# Deson Development International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

(Stock Code : 262)

ANNUAL REPORT 2008

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Mr. Wang Ke Duan *(Chairman)*
Mr. Tjia Boen Sien
*(Managing Director and Deputy Chairman)*
Mr. Wang Jing Ning
Mr. Keung Kwok Cheung
Dr. Ho Chung Tai, Raymond*
Mr. Siu Man Po*
Mr. Wong Shing Kay, Oliver*

*(* Independent non-executive directors)*

## COMPANY SECRETARY

Mr. Lam Wing Wai, Angus

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited

## LEGAL ADVISERS

Appleby Corporate Services (Bermuda) Ltd.
Morrison & Foerster

## AUDITORS

Ernst & Young

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, Nanyang Plaza
57 Hung To Road
Kwun Tong
Kowloon
Hong Kong

## FOREWORDS

I have pleasure to present to the Shareholders the Group's annual report for the year ended 31 March 2008.

During the year under review, the Group's total turnover (including the turnover generated from discontinued operation) is the third highest turnover in its history. Turnover generated from construction contracting segment and the property development and investment segment each also were the second highest in its history. Also the Group is enjoying the fruitful return from the property development and investment business, especially in the Shanghai and Hainan region where the residential property price is continuously growing.

## BUSINESS REVIEW

The Group's turnover for the year from the continuing operations was HK$599,787,000 which represented an increase of 51% as compared with last year. The profit attributable to equity holders of the Company amounted to approximately HK$16,893,000 representing an increase of 120% as compared with last year. Basic earning per share for the year was approximately HK2.95 cents.

The Group's major business segment during the year comprises (i) construction, as a main contractor, as well as the provision of contracting intelligent building engineering, and electrical and mechanical ("E&M") services; (ii) property development and investment; (iii) trading of medical equipment, provision of related installation and maintenance services; and (iv) operation of fitness centres and trading of fitness equipment business.

During the year, the Group completed projects such as the main contractor for construction of four residential houses at 10 Pollock's Path (formerly Sky Height), the Peak, Hong Kong, fitting out works for Club Monaco at New World Tower, Hong Kong, interior fitting out works at De Beers at Landmark, Hong Kong and air-conditioning and mechanical ventilation installation at Hong Kong School of Creativity, Hong Kong. In the current year, the Group had successfully enhanced its customer base by locating some new customers, and as a result generated more revenue in this segment. This can be shown by the 63% increase in the segment sales as compared to that of last year.

More to note, during the year, the Group sold certain units in Phase I and Phase III of Asian Villas City Square, Haikou, Hainan Province, and certain apartments and villas in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group. The Group also benefited from the increase of property prices in the People's Republic of China (the "PRC"). The enthusiastic sales response together with the upward property price trend were demonstrated by the 14% increase in the segment sales as compared to last year. In September 2007, Asian Villas City Square was awarded one of the "Top 100 Best Property in China for year 2007 (third anniversary)". In May 2008, the Company was awarded one of the "Top 500 Most Influential Property Development Enterprise in China" for year 2008, by 2008 [illegible].

On 25 September 2007, the Group entered into a sales and purchase agreement with Ideal Choice Holdings Limited, a company wholly-owned by Mr. Tjia Boen Sien, the Managing Director and Deputy Chairman and a substantial shareholder of the Company, in relation to the disposal of 100% interest in Fitness Concept Limited and the related shareholder's loan, at a total consideration of HK$6,000,000. Fitness Concept Limited and its subsidiaries are principally engaged in the operation of fitness centres and trading of fitness equipment business. Before the disposal, the fitness centre operation and fitness equipment trading business generated turnover in the amount of HK$28 million to the Group during the year.

The Group also enjoyed contribution from an available-for-sale investment – Gain Huge Limited, which the Group holds a 10% shareholding interest. This company is principally engaged in property development in Hong Kong. After the disposal of land interest during the year, the dividend income derived from this available-for-sale investment amounted to HK$6.8 million.

