTS RECEIVABLE

Included in accounts receivable are the amounts due from contract customers which represent the excess of contract costs incurred to date by the Group plus recognised profits, over recognised losses and progress billings raised by the Group for respective contracts at the balance sheet date:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Contract costs incurred plus recognised profits		
less recognised losses to date	1,119,528	1,003,191
Less: Progress billings	1,088,773	978,810
Amounts due from contract customers	30,755	24,381

Retentions amounting to HK\$22,093,000 (2003: HK\$15,082,000) held by contract customers are included in accounts receivable. Retentions held by contract customers that are recoverable after and within 12 months from the balance sheet date amounted to HK\$5,099,000 (2003: HK\$8,407,000) and HK\$22,093,000 (2003: HK\$15,082,000) at 31 March 2004, are classified as contract retention receivables under non-current assets and accounts receivable under current assets, respectively.

The Group's credit terms for its contracting business are negotiated with contract customers. Accounts receivable of a non-retention nature are generally due within 30 days of certification by independent architects as to the value of the contract works performed and claimed by the Group in its interim applications for progress payment.

Retentions are due on the expiration of contract maintenance/defects liability period, which is determined in accordance with relevant contract terms and generally stipulated as 181 days to 365 days from the date of practical completion of the contract works.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 17. ACCOUNTS RECEIVABLE (continued)

An aged analysis of the Group's other accounts receivable, inclusive of contract retention receivables classified as non-current assets, as at the balance sheet date and net of provisions is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 90 days	73,957	70,996
91 days to 180 days	11,179	3,519
181 days to 365 days	5,795	8,554
Over 365 days	19,476	14,951
	<hr/>	<hr/>
	110,407	98,020

Included in the Group's accounts receivable is an amount due from the Group's jointly-controlled entity of HK\$31,706,000 (2003: Nil), which is payable on similar credit terms to those offered to the major customers of the Group.

Accounts receivable of the Group recorded under current assets include contract retention receivable of approximately HK\$1.5 million and accounts receivable of approximately HK\$7.9 million (collectively the "Receivables"), HK\$9.4 million in aggregate. The Receivables arose from the contract works provided to two contract customers (the "Debtors") for several construction contracts related to the fitting out works at a shopping centre located in Hong Kong.

These construction contracts were physically completed during the year and the respective progress billings were certified by the independent architects. Among the Receivables, only HK\$0.8 million was settled subsequent to the balance sheet date and approximately HK\$8.6 million remained unsettled up to the date of these financial statements. Except for the contract retention receivable of HK\$1.5 million, the Receivables were already overdue as at the balance sheet date. The Group has requested the Debtors to repay the outstanding balance but the request was in vain. Thus, the Group filed several legal claims to the High Court of Hong Kong (the "High Court") against the Debtors.

Having considered legal counsel's advice, the directors of the Company consider that the above legal claims are valid. However, as no judgement has been made by the High Court up to the date of these financial statements, the directors of the Company are currently unable to determine with reasonable certainty the outcome of the legal proceedings. The directors are also unable to determine the time required to recover the Receivables and whether a provision, if any, is required against the unsettled portion of the Receivables.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 18. OTHER RECEIVABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
Prepayments, deposits, other debtors and other assets	4,869	7,008
Due from related companies – note 34	1,895	4,745
Due from jointly-controlled entities	6,559	3,081
Due from associates	7,703	9,077
Due from minority shareholders	355	40
Dividend receivable from a jointly-controlled entity	2,500	–
	23,881	23,951

The amounts due from jointly-controlled entities, associates and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	31 March 2004 HK\$'000	Maximum outstanding amount during the year HK\$'000	1 April 2003 HK\$'000
Total Success Worldwide Limited *	1,895	4,945	4,945
Far East Express Holdings Limited *	–	550	550
	1,895		5,495
Portion classified as current assets	(1,895)		(4,745)
Non-current portion	–		750

\* The balances represent claim liabilities recoverable from related companies beneficially and wholly-owned by certain directors of the Company (note 31 (v)). All of these balances are unsecured and interest-free. Out of the total balance, an aggregate amount of nil (2003: HK\$750,000) is recoverable after 12 months from the balance sheet date and is classified as a non-current asset at the balance sheet date, while the remaining balances of HK\$750,000 and HK\$1,145,000 are repayable in June 2004 and on demand, respectively.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 19. SHORT TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investment funds in Hong Kong, at fair value	–	15,895

At 31 March 2003, the short term investments were pledged as security in respect of banking facilities granted to the Group. Further details regarding the above pledge are set out in note 23 to the financial statements.

