

# Notes to the Financial Statements

*For the year ended 31st March, 2001*

## 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 "Stock Exchange").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 48, 17 and 18 respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, other than those over which the Company does not exercise control, made up to 31st March each year.

Where the Group holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of that subsidiary are not consolidated because to do so would be misleading. Where the Group is in a position to exercise significant influence or joint control, such investments are dealt with as associates or jointly controlled entities as appropriate. Otherwise, they are accounted for in accordance with the Group's policy for investments in securities.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Goodwill and capital reserve arising on consolidation

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries, associates and jointly controlled entities at the date of acquisition, is written off directly to reserves.

Capital reserve arising on consolidation, which represents the excess of the fair value of the Group's share of the separable net assets acquired over the purchase consideration, is credited directly to reserves.

On disposal of subsidiaries, associates and jointly controlled entities, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiaries, associates or jointly controlled entities.

#### Investment in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

#### Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to surveys of work performed 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 basis by reference to the principal outstanding and at the interest rate applicable.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

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

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the terms of the relevant leases
Buildings	4% or over the terms of the relevant leases, whichever is shorter
Leasehold improvements	33 $\frac{1}{3}$ % or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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

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

#### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Jointly controlled operations

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant group company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations together with the expenses that it incurs are included in the income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

#### 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 net assets of the jointly controlled entities. The Group's share of 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 joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

#### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as the contract revenue recognised.

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

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.

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 the "Amount due from customers for contract work" or the "Amount due to customers for contract work", as appropriate. Amounts billed, but not yet paid by the customers, for work performed on contracts are included in the balance sheet under "Debtors, deposits and prepayments".

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities 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 for the year.

#### Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets 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 finance leases obligations. The finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged as expenses over the term of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit for the year.

On consolidation the financial statements of overseas subsidiaries, associates and jointly controlled entities are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### Retirement benefit schemes contributions

The contributions payable to the Group's defined contribution retirement benefit scheme, defined benefit pension scheme under the Occupational Retirement Schemes Ordinance ("ORSO Schemes") and Mandatory Provident Fund Schemes ("MPF Schemes") are charged as expenses.

#### Operating leases

Rentals payable under operating leases are charged as expenses on a straight line basis over the lease terms.

#### Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 3. GROUP TURNOVER AND CONTRIBUTION TO PROFIT BEFORE TAXATION

The Group's turnover and contribution to profit before taxation by principal activity and geographical market are as follows:

By principal activity:

	Turnover		Contribution to profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Construction	2,023,935	2,150,972	58,755	(24,969)
Quarrying	163,040	122,342	7,794	3,139
Highway and expressway	–	–	154,148	242,601
Building material	342,028	361,609	5,163	13,820
Others	18	21,028	(9,569)	(1,258)
	<u>2,529,021</u>	<u>2,655,951</u>	<u>216,291</u>	<u>233,333</u>
Unallocated corporate expenses			(14,871)	(21,379)
Profit before taxation			<u>201,420</u>	<u>211,954</u>

By geographical market:

	Turnover		Contribution to profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	2,147,023	2,373,336	88,548	13,670
Other regions in the People's Republic of China ("PRC")	166,645	146,544	151,401	226,605
Republic of China	215,353	136,071	(23,658)	(6,942)
	<u>2,529,021</u>	<u>2,655,951</u>	<u>216,291</u>	<u>233,333</u>
Unallocated corporate expenses			(14,871)	(21,379)
Profit before taxation			<u>201,420</u>	<u>211,954</u>



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 4. OTHER REVENUE

	2001	2000
	HK\$'000	HK\$'000
Other revenue has been arrived at after crediting:		
Interest on bank deposits	8,980	6,187
Gain on disposal of property, plant and equipment	3,717	1,089
Gain on deconsolidation of subsidiaries	2,655	–
Gain on disposal of an associate	331	–
Gains on disposal of listed other investments	–	2,216
Management income received from a jointly controlled entity	–	6,754
Management income received from an associate	–	98
Diesel and water supply income received from a related company	–	818
Plant hire income received from a related company	–	298
Machinery repairing charges received from a related company	–	295

### 5. PROVISION FOR PILING INCIDENT

In preparing the financial statements, the directors have considered the likelihood of a successful claim which may be made against one of the Company's wholly-owned subsidiaries, Zen Pacific Civil Contractors Limited ("ZPCCL"), in relation to a piling project which was discovered to be sub-standard in late 1999 and in respect of which the Company made a provision of HK\$60 million in its audited consolidated financial statements for the year ended 31st March, 2000, being the directors' estimate of the costs of carrying out remedial work and of legal and consultants' cost. Details were disclosed in Note 6 to the financial statements for the year ended 31st March, 2000.

The Hong Kong Housing Authority ("HA") has now alleged claims in respect of the sub-standard piling in the amount of approximately HK\$588 million or, in the alternative basis, HK\$747 million, but provided only limited details. In defending ZPCCL's position, a counterclaim prepared based on acceptable legal arguments has been submitted. At the date of approval of these financial statements, the HA did not agree ZPCCL's request to enter into mediation proceedings to resolve the dispute and ZPCCL has accordingly decided that it will proceed to arbitration.

ZPCCL has taken legal advice on the claims alleged by the HA and the amount of any such claims, and on the counterclaim available to ZPCCL. Based on that advice and on the information at present available to ZPCCL, although it is not possible to determine the outcome of this matter with reasonable certainty at this time, the directors have determined that there is no requirement to make any additional provision in respect of the alleged claims in the financial statements.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 6. PROFIT (LOSS) FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration	3,400	2,700
Depreciation and amortisation:		
Owned assets	43,083	52,869
Assets held under finance leases	3,656	3,184
Assets held under sale and lease back arrangements	–	2,726
	<u>46,739</u>	<u>58,779</u>
Less: amount attributable to construction contracts	<u>13,667</u>	<u>14,777</u>
	<u>33,072</u>	<u>44,002</u>
Staff costs:		
Directors' remuneration (note 8)	14,766	5,052
Other staff costs	358,740	391,513
Retirement benefit schemes contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$2,431,000 (2000: HK\$1,242,000)	10,742	10,349
	<u>384,248</u>	<u>406,914</u>
Less: amount attributable to construction contracts	<u>257,327</u>	<u>246,021</u>
	<u>126,921</u>	<u>160,893</u>
Hire charges for plant and machinery	28,640	23,391
Less: amount attributable to construction contracts	<u>26,690</u>	<u>23,113</u>
	<u>1,950</u>	<u>278</u>
Operating lease rentals in respect of land and buildings	23,785	13,188
Less: amount attributable to construction contracts	<u>276</u>	<u>370</u>
	<u>23,509</u>	<u>12,818</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	52,834	64,580
Redeemable exchangeable bond	11,592	–
Finance leases	1,155	867
Finance costs arising on convertible redeemable preference shares issued by a subsidiary	10,900	27,773
	<u>76,481</u>	<u>93,220</u>
Less: amount attributable to construction contracts and properties under development held for sale	20,093	20,318
	<u>56,388</u>	<u>72,902</u>