## FINANCIAL REVIEW

### Turnover

During the year, the Group's turnover surged to HK$628 million (including the turnover generated from discontinued operation of HK$28 million), an increase of 38% as compared to last year, and is the third highest turnover in its history. The turnover generated from the construction contracting segment and the property development and investment segment each also were the second highest in its history. The impetus behind such notable growth can largely be traced to our effective efforts to expand our customer base in the construction and contracting segment, such as main contractor for redevelopment of Good Hope School at Ngau Chi Wan, Hong Kong with a contract value of HK$182 million and decoration work for a hotel in Beijing, the PRC has commenced and generated meaningful turnover to the Group. Turnover generated from construction contracting business, property development and investment business and other business amounted to approximately HK$446 million, HK$128 million, HK$26 million respectively, which represent increases by 63%, 14% and 160% respectively as compared to last year. For the fitness centre operation and fitness equipment trading business, since the Group had disposed of its 100% interest in Fitness Concept Limited on 30 September 2007, only half year's result in this segment is accounted for in the report, so the turnover generated from this segment dropped by 51% as compared to last year.

### Gross profit margin

During the year under review, the Group's gross profit margin from the continuing operations was approximately 14%, down by 1% as compared to last year's 15%, which is the dilution effect from the 63% increase in segment turnover from construction contracting business, where its turnover represents 74% of the total turnover from the continuing operations and historically the gross profit margin from this segment is comparatively low at 6%.

### Liquidity and financial resources

As at 31 March 2008, the Group had total assets of HK$860,953,000, which is financed by total liabilities, shareholders' equity and minority interests of HK$400,855,000, HK$457,573,000 and HK$2,525,000, respectively. The Group's current ratio at 31 March 2008 was 1.8 compared to 1.8 at 31 March 2007.

The gearing ratio for the Group is 13% (2007: 21%). It was calculated based on the long term borrowings of HK$69,175,000 (2007: HK$110,767,000) and long term capital of HK$529,273,000 (2007: HK$527,509,000). The improvement was mainly derived from the decrease in the level of long term borrowings of the Group during the year.

### Capital expenditure

Total capital expenditure for the year was approximately HK$56 million, which were mainly used in the decoration of investment properties, leasehold improvements and equipment in connection with the fitness centres operations business in the PRC.

### Contingent liabilities

At the balance sheet date, there were no significant contingent liabilities for the Group.

### Commitments

Details of the commitments of the Group are set out in note 44 to the financial statements.

**Charges on group assets**

Details of the charges on assets of the Group are set out in note 34 to the financial statements.

**Treasury policies**

The Directors will continue to follow a prudent policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. In view of the expected development for the property development projects in Kaifeng and Huizhou, the PRC, the Group will take consideration on the Renminbi fund planning to adequately finance these projects. Interest for the current bank borrowings were mainly on floating rate basis and the bank borrowings were principally denominated in Hong Kong dollars and Renminbi, hence, there is no significant exposure to foreign exchange rate fluctuations.

**Exchange risk exposure**

The Group's receivables and payables were denominated mainly in Hong Kong dollar and Renminbi ("RMB"). Since some of the Group's business are based in the PRC, the continuing appreciation of RMB will inevitably increase its development and operating costs. However, the fluctuation in RMB is still mild for the time being and the PRC operation is naturally hedged by the future RMB receivables, therefore the management does not foresee any significant foreign currency exposure.

## PROSPECT

**Construction business (including E&M works)**

The Group will uphold an on-going parallel development of its construction business (including E&M works) in both the PRC and Hong Kong. With its proven track records and adequate expertise in the main contracting business, in April 2006, the Group had been promoted from "List of Approved Contractors for Public Works under Group C (on probation) of the Building Category under Environment, Transport and Works Bureau of the HKSAR" to "List of Approved Contractors for Public Works under Group C of the Building Category under Environment, Transport and Works Bureau of the HKSAR". Together with the license in Group II under the "Turn-key Interior Design and Fitting-out Works" under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works" and the 11 licenses held under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Environment, Transport and Works Bureau of the Government of the HKSAR", this enables the Group to take an active part in the construction business development (including E&M works).

During the year, new projects such as fitting out works for a residential house at Pollock's Path, Hong Kong, building services installation for the construction of primary schools in Sham Tseng and Sham Shui Po, Hong Kong, air-conditioning and electrical works for Ocean Park redevelopment project – Astounding Asia, Hong Kong, E&M work for Asia Society Hong Kong Center at Admiralty, Hong Kong, supply of granite and marble and interior fitting out work for a shopping centre in Suzhou, the PRC, renovation of a 7-storey hotel in Beijing, the PRC, and renovation of an apartment building in Beijing, the PRC were won. As at the date of this report, the Group has contracts on hand with a total contract sum of over HK$814 million.