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	5,183	4,590	701	1,139
Time deposits	37,375	25,362	–	–
	42,558	29,952	701	1,139
Less: Pledged time deposits:				
Pledged for short term bank loans	(10,000)	(10,000)	–	–
Pledged for trust receipt loans and other banking guarantee facilities	(27,375)	(12,324)	–	–
Cash and cash equivalents	5,183	7,628	701	1,139

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 21. ACCOUNTS AND BILLS PAYABLE

Included in accounts and bills payable are the amounts due to contract customers which represent the excess of progress billings raised by the Group for the respective contracts over the contract costs incurred to date by the Group plus recognised profits less recognised losses at the balance sheet date:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Contract costs incurred plus recognised profits		
less recognised losses to date	246,484	531,851
Less: Progress billings	271,812	558,444
	<hr/>	
Amounts due to contract customers	25,328	26,593
	<hr/>	

An aged analysis of the Group's other accounts payable as at the balance sheet date is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current to 90 days	56,155	31,282
91 days to 180 days	3,879	2,994
181 days to 365 days	2,392	4,535
Over 365 days	12,816	12,373
	<hr/>	
	75,242	51,184
	<hr/>	

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 22. OTHER PAYABLES AND ACCRUALS

	Group	
	2004 HK\$'000	2003 HK\$'000
Accrued liabilities and other payables	12,211	7,961
Due to jointly-controlled entities	9,545	12,959
Due to minority shareholders	6,991	11,429
	28,747	32,349

The amounts due to jointly-controlled entities and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

## 23. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	3,047	–
Trust receipt loans	611	349
Bank loans repayable within one year	11,168	8,000
	14,826	8,349

As at 31 March 2004, the Group's banking facilities were supported by the following:

- (i) legal charges over the Group's leasehold land and buildings and an investment property, which are all situated in Hong Kong, with carrying values of HK\$1,900,000 (2003: HK\$1,780,000) and HK\$1,500,000 (2003: HK\$1,420,000), respectively (note 12);
- (ii) pledged deposits of HK\$37,375,000 (2003: HK\$22,324,000) of the Group (note 20);
- (iii) corporate guarantees to the extent of HK\$40 million (2003: HK\$224 million) in aggregate executed by the Company in respect of banking facilities granted to certain subsidiaries of the Company (note 31(i)); and
- (iv) cross guarantees amongst certain subsidiaries of the Company.

Apart from the above, at 31 March 2003, the Group's banking facilities were also secured by a legal charges over the Group's short term investments (note 19).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 24. FINANCE LEASE PAYABLES

The Group leased certain of its plant and machinery for its foundation piling business. These leases were classified as finance leases and had a remaining lease term of one year at 31 March 2003.

The total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2004 <i>HK\$'000</i>	Minimum lease payments 2003 <i>HK\$'000</i>	Present value of minimum lease payments 2004 <i>HK\$'000</i>	Present value of minimum lease payments 2003 <i>HK\$'000</i>
Total minimum finance lease payments payable within one year	–	385	–	375
Future finance charges	–	(10)		
Total net finance lease payables	–	375		
Portion classified as current liabilities	–	(375)		
Non-current portion	–	–		

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

Group	Accelerated tax depreciation HK\$'000	2004 Revaluation of fixed assets HK\$'000	Total HK\$'000
At 1 April 2003			
As previously reported	396	–	396
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,078	1,849	2,927
As restated	1,474	1,849	3,323
Deferred tax credited to the profit and loss account ( <i>note 9</i> )	(1,162)	–	(1,162)
Deferred tax credited to equity	–	(61)	(61)
At 31 March 2004	312	1,788	2,100

