

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 1. General

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

The principal activity of the Company is investment holding while its subsidiaries are engaged in building construction, building maintenance and civil engineering.

## 2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these standards has resulted in a change in the format of presentation of cash flow statements and the introduction of the statement of changes in equity.

The adoption of these new and revised standards has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and interest and dividends received, which were previously presented under a separate heading, are classified as operating and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

### Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

## 3. Principal Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment in securities.

The principal accounting policies, which have been adopted by the Group in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong, are as follows:

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group's interests in associates and jointly controlled entities on the basis set out below.

The results of subsidiaries, associates or jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement as from their respective dates of acquisition or up to the dates of disposal as the case may be.

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

### (b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Goodwill (continued)

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, an associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### (c) Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable during the year.

### (d) Associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in associate is stated at the Group's share of the net assets of the associate.

When the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

### (e) Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

### (f) Construction contracts

When the outcome of a building construction, building maintenance and civil engineering contract can be estimated reliably, contract costs are recognised to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" (as an asset) or "Amounts due to customers for contract work" (as a liability), as applicable. Amounts billed for work performed on a contract but not yet paid by the customers are included in the balance sheet under "Trade and other debtors, deposits and prepayments".

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 3. Principal Accounting Policies (continued)

### (g) Inventories

Inventories represent raw materials of rocks are stated at the lower of cost and net realisable value. Cost, which comprises all cost of purchases and other costs incurred in bring the inventories to their present location, is calculated on the weighted average basis. Net realisable value represents the expected selling price less costs to be incurred in selling and distribution.

### (h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Depreciation is provided on the cost of property, plant and equipment on a reducing balance basis at the following rates per annum:

	<b>Barges and dredgers</b>	<b>Tower cranes</b>	<b>Computer equipment</b>	<b>Others</b>
Initial charge upon purchase	10%	20%	20%	20%
Annual charge	10%	15%	40%	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

### (i) Revenue recognition

When the outcome of a building construction, building maintenance and civil engineering contract can be estimated reliably, revenue is recognised based on the percentage of completion, measured by reference to the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rates applicable.

Building services income is recognised when services are rendered.

### (j) Finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the consolidated income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the consolidated income statement on a straight-line basis over the relevant lease terms.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 3. Principal Accounting Policies (continued)

### (k) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### (l) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### (m) Foreign currency translation

The accounting records of the Group, its associates and jointly controlled entities are maintained in Hong Kong dollars. Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated into Hong Kong dollars at the rates of exchange prevailing at the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

### (n) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

### (o) Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefit plans.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 4. Segment Information

For management purposes, the Group is currently organised into two operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Turnover and segment information for the year ended 31st March, 2003 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	81,615	143,883	225,498
<b>RESULT</b>			
Segment result	52,355	(34,275)	18,080
Unallocated corporate expenses			(1,504)
Interest income			1,038
Unrealised gain on other investment			429
Profit from operations			18,043
Interest expenses			(15)
Share of results of an associate			1,946
Share of results of jointly controlled entities	(199)	(544)	(743)
Profit before taxation			19,231
Taxation			(11,627)
Profit before minority interest			7,604

All activities of the Group were carried out in Hong Kong and all assets are located in Hong Kong.

### BALANCE SHEET

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	255,053	247,435	502,488
Interest in an associate			6,937
Interests in jointly controlled entities	4,603	3,928	8,531
Unallocated corporate assets			105,663
Consolidated total assets			623,619
<b>LIABILITIES</b>			
Segment liabilities	450,401	86,962	537,363
Unallocated corporate liabilities			9,180
Consolidated total liabilities			546,543

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 4. SEGMENT INFORMATION (continued)

### OTHER INFORMATION

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
Allowance for doubtful debts	12,991	168	13,159
Capital additions	127	52	179
Depreciation and amortisation	957	1,040	1,997