**Property development and investment**

Asian Villas City Square, Haikou, Hainan Province is developing into a residential and commercial complex with a total gross floor area of approximately 130,000 sq. metres. Construction is on schedule, and up to now, Phases I, II and III were completed and Phase IV is under construction. It is expected the whole development will be completed by the first quarter of 2009. Up to the date of this report, the total sales contract sum achieved amounted to approximately RMB218 million.

On 9 June 2005, the Group was granted the land use rights of a development site in Long Ting district of the city of Kaifeng. The Directors intend to develop a commercial complex on the site with an estimated gross floor area of approximately 177,000 sq. metres. Up to now, a portion of the land had completed removal and commenced construction, and the remaining land is at the removal and demolishment stage, processing smoothly, and it is expected the removal and demolishment will be completed by October 2008. In April 2007, the Group was granted another land use rights of a development site adjacent to the original site in Long Ting District, with a gross floor area of approximately 25,000 sq. metres, the Directors intend to develop this additional site together with the original site.

On 2 November 2006, the Group obtained the land use rights of a development site in the Huidong province of the PRC. The Directors intend to develop residential villas on the site with an estimated gross floor area of approximately 220,796 sq. metres. It is expected the development will soon be commenced.

The Group purchased a hotel in Haikou, the capital of Hainan Province, the PRC through the acquisition of a subsidiary in last year. The hotel has a gross floor area of 20,668 square metres. The hotel is leased out to generate recurring rental income. In view of the great potential which Hainan Province has as an upscale tourist destination, the Directors consider the growth prospects to be promising.

Although the residual effect of the macro-economic tightening measures have added uncertainties to the growth of the PRC economy, the Directors believe that the austerity measures had only a moderate and short term impact on the property market in the PRC. With strong sustained economic growth in the PRC, coupled with the constant appreciation of RMB, the PRC property market offers tremendous opportunities, and the Group will continue to place emphasis on strengthening the property development and investment business, and may acquire additional land to increase its land reserve, specifically in the second and third tier cities in the PRC which the market trend and growth potential is consistently increasing. However, the Group has no specific investment plan in relation to any particular project currently.

Noteworthy is the fact that Directors believe the hosting of the World Expo in Shanghai, the PRC in 2010 will have a positive impact on the PRC property market and the property development and investment segment will continue to provide a sizable contribution to the Group's operating results in the coming years.

**Trading of medical equipment**

With rising affluence especially in Hong Kong and the major cities in the PRC, the consumers' increasing health awareness, especially among higher-income urban consumers, continued to create higher demand for medical equipments, and our effort in trading of medical equipment should continue to pay off in terms of sales growth and market penetration in the PRC. In the coming year, we will expand our distribution channels and introduce a broader range of products to spur sales growth.

The Directors believe that the business development of the Group will fare towards the better in the forthcoming year, given the extensive experiences and resources in the construction contracting business and property development business, our sound governance structure and our management's proven ability in identifying and capturing business opportunities.

## HUMAN RESOURCES

As at 31 March 2008, the Group has 200 employees, 90 of whom were based in the PRC. The total employee benefits expenses including directors' emoluments for the year under review amounted to HK$38 million as compared to HK$46 million in last year. The discontinuance of the operation of fitness centres and trading of fitness equipment business on 30 September 2007 through the disposal of 100% shareholding interest in Fitness Concept Limited, has led to the decrease in number of staff and the total employee benefits expenses in the year under review as compared to last year.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors. Apart from pension funds, in order to attract and retain a high caliber of capable and motivated workforce, the Company offers discretionary bonus and share options to staff based on the individual performance and the achievements of the Group's targets.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code on Corporate Governance Practice for the purpose of reviewing and providing supervision over the Group's internal controls and financial reporting matters including the review of the annual results for the year ended 31 March 2008. The audit committee comprises the three independent non-executive directors of the Company, namely Dr. Ho Chung Tai, Raymond, Mr. Siu Man Po and Mr. Wong Shing Kay, Oliver. Mr. Wong Shing Kay, Oliver is the Chairman of this committee.