### 8. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	280	240
	<u>280</u>	<u>240</u>
Other emoluments – Executive Directors:		
Salary and other benefits	9,233	4,343
Performance related incentive payments	4,492	–
Retirement benefit schemes contributions	761	469
	<u>14,486</u>	<u>4,812</u>
	<u>14,766</u>	<u>5,052</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 8. DIRECTORS' REMUNERATION (Cont'd)

Remuneration of the Directors were within the following bands:

	Number of directors	
	2001	2000
Up to HK\$1,000,000	4	3
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	2	–
	<u>          </u>	<u>          </u>

### 9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four directors (2000: one director), details of whose emoluments are set out above. The emoluments of the remaining one (2000: four) highest paid individual(s) are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salary and other benefits	2,512	10,961
Performance related incentive payments	64	–
Retirement benefit schemes contributions	28	396
	<u>          </u>	<u>          </u>
	<u>2,604</u>	<u>11,357</u>

The emoluments were within the following bands:

	Number of employees	
	2001	2000
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	–	2
	<u>          </u>	<u>          </u>
	<u>1</u>	<u>4</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 10. TAXATION

	2001 HK\$'000	2000 HK\$'000
Provision for the year		
Hong Kong	8,632	18,999
Other jurisdictions	622	2,828
Overprovision in prior years		
Hong Kong	(13,797)	(2,202)
Other jurisdictions	(469)	(5)
Deferred taxation		
Current year (note 33)	–	(771)
Share of tax on results of associates	14,272	4,949
Share of tax on results of jointly controlled entities	7,879	3,378
	<u>17,139</u>	<u>27,176</u>

Hong Kong Profits Tax is calculated at 16 per cent. (2000: 16 per cent.) on the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the unprovided deferred taxation at the balance sheet date and the potential deferred taxation not provided for in the year are set out in note 33.

### 11. PROFIT FOR THE YEAR

Of the Group's profit for the year of HK\$176,168,000 (2000: HK\$160,388,000), a profit of HK\$185,249,000 (2000: a loss of HK\$16,450,000) has been dealt with in the financial statements of the Company.

### 12. DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Interim dividend paid: Nil (2000: 4 cents per share on 675,560,034 ordinary shares)	–	27,022
Overprovision in previous year due to shares repurchased	–	(42)
	<u>–</u>	<u>26,980</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000
Profit for the year	176,168	160,388
Effect of dilutive potential ordinary shares:		
Net finance cost saved on convertible redeemable preference shares issued by a subsidiary on conversion	10,900	27,773
Increase in minority interests arising from exercise of the share options issued by a subsidiary	(5,094)	(3,025)
Earnings for the purpose of diluted earnings per share	<u>181,974</u>	<u>185,136</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	744,272,856	673,134,978
Effect of dilutive potential ordinary shares:		
Convertible redeemable preference shares	44,213,891	135,614,035
Options	<u>1,328,905</u>	<u>123,297</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>789,815,652</u>	<u>808,872,310</u>

Note:

As the exercise price of warrants outstanding and expired during the year ended 31st March, 2001 was higher than the average market price of the Company's ordinary shares, there was no dilution effect on earnings per share.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 14. PROPERTY, PLANT AND EQUIPMENT

#### THE GROUP

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Vessels HK\$'000	Total HK\$'000
<b>COST</b>							
At 1st April, 2000	65,537	15,178	355,160	27,407	18,449	91,061	572,792
Exchange realignment	-	-	108	23	100	696	927
Additions	-	154	9,762	1,069	1,227	9,405	21,617
Disposals	-	(2,089)	(109,469)	(773)	(4,568)	(815)	(117,714)
Disposal of subsidiaries	-	-	-	(124)	-	-	(124)
At 31st March, 2001	<u>65,537</u>	<u>13,243</u>	<u>255,561</u>	<u>27,602</u>	<u>15,208</u>	<u>100,347</u>	<u>477,498</u>
<b>DEPRECIATION</b>							
At 1st April, 2000	33,694	9,725	267,253	18,622	12,731	53,533	395,558
Exchange realignment	-	-	20	4	7	327	358
Provided for the year	8,863	2,888	21,514	3,486	1,537	8,451	46,739
Eliminated on disposals	-	(2,089)	(103,760)	(734)	(4,324)	(746)	(111,653)
At 31st March, 2001	<u>42,557</u>	<u>10,524</u>	<u>185,027</u>	<u>21,378</u>	<u>9,951</u>	<u>61,565</u>	<u>331,002</u>
<b>NET BOOK VALUES</b>							
At 31st March, 2001	<u><u>22,980</u></u>	<u><u>2,719</u></u>	<u><u>70,534</u></u>	<u><u>6,224</u></u>	<u><u>5,257</u></u>	<u><u>38,782</u></u>	<u><u>146,496</u></u>
At 31st March, 2000	<u><u>31,843</u></u>	<u><u>5,453</u></u>	<u><u>87,907</u></u>	<u><u>8,785</u></u>	<u><u>5,718</u></u>	<u><u>37,528</u></u>	<u><u>177,234</u></u>

The net book values of leasehold land and buildings shown above comprise:

	2001 HK\$'000	2000 HK\$'000
Medium-term leases in Hong Kong	5,580	5,834
Medium-term leases outside Hong Kong	16,835	25,333
Short term leases outside Hong Kong	565	676
	<u><u>22,980</u></u>	<u><u>31,843</u></u>

The net book value of property, plant and equipment includes an amount of approximately HK\$3,599,000 (2000: HK\$11,199,000) in respect of plant and machinery held under finance leases.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	124,144	124,144
Amounts due from subsidiaries	1,303,743	772,135
	<u>1,427,887</u>	<u>896,279</u>

The carrying amount of the unlisted shares is based on the book value of the underlying net tangible assets of the subsidiaries as at the date on which they were acquired by the Company at the time of the group reorganisation in 1992.

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 48.

### 16. SUBSIDIARY NOT CONSOLIDATED

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net liabilities of subsidiary not consolidated	(5)	–
Unrealised gain of interest charged to subsidiary not consolidated	(348)	–
	<u>(353)</u>	<u>–</u>

Details of the subsidiary not consolidated as at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation	Proportion of nominal value of issued ordinary capital held indirectly by the Company %	Principal activity
Supertime Holdings Limited ("Supertime")	Hong Kong	51	Property development



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 16. SUBSIDIARY NOT CONSOLIDATED (Cont'd)

The net profit of the unconsolidated subsidiary attributable to the Group is:

	<i>HK\$'000</i>
Dealt with in the consolidated financial statements	7
Not dealt with in the consolidated financial statements	–

Pursuant to a shareholders' agreement dated 13th June, 2000, the Group has no control over Supertime. For this reason, the financial statements of Supertime have not been consolidated as, in the opinion of the directors, it would be misleading to do so.