### Deferred tax assets

Group	Loss available for offset against future taxable profit HK\$'000	Decelerated tax depreciation HK\$'000	Revaluation of fixed assets HK\$'000	Total HK\$'000
At 1 April 2003				
As previously reported	72	–	–	72
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	2,686	–	115	2,801
As restated	2,758	–	115	2,873
Acquisition of a subsidiary ( <i>note 29 (a)</i> )	190	14	–	204
Deferred tax (charged)/credited to the profit and loss account during the year ( <i>note 9</i> )	(276)	–	9	(267)
At 31 March 2004	2,672	14	124	2,810
Net deferred tax assets at 31 March 2004				710

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 25. DEFERRED TAX (continued)

### Deferred tax liabilities

Group	Accelerated tax depreciation HK\$'000	2003 Revaluation of fixed assets HK\$'000	Total HK\$'000
At 1 April 2002			
As previously reported	742	–	742
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	1,461	1,617	3,078
As restated	2,203	1,617	3,820
Deferred tax credited to the profit and loss account ( <i>note 9</i> )	(729)	–	(729)
Deferred tax debited to equity	–	232	232
At 31 March 2003	1,474	1,849	3,323

### Deferred tax assets

Group	Loss available for offset against future taxable profit HK\$'000	Revaluation of fixed assets HK\$'000	Total HK\$'000
At 1 April 2002			
As previously reported	103	–	103
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	2,980	128	3,108
As restated	3,083	128	3,211
Deferred tax charged to the profit and loss account ( <i>note 9</i> )	(325)	(13)	(338)
At 31 March 2003	2,758	115	2,873
Net deferred tax liabilities at 31 March 2003			450

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 25. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of HK\$114,137,000 (2003: HK\$124,594,000) 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.

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

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities as at 31 March 2004 and 2003 by HK\$2,079,000 and HK\$2,927,000, respectively, and an increase in the Group's deferred tax assets as at 31 March 2004 and 2003 by HK\$2,636,000 and HK\$2,801,000, respectively. As a consequence, the consolidated net loss and net profit attributable to shareholders for the years ended 31 March 2004 and 2003 have been reduced by HK\$622,000 and increased by HK\$76,000, respectively, the consolidated accumulated losses at 1 April 2003 and 2002 have been reduced by HK\$1,723,000 and HK\$1,647,000, respectively, and the consolidated asset revaluation reserve at 1 April 2003 and 2002 have been reduced by HK\$1,849,000 and HK\$1,617,000, respectively, as detailed in the consolidated statement of changes in equity.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 26. SHARE CAPITAL

### Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
287,500,000 ordinary shares of HK\$0.10 each	28,750	28,750

### Share options

Details of the Company's share option scheme are included in note 27 to the financial statements.

The Company had no outstanding share options granted under its share option scheme during each of the two years ended 31 March 2004.

## 27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity"). Eligible participants of the Scheme include the directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any technical, financial and legal professional advisers engaged by the Group or any Invested Entity, and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The Scheme became effective on 29 August 2002 and unless otherwise terminated or amended, will remain in force for 10 years from that date.

## 27. SHARE OPTION SCHEME *(continued)*

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 28 August 2002. Share options which lapse in accordance with the terms of the Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit. The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under the Scheme, save that the total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as refreshed. Share options previously granted under the Scheme or any other share option schemes of the Company (including share options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as refreshed. The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Each grant of the share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, under the Scheme must comply with the requirements of Rule 17.04 of the Listing Rules and must be subject to approval by independent non-executive directors to whom share options have not been granted. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, are subject to prior shareholders' approval in a general meeting.

The offer of a grant of share options shall be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options, subject to the provisions for early termination set out in the Scheme. There is no minimum period for which an option must be held before the exercise of the subscription right attaching thereto, except as otherwise imposed by the board of directors.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 27. SHARE OPTION SCHEME *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted under the Scheme as at 31 March 2004 and the date of this report.

