

Notes to the Accounts

1 Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of short-term investments and investment properties, which are carried at fair value.

The HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted the following new HKFRSs in the accounts for the year ended 31st March 2005:

| | |
|------------------------|--|
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 40 | Investment Property |
| HKAS Interpretation 21 | Income Taxes - Recovery of Revalued Non-Depreciable Assets |

The adoption of revised HKAS 17 has resulted in a change in the accounting policy giving rise to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment and was included under property, plant and equipment.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for changes in fair value of investment properties. In prior years, the increases in fair value were credited to the property revaluation reserve (with subsequent decreases first set off against earlier increases on a portfolio basis and thereafter charged to the profit and loss account), whereas under HKAS 40, the changes in fair value are recorded in the profit and loss account.

The adoption of revised HKAS Interpretation 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of such asset through use. In prior years, the carrying amount of such asset was assumed to be recovered through sale in determining the deferred tax impact.

The adoption of HKAS 16 did not result in substantial changes to the Group's accounting policies.

Changes in the accounting policies have been applied retrospectively so that the comparatives presented have been restated to conform to the changed policies.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

The effect of the changes in accounting policies on the profit attributable to shareholders and various balance sheet items is summarised below:

| | 2005 | | | Total HK\$'000 |
|---|---------------------|---------------------|---------------------------------------|-------------------|
| | HKAS 17 HK\$'000 | HKAS 40 HK\$'000 | HKAS Interpretation 21 HK\$'000 | |
| Decrease in property, plant and equipment | (37,871) | - | - | (37,871) |
| Increase in leasehold land | 35,993 | - | - | 35,993 |
| Increase in deferred tax liabilities | - | - | 46,907 | 46,907 |
| Decrease in property revaluation reserve | - | (272,448) | - | (272,448) |
| (Decrease)/increase in retained profits at 1st April 2004 | (1,954) | 217,591 | (37,454) | 178,183 |
| Increase/(decrease) in profit attributable to the shareholders | 76 | 54,857 | (9,453) | 45,480 |

| | 2004 | | | Total HK\$'000 |
|---|---------------------|---------------------|---------------------------------------|-------------------|
| | HKAS 17 HK\$'000 | HKAS 40 HK\$'000 | HKAS Interpretation 21 HK\$'000 | |
| Decrease in property, plant and equipment | (38,811) | - | - | (38,811) |
| Increase in leasehold land | 36,857 | - | - | 36,857 |
| Increase in deferred tax liabilities | - | - | 37,454 | 37,454 |
| Decrease in property revaluation reserve | - | (217,591) | - | (217,591) |
| Decrease in retained profits at 1st April 2003 | (2,030) | - | - | (2,030) |
| Increase/(decrease) in profit attributable to shareholders | 76 | 217,591 | (37,454) | 180,213 |

The new HKFRSs early adopted by the Group are believed to have the most material effect on the Group's accounts. The Group has also been considering the potential impact of the other new HKFRSs which have not been early adopted by the Group and considered that those new HKFRSs would not have a significant impact on its results of operations and financial position.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(b) Consolidation

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets.

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

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

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

(c) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

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

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

1 Principal Accounting Policies *(Continued)*

(d) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value, representing market value determined annually by external valuers. The fair value of investment property reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Changes in fair values are recognised in the profit and loss account.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

(e) Property, plant and equipment

(i) *Construction in progress*

Construction in progress included construction and development expenditure incurred and other direct costs attributable to the construction and development. On completion, the construction is transferred to appropriate categories of other property, plant and equipment. No depreciation is provided for construction in progress.

(iii) *Other property, plant and equipment and depreciation*

Buildings comprise mainly factories and offices. Other property, plant and equipment are stated at cost less depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profits and loss account during the financial period in which they are incurred.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(e) Property, plant and equipment *(Continued)*

(ii) Other property, plant and equipment and depreciation (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

| | |
|--|---------|
| Buildings | 2% – 5% |
| Leasehold improvements | 25% |
| Plant and machinery | 10% |
| Furniture, fixtures and office equipment | 25% |
| Motor vehicles | 25% |
| Motor launch | 10% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(f)).

(iii) Gain or loss on disposal of property, plant and equipment

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

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(g) Leases

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

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

1 Principal Accounting Policies *(Continued)*

(h) Investments in securities

(i) *Short-term investments*

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

(ii) *Other investments*

Other investments intended to be held on a continuing basis are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of other investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the profit and loss account unless there is evidence that the decline is temporary.

Provisions against the carrying value of other investments are reversed to the profit and loss account when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of other investments, any profit and loss thereon is accounted for in the profit and loss account.

(i) Research and development costs

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

Where there is an indication of impairment, the carrying amount of research and development costs is assessed and written down immediately to their recoverable amount.

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(j) Inventories

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

Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Construction contracts in progress

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

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

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

(l) Trade debtors and receivables

Provision is made against trade debtors and receivables to the extent they are considered to be doubtful. Trade debtors and receivables in the balance sheet are stated net of such provision.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(n) Provisions

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

1 Principal Accounting Policies *(Continued)*

(o) **Contingent liabilities and contingent assets**

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

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

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

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

(p) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, 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.

(q) **Borrowing costs**

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

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

Notes to the Accounts

1 Principal Accounting Policies *(Continued)*

(r) Employee benefits

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

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

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

(s) Revenue recognition

(i) Contract revenue

To the extent that the outcome of the contract can be estimated reliably, revenue from construction contracts is recognised using the percentage of completion method, measured by reference to the percentage of revenue certified to date to estimated total contract value. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

(ii) Sale of building materials

Sale of building materials is recognised when significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) Rental income

Rental income is recognised on a straight-line accrual basis over the terms of the lease agreement.

(iv) Interest income

Interest income from bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(v) Dividend income

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

1 Principal Accounting Policies *(Continued)*

(t) Translation of foreign currencies

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

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

(u) Segment reporting

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

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

Notes to the Accounts

2 Turnover, Revenues and Segment Information

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Turnover | | |
| Contracting of building construction, plumbing, maintenance and fitting-out projects | 1,291,309 | 1,047,856 |
| Property leasing | 7,903 | 241 |
| Others | 56,371 | 21,061 |
| | 1,355,583 | 1,069,158 |
| Other revenues | | |
| Dividend income on listed short-term investments | 4 | 173 |
| Interest income | 2,635 | 1,723 |
| | 2,639 | 1,896 |
| Total revenues | 1,358,222 | 1,071,054 |

Primary reporting format – business segments

The Group is principally engaged in contracting of building construction, plumbing, maintenance and fitting-out projects and property leasing. The Group is organised into two main business segments:

- Construction – Contracting of building construction, plumbing, maintenance and fitting-out projects in Hong Kong
- Property investment – Property leasing in Hong Kong

Other operations of the Group mainly comprise the manufacture and supply of building materials, which is not of a sufficient size to be reported separately.