## SUMMARY

The Group's fruitful achievement in the continuing operations, were confirmed by the satisfactory operating results in current year. In the future, the Directors are well aware that achieving the targets set for next year could be a challenging task in the wake of the austerity policies and measures implemented by the PRC Government, and competition in the construction contracting industry remains intense, nevertheless, with its proven track records and valuable expertise, the Group will strengthen the development of construction contracting business (including E&M) and also focus on the property development and investment business. On the other hand, the Group will keep on seeking new opportunities and corporate development so as to accelerate the growth mementum. I believe the Group will continue to create value for shareholders on the back of the diligent efforts of all employees.

## ACKNOWLEDGEMENTS

On behalf of the directors, I would like to express my gratitude to our Shareholders, business partners and customers for their continued support, I would also like to thank my colleagues for their hard work and continuous commitment over the past few years, their work has contributed significantly to our favourable results. We will carry on dedicating our efforts towards the Group's long-term development.

**Tjia Boen Sien**
*Management Director and Deputy Chairman*

Hong Kong
23 July 2008

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of (a) the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and Mainland China; (b) property development and investment; (c) trading of medical equipment, provision of related installation and maintenance services; and (d) operation of fitness centres and trading of fitness equipment. On 30 September 2007, the Group disposed of and discontinued its operation of fitness centres and trading of fitness equipment business.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 116.

No interim dividend was paid during the year and the directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2008. (2007: Nil).

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| **RESULTS** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **CONTINUING OPERATIONS** | | | | | |
| REVENUE | | | | | |
| Continuing operations | **599,787** | 396,334 | 555,385 | 500,786 | 538,118 |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS | **39,334** | 43,453 | 28,748 | (32,175) | 48,989 |
| Share of profits and losses of jointly-controlled entities | **(243)** | (3,090) | 55 | 16 | (25) |
| Share of profits and losses of associates | **1,147** | 710 | 101 | 184 | 565 |
| PROFIT/(LOSS) BEFORE TAX | **40,238** | 41,073 | 28,904 | (31,975) | 49,529 |
| Tax | **(18,671)** | (17,167) | (1,622) | (5,765) | (22,685) |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | **21,567** | 23,906 | 27,282 | (37,740) | 26,844 |
| **DISCONTINUED OPERATION** | | | | | |
| Profit/(loss) for the year from a discontinued operation | **(5,144)** | (17,271) | (18,819) | 90,787 | (6,766) |
| PROFIT FOR THE YEAR | **16,423** | 6,635 | 8,463 | 53,047 | 20,078 |
| Attributable to: | | | | | |
| Equity holders of the Company | **16,893** | 7,684 | 10,181 | 40,242 | 23,418 |
| Minority interests | **(470)** | (1,049) | (1,718) | 12,805 | (3,340) |
| | **16,423** | 6,635 | 8,463 | 53,047 | 20,078 |

**ASSETS, LIABILITIES AND MINORITY INTERESTS**

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **860,953** | 892,595 | 649,676 | 643,474 | 568,577 |
| Total liabilities | **(400,855)** | (475,853) | (273,294) | (307,669) | (278,909) |
| Minority interests | **(2,525)** | (1,912) | (2,275) | (2,006) | (11,182) |
| | **457,573** | 414,830 | 374,107 | 333,799 | 278,486 |

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 20.

## SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the share capital, share options and convertible notes during the year are set out in notes 37, 38 and 36 to the financial statements, respectively.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 39(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2008, the Company's reserves available for cash distribution and/or distribution in specie, computed in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK$150,873,000. In addition, the Company's share premium account and capital redemption reserve, in the aggregate amount of HK$131,929,000, may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions from its contributed surplus in certain circumstances.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 30% (2007: 21%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 17% (2007: 5%). Purchases from the Group's five largest suppliers accounted for approximately 11% (2007: 17%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 3% (2007: 5%).

None of the directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any other shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

*Executive directors*

| | |
|---|---|
| Mr. WANG Ke Duan | *(Chairman)* |
| Mr. TJIA Boen Sien# | *(Managing Director and Deputy Chairman)* |
| Mr. WANG Jing Ning# | |
| Mr. KEUNG Kwok Cheung | |
| Mr. ONG Chi King | |

*Independent non-executive directors*

Dr. HO Chung Tai, Raymond*#
Mr. SIU Man Po*#
Mr. WONG Shing Kay, Oliver*#

* audit committee members
\# remuneration committee members

Subsequent to the balance sheet date, on 27 June 2008, Mr. Ong Chi King resigned as a director of the Company.