## 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 pages 23 to 25 of the financial statements.

The contributed surplus of the Group arose as a result of the Group reorganisation completed on 2 October 1995 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The investment property revaluation reserve of HK\$4,649,000 and an amount of HK\$3,107,000 included in the asset revaluation reserve, attributable to leasehold land and buildings, have been frozen and are not available for absorbing any deficit arising from revaluation of the underlying properties which gave rise to these reserves. Such freezing of reserves arose during the year ended 31 March 1998, when the directors of the Company changed the intended use of certain of the Group's investment properties and transferred these properties at their then carrying values to leasehold land and buildings. A transfer to investment properties was also made in respect of certain of the Group's leasehold land and buildings.

As detailed in note 3 to the financial statements, the Group adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to the Group's accounting period beginning 1 April 2001, to remain eliminated against consolidated reserves. The amount of goodwill arising from the acquisition of subsidiaries prior to the Group's accounting period beginning 1 April 2001, which remains eliminated in consolidated reserves as at 31 March 2004 was HK\$72,000.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 28. RESERVES (continued)

### (b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	166,405	51,562	(134,741)	83,226
Net loss for the year	–	–	(1,358)	(1,358)
At 31 March 2003 and 1 April 2003	166,405	51,562	(136,099)	81,868
Net loss for the year	–	–	(2,709)	(2,709)
At 31 March 2004	166,405	51,562	(138,808)	79,159

The contributed surplus of the Company arose as a result of the Group reorganisation scheme referred to in note 28(a) and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus is distributable in certain circumstances.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of a subsidiary

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:			
Fixed assets	12	13	–
Deferred tax assets	25	204	–
Interests in a jointly-controlled entity		590	–
Accounts receivable		1,844	–
Prepayments, deposits, other debtors and other assets		19	–
Due from a jointly-controlled entity		1,255	–
Tax recoverable		21	–
Cash and bank balances		53	–
Accounts payable		(1,744)	–
Accrued liabilities and other payables		(1,142)	–
		1,113	–
Goodwill on acquisition	13	2,429	–
		3,542	–
Satisfied by:			
Cash		3,542	–

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (a) Acquisition of a subsidiary *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(3,542)	–
Cash consideration payable	2,600	–
Cash and bank balances acquired	53	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(889)	–

On 2 December 2003, the Group acquired 100% equity interest in Supertact from an independent third party. Supertact is engaged in the trading of plastic products. The purchase consideration for the acquisition was HK\$3,542,000. During the year, HK\$942,000 was paid in accordance with the sales and purchases agreement and the remaining balance of HK\$2,600,000 remained unsettled at the date of these financial statements.

Since its acquisition, Supertact contributed HK\$7,843,000 to the Group's turnover and net profit of HK\$316,000 to the consolidated loss after tax and before minority interests for the year ended 31 March 2004.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	76	–
Accounts receivable	291	–
Due from a jointly-controlled entity	94	–
Cash and bank balances	93	–
Accounts payable	(625)	–
Accrued liabilities and other payables	(490)	–
Minority interests	(200)	–
	(761)	–
Gain on disposal of subsidiaries	1,161	–
	400	–
Satisfied by:		
Cash	400	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	400	–
Cash and bank balances disposed of	(93)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	307	–

The results of the subsidiaries disposed of during the year ended 31 March 2004 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 30. COMMITMENTS

### (i) Operating lease commitments

#### (a) As lessor

The Group leases its investment property (note 12) under operating lease arrangements, with leases negotiated for terms of one year. The terms of the leases also require the tenants to pay security deposits.