Secondary reporting format – geographical segments

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

Notes to the Accounts

2 Turnover, Revenues and Segment Information *(Continued)*

Primary reporting format – business segments

| | Construction HK\$'000 | Property investment HK\$'000 | Others HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---|--------------------------|------------------------------------|--------------------|-------------------------|-------------------|
| Year ended 31st March 2005 | | | | | |
| External sales | 1,291,309 | 7,903 | 56,371 | – | 1,355,583 |
| Inter-segment sales | 45,742 | – | 72,253 | (117,995) | – |
| Total sales | 1,337,051 | 7,903 | 128,624 | (117,995) | 1,355,583 |
| Segment results | 22,198 | 54,062 | 3,020 | (9,666) | 69,614 |
| Unallocated expenses | | | | | (547) |
| Operating profit | | | | | 69,067 |
| Finance costs | (6,416) | (2,128) | (157) | | (8,701) |
| Share of loss of associated companies | | | (2,384) | | (2,384) |
| Profit before taxation | | | | | 57,982 |
| Taxation | | | | | (12,281) |
| Profit after taxation | | | | | 45,701 |
| Minority interests | | | | | 1,384 |
| Profit attributable to shareholders | | | | | 47,085 |
| Segment assets | 639,572 | 800,566 | 172,827 | | 1,612,965 |
| Associated companies | | | 15,860 | | 15,860 |
| Unallocated assets | | | | | 15,460 |
| Total assets | | | | | 1,644,285 |
| Segment liabilities | (390,738) | (359,883) | (18,365) | | (768,986) |
| Unallocated liabilities | | | | | (57,792) |
| Total liabilities | | | | | (826,778) |
| Capital expenditure | 3,087 | 51,256 | 8,327 | | 62,670 |
| Depreciation | 11,835 | 19 | 9,452 | | 21,306 |
| Amortisation of prepaid operating lease payment | 117 | 204 | 747 | | 1,068 |
| Amortisation of development costs | | | 606 | | 606 |
| Fair value gain on investment properties | | (54,857) | | | (54,857) |
| Other non-cash expenses | 2 | | 358 | | 360 |

Notes to the Accounts

2 Turnover, Revenues and Segment Information *(Continued)*

Primary reporting format – business segments *(Continued)*

| | Construction HK\$'000 | Property investment HK\$'000 | Others HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---|--------------------------|------------------------------------|--------------------|-------------------------|-------------------|
| Year ended 31st March 2004, as restated | | | | | |
| External sales | 1,047,856 | 241 | 21,061 | – | 1,069,158 |
| Inter-segment sales | 92,506 | – | 81,920 | (174,426) | – |
| Total sales | 1,140,362 | 241 | 102,981 | (174,426) | 1,069,158 |
| Segment results | 15,053 | 215,605 | 8,132 | (13,677) | 225,113 |
| Unallocated income | | | | | 1,994 |
| Operating profit | | | | | 227,107 |
| Finance costs | (7,254) | (1,554) | | | (8,808) |
| Share of profit of associated companies | | | 71 | | 71 |
| Profit before taxation | | | | | 218,370 |
| Taxation | | | | | (38,945) |
| Profit after taxation | | | | | 179,425 |
| Minority interests | | | | | 779 |
| Profit attributable to shareholders | | | | | 180,204 |
| Segment assets | 714,263 | 691,143 | 152,941 | | 1,558,347 |
| Associated companies | | | 26,315 | | 26,315 |
| Unallocated assets | | | | | 15,476 |
| Total assets | | | | | 1,600,138 |
| Segment liabilities | (441,389) | (312,402) | (20,441) | | (774,232) |
| Unallocated liabilities | | | | | (49,531) |
| Total liabilities | | | | | (823,763) |
| Capital expenditure | 3,979 | 92,179 | 10,270 | | 106,428 |
| Depreciation | 12,332 | | 9,685 | | 22,017 |
| Amortisation of prepaid operating lease payment | 117 | | 747 | | 864 |
| Amortisation of development costs | | | 599 | | 599 |
| Fair value gain on investment properties | – | (217,591) | – | | (217,591) |
| Other non-cash expenses/(income) | 1,249 | – | (384) | | 865 |

Notes to the Accounts

3 Operating Profit

Operating profit is stated after charging and crediting the following:

| | 2005 HK\$'000 | As restated 2004 HK\$'000 |
|---|------------------|---------------------------------|
| Charging: | | |
| Depreciation | | |
| Owned property, plant and equipment | 20,695 | 21,334 |
| Leased property, plant and equipment | 611 | 683 |
| | 21,306 | 22,017 |
| Operating lease rentals of | | |
| Land and buildings | 4,063 | 4,003 |
| Other equipment | 13,226 | 16,104 |
| | 17,289 | 20,107 |
| Staff costs (excluding directors' emoluments) (Note 10) | 186,619 | 154,087 |
| Amortisation of prepaid operating lease payment | 1,068 | 864 |
| Amortisation of development costs | 606 | 599 |
| Impairment of development costs | 1,211 | – |
| Write-off of doubtful debts | 463 | 282 |
| Unrealised loss on short-term investments | 529 | – |
| Loss on liquidation of subsidiaries | 264 | – |
| Auditors' remuneration | 1,030 | 960 |
| Loss on disposal of an associated company | 840 | – |
| Loss on disposal of property, plant and equipment | – | 1,225 |
| Crediting: | | |
| Gross rental income from investment properties less outgoings | 5,815 | 241 |
| Unrealised gain on short-term investments | – | 50 |
| Realised gain on disposal of short-term investments | – | 1,727 |
| Gain on disposal of an associated company | – | 848 |
| Gain on disposal of property, plant and equipment | 34 | – |
| Write back of provision for doubtful debts | 319 | – |
| Exchange gain, net | 498 | 643 |