As the Group is still in a position to exercise significant influence, including participation in financial and operating policy decisions, Supertime is accounted for using equity method of accounting.

### 17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets of associates	1,905,319	1,758,689
Amounts due from associates	–	16,687
	<u>1,905,319</u>	<u>1,775,376</u>

The amounts due from associates as at 31st March, 2000 were unsecured, interest free and were settled during the year.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 17. INTERESTS IN ASSOCIATES (Cont'd)

Details of the associates of the Group as at 31st March, 2001 are as follows:

Name of associate	Form of business structure	Place of incorporation or registration/operation	Proportion of nominal value of issued ordinary capital held indirectly by the Company %	Principal activities
Grand Plan Development Limited	Incorporated	Republic of China	25	Property development
Hong Kong Landfill Restoration Group Limited	Incorporated	Hong Kong	23	Civil engineering
Kong On Waste Management Limited	Incorporated	Hong Kong	50	Environmental and waste management
Medidas Greater China Limited	Incorporated	British Virgin Islands	45	Internet service
Oceanblue Holdings Limited	Incorporated	British Virgin Islands	40	Not yet commenced business
Road King Infrastructure Limited ("Road King")	Incorporated	Bermuda	49.998 (note)	Investment in and the development, operation and management of toll highways and expressways

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 17. INTERESTS IN ASSOCIATES (Cont'd)

Note: Road King was incorporated in Bermuda with limited liability and is also a company listed on the Stock Exchange. Extracts from the published financial information of Road King are set out below.

#### Operating results:

	1.1.2001 to 31.3.2001 HK\$'000 (unaudited)	1.1.2000 to 31.12.2000 HK\$'000 (audited)	1.1.1999 to 31.12.1999 HK\$'000 (audited)
Toll revenue	7,026	28,078	27,017
Minimum income undertakings	36,991	222,288	216,133
Sales of goods	21,576	25,408	–
Turnover	<u>65,593</u>	<u>275,774</u>	<u>243,150</u>
Gain on disposal of interest in an infrastructure joint venture	–	–	211,751
Profit from ordinary activities before taxation	100,320	449,421	625,517
Profit from ordinary activities before taxation attributable to the Group	<u>42,233</u>	<u>199,031</u>	<u>286,958</u>

#### Financial position:

	31.12.2000 HK\$'000 (audited)	31.12.1999 HK\$'000 (audited)
Non-current assets	4,859,620	4,614,296
Current assets	868,749	1,083,998
Current liabilities	(235,815)	(232,643)
Non-current liabilities	(1,239,589)	(1,378,729)
Minority interests	(84,776)	(19,969)
Net assets	<u>4,168,189</u>	<u>4,066,953</u>
Net assets attributable to the Group	<u>1,854,167</u>	<u>1,723,230</u>

Market value of shares in Road King at 31st March, 2001 amounted to HK\$733,894,000 (2000: HK\$1,078,672,000).

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 17. INTERESTS IN ASSOCIATES (Cont'd)

In the year ended 31st December, 2000, Road King has, for the first time, early adopted seven revised or new Statements of Standard Accounting Practices ("SSAPs") issued by the Hong Kong Society of Accountants, which will be adopted by the Group in the financial year ending 31st March, 2002. The effect of the change has been to increase the shareholders' funds of Road King at 31st December, 1999 by HK\$116,134,000, to decrease shareholders' funds of Road King at 31st December, 2000 by HK\$9,278,000 and to increase the profit of Road King for the year ended 31st December, 2000 by HK\$12,186,000.

The audited operating results and financial position of Road King presented herein reflect the adoption of the new SSAPs.

The financial effect of the early adoption of the new SSAPs by Road King has been adjusted for by the Group arriving at the amounts reflected in the Group's financial statements using the equity method of accounting.

### 18. INTERESTS IN JOINT VENTURES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets of jointly controlled entities	135,784	65,900	–	–
Amounts due from a jointly controlled entity	37,383	–	37,383	–
Unrealised gains of interest charged (note a)	(2,350)	–	–	–
Unrealised gains of construction contract (note b)	(26,514)	–	–	–
	<u>144,303</u>	<u>65,900</u>	<u>37,383</u>	<u>–</u>

The amount due from a jointly controlled entity is unsecured, interest free and will not be repayable within twelve months from the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 18. INTERESTS IN JOINT VENTURES (Cont'd)

At 31st March, 2001, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration/ operation	Attributable interest to the Group %	Nature of business
大棟營造股份有限公司 – 亞太土木工程有限公司 共同承攬	Unincorporated	Republic of China	25	Marine engineering
AMSOC Joint Venture	Unincorporated	Hong Kong	37.5	Civil engineering
Balfour Beatty-Zen Pacific Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Barclay Mowlem-Zen Pacific-AMEC Consortium	Unincorporated	Hong Kong	30.73	Civil engineering
Barclay Mowlem-Zen Pacific-China Civil Joint Venture	Unincorporated	Hong Kong	35	Civil engineering
Barclay Mowlem-Zen Pacific Joint Venture	Unincorporated	Hong Kong	40	Civil engineering
China State-Zen Pacific Joint Venture	Unincorporated	Hong Kong	30	Civil engineering
Dragages-Zen Pacific Joint Venture	Unincorporated	Hong Kong	25	Civil engineering
First Star Development Limited ("First Star") (note c)	Incorporated	Hong Kong	51	Property development
Kier/Zen Pacific Joint Venture	Unincorporated	Hong Kong	50	Civil engineering

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 18. INTERESTS IN JOINT VENTURES (Cont'd)

Name	Form of business structure	Place of registration/ operation	Attributable interest to the Group %	Nature of business
Shanxi Jin-Ya Road and Bridge Construction Limited	Incorporated	PRC	50	Road construction
Zen Pacific-Shui On Joint Venture (C518)	Unincorporated	Hong Kong	50	Civil engineering
惠記集團有限公司 – 亞太單氏海事工程有限公司 – 遠東疏浚有限公司 聯合承攬企業體	Unincorporated	Republic of China	37.5	Civil engineering

#### Notes:

- (a) The Group charged interest to First Star which was capitalised in the financial statements of First Star. On consolidation, unrealised interest income of approximately HK\$2,350,000, computed based on the percentage of the Group's interest in First Star, was eliminated from the income statement and has been credited to the Group's interests in jointly controlled entities.
- (b) First Star subcontracted the construction work of a Private Sector Participation Scheme ("PSPS") project to a wholly-owned subsidiary of the Company. All the construction profit recognised by the Group are capitalised in the properties under development held for sale in First Star. As the Group retains an effective interest of 51% in First Star, 51% of the construction profit recognised by the Group is unrealised and has been credited to the Group's interests in jointly controlled entities.
- (c) Pursuant to a subscription agreement dated 13th June, 2000, the Group's interests in First Star have been diluted from 100 per cent. to 51 per cent. by issuing 49 new ordinary shares in First Star's capital at par to an independent third party ("Subscriber"). Upon completion of the subscription agreement, the Group received from the Subscriber an amount of approximately HK\$36,945,000, being half of the loans advanced by the Group to First Star. The Group did not have any significant gain or loss on disposal of partial interests in First Star.