Turnover and segment information for the year ended 31st March, 2002 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>397,598</u>	<u>129,329</u>	<u>526,927</u>
<b>RESULT</b>			
Segment result	<u>28,346</u>	<u>(19,708)</u>	8,638
Unallocated corporate expenses			(2,873)
Interest income			<u>749</u>
Profit from operations			6,514
Interest expenses			(820)
Share of results of an associate			2,098
Share of results of jointly controlled entities	(396)	(20)	<u>(416)</u>
Profit before taxation			7,376
Taxation			<u>(526)</u>
Profit before minority interest			<u><u>6,850</u></u>

All activities of the Group were carried out in Hong Kong and all assets are located in Hong Kong.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 4. SEGMENT INFORMATION (continued)

### BALANCE SHEET

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	376,663	290,933	667,596
Interest in an associate			6,610
Interests in jointly controlled entities	4,519	4,755	9,274
Unallocated corporate assets			56,083
Consolidated total assets			<u>739,563</u>
<b>LIABILITIES</b>			
Segment liabilities	589,307	79,748	669,055
Unallocated corporate liabilities			1,036
Consolidated total liabilities			<u>670,091</u>

### OTHER INFORMATION

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
Capital additions	82	100	182
Depreciation and amortisation	3,011	1,332	4,343

## 5. Other Operating Income

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Building services income	–	3,000
Interest income	<b>1,038</b>	749
Unrealised gain on other investment	<b>429</b>	–
Others	<b>341</b>	847
	<u><b>1,808</b></u>	<u>4,596</u>

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 6. Profit from Operations

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	432	458
Allowance for doubtful debts	13,159	–
Depreciation:		
Owned assets	1,981	4,221
Assets held under finance leases	16	122
	<b>1,997</b>	4,343
Less: Amount capitalised to contract work	<b>(1,192)</b>	(3,134)
	<b>805</b>	1,209
Gain on disposal of property, plant and equipment	<b>(230)</b>	–
Less: Amount capitalised to contract work	<b>230</b>	–
	–	–
Loss on disposal of property, plant and equipment	<b>119</b>	627
Less: Amount capitalised to contract work	<b>(22)</b>	(572)
	<b>97</b>	55
Operating lease charges:		
Premises	<b>2,308</b>	2,739
Plant and machinery	<b>45,748</b>	69,784
	<b>48,056</b>	72,523
Less: Amount capitalised to contract work	<b>(45,748)</b>	(69,859)
	<b>2,308</b>	2,664
Staff costs, including directors' emoluments (Note)	<b>46,715</b>	80,808
Retirement benefits scheme contributions, net of forfeited contributions	<b>1,406</b>	1,056
Less: Amount capitalised to contract work	<b>(29,225)</b>	(54,343)
	<b>18,896</b>	27,521
Interest income	<b>(1,038)</b>	(749)

Note: Included in staff costs is an amount of HK\$2,554,000 (2002: HK\$5,495,000) in respect of redundancy payments made to staff.

## 7. Finance Costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdraft wholly repayable within five years	2	739
Finance leases charges	13	81
	<b>15</b>	820

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 8. Taxation

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax charge (credit):		
The Company and subsidiaries		
Current year's provision	10,731	–
Deferred taxation (Note 23)	527	–
	<u>11,258</u>	–
Associate	369	528
Jointly controlled entities	–	(2)
	<u>11,627</u>	<u>526</u>

Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits less available tax relief for tax losses brought forward of each individual company comprising the Group. No provision had been made in the prior year as the assessable profit was wholly absorbed by tax losses brought forward.

Details of the potential deferred tax not accounted for in the year are set out in note 23.

## 9. Earnings Per Share

The calculation of the basic earnings per share is based on the net profit for the year of HK\$7,418,000 (2002: HK\$6,723,000) and on 249,000,000 (2002: 249,000,000) shares in issue during the year.

The computation of diluted earnings per share for 2002 has not assumed the exercise of the share options outstanding during that year since their exercise price was higher than the fair value per share.

All above options lapsed in prior year.