Notes to the Accounts

4 Directors' and Senior Management's Emoluments

(a) Directors' emoluments

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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Executive Directors: | | |
| Fees | – | – |
| Salaries | 8,587 | 8,843 |
| Performance-related bonus | 840 | 815 |
| Retirement benefits | 384 | 384 |
| | 9,811 | 10,042 |
| Independent Non-Executive Directors: | | |
| Fees | 750 | 750 |
| | 10,561 | 10,792 |

The emoluments of the Directors fell within the following bands:

| Emolument bands | Number of Directors | |
|-------------------------------|---------------------|------|
| | 2005 | 2004 |
| Nil – HK\$1,000,000 | 4 | 4 |
| HK\$1,500,001 – HK\$2,000,000 | 2 | 1 |
| HK\$2,000,001 – HK\$2,500,000 | – | 1 |
| HK\$5,000,001 – HK\$5,500,000 | 1 | 1 |

Notes to the Accounts

4 Directors' and Senior Management's Emoluments *(Continued)*

(b) Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) Directors whose emoluments are reflected in the analysis above. The emoluments paid to the remaining two (2004: two) highest-paid individuals during the year were as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------|------------------|------------------|
| Salaries | 1,708 | 1,708 |
| Performance-related bonus | 520 | 506 |
| Retirement benefits | 83 | 79 |
| | 2,311 | 2,293 |

The emoluments fell within the following band:

| Emolument band | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2005 | 2004 |
| HK\$1,000,001 – HK\$1,500,000 | 2 | 2 |

- (c) During the year, no emoluments have been paid by the Group to the Directors or the five highest-paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the Directors waived or has agreed to waive any emoluments.

Notes to the Accounts

5 Finance Costs

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interest on overdrafts and short-term bank loans | 6,538 | 7,242 |
| Interest on long-term bank loans repayable within five years | 5,693 | 6,243 |
| Interest element of finance lease contract payments | 53 | 49 |
| Total borrowing costs incurred | 12,284 | 13,534 |
| Less: Interest capitalised as cost of construction in progress/property under development | (3,565) | (4,689) |
| Classified under contract cost | (18) | (37) |
| | 8,701 | 8,808 |

The capitalisation rate applied to funds borrowed and used for the construction in progress is between 1.425% and 1.938% per annum.

6 Taxation

| | 2005 HK\$'000 | As restated 2004 HK\$'000 |
|--|------------------|---------------------------------|
| Current taxation | | |
| Hong Kong profits tax | 3,798 | 3,913 |
| Over provisions in prior years | (107) | (711) |
| Deferred taxation (<i>Note 25</i>) | 8,590 | 35,725 |
| | 12,281 | 38,927 |
| Share of taxation attributable to associated companies | – | 18 |
| | 12,281 | 38,945 |

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the Accounts

6 Taxation *(Continued)*

The tax charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

| | 2005 <i>HK\$'000</i> | As restated 2004 <i>HK\$'000</i> |
|--|-------------------------|--|
| Profit before taxation | 57,982 | 218,370 |
| Calculated at a taxation rate of 17.5% (2004: 17.5%) | 10,147 | 38,215 |
| Effect of different tax rates in other countries | (1,307) | (608) |
| Income not subject to taxation | (8) | (293) |
| Expenses not deductible for taxation purposes | 1,532 | 637 |
| Temporary differences not recognised | 84 | 1,661 |
| Tax losses not recognised | 6,925 | 2,218 |
| Utilisation of previously unrecognised tax losses | (4,956) | (1,540) |
| Recognition of previously unrecognised tax losses | (29) | (634) |
| Over provisions in prior years | (107) | (711) |
| Taxation charge | 12,281 | 38,945 |

7 Profit attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of approximately HK\$1,896,000 (2004: profit of HK\$61,000).

8 Dividends

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interim dividend paid of HK\$0.0035 (2004: Nil) per share | 1,544 | – |
| Final dividend proposed of HK\$0.0075 (2004: HK\$0.01) per share | 3,307 | 4,409 |
| | 4,851 | 4,409 |

At a meeting held on 21st July 2005, the Directors proposed a final dividend of HK\$0.0075 per share. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of the retained profits for the year ending 31st March 2006.

Notes to the Accounts

9 Earnings Per Share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$47,085,000 (2004: HK\$180,204,000, as restated) and on the 440,949,600 (2004: 440,949,600) shares in issue during the year.

Diluted earnings per share for the year ended 31st March 2005 and 2004 are not presented as there are no potential dilutive shares during the years.

10 Staff Costs

Staff costs, excluding Directors' emoluments, represent:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|--------------------------------|------------------|
| Salaries, wages and bonus | 176,239 | 147,725 |
| Unutilised annual leave | 1,576 | – |
| Long service payments | 331 | 139 |
| Termination benefits | 811 | 233 |
| Pension costs – defined contribution scheme | 7,662 | 5,990 |
| | 186,619 | 154,087 |

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

Notes to the Accounts

11 Property, Plant and Equipment

| | Construction in progress HK\$'000 | Buildings HK\$'000 | Leasehold improve- ments HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and office equipment HK\$'000 | Motor vehicles HK\$'000 | Motor launch HK\$'000 | Total HK\$'000 |
|--|---|-----------------------|--|------------------------------------|---|-------------------------------|-----------------------------|-------------------|
| Group | | | | | | | | |
| At 1st April 2003 | | | | | | | | |
| Cost | - | 38,789 | 5,216 | 138,116 | 40,660 | 20,757 | 1,685 | 245,223 |
| Accumulated depreciation | - | (7,255) | (4,668) | (73,805) | (28,219) | (17,174) | (1,685) | (132,806) |
| Net book amount | - | 31,534 | 548 | 64,311 | 12,441 | 3,583 | - | 112,417 |
| Year ended 31st March 2004 | | | | | | | | |
| Opening net book amount | - | 31,534 | 548 | 64,311 | 12,441 | 3,583 | - | 112,417 |
| Additions | - | 2,511 | - | 7,334 | 3,088 | 1,214 | - | 14,147 |
| Disposals | - | - | - | (1,922) | (95) | (199) | - | (2,216) |
| Depreciation | - | (1,319) | (217) | (12,458) | (5,914) | (2,109) | - | (22,017) |
| Closing net book amount | - | 32,726 | 331 | 57,265 | 9,520 | 2,489 | - | 102,331 |
| At 31st March 2004 | | | | | | | | |
| Cost | - | 41,300 | 5,216 | 139,142 | 41,184 | 19,483 | 1,685 | 248,010 |
| Accumulated depreciation | - | (8,574) | (4,885) | (81,877) | (31,664) | (16,994) | (1,685) | (145,679) |
| Net book amount | - | 32,726 | 331 | 57,265 | 9,520 | 2,489 | - | 102,331 |
| Year ended 31st March 2005 | | | | | | | | |
| Opening net book amount | - | 32,726 | 331 | 57,265 | 9,520 | 2,489 | - | 102,331 |
| Additions | 50,906 | 391 | - | 7,167 | 1,817 | 2,227 | - | 62,508 |
| Transfer from investment properties (Note 12) | 148,600 | - | - | - | - | - | - | 148,600 |
| Disposals | - | - | - | (65) | (124) | (55) | - | (244) |
| Depreciation | - | (1,422) | (217) | (13,098) | (4,921) | (1,648) | - | (21,306) |
| Closing net book amount | 199,506 | 31,695 | 114 | 51,269 | 6,292 | 3,013 | - | 291,889 |
| At 31st March 2005 | | | | | | | | |
| Cost | 199,506 | 41,691 | 5,216 | 145,721 | 40,407 | 20,497 | - | 453,038 |
| Accumulated depreciation | - | (9,996) | (5,102) | (94,452) | (34,115) | (17,484) | - | (161,149) |
| Net book amount | 199,506 | 31,695 | 114 | 51,269 | 6,292 | 3,013 | - | 291,889 |