Pursuant to the shareholders' agreement on the same date, First Star is subject to jointly control of both the Subscriber and the Group and over which none of the participating parties has unilateral control. Accordingly, the Group's interests in First Star are accounted for as interests in jointly controlled entities.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 18. INTERESTS IN JOINT VENTURES (Cont'd)

In addition to the jointly controlled entities listed above, the Group has 70% interests in a jointly controlled operation to produce precast concrete segment.

The aggregate amount of assets, liabilities, income and profit recognised in the financial statements in relation to interests in a jointly controlled operation is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Assets	<u>13,096</u>	<u>17,374</u>
Liabilities	<u>12,275</u>	<u>17,653</u>
Turnover for the year/period then ended	<u>38,244</u>	<u>714</u>
Profit (loss) after taxation for the year/period then ended	<u>1,100</u>	<u>(279)</u>

### 19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Non-current investments		
Unlisted investment securities	<u>800</u>	<u>800</u>

### 20. LOANS RECEIVABLE

The maturity of the loans receivable is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Under one year	6,180	5,678
In the second to fifth year inclusive	<u>51,125</u>	<u>48,690</u>
	57,305	54,368
Less: Amount receivable within one year shown under current assets	<u>6,180</u>	<u>5,678</u>
Amount receivable after one year	<u>51,125</u>	<u>48,690</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 20. LOANS RECEIVABLE (Cont'd)

The amount represents advances to and the cost of construction work to be recoverable from the local government in Wanshan, PRC, which will be settled by a waiver of royalty fees arising from the sale of quarry products from three quarries in PRC. In the opinion of the Directors, a portion of these loans receivable amounted to HK\$6,180,000 (2000: HK\$5,678,000) will be settled within the next twelve months and accordingly, the remaining balance of HK\$51,125,000 (2000: HK\$48,690,000) was shown under non-current assets.

### 21. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
At cost	—	731,897

In 2000, the properties under development held for sale represented the Group's interest in a Private Sector Participation Scheme property development project in Hong Kong.

In 2000, the Group had interest capitalised of HK\$20,103,000 in respect of properties under development held for sale.

### 22. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	17,607	622
Consumables	16,194	18,793
Work-in-progress	9,512	790
Finished goods	37,774	25,101
	<u>81,087</u>	<u>45,306</u>

The cost of inventories recognised as an expense during the year is HK\$126,260,000 (2000: HK\$120,091,000).

Included above are raw materials of HK\$69,000 (2000: HK\$69,000), consumables of HK\$208,000 (2000: HK\$432,000) and finished goods of HK\$16,746,000 (2000: HK\$6,692,000) which are carried at net realisable values.



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 23. AMOUNT DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	10,537,113	9,684,714
Less: Progress billings	10,555,845	9,750,804
	<u>(18,732)</u>	<u>(66,090)</u>
Represented by:		
Due from customers included in current assets	189,185	390,479
Due to customers included in current liabilities	207,917	456,569
	<u>(18,732)</u>	<u>(66,090)</u>

### 24. DEBTORS, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade debtors (aged analysis):		
0 to 60 days	204,467	407,459
61 to 90 days	10,177	3,427
Over 90 days	28,525	30,189
	<u>243,169</u>	<u>441,075</u>
Retentions receivable	193,965	190,909
Other debtors, deposits and prepayments	125,046	185,548
	<u>562,180</u>	<u>817,532</u>

The Group allows an average credit period of 60 days to its trade customers. For retention receivables in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 25. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade creditors (aged analysis):		
0 to 60 days	174,580	213,100
61 to 90 days	8,319	13,265
Over 90 days	20,637	34,664
	<u>203,536</u>	<u>261,029</u>
Retentions payable	134,924	123,284
Accrued project costs	231,035	288,430
Provision for piling incident	60,000	60,000
Other creditors and accrued charges	104,428	228,189
	<u>733,923</u>	<u>960,932</u>

### 26. BANK LOANS

The maturity of the bank loans is as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Under one year	64,463	173,358	40,000	145,500
In the second year	–	40,000	–	40,000
	<u>64,463</u>	<u>213,358</u>	<u>40,000</u>	<u>185,500</u>
Less: Amount due within one year shown under current liabilities	<u>64,463</u>	<u>173,358</u>	<u>40,000</u>	<u>145,500</u>
Amount due after one year	<u>–</u>	<u>40,000</u>	<u>–</u>	<u>40,000</u>
Secured	3,310	59,921	–	37,500
Unsecured	61,153	153,437	40,000	148,000
	<u>64,463</u>	<u>213,358</u>	<u>40,000</u>	<u>185,500</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 27. OTHER BORROWINGS

Other borrowings comprise:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Syndicated loans (note a)	–	645,730	–	15,000
Convertible redeemable preference shares issued by a subsidiary (note b)	–	216,871	–	–
Obligations under finance leases (note c)	6,319	15,117	–	–
Margin loan (note d)	9,590	–	–	–
Other (note b)	49,282	–	–	–
	<u>65,191</u>	<u>877,718</u>	<u>–</u>	<u>15,000</u>

The maturity of other borrowings is as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Under one year	63,318	237,016	–	15,000
In the second year	881	5,788	–	–
In the third to fifth year inclusive	992	634,914	–	–
	<u>65,191</u>	<u>877,718</u>	<u>–</u>	<u>15,000</u>
Less: Amount due within one year shown under current liabilities	<u>63,318</u>	<u>237,016</u>	<u>–</u>	<u>15,000</u>
Amount due after one year	<u>1,873</u>	<u>640,702</u>	<u>–</u>	<u>–</u>

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 27. OTHER BORROWINGS (Cont'd)

Notes:

- (a) The syndicated loans of the Group and the Company as at 31st March, 2000 included an amount of HK\$15,000,000 which was unsecured and carried interest at market rate and was settled during the year.

The remaining syndicated loans of the Group as at 31st March, 2000, amounting to HK\$630,730,000 are obligations of First Star and bear interest at market rates and are secured by the First Star's properties under development held for sale. At 31st March, 2001, the syndicated loans are not reflected in the consolidated balance sheet, since First Star is classified as a jointly controlled entity (see note 18).

- (b) In accordance with an agreement dated 20th September, 1996, Wai Kee China Investments (BVI) Company Limited ("WKC"), a subsidiary of the Company, issued convertible redeemable preference shares ("CRPS") with an initial recorded value of US\$20,000,000 to independent third parties, details of which are set out in the circular sent to the shareholders of the Company on 2nd October, 1995.

