## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's turnover, expenses, assets and liabilities are denominated in Hong Kong dollars, Japanese Yen, United States dollars and Renminbi. The Group's exposure to fluctuations in exchange rates during the period under review is considered minimal as the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable and the operations denominated in Japanese Yen were not significant to the Group. Accordingly, no financial instruments have been used for hedging purposes. The management of the Group has been monitoring the Group's exposure to fluctuations in exchanges rates of all these currencies and, if appropriate, will take out some actions to minimize the risk of exchange rates fluctuations.

## CONTINGENT LIABILITIES

As at 30 June 2005, there existed an litigation which was commenced by a third party contractor in July 2002, claiming against a bank which had served a third party notice to the Company, for a performance bond amounting to HK$8,600,000 given by the Company to a former subsidiary in order for it to undertake an installation project with the third party contractor. As at 30 June 2005, the Group's bank deposits of HK$8,611,000 were pledged for the purpose of this performance bond. The Company issued a fourth party notice to seek recourse from the former subsidiary. The directors, having sought independent legal advice, are of the opinion that the case is unclear at this stage as the amount of liability could not be measured with sufficient reliability. Accordingly, no provision has been made in the accounts in respect of the claim. Furthermore, a strike out application has been filed by the Company and the respective court hearing is scheduled in early 2006.

Besides the aforesaid litigation case, there were also two civil litigation cases outstanding. One litigation case was commenced by a bankrupted third party for breach of an alleged agreement and claimed damages against the Company in respect of a joint venture formed in 1996 for construction projects. Another litigation case was commenced by a bank against the aforesaid bankrupted third party and joint venture, which had served a third party notice to the Company, for outstanding balance of overdraft facilities. After obtaining the advices from two counsels and a lawyer, the directors are of the opinion that these cases are remote and no provision has been made in the accounts in respect of the alleged claims.

Save as disclosed above, the Group did not have any material contingent liabilities.