Notes to the Accounts

11 Property, Plant and Equipment *(Continued)*

(a) The net book value of property, plant and equipment held under finance lease contracts comprises:

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|----------------|--|------------------|
| Motor vehicles | 2,068 | 2,152 |

(b) At 31st March 2005, the net book value of property, plant and equipment pledged as securities for the Group's bank loans amounted to approximately HK\$204,000,000 (2004: Nil) (Notes 23 and 29(e)).

12 Investment Properties

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---|--|------------------|
| Beginning of year | 690,000 | – |
| Additions | 143 | – |
| Transfer (to)/from construction in progress/ property under development <i>(Note 11)</i> | (148,600) | 472,409 |
| Transfer to leasehold land <i>(Note 13)</i> | (306,400) | – |
| Fair value gain | 54,857 | 217,591 |
| End of year | 290,000 | 690,000 |

Investment properties are held under long-term leases and situated in Hong Kong. The investment properties were revalued as at 31st March 2005 by Chesterton Petty Limited, an independent firm of qualified property valuers. Valuation reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The investment properties are pledged as securities for the bank loans of the Group (Notes 23 and 29(e)).

Notes to the Accounts

13 Leasehold Land

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---|---------------------------|------------------|
| Opening | 36,857 | 37,721 |
| Transfer from investment properties (Note 12) | 306,400 | – |
| Amortisation | (1,068) | (864) |
| | 342,189 | 36,857 |
| In Hong Kong held on | | |
| Leases of over 50 years | 306,196 | – |
| Leases of between 10 to 50 years | 35,993 | 36,857 |
| | 342,189 | 36,857 |

The Group's interests in leasehold land represented prepaid operating lease payment.

As at 31st March 2005, leasehold land with a net book value of approximately HK\$308,427,000 (2004: HK\$2,298,000) was pledged as securities for the Group's bank loans (Notes 23 and 29(e)).

14 Subsidiaries

| | Company 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|-----------------------------|------------------|
| Unlisted shares, at cost | 276,075 | 276,075 |
| Advance to a subsidiary | 85,000 | 85,000 |
| | 361,075 | 361,075 |
| Due from subsidiaries | 383,077 | 381,727 |
| Due to subsidiaries | 110,339 | 101,099 |

Notes to the Accounts

14 Subsidiaries *(Continued)*

The advance to a subsidiary is unsecured, bears interest at Hong Kong dollar prime rate less two per cent (2004: Hong Kong dollar prime rate less two per cent) per annum and not repayable within next twelve months from the balance sheet date.

The amounts due from and to subsidiaries are unsecured, have no fixed terms of repayment and interest free.

The following is a list of the principal subsidiaries at 31st March 2005:

| Name | Place of incorporation/ operation | Particulars of registered/ issued share capital | Principal activities | Company | Percentage of registered/issued share capital held by Subsidiaries | Group |
|--|--------------------------------------|--|--|---------|---|-------|
| Australian Development Holdings Pty. Limited | Australia | A\$2 | Investment holding | – | 100% | 100% |
| Bellaglade Company Limited | Hong Kong | HK\$2 | Property holding | – | 100% | 100% |
| Century Score Limited | Hong Kong | HK\$2 | Property leasing | – | 100% | 100% |
| Chapman Engineering Consultant Company Limited | Hong Kong | HK\$100 | Building services engineering consultant | – | 60% | 60% |
| Koshen Engineering Limited | Hong Kong | HK\$10,000 | Provision of design, consulting and project management services | – | 100% | 60% |
| Ming Hop Company Limited | Hong Kong | HK\$500,000 | Sourcing of construction materials and execution of plumbing work | – | 100% | 100% |
| Nanjing Autocon Technology Company Limited <i>(Note a)</i> | Mainland China | US\$500,000 | Development and sale of construction equipment and computer software | – | 100% | 100% |

Notes to the Accounts

14 Subsidiaries *(Continued)*

| Name | Place of incorporation/ operation | Particulars of registered/ issued share capital | Principal activities | Percentage of registered/issued share capital held by | | |
|---|--------------------------------------|--|---|---|--------------|-------|
| | | | | Company | Subsidiaries | Group |
| Nanjing Nanda VH Software Intelligence Company Limited <i>(Note b)</i> | Mainland China | RMB1,500,000 | Development and sale of computer software | – | 70% | 70% |
| Right Motive Limited | Hong Kong | HK\$6,000 | Property holding | – | 100% | 100% |
| Solid Star Company Limited | Hong Kong | HK\$2 | Property holding | – | 100% | 100% |
| SPS Company Limited | Hong Kong | HK\$2 | Manufacturing and trading of office partition | – | 100% | 100% |
| Trendplot Investments Limited | Hong Kong | HK\$2 | Provision of management services | – | 100% | 100% |
| VHBuild Company Limited | Hong Kong | HK\$2 | Provision of website hosting services | – | 100% | 100% |
| VHCOME Company Limited | Hong Kong | HK\$2 | Business to business sale of construction materials | – | 100% | 100% |
| VHSoft Company Limited | Hong Kong | HK\$5,000,000 | Computer software development | – | 100% | 100% |
| VHSoft I.P. Company Limited | Hong Kong | HK\$2 | Patent holding | – | 100% | 100% |
| VHSoft Technologies Company Limited | Hong Kong | HK\$2 | Computer software development | – | 100% | 100% |
| VHSoft Technologies (SZ) Company Limited <i>(Note a)</i> | Mainland China | HK\$3,000,000 | Computer software development | – | 100% | 100% |
| Yau Lee Building Construction and Decoration Company Limited | Hong Kong | HK\$100,000 | Building construction, maintenance and fitting-out | – | 100% | 100% |