The CRPS were convertible into shares of WKC or of the Company with the conversion terms specified in the agreement. The CRPS were also redeemable at a premium upon the occurrence of certain events stipulated in the agreement or upon maturity in August 2000.

Holders of CRPS were entitled in priority to any dividend payable in respect of the ordinary shares of WKC at cumulative annual preferential dividend rates specified in the agreement. The cumulative annual preferential dividend for the year ended 31st August, 1997 was 7.5 per cent., which increased progressively to 11.39 per cent. for the year ended 31st August, 2000.

Pursuant to an agreement dated 28th July, 2000, Massive Return Investments Limited, a wholly-owned subsidiary of the Company, repurchased the CRPS from the independent third parties for a consideration of US\$29,467,232. The consideration has to be settled in instalments, with the last instalment due on or before 25th May, 2001. The outstanding consideration at all relevant times bears interest at 13% per annum. At 31st March, 2001, the outstanding consideration is amounting to HK\$49,282,000.

Of the difference between the purchase consideration and the carrying value of the CRPS, amounts of HK\$10,900,000 and HK\$2,073,000 have been charged as finance cost and exchange loss respectively in the consolidated income statement.

- (c) The maturity of obligations under finance leases is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Under one year	4,446	5,146
In the second year	881	5,788
In the third to fifth year inclusive	992	4,183
	<u>6,319</u>	<u>15,117</u>

- (d) The margin loan is secured by certain shares of Road King, carries interest at prevailing market rates and is repayable on demand.

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### **28. REDEEMABLE EXCHANGEABLE BOND**

Pursuant to an agreement dated 28th June, 2000, the Company issued to an independent third party ("Bondholder") in cash at par a HK\$180 million transferable, secured and redeemable exchangeable bond ("Bond") on 20th July, 2000. The Bond is secured by 40,000,000 shares of Road King. The Bond bears interest at prime rate and is redeemable on the second anniversary of the date of issue of the Bond. Starting from the first anniversary of the date of issue of the Bond, the Bondholder has the right to exchange the Bond for the shares in Road King at an adjustable price of HK\$4.50 per share. The Company also undertakes to the Bondholder that within 3 years from the date of issue of the Bond and notwithstanding the redemption, cancellation or exercise of the exchange rights attaching to the Bond, the Bondholder will be given the first right of refusal to participate in all disposals of shares of Road King held directly or indirectly by the Company and all allotment and issues of securities of the Company.

### **29. AMOUNTS DUE TO SUBSIDIARIES**

Other than HK\$114,531,000 which bears interest at prime rate per annum, the remaining balances are interest free. All amounts are unsecured and have no fixed repayment terms. The subsidiaries have agreed not to demand repayment within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

### **30. LOANS FROM MINORITY SHAREHOLDERS**

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

### **31. AMOUNTS DUE TO ASSOCIATES**

The amounts are unsecured, interest free and have no fixed repayment terms. The associates have agreed not to demand repayment within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 32. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest free and have no fixed repayment terms. In the opinion of the Directors, the amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

### 33. DEFERRED TAXATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Balance at beginning of the year	–	771
Credit for the year (note 10)	–	(771)
	<u>–</u>	<u>–</u>
Balance at end of the year	<u>–</u>	<u>–</u>

The major components of the unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences due to:		
Excess of tax allowances over depreciation	2,447	3,173
Recognition of attributable profits on contract work in progress	(4,875)	(5,274)
Tax losses	(35,532)	(19,851)
	<u>(37,960)</u>	<u>(21,952)</u>

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences due to:		
Excess of tax allowances over depreciation	(726)	(12)
Recognition of attributable profits on contract work in progress	399	(1,630)
Tax losses	(15,681)	(5,241)
	<u>(16,008)</u>	<u>(6,883)</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 33. DEFERRED TAXATION (Cont'd)

A significant portion of the potential deferred tax asset which principally represents the tax losses of certain subsidiaries available to set off future assessable profits has not been recognised in the financial statements as it is uncertain whether the tax benefit will be realised in the foreseeable future.

Deferred tax liabilities have not been provided for in the financial statements in respect of certain timing differences arising during the year as it is not expected that the potential deferred taxation liabilities will reverse in the foreseeable future, after taking into account the Group's medium-term financial plans and projections.

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

### 34. SHARE CAPITAL

	2001		2000	
	Number '000	HK\$'000	Number '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At beginning of the year	654,752	65,475	677,431	67,743
Shares repurchased and cancelled (note a)	(8,758)	(876)	(23,262)	(2,326)
Exercise of share options and warrants	–	–	583	58
Placing of shares (note b)	<u>128,000</u>	<u>12,800</u>	<u>–</u>	<u>–</u>
At end of the year	<u>773,994</u>	<u>77,399</u>	<u>654,752</u>	<u>65,475</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 34. SHARE CAPITAL (Cont'd)

Notes:

- (a) During the year, the Company repurchased certain of its own shares, the details of which are summarised as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
April 2000	1,086,000	0.81	0.80	871
May 2000	6,590,000	0.78	0.57	4,738
June 2000	1,082,000	0.62	0.57	650
	<u>8,758,000</u>			<u>6,259</u>

- (b) Pursuant to an agreement dated 13th June, 2000, Zen Wei Pao, William and Zen Wei Peu, Derek (the "Vendors"), the Chairman and Vice Chairman of the Company respectively, have sold in aggregate of 128,000,000 existing ordinary shares of HK\$0.10 each in share capital of the Company to an independent third party at a price of HK\$0.70 per share. The placing price represented a premium of approximately 14.75% to the closing market price of the Company's shares on 9th June, 2000. Pursuant to the same agreement, the Vendors have subscribed 128,000,000 new shares in the proportion that the number of shares sold by the Vendors respectively to the independent third party at the price of HK\$0.70 per share. The proceeds were used to repay bank borrowings and to provide additional working capital for the Group.

### 35. WARRANTS

At 31st March, 2000, the Company had outstanding 102,101,619 "2000 Warrants" entitling the registered holders to subscribe in cash at a price of HK\$2.00 (subject to adjustment) for one ordinary share of the Company, at any time from the date of issue to 30th June, 2000 (both days inclusive). Exercise in full of such warrants would result in the issue of 102,101,619 additional shares of HK\$0.10 each. All these "2000 warrants" were lapsed on 30th June, 2000.



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 36. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 7th August, 1992, the directors of the Company may, at their discretion, invite employees of the Company and its subsidiaries, including the directors of the Company, to take up options to subscribe for shares of the Company at a price not less than 80 per cent. of the average closing price of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option or the nominal value of a share, whichever is the higher. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued pursuant to the scheme from time to time. An option may be exercised at any time after one year from the date on which the option is deemed to be granted and accepted and prior to expiry of four years from that date.