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	–	90

#### (b) As lessee

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 31 March 2004, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	723	1,503	369	877
In the second to fifth years, inclusive	50	735	–	242
	773	2,238	369	1,119

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 30. COMMITMENTS (continued)

### (ii) Capital commitments contracted for (continued)

	Group	
	2004 HK\$'000	2003 HK\$'000
Capital contribution to jointly-controlled entities	11,046	23,951
Acquisition of fixed assets	5,030	–
	16,076	23,951

In addition, the Group's share of jointly-controlled entity's own capital commitments, which are not included in the above, were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted, but not provided for	37,126	–

During the year ended 31 March 2004, a jointly-controlled entity entered into construction contracts with two subsidiaries of the Company. The total consideration of the construction contracts amounted to approximately HK\$131 million of which approximately HK\$38 million was recognised as the Group's contract fee income during the year ended 31 March 2004 and the remaining balance of approximately HK\$93 million was recorded as commitment contracted for in the financial statements of the jointly-controlled entity at 31 March 2004.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 31. CONTINGENT LIABILITIES

- (i) At the balance sheet date, the Company and the Group had the following contingent liabilities:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees in respect of performance bonds in favour of contract customers	32,223	25,454	–	–
Corporate guarantees for liabilities of subsidiaries in respect of:				
Finance lease obligations	–	–	–	375
Interest-bearing bank borrowings	–	–	11,168	8,000
Banking facilities	–	–	15,651	26
	32,223	25,454	26,819	8,401

In addition to the above, as at the balance sheet date, the Company had executed guarantees in favour of contract customers in respect of the performance of a subsidiary's obligation and a jointly-controlled entity's obligation under contracts with contract sum of HK\$9,068,000 (2003: HK\$8,327,000) and HK\$84,938,000 (2003: Nil), respectively.

At the balance sheet date, the Group's jointly-controlled entities had contingent liabilities in respect of performance bond guarantees amounting to HK\$18,720,000 (2003: HK\$92,920,000) to which the Group, together with other joint venture partners, are jointly and severally liable.

At 31 March 2003, the Group had executed a guarantee in respect of repayment of a mortgage loan granted to an associate to the extent of HK\$6,136,000. The guarantee was released upon the disposal of the related property during the year.

- (ii) As at 31 March 2004, certain subsidiaries of the Company had provided undertakings of financial support to certain of the Group's jointly-controlled entities in proportion to their equity interests in these entities, in order that these entities could meet their obligations and liabilities as and when they fall due. The Group's share of the net deficiency in assets of these joint venture entities as at the balance sheet date in the amount of HK\$310,000 (2003: HK\$381,000) has already been accounted for (note 14) in presenting these financial statements.

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## 31. CONTINGENT LIABILITIES (continued)

- (iii) The Group was involved during the three years ended 31 March 2003 in the undertaking of two construction contracts for the Hong Kong Housing Authority (the "HA"). In attending to these contract works, the Group received requests for clarifications from the HA regarding the technical compliance of the piling work sections of these contract works. Additional piling specification review, testing and other compliance procedures were carried out to substantiate the satisfactory adherence to the technical specifications required for these contract works and for any extension works required for the purpose of providing assurance to the HA. Provisions have been made in the financial statements for the four years ended 31 March 2004 for all additional costs incurred, as well as those necessarily required to be incurred, in attending to these and other additional works reasonably anticipated by the directors to be necessary for the satisfaction of the HA.

As a result of the execution of these additional contract works, which were not anticipated at the stage of contract inception, the contract period was prolonged with a corresponding overrun of the contract costs incurred. In accordance with the contractual agreement, the HA is entitled to claim against the Group for liquidated damages for the delay in completion of contract works. The maximum potential amount of liquidated damages involved was assessed by the directors based on the contractual provisions of approximately HK\$14 million, in aggregate, as at 31 March 2004. Having regard to the circumstances surrounding the prolonged contract works as described above, the directors are however of the opinion that the Group has meritorious defences against claims for the liquidated damages. In a letter dated 12 December 2000 issued by the HA, the HA confirmed that its building committee had considered the situation and approved the waiver of liquidated damages on an ex-gratia basis if the delay was due to unanticipated complex ground conditions and/or initiatives on supervision enhancement and design approval of piling works implemented after contract formation. Accordingly, although the Group's grounds of claiming waiver of these possible liquidated damages has yet to be reviewed and approved by the HA, the directors are of the opinion that the likelihood of such damages falling to the Group is not probable and a provision therefor has not been made in presenting the financial statements for the four years ended 31 March 2004.