## 10. Property, Plant And Equipment

	Barges and dredgers HK\$'000	Tower cranes HK\$'000	Furniture, fixtures, computer and office equipment HK\$'000	Motor vehicles HK\$'000	Plant, machinery, tools and equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
AT COST						
At 1st April, 2002	14,779	13,042	6,693	7,296	9,369	51,179
Additions	–	–	139	40	–	179
Disposals	–	–	(414)	(2,539)	–	(2,953)
	<u>14,779</u>	<u>13,042</u>	<u>6,418</u>	<u>4,797</u>	<u>9,369</u>	<u>48,405</u>
At 31st March, 2003	14,779	13,042	6,418	4,797	9,369	48,405
ACCUMULATED DEPRECIATION						
At 1st April, 2002	8,379	9,104	5,337	5,597	8,703	37,120
Provided for the year	640	591	371	262	133	1,997
Eliminated on disposals	–	–	(311)	(2,076)	–	(2,387)
	<u>9,019</u>	<u>9,695</u>	<u>5,397</u>	<u>3,783</u>	<u>8,836</u>	<u>36,730</u>
At 31st March, 2003	9,019	9,695	5,397	3,783	8,836	36,730
NET BOOK VALUES						
At 31st March, 2003	<u>5,760</u>	<u>3,347</u>	<u>1,021</u>	<u>1,014</u>	<u>533</u>	<u>11,675</u>
At 31st March, 2002	<u>6,400</u>	<u>3,938</u>	<u>1,356</u>	<u>1,699</u>	<u>666</u>	<u>14,059</u>

The carrying amount of the Group's motor vehicles at 31st March, 2002 included HK\$489,000 in respect of assets held under finance leases.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 11. Interests in Subsidiaries

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares	150,539	150,539
Loans to subsidiaries	170,564	170,564
Amounts due from subsidiaries	275,317	307,711
Impairment loss	(69,800)	(69,800)
	<b>526,620</b>	<b>559,014</b>

Loans to subsidiaries and amounts due from subsidiaries are unsecured, interest free and will not be repaid within the next twelve months from the balance sheet date.

Particulars regarding the subsidiaries of the Company at 31st March, 2003 are set out in note 27.

## 12. Interest in An Associate

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net asset of an unlisted associate	<b>6,937</b>	<b>6,610</b>

Particulars regarding the associate of the Group at 31st March, 2003 are as follows:

Name of company	Place of incorporation/ operation	Class of shares	Effective % of issued share capital held indirectly	Principal activities
Yue Xiu Concrete Company Limited	Hong Kong	Ordinary shares	25	Supply of ready-mixed concrete

## 13. Interests in Jointly Controlled Entities

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets of jointly controlled entities	<b>8,531</b>	<b>9,274</b>

Particulars regarding the jointly controlled entities of the Group at 31st March, 2003 are set out in note 28.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 14. Amounts Due From (To) Customers For Contract Work

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	608,373	566,562
Progress billings	(451,398)	(368,276)
	<u>156,975</u>	<u>198,286</u>
Represented by:		
Due from customers for contract work included in current assets	160,594	211,841
Due to customers for contract work included in current liabilities	(3,619)	(13,555)
	<u>156,975</u>	<u>198,286</u>

## 15. Trade and Other Debtors, Deposits and Prepayments

Interim applications for progress payments in construction contracts are normally on a monthly basis and settled according to contract terms.