During the year, 26,390,000 options were granted to employees including directors, of the Company and its subsidiaries for a total consideration of HK\$113.

A summary of the movements in the options at the following subscription prices during the year and the balances outstanding at 31st March, 2001 under the share option scheme is as follows:

Exercise price HK\$	Balance at 1st April, 2000	Number of share options		Balance at 31st March, 2001
		Granted during the year	Cancelled/ lapsed during the year	
0.34	–	26,390,000	(100,000)	26,290,000
0.96	250,000	–	(100,000)	150,000
1.28	800,000	–	(50,000)	750,000
1.30	950,000	–	(50,000)	900,000
1.38	500,000	–	(500,000)	–
1.50	250,000	–	(250,000)	–
1.60	3,000,000	–	(3,000,000)	–
	<u>5,750,000</u>	<u>26,390,000</u>	<u>(4,050,000)</u>	<u>28,090,000</u>

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 37. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	(Goodwill) Capital reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st April, 1999	680,231	12,145	(130,333)	(29,530)	-	798,990	1,331,503
Share of associates' reserve movements during the year	-	(1,670)	311	-	-	-	(1,359)
Shares repurchased	(24,178)	-	-	-	-	-	(24,178)
Acquisition of additional interest in an associate	-	-	6,642	-	-	-	6,642
Acquisition of additional interest in a subsidiary	-	-	(3,233)	-	-	-	(3,233)
Purchase of subsidiaries	-	-	(5,305)	-	-	-	(5,305)
Warrants and share options exercised	684	-	-	-	-	-	684
Profit for the year	-	-	-	-	-	160,388	160,388
Dividends	-	-	-	-	-	(26,980)	(26,980)
At 31st March, 2000	656,737	10,475	(131,918)	(29,530)	-	932,398	1,438,162
Share of associates' reserve movements during the year	-	-	31,859	-	-	-	31,859
Shares repurchased	(5,383)	-	-	-	-	-	(5,383)
Issue of shares	76,800	-	-	-	-	-	76,800
Acquisition of additional interest in an associate	-	-	580	-	-	-	580
Acquisition of additional interest in a subsidiary	-	-	(428)	-	-	-	(428)
Exchange difference arising on retranslation of financial statements of subsidiaries	-	(234)	-	-	-	-	(234)
Profit for the year	-	-	-	-	-	176,168	176,168
At 31st March, 2001	728,154	10,241	(99,907)	(29,530)	-	1,108,566	1,717,524
<b>THE COMPANY</b>							
At 1st April, 1999	680,231	-	-	-	93,994	97,588	871,813
Shares repurchased	(24,178)	-	-	-	-	-	(24,178)
Warrants and share option exercised	684	-	-	-	-	-	684
Loss for the year	-	-	-	-	-	(16,450)	(16,450)
Dividends	-	-	-	-	-	(26,980)	(26,980)
At 31st March, 2000	656,737	-	-	-	93,994	54,158	804,889
Shares repurchased	(5,383)	-	-	-	-	-	(5,383)
Issue of shares	76,800	-	-	-	-	-	76,800
Profit for the year	-	-	-	-	-	185,249	185,249
At 31st March, 2001	728,154	-	-	-	93,994	239,407	1,061,555

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 37. RESERVES (Cont'd)

The retained profits of the Group included HK\$680,040,000 (2000: HK\$555,900,000) retained by associates of the Group and HK\$126,223,000 (2000: HK\$56,339,000) retained by its jointly controlled entities.

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	93,994	93,994
Retained profits	239,407	54,158
	<u>333,401</u>	<u>148,152</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 38. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	201,420	211,954
Share of profits less losses of jointly controlled entities	(77,774)	(22,069)
Share of profits less losses of associates	(186,246)	(287,481)
Share of profit of subsidiary not consolidated	(7)	–
Gain on deconsolidation of subsidiaries	(2,655)	–
Depreciation	33,072	44,002
Interest income	(8,980)	(6,187)
Interest expense	32,741	44,262
Finance leases charges	1,155	867
Finance costs on convertible redeemable preference shares issued by a subsidiary	10,900	27,773
Finance costs on redeemable exchangeable bond	11,592	–
Gain on disposal of property, plant and equipment	(3,717)	(1,089)
Impairment loss arising on property, plant and equipment	–	20,991
Gain on disposal of an associate	(331)	–
Gain on disposal of listed other investments	–	(2,216)
Unrealised gains of construction contract income	26,514	–
Impairment loss arising on investment securities	–	228
(Increase) decrease in inventories	(35,781)	44,431
Increase in properties under development held for sale	(205,777)	(710,749)
Decrease (increase) in amount due from customers for contract work	215,686	(77,388)
Decrease (increase) in debtors, deposits and prepayments	252,263	(11,732)
Increase in amounts due from jointly controlled entities	(49,510)	–
Decrease in amount due to a related company	–	(157)
(Decrease) increase in amount due to customers for contract work	(248,652)	250,441
(Decrease) increase in creditors and accrued charges	(53,815)	74,557
Exchange realignment	(808)	143
Net cash outflow from operating activities	<u>(88,710)</u>	<u>(399,419)</u>

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 39. DECONSOLIDATION OF SUBSIDIARIES

	Deconsolidation relating to			2001 HK\$'000	2000 HK\$'000
	Subsidiary not consolidated HK\$'000	Interests in jointly controlled entity HK\$'000	Interests in associates HK\$'000		
Property, plant and equipment	–	–	124	124	–
Properties under development held for sale	106,857	850,185	–	957,042	–
Debtors, deposits and prepayments	120	120	229	469	–
Bank balances and cash	7	21	200	228	–
Creditors and accrued charges	–	(39,009)	(4)	(39,013)	–
Amounts due to group companies	(11,638)	(73,952)	(673)	(86,263)	–
Other borrowings	(96,120)	(741,967)	–	(838,087)	–
Minority interests	–	–	34	34	–
Net liabilities deconsolidated	(774)	(4,602)	(90)	(5,466)	–
Gain on deconsolidation of subsidiaries	414	2,241	–	2,655	–
	(360)	(2,361)	(90)	(2,811)	–
Transferred to:					
Subsidiary not consolidated	360	–	–	360	–
Interests in jointly controlled entities	–	2,361	–	2,361	–
Interests in associates	–	–	90	90	–
	–	–	–	–	–
Analysis of net cash outflow of cash and cash equivalents in connection with deconsolidation of subsidiaries:					
Bank balances and cash disposed of	(7)	(21)	(200)	(228)	–

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 39. DECONSOLIDATION OF SUBSIDIARIES (Cont'd)

The deconsolidated subsidiary transferred to subsidiary not consolidated during the year utilised HK\$106,977,000 of the Group's net operating cash flow and raised HK\$96,120,000 in respect of financing activities.