Notes to the Accounts

14 Subsidiaries *(Continued)*

| Name | Place of incorporation/ operation | Particulars of registered/ issued share capital | Principal activities | Percentage of registered/issued share capital held by | | Group |
|---|--|--|---|---|--------------|-------|
| | | | | Company | Subsidiaries | |
| Yau Lee Construction Company Limited | Hong Kong | HK\$100,000,000 | Building construction, maintenance and fitting-out | – | 100% | 100% |
| Yau Lee Construction Materials & Technology Limited | Hong Kong | HK\$2 | Sale of building materials and precast products | – | 100% | 100% |
| Yau Lee Construction Materials & Technology Limited | The British Virgin Islands/ Hong Kong | US\$2 | Sale of precast products | – | 100% | 100% |
| Yau Lee Construction (Macau) Company Limited | Macau | MOP1,000,000 | Building construction, maintenance and fitting-out | – | 100% | 100% |
| Yau Lee Hotel Management Limited | Hong Kong | HK\$2 | Provision of hotel and property management services | – | 100% | 100% |
| Yau Lee Investment Limited | The Cook Islands/ Hong Kong | US\$100 | Investment holding | 100% | – | 100% |
| Yau Lee Technology Limited | The British Virgin Islands/ Hong Kong | US\$1 | Investment holding and trading of construction equipment and development of computer control software | – | 100% | 100% |
| Yau Lee Wah Concrete Precast Products Company Limited | Hong Kong | HK\$10,000,000 | Sale of precast products | – | 100% | 100% |

Notes to the Accounts

14 Subsidiaries *(Continued)*

| Name | Place of incorporation/ operation | Particulars of registered/ issued share capital | Principal activities | Company | Percentage of registered/issued share capital held by Subsidiaries | Group |
|---|--------------------------------------|--|---|---------|--|-------|
| Yau Lee Wah Concrete Precast Products (Shenzhen) Company Limited <i>(Note a)</i> | Mainland China | RMB39,076,066 | Manufacture of precast products | – | 100% | 100% |
| Yau Lee Wah Concrete Precast Products (Macau) Company Limited | Macau | MOP200,000 | Sale of precast products | – | 100% | 100% |
| Yau Sing Building Materials Company Limited | Hong Kong | HK\$500,000 | Investment holding | – | 63% | 63% |
| Yau Lee Property Management Limited | Hong Kong | HK\$2 | Provision of property management services | – | 100% | 100% |

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

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

15 Associated Companies

| | 2005 | | 2004 | |
|--|-------------------|---------------------|-------------------|---------------------|
| | Group HK\$'000 | Company HK\$'000 | Group HK\$'000 | Company HK\$'000 |
| Share of net assets | 39 | – | 7,412 | – |
| Amounts due from associated companies, net | 27,558 | 1,030 | 28,983 | 909 |
| | 27,597 | 1,030 | 36,395 | 909 |
| Less: Provision on amounts due from associated companies | (11,737) | – | (10,080) | – |
| | 15,860 | 1,030 | 26,315 | 909 |

Notes to the Accounts

15 Associated Companies *(Continued)*

(a) The following is a list of the principal associated company at 31st March 2005:

| Name | Place of incorporation/ operation | Particulars of issued share capital | Principal activities | Particulars of issued share capital held by | |
|-------------------------------------|--------------------------------------|-------------------------------------|---|---|-------|
| | | | | Subsidiaries | Group |
| Yau Lee Development Company Limited | Hong Kong | HK\$100 | Property development (holds 50% interest in Fuli Building, a residential and commercial property project in Shunde, Mainland China) | 50% | 50% |

(b) The amounts due from associated companies are unsecured, interest free and have no fixed repayment terms.

16 Other Non-Current Assets

| | 2005 | | 2004 | |
|--|-------------------|---------------------|-------------------|---------------------|
| | Group HK\$'000 | Company HK\$'000 | Group HK\$'000 | Company HK\$'000 |
| Long-term trade debtors <i>(Note 22)</i> | 35,398 | – | 42,691 | – |
| Loans to employees <i>(Note 17)</i> | 1,468 | – | 2,385 | – |
| Development costs <i>(Note 18)</i> | – | – | 1,798 | – |
| Other investments | 143 | – | 5,484 | 5,461 |
| | 37,009 | – | 52,358 | 5,461 |

Notes to the Accounts

17 Loans to Employees

The Group provides housing loans to certain employees and the loans are secured by second mortgages of the related properties of the employees. The repayment period ranges from two to twelve years with interest at one per cent below prime rate. Amounts receivable within one year of approximately HK\$240,000 (2004: HK\$509,000) are included in prepayments, deposits and other receivables.

18 Development Costs

| | Group | |
|--|-----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Cost | | |
| Beginning of year | 2,397 | 12,603 |
| Additions | 19 | 102 |
| Write-off for the year | – | (10,308) |
| End of year | 2,416 | 2,397 |
| Accumulated amortisation and impairment losses | | |
| Beginning of year | 599 | 10,308 |
| Amortisation for the year | 606 | 599 |
| Impairment charge | 1,211 | – |
| Write-off for the year | – | (10,308) |
| End of year | 2,416 | 599 |
| Net book value | | |
| End of year | – | 1,798 |
| Beginning of year | 1,798 | 2,295 |

Notes to the Accounts

19 Cash and Bank Balances

| | 2005 | | 2004 | |
|------------------------------|-------------------|---------------------|-------------------|---------------------|
| | Group HK\$'000 | Company HK\$'000 | Group HK\$'000 | Company HK\$'000 |
| Cash and bank balances | 30,638 | 358 | 14,281 | 292 |
| Time deposits | 4,610 | 2,035 | 4,565 | 1,989 |
| Restricted deposits (Note a) | 160,065 | 4,540 | 164,514 | 4,540 |
| | 195,313 | 6,933 | 183,360 | 6,821 |

(a) Restricted deposits are funds which are pledged to secure the bank overdrafts and short-term bank loans (Notes 23 and 29(a)).