In July 2001, the piling sections involved in these HA contract works were completed and, to date, the Group has not received any complaint or indications from the HA regarding sub-standard piling works. The Group is presently in the process of filing formal claims to the HA requesting compensation of the extra contract costs incurred, which have already been fully charged to the profit and loss account during each of the two years ended 31 March 2002, as a result of the contract prolongation. However, as the negotiations with the HA have not yet reached an advanced stage, in view of the uncertainties involved, no accrual for the potential compensation revenue has been made in these financial statements.

## 31. CONTINGENT LIABILITIES (continued)

- (iv) The Group was previously engaged in early 2000 in the undertaking of a piling work contract, which was terminated by the contract customer during 2001 prior to the completion of contract works as a result of the allegation of non-conforming piles. In the previous year, the contract customer demanded from the Group a retrenchment of HK\$5 million of the contract fees received by the Group, as compensation for early termination of the contract works. In prior years, the contract customer was in the process of undergoing a court compulsory winding-up and the provisional liquidator of the contract customer requested payment of HK\$8 million from the Group. Having considered legal counsel's advice, the directors are of the opinion that the claim is unlikely to succeed. Accordingly, no provision has been made in these financial statements.
- (v) The Group was held liable for two related claims for alleged breach of contractual duties, brought against the Group by a contract customer and a nominated subcontractor in respect of renovation works undertaken by the Group in 1992. The total claims payable in respect of the claims amounted to HK\$9.2 million. Certain directors of the Company, through companies beneficially and wholly-owned by them, have covenanted with the Group to jointly and severally indemnify and keep the Group indemnified in full against the damages payable. A provision therefor, as well as the corresponding reimbursement recoverable of an equal amount, have been recognised in these financial statements. The outstanding claims payable in respect of the claims amounted to HK\$1.9 million as at 31 March 2004.
- (vi) As further explained under the heading "Employee benefits" in note 3 to the financial statements, the Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$2.9 million as at 31 March 2004. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (vii) The Group was previously engaged in early 2000 in the undertaking of a piling work contract. In 2001, the Group made a claim against the main contractor of HK\$7 million for variation orders in addition to the original contract sum. In prior years, the main contractor submitted a counterclaim of HK\$44 million for additional costs incurred due to wrongful repudiation of the subcontract. Having considered the legal counsel's advice, the directors are of the opinion that the Group has a good chance of defending the counterclaim. Accordingly, the directors consider that a provision for the counterclaim is not necessary.

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## 32. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by assets of the Group, are included in note 23 to the financial statements.

## 33. PENDING LITIGATION

- (i) The Group is involved in disputes with the other shareholder of an associate and its related parties (the "Dispute Parties"), under which the Group is alleged, amongst other things, to have mis-appropriated certain construction machinery and to have defaulted on the repayment of related machinery lease rentals in the amount of approximately HK\$5 million in aggregate. The directors consider that proper payment has been made regarding the machinery and, having regard to advice from the legal counsel, are also of the opinion that the Group has a meritorious defence against these additional claims. Accordingly, a provision therefor has not been made in these financial statements.

The Group has initiated legal actions against the Dispute Parties in respect of machinery lease rentals in the aggregate amount of approximately HK\$6 million incurred on a machinery lease agreement which was incepted by the Dispute Parties on behalf of the associate but was not properly authorised by the board of directors of the associate and a claim for the recovery of £195,000 advanced by the Group to the Dispute Parties.

- (ii) A number of claims have been brought against the Group in respect of compensation for alleged personal injuries sustained by construction workers during the execution of contract works. The directors believe that any liabilities of the Group in respect of such claims will be covered either by the Group's insurance policies, or that the Group has a meritorious defence against such claims. Accordingly, the directors do not believe that these claims will have any material adverse impact on the Group and, therefore no provisions have been made in respect thereof.
- (iii) A claim for approximately HK\$1.6 million was brought against a subsidiary of the Company by a subcontractor in 2002 alleging that the Group is liable for the settlement of sub-contracting charges to the subcontractor. Having considered the legal counsel's advice, the directors believe that the Group has meritorious defences for the claim. Accordingly, the directors consider that a provision for the claim is not necessary.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had transactions with certain related parties during the year as summarised below.