The deconsolidated subsidiary transferred to interests in jointly controlled entities during the year utilised HK\$118,407,000 of the Group's net operating cash flow and raised HK\$111,238,000 in respect of financing activities.

The deconsolidated subsidiary transferred to interests in associates during the year did not have any material impact on cash flow nor results for the year.

### 40. PURCHASE OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Property, plant and equipment	–	8,120
Inventories	–	43,698
Amount due from customers for contract work	–	14,466
Debtors, deposits and prepayments	–	69,839
Amounts due from group companies	–	32
Bank balances and cash	–	12,210
Amount due to customers for contract work	–	(9,726)
Creditors and accrued charges	–	(40,983)
Amounts due to group companies	–	(39,267)
Amount due to a minority shareholder	–	(3,572)
Taxation	–	(1,726)
Trust receipt loans	–	(14,713)
Shareholders' loan	–	(46,500)
Minority interests	–	2,843
	<hr/>	<hr/>
Net liabilities acquired	–	(5,279)
Share of net deficit of associates recognised	–	2,112
Goodwill arising on acquisition	–	5,305
	<hr/>	<hr/>
	–	2,138
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	–	2,138
	<hr/> <hr/>	<hr/> <hr/>
Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	–	(2,138)
Bank balances and cash acquired	–	12,210
	<hr/>	<hr/>
	–	10,072
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 41. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Amounts due to associates HK\$'000	Amounts due to jointly controlled entities HK\$'000	Bank loans HK\$'000	Other borrowings HK\$'000	Redeemable exchangeable bond HK\$'000	Trust receipt loans HK\$'000	Amounts due to minority shareholders HK\$'000	Minority interests HK\$'000
Balance at 1st April, 1999	747,974	72,886	48,578	345,926	270,523	-	423	3,059	22,744
Net cash inflow (outflow) from financing	(25,762)	(20,024)	15,448	(132,568)	567,205	-	35,976	(3,572)	-
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(6,700)
Other movements not involving cash flows:									
Purchase of a subsidiary	-	-	-	-	-	-	14,713	3,572	(2,843)
Purchase of additional interest in subsidiaries	-	-	-	-	-	-	-	-	(20,253)
Capitalisation of shareholders' loan to share capital	-	-	-	-	-	-	-	-	16,275
Accrued finance cost on:									
- convertible redeemable preference shares	-	-	-	-	12,410	-	-	-	-
- syndicated loans	-	-	-	-	17,260	-	-	-	-
Inception of finance leases	-	-	-	-	10,320	-	-	-	-
Minority interests' share of profit	-	-	-	-	-	-	-	-	24,390
Balance at 31st March, 2000	722,212	52,862	64,026	213,358	877,718	-	51,112	3,059	33,613
Net cash inflow (outflow) from financing	83,341	(10,619)	22,252	(149,015)	25,560	180,000	1,670	-	930
Other movements not involving cash flows:									
Deconsolidation of subsidiaries	-	-	-	-	(838,087)	-	-	-	34
Minority interests' share of profit	-	-	-	-	-	-	-	-	8,113
Exchange realignment	-	-	-	120	-	-	-	-	-
Balance at 31st March, 2001	805,553	42,243	86,278	64,463	65,191	180,000	52,782	3,059	42,690

## 42. COMMITMENTS

### (a) Joint venture commitments

At 31st March, 2001, the Group had committed to invest approximately HK\$194,800,000 (2000: HK\$124,031,000) into several joint ventures established in PRC. These joint ventures are principally engaged in the production of construction and building materials and property investment in PRC.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 42. COMMITMENTS (Cont'd)

#### (b) Operating lease commitments

At 31st March, 2001, the Group had the following commitments payable within the next year under non-cancellable operating leases in respect of land and buildings:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
Within one year	5,739	2,488
In the second to fifth year inclusive	23,156	18,553
	<u>28,895</u>	<u>21,041</u>

At 31st March, 2001, the Company did not have any significant commitments.

### 43. PLEDGE OF ASSETS

As at 31st March, 2001, the following assets of the Group were pledged to secure certain banking facilities granted to and the redeemable exchangeable bond issued by the Group:

- Bank deposits amounting to HK\$35,752,000 (2000: HK\$35,121,000) of the Group were pledged to secure banking facilities granted to the Group.
- The benefits under certain construction contracts of a subsidiary of the Company were assigned to a bank to secure banking facilities granted to a subsidiary of the Company. The pledge of assets was released after the balance sheet date.
- During the year, 40,000,000 shares of Road King with a market value of HK\$116,000,000 were pledged to secure the redeemable exchangeable bond issued by the Company as mentioned in note 28.

As at 31st March, 2000, properties under development held for sale and all other assets of a wholly-owned subsidiary of the Company with a carrying value of HK\$731,897,000 and HK\$2,985,000 respectively were pledged to secure syndicated loans to an extent of HK\$1,732,000,000.

As at 31st March, 2001, the Company pledged bank deposit amounting to HK\$24,955,000 (2000: HK\$26,837,000) to secure banking facilities granted to the Company.



## Notes to the Financial Statements

For the year ended 31st March, 2001

### 44. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to financial institutions in respect of banking and other facilities granted to:				
Subsidiaries	–	–	165,260	2,516,054
Jointly controlled entities	1,749,952	85,936	1,749,952	85,936
Guarantees given to an associate in respect of loan granted to a subsidiary	–	–	50,000	–
Outstanding performance bonds in respect of construction contracts	<u>693,170</u>	<u>357,959</u>	<u>692,170</u>	<u>357,959</u>

The extent of such facilities utilised by the subsidiaries and jointly controlled entities at 31st March, 2001 amounted to HK\$91,857,000 and HK\$973,284,000 (2000: HK\$882,159,000 and HK\$85,936,000) respectively.

At 31st March, 2001, the Company has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by its subsidiaries.

### 45. POST BALANCE SHEET EVENT

On 14th May, 2001, Elite United Group Limited ("Elite United"), a wholly-owned subsidiary of the Company, conditionally agreed to sell the entire issued share capital of Ngo Kee Construction Company Limited ("Ngo Kee") to a wholly-owned subsidiary of New World Services Limited ("Purchaser") for a total consideration of HK\$43 million payable in cash as to HK\$8 million on completion and as to HK\$35 million on 1st July, 2003. The Company is required to repay, on or before 31st May, 2003, in full to Ngo Kee the outstanding debts of the sum of not more than HK\$130 million due from the Company to Ngo Kee as at completion, of which the principal amount of HK\$15 million shall be interest free and the balance bearing interest at prime rate per annum.

The Purchaser is entitled at any time before 31st May, 2003 under the Put Option to require Elite United to purchase the entire issued share capital of Ngo Kee at the price equal to the aggregate of the part of the consideration then paid by the Purchaser and notional interest thereon at prime rate per annum.