20 Trade Debtors, Net

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|------------------------------|---------------------------|------------------|
| Trade debtors | 182,584 | 161,363 |
| Provision for doubtful debts | (1,356) | (1,675) |
| | 181,228 | 159,688 |

The trade debtors are due 21 days to one year after invoicing depending on the nature of services or products.

The aging analysis of the trade debtors of the Group (stated net of provision) is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------|------------------|------------------|
| Not yet due | 156,500 | 145,533 |
| Overdue by: | | |
| 1-30 days | 13,145 | 5,096 |
| 31-90 days | 4,254 | 3,153 |
| 91-180 days | 905 | 1,287 |
| Over 180 days | 6,424 | 4,619 |
| | 181,228 | 159,688 |

Notes to the Accounts

21 Inventories

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|-------------------------|---------------------------|------------------|
| Raw materials, at cost | 6,419 | 9,481 |
| Finished goods, at cost | 4,489 | 2,617 |
| | 10,908 | 12,098 |

22 Construction Contracts in Progress

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---|---------------------------|------------------|
| Contract costs incurred plus attributable profits less foreseeable losses to date | 7,370,726 | 10,057,617 |
| Progress billings to date | (7,161,574) | (9,753,383) |
| | 209,152 | 304,234 |
| Included in current assets/(liabilities) under the following captions: | | |
| Due from customers on construction contracts | 224,928 | 316,219 |
| Due to customers on construction contracts | (15,776) | (11,985) |
| | 209,152 | 304,234 |

- (a) Retention receivables from customers in respect of construction contracts in progress amounting to approximately HK\$35,398,000 (2004: HK\$42,691,000) and HK\$29,977,000 (2004: HK\$12,728,000) are classified under long-term trade debtors and trade debtors respectively.
- (b) In 2004, the Group instigated a mediation process with one of its customers in an attempt to reach a satisfactory commercial settlement on outstanding claims made by the Group relating to one of its completed construction contracts. The likely recoverable amount as estimated by the Directors has been included in "Due from customers on construction contracts".

Notes to the Accounts

23 Long-Term Liabilities

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|--|---------------------------|------------------|
| Obligations under finance lease contracts | | |
| Repayable within one year | 1,179 | 612 |
| Repayable in the second to fifth years | 491 | 387 |
| | 1,670 | 999 |
| Amounts due within one year included under current liabilities | (1,179) | (612) |
| | 491 | 387 |
| Long-term bank loans – secured | | |
| Repayable within one year | 10,000 | 307,800 |
| Repayable in the second to fifth years | 339,800 | – |
| | 349,800 | 307,800 |
| Amount due within one year included under current liabilities | (10,000) | (307,800) |
| | 339,800 | – |
| | 340,291 | 387 |

Interest on the long-term bank loans is charged on the outstanding balance at 1.05 per cent (2004: 1.50 per cent) per annum above HIBOR. The bank loans are secured by the Group's investment properties and certain property, plant and equipment, leasehold land and certain time deposits (Notes 11, 12, 13 and 19).

Notes to the Accounts

23 Long-term Liabilities *(Continued)*

The Group's finance lease obligations were as follows:

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---|---------------------------|------------------|
| Within one year | 1,219 | 640 |
| In the second year | 504 | 393 |
| Future finance charges on finance leases | 1,723 (53) | 1,033 (34) |
| Present value of finance lease obligations | 1,670 | 999 |
| The present value of finance lease obligations is as follows: | | |
| Within one year | 1,179 | 612 |
| In the second year | 491 | 387 |
| | 1,670 | 999 |

24 Payables to Suppliers and Subcontractors

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

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---------------|---------------------------|------------------|
| Not yet due | 98,359 | 94,935 |
| Overdue by: | | |
| 1-30 days | 1,623 | 6,051 |
| 31-90 days | - | - |
| 91-180 days | - | - |
| Over 180 days | 179 | 670 |
| | 100,161 | 101,656 |

Notes to the Accounts

25 Deferred Taxation

The movements in net deferred tax liabilities are as follows:

| | Group | |
|--|-----------------|-----------------|
| | 2005 | As restated |
| | HK\$'000 | 2004 |
| | | <i>HK\$'000</i> |
| Beginning of year | 43,207 | 7,482 |
| Charged to profit and loss account (<i>Note 6</i>) | 8,590 | 35,725 |
| End of year | 51,797 | 43,207 |

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits are probable. The Group has unrecognised tax losses of approximately HK\$79,400,000 million (2004: HK\$64,100,000 million, as restated) to carry forward against future taxable income. These unrecognised tax losses are analysed according to their expiry dates as follows:

| | Group | |
|--|-----------------|-----------------|
| | 2005 | As restated |
| | HK\$'000 | 2004 |
| | | <i>HK\$'000</i> |
| With no expiry date | 57,435 | 27,242 |
| Expiring not later than one year | 2,946 | 4,205 |
| Expiring later than one year and not later than five years | 18,998 | 32,607 |
| | 79,379 | 64,054 |

Notes to the Accounts

25 Deferred Taxation *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets:

| | Tax losses | | Provisions | | Total | |
|---|------------|---------------------|------------|----------|----------|---------------------|
| | 2005 | As restated 2004 | 2005 | 2004 | 2005 | As restated 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Beginning of year | 5,848 | 546 | 56 | – | 5,904 | 546 |
| Credited/(charged) to profit and loss account | 54 | 5,302 | (56) | 56 | (2) | 5,358 |
| End of year | 5,902 | 5,848 | – | 56 | 5,902 | 5,904 |

Deferred tax liabilities:

| | Revaluation of investment properties | | Accelerated taxation depreciation | | Total | |
|---|--------------------------------------|---------------------|-----------------------------------|---------------------|----------|---------------------|
| | 2005 | As restated 2004 | 2005 | As restated 2004 | 2005 | As restated 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Beginning of year | 38,078 | – | 11,033 | 8,028 | 49,111 | 8,028 |
| Charged/(credited) to profit and loss account | 9,600 | 38,078 | (1,012) | 3,005 | 8,588 | 41,083 |
| End of year | 47,678 | 38,078 | 10,021 | 11,033 | 57,699 | 49,111 |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | 2005 | As restated 2004 |
|--------------------------|----------|---------------------|
| | HK\$'000 | HK\$'000 |
| Deferred tax assets | (46) | (111) |
| Deferred tax liabilities | 51,843 | 43,318 |
| | 51,797 | 43,207 |

Notes to the Accounts

26 Share Capital

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------------------|------------------|------------------|
| Authorised: | | |
| 1,000,000,000 shares of HK\$0.2 each | 200,000 | 200,000 |
| Issued and fully paid: | | |
| 440,949,600 shares of HK\$0.2 each | 88,190 | 88,190 |

(a) Share option schemes

Since 17th October 2000, the Company has operated a share option scheme (the "Share Option Scheme") under which the Board of Directors of the Company may, at their absolute discretion, offer to any Director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company. Subject to adjustment as a result of any alteration in the capital structure of the Company, the subscription price is the higher of 80% of the average closing price of the shares of the Company on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option or the nominal value of the shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of the Company, represents 10% of the issued share capital of the Company from time to time. The Share Option Scheme remains in force for a period of 10 years. At 31st March 2005, no share options have been granted under the Share Option Scheme.