Included in trade and other debtors, deposits and prepayments are trade receivables of HK\$165,213,000 (2002: HK\$273,937,000) with an aged analysis as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	40,264	105,703
61 – 90 days	4	1,193
More than 90 days	124,945	167,041
	<u>165,213</u>	<u>273,937</u>

## 16. Investment in Securities

	2003 HK\$'000	2002 HK\$'000
<b>Other investment</b>		
Unlisted investment in mutual fund, at fair value	<u>47,241</u>	<u>–</u>

## 17. Creditors, Deposits and Accruals

Included in creditors, deposits and accruals are trade payables of HK\$101,443,000 (2002: HK\$112,159,000) with an aged analysis as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	48,363	50,247
61 – 90 days	10,650	12,722
More than 90 days	42,430	49,190
	<u>101,443</u>	<u>112,159</u>

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 18. Obligations Under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount payable under finance leases:				
Within one year	-	73	-	60
Less: future finance charges	-	(13)	-	-
Present value of lease obligations	-	60	-	60

The Group leased certain of its motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31st March, 2003, the average effective borrowing rate was 14%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The obligations were repaid during the year.

## 19. Amounts Due to Subsidiaries

The amounts due to subsidiaries are unsecured, interest free and do not have a fixed repayment term. As agreed with the subsidiaries, demand for repayment will not be made within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current liability.

## 20. Share Capital

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
Authorised:		
At the beginning and end of the year ended 31st March, 2003 and 2002	600,000,000	60,000
Issue and fully paid:		
At the beginning and end of the year ended 31st March, 2003 and 2002	249,000,000	24,900

### Share Option Scheme

The share option scheme of the Company (the "Old Scheme") for the benefit of the full-time employees of the Company and its subsidiaries was approved and adopted on 28th December, 1995 under which the directors may invite full-time employees, including Executive Directors, to take up options to subscribe for an aggregate of not more than 10% of the total number of shares in issue at a consideration of HK\$1 for each grant. No option may be exercised earlier than six months or later than three and a half years after it has been accepted and no option may be granted after 27th December, 2005 nor to any one person when if exercised in full by that person would result in the total number of shares issued to that person exceeding 25% of the aggregate number of the shares in respect of which the options are granted.

All the options granted had been lapsed in prior year.

The Old Scheme was terminated during the year.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 20. Share Capital (continued)

### Share Option Scheme (continued)

The Company's new share option scheme (the "New Scheme") was adopted by the shareholders pursuant to a resolution passed on 20th September, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The New Scheme will expire on 19th September, 2012.

The total number of shares in respect of which options may be granted under the New Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the New Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 per option. An option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the Stock exchange for the five business days immediately preceding the date of grant, and the nominal value.

During the year ended 31st March, 2003, no options were granted under the New Scheme.

## 21. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>					
At 1st April, 2001	1,856	–	56,942	(21,441)	37,357
Net profit for the year	–	–	–	6,723	6,723
At 31st March, 2002	1,856	–	56,942	(14,718)	44,080
Net profit for the year	–	–	–	7,418	7,418
At 31st March, 2003	<u>1,856</u>	<u>–</u>	<u>56,942</u>	<u>(7,300)</u>	<u>51,498</u>
<b>THE COMPANY</b>					
At 1st April, 2001	1,856	106,176	–	(70,702)	37,330
Net loss for the year	–	–	–	(2,334)	(2,334)
At 31st March, 2002	1,856	106,176	–	(73,036)	34,996
Net loss for the year	–	–	–	(1,288)	(1,288)
At 31st March, 2003	<u>1,856</u>	<u>106,176</u>	<u>–</u>	<u>(74,324)</u>	<u>33,708</u>

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 21. Reserves (continued)

Notes:

- (a) Contributed surplus represents the difference arising between the value of total net assets of subsidiaries, associates and jointly controlled entities acquired and the nominal amount of the Company's shares issued at the time of reorganisation in 1996, adjusted for dividends paid out of the contributed surplus subsequent to the reorganisation. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
- (i) the company, or would, after the payment, be, unable to pay its liabilities as they become due; or
  - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (b) As at 31st March, 2003, the Company's reserves available for distribution to shareholders amounted to HK\$31,852,000 (2002: HK\$33,140,000).
- (c) Reserves of the Group at the balance sheet date include the Group's share of the post-acquisition profits of:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Associate	<b>4,437</b>	4,110
Jointly controlled entities	<b>4,031</b>	4,774
	<b>8,468</b>	8,884

