

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA, which has resulted in the adoption of the following new/revised accounting policies and has resulted in the restatement of certain comparative figures.

SEGMENT REPORTING

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis.

GOODWILL

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, the amount of such goodwill (negative goodwill) has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of acquisition of the relevant subsidiary, associate or joint venture and the date of adoption of SSAP 30 have been recognised retrospectively. Negative goodwill which would have been recognised as income between the date of acquisition of the relevant subsidiary, associate or joint venture and the date of adoption of SSAP 30 has been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life, being not more than 20 years. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance resulted.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The effect of adoption of this standard is to increase the carrying value of goodwill and minority interest at 1st April, 2001 by HK\$14,944,000 and HK\$1,162,000 respectively and to decrease the carrying value of interests in associates, goodwill held in reserves and the retained profits at 1st April, 2001 by HK\$19,876,000, HK\$99,907,000 and HK\$106,001,000 respectively. In addition, the profit for the six months ended 30th September, 2000 increased by HK\$1,634,000 after taking into account additional amortisation of goodwill, negative goodwill released to income, goodwill written off, the increase in share of profits of associates and the decrease in minority interests amounting to HK\$3,186,000, HK\$580,000, HK\$423,000, HK\$4,082,000 and HK\$581,000 respectively.

CONSOLIDATION

SSAP32 "Consolidated financial statements and accounting for investments in subsidiaries" requires that the consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to each financial year end date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

In last year, the Group's 51 per cent. interest in Supertime Holdings Limited ("Supertime") was included in the consolidated balance sheet as a subsidiary not consolidated because the Group had no control over Supertime. As the Group is still in a position to exercise significant influence on Supertime, the interest in Supertime was stated at the Group's share of the net assets of Supertime last year. In accordance with the new accounting standard, Supertime is redesignated as an associate of the Group and accordingly the credit balances of HK\$353,000 at 1st April, 2001 was reclassified to interests in associates in the condensed consolidated balance sheet.

CHANGES IN ACCOUNTING ESTIMATES

SSAP 31 "Impairment of assets" is effective for periods beginning on or after 1st January, 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets. Although in prior years the Group complied with the requirements of specific accounting standards in respect of impairment losses, the introduction of SSAP 31 has required a re-estimation of the recoverable amount of certain property, plant and equipment, resulting in the identification of additional impairment losses at 30th September, 2001 amounting to HK\$3,000,000. These additional impairment losses have been recognised in full in the current interim period.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

3. 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 a provision of HK\$60 million has been made 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' costs.

As set out in note 5 to financial statements for the year ended 31st March, 2001, the Hong Kong Housing Authority ("HA") has alleged claims against ZPCCL 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 the interim financial report, both parties have agreed to settle the claims through arbitration.

ZPCCL has taken legal advice on the claims alleged by the HA and the amount of any such claims, and on the counterclaim prepared based on acceptable legal arguments 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 interim financial report.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

4. SEGMENTAL INFORMATION

The Group's turnover and contribution to profit before taxation for the six months ended 30th September, 2001 by business segment and geographical market are as follows:

By business segment:

	Turnover		Contribution to profit before taxation	
	Six months ended 30th September,		Six months ended 30th September,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Civil construction	539,643	592,140	10,826	(6,982)
Building construction	482,378	355,545	32,798	48,870
Quarrying	75,535	83,606	(286)	6,844
Highway and expressway	–	–	36,319	88,307
Building materials	137,041	156,138	(5,146)	831
Others	5,916	45	(7,552)	(4,700)
	<u>1,240,513</u>	<u>1,187,474</u>	<u>66,959</u>	<u>133,170</u>
Unallocated corporate expenses			<u>(7,137)</u>	<u>(12,960)</u>
Profit before taxation			<u>59,822</u>	<u>120,210</u>

By geographical market:

	Turnover		Contribution to profit before taxation	
	Six months ended 30th September,		Six months ended 30th September,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,054,349	1,002,048	37,670	22,181
Other regions in the People's Republic of China ("PRC")	76,169	86,152	29,985	120,560
Republic of China	109,995	99,274	(696)	(9,571)
	<u>1,240,513</u>	<u>1,187,474</u>	<u>66,959</u>	<u>133,170</u>
Unallocated corporate expenses			<u>(7,137)</u>	<u>(12,960)</u>
Profit before taxation			<u>59,822</u>	<u>120,210</u>

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

5. OTHER REVENUE

Bank interest income amounting to HK\$3,601,000 (2000: HK\$6,921,000) is included in other revenue.

6. PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill	3,186	3,186
Depreciation and amortisation less amount attributable to construction contracts of HK\$5,220,000 (2000: HK\$5,158,000)	13,003	13,931
Impairment loss on property, plant and equipment	3,000	–
Goodwill written off	–	423
Negative goodwill released to income	–	(580)
	<u> </u>	<u> </u>

7. FINANCE COSTS

An amount of HK\$81,710 (2000: HK\$2,194,000) which is attributable to construction contracts has been capitalised during the period.