In addition, VHSOFT Technologies Company Limited ("VHSOFT"), a wholly owned subsidiary of the Group, adopted a share option scheme on 17th October 2000 (the "VHSOFT Share Option Scheme"). Under the VHSOFT Share Option Scheme, the board of directors of VHSOFT may, at their absolute discretion, offer to any director or employee of VHSOFT options to subscribe for shares in VHSOFT in accordance with the terms of the VHSOFT Share Option Scheme. Subject to adjustment as a result of any alteration in the capital structure of VHSOFT, the subscription price is not less than the nominal value of the shares of VHSOFT. The maximum number of shares in respect of which options may be granted under the VHSOFT Share Option Scheme is such number of shares, which, when aggregated with shares subject to any other similar scheme of VHSOFT, represents 10% of the issued share capital of VHSOFT from time to time. The VHSOFT Share Option Scheme remains in force for a period of 5 years or expires on the date on which an application for the initial public offering of the shares of VHSOFT on an internationally recognised stock exchange is submitted, whichever is earlier. At 31st March 2005, no share options have been granted under the VHSOFT Share Option Scheme.

Notes to the Accounts

27 Other Reserves and Retained Profits

| | Share premium <i>HK\$'000</i> | Property revaluation reserve <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|---|---|--|--------------------------|
| Group | | | | | |
| At 1st April 2004, as previously reported | 415,430 | 217,591 | 359 | 94,213 | 727,593 |
| Change in accounting policies (<i>Note 1(a)</i>) | – | (217,591) | – | 178,183 | (39,408) |
| At 1st April 2004, as restated | 415,430 | – | 359 | 272,396 | 688,185 |
| Dividends paid | – | – | – | (5,953) | (5,953) |
| Profit attributable to shareholders | – | – | – | 47,085 | 47,085 |
| At 31st March 2005 | 415,430 | – | 359 | 313,528 | 729,317 |
| Representing: | | | | | |
| 2005 final dividend proposed | | | | 3,307 | |
| Others | | | | 310,221 | |
| At 31st March 2005 | | | | 313,528 | |
| Company and subsidiaries | 415,430 | – | 359 | 315,452 | 731,241 |
| Associated companies | – | – | – | (1,924) | (1,924) |
| At 31st March 2005 | 415,430 | – | 359 | 313,528 | 729,317 |

Notes to the Accounts

27 Other Reserves and Retained Profits *(Continued)*

| | Share premium <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | As restated Retained profits <i>HK\$'000</i> | As restated Total <i>HK\$'000</i> |
|---|-------------------------------------|---|---|---|
| Group | | | | |
| At 1st April 2003, as previously reported | 415,430 | 359 | 94,222 | 510,011 |
| Change in accounting policies <i>(Note 1(a))</i> | – | – | (2,030) | (2,030) |
| At 1st April 2003, as restated | 415,430 | 359 | 92,192 | 507,981 |
| Profit attributable to shareholders | – | – | 180,204 | 180,204 |
| At 31st March 2004 | 415,430 | 359 | 272,396 | 688,185 |
| Representing: | | | | |
| 2004 final dividend proposed | | | 4,409 | |
| Others | | | 267,987 | |
| At 31st March 2004 | | | 272,396 | |
| Company and subsidiaries | 415,430 | 359 | 271,936 | 687,725 |
| Associated companies | – | – | 460 | 460 |
| At 31st March 2004 | 415,430 | 359 | 272,396 | 688,185 |

Notes to the Accounts

27 Other Reserves and Retained Profits *(Continued)*

| | Share premium <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------------------|-------------------------------------|---|--|--------------------------|
| Company | | | | |
| At 1st April 2004 | 415,430 | 359 | 151,490 | 567,279 |
| Dividends paid | – | – | (5,953) | (5,953) |
| Loss attributable to shareholders | – | – | (1,896) | (1,896) |
| At 31st March 2005 | 415,430 | 359 | 143,641 | 559,430 |
| Representing: | | | | |
| 2005 final dividend proposed | | | 3,307 | |
| Others | | | 140,334 | |
| At 31st March 2005 | | | 143,641 | |
| At 1st April 2003 | 415,430 | 359 | 151,429 | 567,218 |
| Profit attributable to shareholders | – | – | 61 | 61 |
| At 31st March 2004 | 415,430 | 359 | 151,490 | 567,279 |
| Representing: | | | | |
| 2004 final dividend proposed | | | 4,409 | |
| Others | | | 147,081 | |
| At 31st March 2004 | | | 151,490 | |

The entire amounts of retained profits of the Company at 31st March 2005 are distributable.