## 22. Emoluments of Directors and Senior Management

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	<b>227</b>	240
	<b>227</b>	240
Other emoluments paid to executive directors:		
Salaries and other benefits	–	463
Retirement benefit scheme contributions	–	21
	–	484
	<b>227</b>	724

Emoluments of the directors fall within the following bands:

	<b>Number of directors</b>	
<b>Bands</b>	<b>2003</b>	2002
Nil – HK\$1,000,000	<b>8</b>	7

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 22. Emoluments of Directors and Senior Management (continued)

The emoluments of the five (2002: five) highest paid individuals for the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	6,166	6,732
Retirement benefit scheme contributions	222	286
	<u>6,388</u>	<u>7,018</u>

Their emoluments fall within the following bands:

Bands	Number of individuals	
	2003	2002
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
	<u>–</u>	<u>1</u>

## 23. Deferred Taxation

	2003 HK\$'000	2002 HK\$'000
Charge for the year and balance at end of the year	<u>527</u>	<u>–</u>

At the balance sheet date, the major components of deferred tax (liabilities) assets of the Group, provided and unprovided, in the financial statements were as follows:

	Provided		Unprovided	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(527)	–	(551)	(1,419)
Unutilised tax losses	–	–	37,427	30,390
	<u>(527)</u>	<u>–</u>	<u>36,876</u>	<u>28,971</u>

The amount of the unprovided deferred tax credit (charge) for the year was as follows:

	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	868	555
Tax losses arising (utilising)	7,037	(1,180)
	<u>7,905</u>	<u>(625)</u>

No deferred tax asset has been recognised in the financial statements as it is uncertain whether the asset will crystallise in the foreseeable future.

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 24. Pledge of Assets

At 31st March, 2002, the benefits under a construction contract have been pledged to a financial institution as security in connection with the credit facilities granted to the Group. The facilities were released upon the completion of the contract during the year.

## 25. Commitments and Contingent Liabilities

As at the balance sheet date, there were:

- (a) Rentals payable by the Group for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Premises		Plant, barges and dredgers	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,761	1,950	4,216	4,143
In the second to fifth year inclusive	1,128	281	–	–
	<b>2,889</b>	<b>2,231</b>	<b>4,216</b>	<b>4,143</b>

Leases on premises are negotiated for an average term of one to two years with fixed monthly rentals over the terms of the leases.

- (b) Capital commitments of the Group authorised but not contracted for in respect of:

	2003 HK\$'000	2002 HK\$'000
Acquisition of property, plant and equipment	–	127

- (c) Guarantees issued by the Company to the extent of approximately HK\$14,975,000 (2002: HK\$39,755,000) and HK\$2,500,000 (2002: HK\$2,500,000) to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the subsidiaries and a jointly controlled entity, respectively.
- (d) The Group and certain contractors had undertaken to provide guarantees for rectification of defects in favour of an employer in connection with the work performed for a project.

## 26. Related Party Transactions

Chevalier International Holdings Limited ("CIHL"), a substantial shareholder of the Company, and Lam Woo & Company Limited ("LWCL"), a jointly controlled entity of the Company, and their respective subsidiaries and associates are regarded as related parties for the purpose of Statement of Standard Accounting Practice 20 "Related Party Disclosures" issued by the Hong Kong Society of Accountants. Details of the material transactions between the Group and CIHL and LWCL groups are as follows:

- (a) The Company entered into an agreement with CIHL, under which CIHL shall provide accounting, treasury, electronic data processing, company secretarial and personnel management services to the Group for a term of one year ended on 31st March, 2003 at a management fee calculated at 0.3% of the aggregate turnover of the operating subsidiaries of the Company. The management fee paid to CIHL under this agreement for the year ended 31st March, 2003 amounted to HK\$676,000 (2002: HK\$1,584,000).
- (b) An agreement was made between CIHL and the Company whereby the Group may source electrical and mechanical equipment and building materials from time to time from CIHL group at consideration determined with reference to market prices. Purchases and value of work completed during the year amounted to HK\$9,268,000 (2002: HK\$44,292,000).