8. TAXATION

	Six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Profit for the period		
Hong Kong	11,330	2,816
Other jurisdictions	243	922
Overprovision in prior years in Hong Kong Profits Tax	(520)	–
Share of tax on results of associates	10,338	2,045
Share of tax on results of jointly controlled entities	3,840	7,529
	<u> </u>	<u> </u>
	<u>25,231</u>	<u>13,312</u>

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

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

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

9. DIVIDEND

No interim dividend has been declared for both accounting periods.

10. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2001	2000
	HK\$'000	HK\$'000
Profit for the period	38,863	106,747
Effect of dilutive potential ordinary shares:		
Net finance cost saved on convertible redeemable preference shares issued by a subsidiary on conversion	–	10,417
Decrease in share of profit of an associate resulting from exercising of the share options issued by that associate	–	(101)
Earnings for the purpose of diluted earnings per share	<u>38,863</u>	<u>117,063</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	773,994,034	714,714,089
Effect of dilutive potential ordinary shares:		
Convertible redeemable preference shares (note)	–	88,670,715
Options	<u>7,376,250</u>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>781,370,284</u>	<u>803,384,804</u>

Note: The Group repurchased the convertible redeemable preference shares during the year ended 31st March, 2001.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group expended HK\$8,102,000 (2000: HK\$12,745,000) on property, plant and equipment.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

12. INVESTMENTS IN SECURITIES

Included in investments in securities is an amount of HK\$77,145,000 which represents the Group's interest in Ngo Kee Construction Company Limited ("Ngo Kee"), a former wholly-owned subsidiary, determined in accordance with SSAP 24 "Accounting for investments in securities".

Pursuant to an agreement dated 14th May, 2001, the Group's interest in Ngo Kee was disposed of to a subsidiary of the Company's substantial shareholder for a cash consideration of HK\$43,000,000 with a put option as specified in the agreement. Pursuant to the same agreement, the Group is entitled to a certain portion of Ngo Kee's retained earnings which is to be computed in accordance with an allocation deed dated 27th September, 2001. As at 30th September, 2001, the Group's entitlement in Ngo Kee's retained earnings amounted to HK\$40,047,000. Accordingly, the net assets of Ngo Kee were deconsolidated on 27th September, 2001 when the transaction was completed and the disposal will be accounted for upon the lapsing of the put option which will not be later than 31st May, 2003.

Details of the transaction were set out in the Company's circular to the shareholders dated 5th June, 2001.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade debtors (aged analysis):		
0 to 60 days	132,553	204,467
61 to 90 days	7,709	10,177
Over 90 days	48,963	28,525
	<u>189,225</u>	<u>243,169</u>
Other debtors, deposits and prepayments	108,601	125,046
Retentions receivable	155,160	193,965
	<u>452,986</u>	<u>562,180</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 Condensed Financial Statements

For the six months ended 30th September, 2001

14. CREDITORS AND ACCRUED CHARGES

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Trade creditors (aged analysis):		
0 to 60 days	51,436	174,580
61 to 90 days	4,957	8,319
Over 90 days	18,061	20,637
	<u>74,454</u>	<u>203,536</u>
Accrued project costs	100,005	231,035
Other creditors and accrued charges	117,221	104,428
Provision for piling incident	60,000	60,000
Retentions payable	75,748	134,924
	<u>427,428</u>	<u>733,923</u>

15. OTHER BORROWINGS

Pursuant to an agreement dated 28th July, 2000, the Group acquired 1,800 preference shares of a wholly-owned subsidiary for a cash consideration of HK\$229,844,000. The consideration was included in other borrowings and was settled by instalments. The remaining balance of the consideration payable at 31st March, 2001, amounting to HK\$49,282,000, was fully settled during the period.

16. REDEEMABLE EXCHANGEABLE BOND

The bond is secured, carries interest at prime rate and is redeemable on 20th July, 2002. Starting from 20th July, 2001, the holder of the bond has the right to exchange the shares of Road King Infrastructure Limited ("Road King"), an associate of the Group, at an adjustable price of HK\$4.50 per share.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

17. AMOUNTS DUE TO RELATED COMPANIES

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Amount due to:		
Ngo Kee (note a)	124,097	–
Other related companies (note b)	58,461	–
	<u>182,558</u>	<u>–</u>

Notes:

- a. The amount is unsecured and is repayable on 30th June, 2003. Out of which HK\$84,050,000 carries interest at prime rate and the remaining balance is interest free.
- b. On 28th April, 2001 the Group entered into agreements with two subsidiaries of a substantial shareholder of one of the Company's substantial shareholder. Pursuant to the agreements, the Group agreed:
 - (i) to dispose of its equity interests in an associate and a jointly controlled entity and the amount due from the jointly controlled entity to the related companies at an aggregate consideration of HK\$55,239,000; and
 - (ii) to buy back all the assets disposed of in (i) at an aggregate consideration of HK\$81,920,000 at different dates specified in the agreements.