Mr. Wang Ke Duan, Mr. Tjia Boen Sien and Dr. Ho Chung Tai, Raymond will retire by rotation according to the Company's bye-laws and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Dr. Ho Chung Tai, Raymond, Mr. Siu Man Po and Mr. Wong Shing Kay, Oliver, and as at the date of this report still considers them to be independent.

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meeting. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Executive Directors**

**WANG Ke Duan**, aged 77, is one of the co-founders of the Group. He is the Chairman of the Group. He has over 53 years' experience in the construction engineering industry in Mainland China and Hong Kong. He was the deputy general manager of Fujian Province Construction Corporation for three years prior to the establishment of the Group. He is responsible for the effective functioning of the board of director in accordance with good corporate governance practice of the Group.

**TJIA Boen Sien**, aged 64, is one of the co-founders of the Group. He is the Managing Director and Deputy Chairman of the Group. Mr. Tjia is responsible for the overall corporate strategy and the daily operations of the Group, including business development and overall management. He graduated from the Fujian Overseas Chinese University in Mainland China. Mr. Tjia is well respected and has established connections in Mainland China construction industry through his extensive experience. He has over 25 years' experience in the construction industry in Mainland China and Hong Kong. Mr. Tjia is the Vice Chairman and a committee member of Zhan Tian You Civil Engineering Development for Science and Technology; a member of China Civil Engineering Society, the People's Republic of China; a corporate member of the Chartered Institute of Building and a professional member of The Royal Institution of Chartered Surveyors in the United Kingdom.

**WANG Jing Ning**, aged 52, joined the Group in 1989 and is an executive director of the Group. Mr. Wang has over 28 years' experience in hotel management and construction engineering in Mainland China and Hong Kong. He is responsible for managing the Group's projects in Mainland China.

**KEUNG Kwok Cheung**, aged 50, joined the Group in March 1989. He is an executive director of the Group and is in charge of the Group's engineering and contracts departments. He has over 26 years' experience in the fields of civil, structural and building engineerings and in the management of large-scale projects. He also holds an Associateship in Civil and Structural Engineering from the Hong Kong Polytechnic University and a Master degree in Business Administration. He is a fellow member of the Hong Kong Institute of Directors. He is also a member of the China Civil Engineering Society, the People's Republic of China.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

**Independent non-executive directors**

**Raymond HO Chung-Tai**, SBS, MBE, S.B. St. J., JP, aged 69, is currently a member of the third Legislative Council (Engineering Functional Constituency). Dr. Ho has 45 years' experience in the fields of civil, structural environmental and geotechnical engineering and project management including 35 years in Hong Kong and 10 years in the United Kingdom, with direct responsibility in major projects of tunnels, bridges, flyovers, roads, dockyards, jetties, hospitals, hotels, incinerators, high-rise commercial/residential buildings, geotechnical work, environmental studies and projects as well as project management. Dr. Ho holds a doctorate degree in civil engineering from the City University of London, the United Kingdom, Honorary Doctor of Business Administration from the City University of Hong Kong, Honorary Doctor of Laws from University of Manchester, the United Kingdom, a postgraduate diploma in geotechnical engineering from Manchester University, the United Kingdom and a bachelor degree in civil engineering from the University of Hong Kong. Dr. Ho was formerly a partner and senior director of Maunsell Consultants Asia Limited from January 1976 to August 1993. Dr. Ho was formerly Hong Kong Deputy to the tenth National People's Congress of the PRC, President of the Hong Kong Institution of Engineers (1987/1988), Council Chairman of the City University of Hong Kong, Council Chairman of the former City Polytechnic of Hong Kong, Chairman of Hong Kong Technology Committee of the Industry & Technology Development Council (ITDC) and member of ITDC, member of the first and second Legislative Council (Engineering Functional Constituency), member of the Provisional Legislative Council, Chairman of the Transport Advisory Committee, Hong Kong Affairs Adviser, member of Consultative Committee on the New Airport and Related Projects, and member of the Gas Safety Advisory Committee. Dr. Ho is currently Hong Kong Deputy to the eleventh National People's Congress of the PRC, Chairman of Guangdong Daya Bay Nuclear Plant and LingAo Nuclear Plant Safety Consultative Committee and board member of the Hong Kong Airport Authority.