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 26. Related Party Transactions (continued)

- (c) During the year ended 31st March, 2003, the Group paid rentals determined with reference to market rates of HK\$1,896,000 (2002: HK\$2,242,000) to CIHL group for premises occupied by the Group.
- (d) The Group entered into contracts with reference to market rates for civil engineering work and building works with LWCL. A total amount of HK\$7,948,000 (2002: HK\$44,536,000) was received and receivable from LWCL for the work done during the year.
- (e) The Group has maintained insurance policies with a subsidiary of CIHL, including public liability insurance, employees compensation insurance and contractors all risk insurance. The aggregate insurance premium charged by the subsidiary of CIHL during the year at prices determined by the directors with reference to market prices amounted to HK\$1,057,000 (2002: HK\$5,221,000).
- (f) An agreement was made between CIHL group and the Group for drainage works during the year. A total amount of HK\$1,426,000 (2002: Nil) was received and receivable from CIHL group for the work done during the year.
- (g) During the year ended 31st March, 2002, the Group received a lump sum building services fee of HK\$3,000,000 from CIHL group for the services provided by the Group.

At the balance sheet date, the Group has outstanding balances arising from business transactions with related parties which are unsecured, non-interest bearing and have no fixed terms of repayment, as follows:

	Amounts due from		Amount due to	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
CIHL group	35,486	36,189	11,481	9,771
LWCL	10,661	2,962	-	-

The above balances have been disclosed in the consolidated balance sheet under "Trade and other debtors, deposits and prepayments", "Retention money receivable", "Creditors, deposit and accruals" and "Retention money payable", as appropriate.

## 27. Subsidiaries

Name of company	Place or country of incorporation/ operation	Class of shares	Issued and paid up capital	Number of shares	Effective % of issued share capital held		Principal activities
					Directly	Indirectly	
Austin Assets Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$1	1	-	100	Investment holding
CCH (BVI) Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$50,000	50,000	100	-	Investment holding
Cherson Limited	Hong Kong	Ordinary	HK\$100	100	-	100	Under deregistration
Chevalier (Construction) Company Limited	Hong Kong	Ordinary	HK\$60,500,000	60,500,000	-	99.67	Building construction and maintenance

# Notes to the Financial Statements

For the year ended 31st March, 2003

## 27. Subsidiaries (continued)

Name of company	Place or country of incorporation/ operation	Class of shares	Issued and paid up capital	Number of shares	Effective % of issued share capital held		Principal activities
					Directly	Indirectly	
Chevalier Construction (Hong Kong) Limited	Hong Kong	Ordinary Deferred (note)	HK\$1,000 HK\$10,000	100 1,000	– –	100 –	Building construction
Chevalier (Civil Engineering) Limited	Hong Kong	Ordinary Deferred (note)	HK\$45,837,002 HK\$24,964,002	45,837,002 24,964,002	– –	100 –	Civil engineering
Chevalier Civil Engineering (Hong Kong) Limited	Hong Kong	Ordinary	HK\$100	100	–	100	Civil engineering
Smart Key Limited	Hong Kong	Ordinary	HK\$100	100	–	100	Investment holding

Note: The deferred shares practically carry no right to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the balance sheet date.

## 28. Jointly Controlled Entities

Name of company	Form of business structure	Place of incorporation/ operation	Class of shares	Effective % of share capital/ ownership held indirectly	Principal activities
Lam Woo & Company Limited	Incorporated	Hong Kong	Ordinary	50	Civil engineering
Lam Woo Construction Limited	Incorporated	Hong Kong	Ordinary	50	Building maintenance
Lam Woo/Chevalier Joint Venture	Joint Venture	Hong Kong	–	30	Civil engineering

The Group's entitlement to share in the results of its jointly controlled entities is in proportion to its ownership interest.