As the transaction is financing in nature, the Group recognised the consideration received as liability and charged the finance costs, which represent the difference between the consideration received and the consideration to be payable, to the income statement over the period from the date of receipt of the consideration to the date of buy back so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

46,500,000 shares of Road King were pledged as security for the due performance of the sale and repurchase of the assets in accordance with the relevant agreements.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

18. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Goodwill held in reserves HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2000						
– as originally stated	656,737	10,475	(131,918)	(29,530)	932,398	1,438,162
– restatement as an asset of goodwill held in reserves	–	–	177,574	–	–	177,574
– retrospective recognition of impairment of goodwill held in reserves	–	–	–	–	(87,768)	(87,768)
– amortisation of goodwill for the first time	–	–	–	–	(70,819)	(70,819)
– restatement of negative goodwill held in reserves with retrospective release to income	–	–	(49,069)	–	49,069	–
– restatement of goodwill attributable to associates held in reserves with retrospective reclassification to interests in associates and recognition of amortisation of goodwill for the first time	–	–	3,413	–	(466)	2,947
– as restated	656,737	10,475	–	(29,530)	822,414	1,460,096
Share repurchased	(5,383)	–	–	–	–	(5,383)
Issue of shares	76,800	–	–	–	–	76,800
Exchange difference arising on translation of the financial statements of overseas operations	–	(234)	–	–	–	(234)
Profit for the year	–	–	–	–	180,151	180,151
At 31st March, 2001	728,154	10,241	–	(29,530)	1,002,565	1,711,430
Exchange difference arising on translation of the financial statements of overseas operations	–	3,246	–	–	–	3,246
Share of reserves of associates	–	(190)	–	–	–	(190)
Profit for the period	–	–	–	–	38,863	38,863
At 30th September, 2001	<u>728,154</u>	<u>13,297</u>	<u>–</u>	<u>(29,530)</u>	<u>1,041,428</u>	<u>1,753,349</u>

19. COMMITMENTS

At 30th September, 2001, the Group had committed to invest approximately HK\$140,851,000 (31st March, 2001: HK\$194,800,000) into several joint ventures established in the PRC. These joint ventures are principally engaged in property investment and the production of construction and building materials in the PRC.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

20. PLEDGE OF ASSETS

As at 30th September, 2001, the following assets of the Group were pledged:

- (a) Bank deposits amounting to HK\$44,304,000 (31st March, 2001: HK\$35,752,000) of the Group were pledged to secure banking facilities granted to the Group.
- (b) 40,000,000 shares of Road King with a market value of HK\$100,000,000 (31st March, 2001: HK\$116,000,000) were pledged to secure the redeemable exchangeable bond issued by the Company.
- (c) During the period, 46,500,000 shares of Road King with a market value of HK\$116,250,000 were pledged as security for the due performance of the sale and repurchase of an associate and a jointly controlled entity as set out in note 17(b).

21. CONTINGENT LIABILITIES

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Guarantees given to financial institutions in respect of banking and other facilities granted to:		
Jointly controlled entities	17,952	1,749,952
Former subsidiary	3,348	–
	<u> </u>	<u> </u>
Guarantee given to a related company in respect of banking facilities granted to a jointly controlled entity	1,071,000	–
	<u> </u>	<u> </u>
Outstanding performance/retention bonds in respect of construction contracts	726,273	693,170
	<u> </u>	<u> </u>

The related company is a substantial shareholder of a Company's substantial shareholder.

The extent of banking and other facilities utilised by the former subsidiary and jointly controlled entities at 30th September, 2001 amounted to HK\$2,275,000 (31st March, 2001: Nil) and HK\$690,336,000 (31st March, 2001: HK\$973,284,000) respectively.

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

22. POST BALANCE SHEET EVENTS

- (a) Pursuant to an agreement dated 15th October, 2001, the Group's interest in Sundart Timber Products Company Limited ("Sundart"), the Company's subsidiary was disposed of to an independent third party for a cash consideration of HK\$34,800,000 with a put option and a call option as specified in the agreement. Accordingly, the net assets of Sundart were deconsolidated on 15th October, 2001 when the transaction was completed and the disposal will be accounted for upon the lapsing of the put option.

- (b) On 7th and 8th November, 2001, Road King repurchased some of its shares listed on The Stock Exchange of Hong Kong Limited. As a result of Road King's repurchase of these shares, the Company's shareholding in Road King was increased from 49.998% to 50.014% and accordingly Road King has become a subsidiary of the Company since 7th November, 2001. The negative goodwill arising from the deemed acquisition of Road King is insignificant.