Completion of the agreement is conditional on (i) the approval of the Company's shareholders other than the Purchaser and its associates; (ii) approvals, consents and waivers from relevant government authorities, bank creditors and debt security holder of the Group; and (iii) a working capital facility being arranged by the Purchaser and being available to Ngo Kee up to HK\$50 million in aggregate. Completion is expected to occur on the later of 1st August, 2001 or five business days after satisfaction or waiver (to the extent applicable) of the conditions precedent or such later date as Elite United and the Purchaser may agree.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 46. RETIREMENT BENEFIT SCHEMES

- (a) With effective from 1st December, 2000, the Group operates two MPF Schemes for all eligible employees in Hong Kong. These MPF Schemes are registered with the Mandatory Fund Schemes Authority ("MPFA") in accordance with the Mandatory Provident Fund Schemes Ordinance ("MPF Schemes Ordinance").

The assets of the MPF Schemes are held separately from those of the Group under the control of independent trustees approved by the MPFA.

In addition to the mandatory contributions specified under the MPF Schemes Ordinance, the Group provides additional contributions for certain qualifying employees as specified in the rules of the Group's MPF Schemes. Employees leaving the MPF Schemes prior to stipulated service periods may forfeit part of their benefits relating to the Group's voluntary contributions and these amounts may be applied to reduce future voluntary contributions payable by the Group.

The amounts charged to the consolidated income statement represents contributions payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits outstanding at the commencement of the financial year.

- (b) Prior to the introduction of the MPF Schemes, the Group had operated retirement schemes under the ORSO Schemes. These ORSO Schemes were discontinued and the benefits for the employees were transferred to the MPF Schemes. The assets held under the ORSO Schemes were held separately from those of the Group and were transferred directly to the MPF Schemes.

One of the retirement benefit schemes had operated as a defined benefit scheme, but was altered in August 2000 to a defined contribution scheme with the consent of the members of this scheme.

- (c) As at 31st March, 2001, the total amount of forfeited benefits available to reduce the contributions payable in future years by the Group amounted to HK\$515,000 (2000: HK\$293,000).

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 47. RELATED PARTIES TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	Notes	Associates		Jointly controlled entities		Related company	
		2001	2000	2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management fee income	1	-	98	-	6,754	-	-
Payment for repairing charges	2	-	-	-	-	-	2,821
Purchase of materials and supplies	2	-	-	-	-	-	1,356
Receipt of diesel and water supply income	2	-	-	-	-	-	818
Receipt of plant hire income	2	-	-	-	-	-	298
Receipt of machinery repairing charges	2	-	-	-	-	-	295
Revenue from construction works	2	-	2,103	195,122	-	-	-
Revenue from sales of goods	2	-	-	48,376	850	-	-
Proceeds for purchase of property, plant and equipment	2	-	-	-	945	-	-
		<u>5,361</u>	<u>77,968</u>	<u>91,242</u>	<u>7,625</u>	-	-
Amount due from related parties		<u>5,361</u>	<u>77,968</u>	<u>91,242</u>	<u>7,625</u>	-	-
Amount due to related parties		<u>42,243</u>	<u>52,862</u>	<u>86,278</u>	<u>64,026</u>	-	-

The related company is a company of which certain directors of the Company had beneficial interests.

Note:

- (1) The management fee represented the agreed fees shared from respective joint ventures at a cost plus mark-up basis.
- (2) The transactions were carried out at cost plus a percentage profit mark-up.

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 48. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital *	Proportion of nominal value of issued capital/ attributable interest held by the Company*/ the subsidiaries Group		Principal activities
			%	%	
Elite United Group Limited	Hong Kong	HK\$2	100	100	Investment holding
Groove Trading Limited	Hong Kong	HK\$2	100	100	Investment holding
Leader Civil Engineering Corporation Limited	Hong Kong	HK\$25,200,000 Ordinary shares HK\$24,000,000 Non-voting deferred shares (note a)	100	100	Civil engineering
Leader Marine Contractors Limited	Hong Kong	HK\$200,000	100	100	Marine engineering and provision of transportation services
Ngo Kee Construction Company Limited	Hong Kong	HK\$27,000,000	100	100	Building construction works
Sundart Timber Products Company Limited	Hong Kong	HK\$46,510,000	65	65	Investment holding and supply of timber products
Wai Hing Quarries (China) Limited	Hong Kong	HK\$2 Ordinary shares HK\$1,200,000 Non-voting deferred shares (note a)	100	100	Production of construction materials

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 48. PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital *	Proportion of nominal value of issued capital/ attributable interest held by		Principal activities
			the Company*/ subsidiaries %	the Group %	
Wai Kee China Investments Company Limited	Hong Kong	HK\$2 Ordinary shares	100	100	Investment holding
		HK\$2 Non-voting deferred shares (note a)	100	100	
Wai Kee China Investments (BVI) Company Limited	British Virgin Islands	HK\$30,000,000 Ordinary shares	100	100	Investment holding
Wai Kee Quarry Asia Limited	Hong Kong	HK\$2	100	100	Investment holding
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	HK\$2 Ordinary shares	100	100	Civil engineering
		HK\$14,800,000 Non-voting deferred shares	100	100	
		HK\$5,200,000 Non-voting deferred shares (note a)	–	–	
Wai Kee (Zens) Holding Limited	British Virgin Islands	US\$50,000	100*	100	Investment holding
Wai Luen Stone Products Limited	Hong Kong	HK\$2,200,000 Ordinary shares	100	100	Production of construction materials
		HK\$800,000 Non-voting deferred shares (note a)	–	–	

## Notes to the Financial Statements

For the year ended 31st March, 2001

### 48. PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital *	Proportion of nominal value of issued capital/ attributable interest held by		Principal activities
			the Company*/ subsidiaries %	the Group %	
Zen Pacific Civil Contractors Limited	Hong Kong	HK\$1,000 Ordinary shares	100	100	Civil engineering
		HK\$39,499,800 Non-voting deferred shares (note a)	100	100	
Zen Pacific Construction Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	100	Investment holding
Zen Pacific-Shui On Joint Venture C304	Hong Kong	Unincorporated (note b)	90	90	Civil engineering
Zhuhai Guishan Seawall Construction Company	PRC	HK\$21,000,000 *	80	80	Seawall construction and production of construction materials
ZWP Investments Limited	Hong Kong	HK\$2	100	100	Investment holding

## Notes to the Financial Statements

*For the year ended 31st March, 2001*

### **48. PRINCIPAL SUBSIDIARIES** (Cont'd)

Except for Wai Kee (Zens) Holding Limited, all subsidiaries are indirectly held by the Company.

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

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

*Notes:*

- a. These deferred shares, which are not held by the Group, practically carry minimal rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of respective companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the respective companies only after the distribution of substantial amounts as specified in the Articles of Associations to holders of ordinary shares of the respective companies.
- b. No capital has been contributed by the partners of the joint venture.