Notes to the Accounts

28 Notes to Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash generated from/(used in) operations

| | Note | 2005 HK\$'000 | As restated 2004 HK\$'000 |
|---|-------|------------------|---------------------------------|
| Operating profit | | 69,067 | 227,107 |
| Interest income | | (2,635) | (1,723) |
| Dividend income | | (4) | (173) |
| (Gain)/loss on disposal of property, plant and equipment | | (34) | 1,225 |
| Loss/(gain) on disposal of an associated company | | 840 | (848) |
| Fair value gain on investment properties | | (54,857) | (217,591) |
| Interest element of finance lease payments | | 18 | 37 |
| Amortisation of development costs | | 606 | 599 |
| Amortisation of prepaid operating lease payment | | 1,068 | 864 |
| Depreciation | | 21,306 | 22,017 |
| Loss on liquidation of subsidiaries | 28(b) | 264 | – |
| Unrealised loss/(gain) on short-term investments | | 529 | (50) |
| Realised gain on short-term investments | | – | (1,727) |
| Impairment of development costs | | 1,211 | – |
| Operating profit before working capital changes | | 37,379 | 29,737 |
| Decrease/(increase) in long-term trade debtors | | 7,293 | (3,646) |
| Decrease in loans to employees | | 917 | 819 |
| Increase in trade debtors, net | | (21,540) | (12,922) |
| Decrease/(increase) in inventories | | 1,190 | (3,214) |
| (Increase)/decrease in prepayments, deposits and other receivables | | (23,974) | 5,523 |
| Decrease/(increase) in due from customers on construction contracts | | 91,291 | (38,649) |
| (Increase)/decrease in due from associated companies | | (121) | 1,102 |
| Decrease in payables to suppliers and subcontractors | | (1,495) | (847) |
| Increase/(decrease) in accruals, retentions payable and other liabilities | | 8,190 | (5,911) |
| Increase/(decrease) in due to customers on construction contracts | | 3,791 | (4,682) |
| Decrease in due to related parties | | (575) | – |
| Net cash generated from/(used in) operations | | 102,346 | (32,690) |

Notes to the Accounts

28 Notes to Consolidated Cash Flow Statement *(Continued)*

(b) Liquidation of subsidiaries

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------------------|-------|------------------|------------------|
| Cash consideration received | | - | - |
| Less: Accruals and other liabilities | | 47 | - |
| Minority interests | | (311) | - |
| Loss on liquidation of subsidiaries | 28(a) | (264) | - |

(c) Analysis of changes in financing during the year

| | Share capital HK\$'000 | Share Premium HK\$'000 | Minority interests HK\$'000 | Finance lease obligations HK\$'000 | Long-term bank loans HK\$'000 | Short-term bank loans HK\$'000 | Restricted deposits HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------|-----------------------------------|---|-------------------------------------|--------------------------------------|------------------------------------|-------------------|
| At 1st April 2004 | 88,190 | 415,430 | 5,076 | 999 | 307,800 | 229,370 | (164,514) | 882,351 |
| Net cash (used in)/from financing activities | - | - | - | (939) | 42,000 | (33,514) | 4,449 | 11,996 |
| Share of loss by minority shareholders | - | - | (1,384) | - | - | - | - | (1,384) |
| Liquidation of subsidiaries | - | - | 311 | - | - | - | - | 311 |
| Inception of finance lease obligations | - | - | - | 1,610 | - | - | - | 1,610 |
| At 31st March 2005 | 88,190 | 415,430 | 4,003 | 1,670 | 349,800 | 195,856 | (160,065) | 894,884 |
| At 1st April 2003 | 88,190 | 415,430 | 5,839 | 1,755 | 210,900 | 185,500 | (142,708) | 764,906 |
| Net cash from/(used in) financing activities | - | - | 16 | (1,650) | 96,900 | 43,870 | (21,806) | 117,330 |
| Share of loss by minority shareholders | - | - | (779) | - | - | - | - | (779) |
| Inception of finance lease obligations | - | - | - | 894 | - | - | - | 894 |
| At 31st March 2004 | 88,190 | 415,430 | 5,076 | 999 | 307,800 | 229,370 | (164,514) | 882,351 |

Notes to the Accounts

29 Banking Facilities

As at 31st March 2005, the Group had total banking facilities in respect of bank overdrafts, bank loans, bank guarantees and trade financing of approximately HK\$758 million (2004: HK\$748 million), of which HK\$593 million (2004: HK\$601 million) had been utilised. These banking facilities are secured by the following:

- (a) Time deposits of approximately HK\$160 million (2004: HK\$165 million) (Note 19).
- (b) Guarantees of approximately HK\$764 million (2004: HK\$764 million) given by the Company.
- (c) Investment in the guaranteed unit trust fund and securities of approximately HK\$10 million (2004: HK\$5 million).
- (d) Trade receivables of certain construction contracts.
- (e) Investment properties of HK\$290 million (2004: HK\$690 million), property, plant and equipment of approximately HK\$204 million (2004: Nil) and leasehold land of approximately HK\$308 million (2004: HK\$2 million) (Notes 11, 12 and 13).

30 Commitments and Contingent Liabilities

The Group had the following outstanding commitments and contingent liabilities:

- (a) In the normal course of its business, the Group is subject to various claims under its construction contracts. At 31st March 2005, the Group had various liquidated damages claims on certain contracts for which the Group has filed extension of time claims with the customers. The amount of the ultimate liquidated damages, if any, cannot be ascertained but the Directors are of the opinion that any resulting liability would not materially affect the financial position of the Group.
- (b) Pursuant to a lease modification arrangement in respect of the construction in progress, the Group has undertaken to settle a lease premium to the Government of Hong Kong Special Administrative Region. As at the date of this report, the amount of the lease premium is yet to be agreed.

Notes to the Accounts

30 Commitments and Contingent Liabilities *(Continued)*

- (c) During the year, the Group received a writ of summon claiming for an aggregate amount of approximately HK\$15 million for alleged breach of contract and uncertified workdone in connection with contract works from a subcontractor. The Group will defend vigorously against the claim and a counter claim of approximately HK\$1.5 million has been submitted. Based on legal advice, the Directors are of the opinion that the Group has valid defences against the claims and no additional provision has been made in the accounts.
- (d) Guarantees in respect of performance bonds amounted to approximately HK\$15 million (2004: HK\$13 million) in favour of the Group's customers.
- (e) The future aggregate minimum lease rental payable under non-cancellable operating lease is as follows:

| | Group | |
|--------------------------|-----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Land and buildings | | |
| – Within one year | 2,884 | 2,324 |
| – One year to five years | 8,197 | 7,143 |
| – More than five years | 44,012 | 45,857 |
| | 55,093 | 55,324 |
| Other equipment | | |
| – Within one year | 18 | 19 |
| – One year to five years | 10 | 28 |
| | 28 | 47 |
| | 55,121 | 55,371 |

Notes to the Accounts

31 Future Minimum Rental Payments Receivable

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of the investment properties as follows:

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|--|--------------------------------|
| – Within one year | 9,278 | 3,590 |
| – One year to five years | 12,623 | 10,643 |
| | 21,901 | 14,233 |

32 Related Party Balances

The balances due from and to related parties are unsecured, interest free and have no fixed repayment terms.

33 Approval of Accounts

The accounts were approved by the Board of Directors on 21st July 2005.