		Group	
	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Insurance premiums paid to a related company	<i>(i)</i>	–	154
Insurance brokerage commission received from a related company	<i>(i)</i>	–	(42)
Service fee income from jointly-controlled entities	<i>(ii)</i>	(5,142)	(3,676)
Service fee income from an associate	<i>(ii)</i>	(197)	(179)
Service fee paid to an associate	<i>(iii)</i>	–	48
Sale of materials to an associate and a jointly-controlled entity	<i>(iv)</i>	(2,515)	(42)
Purchases of finished goods from a jointly-controlled entity	<i>(iv)</i>	4,698	–
Subcontracting fee paid to a jointly-controlled entity	<i>(v)</i>	153,457	22,723
Contract sum received and receivable from jointly-controlled entities	<i>(vi)</i>	(40,340)	(2,114)
Contract sum received and receivable from a minority shareholder of a subsidiary	<i>(vii)</i>	(5,785)	–

*Notes:*

- (i) Insurance premiums and insurance brokerage commission were paid to/received from certain subsidiaries of China Insurance H.K. (Holdings) Company Limited (“China Insurance”), which owns 15.65% of the issued capital of the Company through its 99.9% owned subsidiary, Glado Development Limited. As confirmed by the directors of the Company, the insurance premium expense and insurance brokerage commission income were calculated by reference to open market rates.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 34. RELATED PARTY TRANSACTIONS *(continued)*

*Notes: (continued)*

- (ii) The service fee income was charged in relation to the provision of management services and consultancy services in respect of the undertaking of construction works. The service charge was made on a cost recovery basis.
- (iii) The service fee was paid in respect of consultancy services rendered for construction contracts, on a cost recovery basis.
- (iv) The directors consider that the sale of materials and purchase of finished goods were made in accordance with terms mutually agreed between the parties.
- (v) The directors consider that the subcontracting fee was paid in accordance with terms mutually agreed between the parties.
- (vi) The contract sum was received for construction contracts subcontracted to the Group. The directors consider that these contract fees were charged in accordance with terms mutually agreed between the parties.
- (vii) The contract sum was received in respect of renovation works rendered to the external walls of two town hall complexes, of which the minority shareholder is the main contractor. The directors consider that these contract fees were charged according to terms similar to those offered to non-related contract customers of the Group.

Details of the Group's balances with its associates as at the balance sheet date are included in note 18 to the financial statements, and details of the Group's balances with its jointly-controlled entities are included in notes 17, 18 and 22 to the financial statements.

The Group was held and adjudicated to be liable for certain litigation claims, summary details of which are set out in note 31(v) to the financial statements. In connection with these claim liabilities, certain directors of the Company, through companies beneficially wholly-owned by them, have covenanted with the Group to jointly and severally indemnify and keep the Group indemnified in full against the damages payable, including any expenses or liabilities which the Group may sustain in connection with the claims.

The Group has also provided undertakings of financial support to certain of the Group's jointly-controlled entities, in proportion to the Group's equity interests in these entities, in order to enable those entities to meet their liabilities and obligations as and when they fall due (note 31(ii)).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004

## 35. POST BALANCE SHEET EVENT

On 12 May 2004, the Company entered into a conditional subscription agreement (the “Note Subscription Agreement”) with Grand Legend Limited (the “Subscriber”) and Lo Chun Yang in respect of the subscription of convertible note (the “Note”) with an aggregate principal amount of HK\$11,500,000. The principal amount of the Note is HK\$11,500,000 with interest bearing at the rate of 1% per annum on the outstanding principal amount of the Note from its date of issue to the maturity date which is eighteen calendar months after the date of issue of the Note (the “Maturity Date”). The Note may be converted at the option of the Subscriber at a conversion price of HK\$0.20 per share at any time after the issue date of the Note up to the Maturity Date.

Details of the above transactions were set out in the announcement of the Company dated 12 May 2004. The completion of the Note Subscription Agreement took place after all the conditions as set out in the Note Subscription Agreement have been fulfilled in July 2004.

## 36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year’s presentation.

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2004.