**SIU Man-po** was awarded the MEDAL OF HONOUR (MH) by the Chief Executive of the Government of the Hong Kong Special Administrative Region (HKSAR) in July 2004 for his dedication and meritorious services to the engineering profession and the community.

Mr. Siu, aged 70, obtained his Master of Science in Civil Engineering in 1963 from Auburn University in Auburn, Alabama, U.S.A.

Mr. Siu has extensive experience in construction field including the construction of Tsing Yi Power Stations in 1966-1977, MTR stations in 1977-1987, and Hong Kong Baptist University campus development in 1989-1999.

Mr. Siu is a Fellow Member of the Hong Kong Institution of Engineers, American Society of Civil Engineers and the Hong Kong Institute of Directors.

Mr. Siu is currently the Managing Director of Ho Wang Siu Mak Management Ltd.

**WONG Shing Kay, Oliver**, aged 56, obtained his professional accounting qualifications in both Hong Kong and Canada. Mr. Wong is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong is also a fellow member of the Hong Kong Institute of Certified Public Accountants, an ordinary member of The Society of Chinese Accountants and Auditors, and an associate member of Certified General Accountants of Canada. Mr. Wong had worked in various renowned auditing firms in Hong Kong with over 17 years of experience in handling auditing, financial accounting and taxation matters. Mr. Wong is currently appointed as an independent non-executive director and a member of the Audit Committee of several listed companies in Hong Kong. He also assumed the duty of Financial Controller for several listed companies in both Hong Kong and Canada for over ten years. Mr. Wong is presently practicing as a Certified Public Accountant in Hong Kong. He is knowledgeable with expertise in financial accounting, taxation, import-export business and company management.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

**Senior Management**

**CHAN Chi Kwong**, aged 45, joined the Group in July 1992. He is a senior project manager of the Group and is responsible for the supervision of the Group's construction projects both in Hong Kong and in Mainland China. He has over 24 years' experience in the field of civil and structural engineering. He holds a Bachelor Degree of Science in Construction Management from the University of Wolverhampton.

**KWOK Koon Keung**, aged 40, joined the Group in February 1996. He is the contracts manager of the Group and in-charge of the contracts department. He has over 18 years' experience in the industry and holds a Bachelor of Science degree in Building from South Bank University in the United Kingdom. He is a Professional Associate Member of the Royal Institute of Chartered Surveyors.

**YEUNG Yam Chi**, aged 46, joined the Group in April 1994. He is a senior project manager of the Group and is responsible for supervision of the Group's construction projects in Hong Kong and in Mainland China. He has over 22 years' experience in the field of civil and structural engineering. He holds a Master's degree in Civil and Structural Engineering from the University of Sheffield in the United Kingdom.

**LO Wing Ling**, age 48, joined the Group in 2000. He is the director of Kenworth Engineering Limited and in charge of the engineering division of the Group. He is responsible for the planning and co-ordination of projects which cover the co-ordination of engineering resources, progress monitoring and work performance. Mr. Lo has over 25 years' experience in environmental engineering and building services work. He holds a Bachelor of Science degree in Mechanical Engineering, a Bachelor of Arts degree in Business Studies and a degree of Master of Science in Environmental Management. He is also a director of The Hong Kong Project Management Exchange Centre.

**WONG Ka Yan**, aged 35, joined the Group in April 2001. She is the Financial Controller of the Group. She is responsible for monitoring all of the Group's accounting, finance and listing compliance functions. She holds a Bachelor degree in Commerce from the University of Adelaide, Australia. She is a certified public accountant of CPA Australia. Before joining the Group, she had several years' experience with an international accounting firm.

**LAM Wing Wai, Angus**, aged 32, joined the Group in September 2005. He is the Company Secretary and the Assistant Financial Controller of the Group. He is responsible for the listing compliance and company secretarial functions and assists the Group Financial Controller on Group's accounting issues. He holds a Bachelor degree in Business Administration from the Hong Kong University of Science and Technology. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, He has several years' experience with an international accounting firm.

**LI Ngan Mei**, aged 47, joined the Group in December 1988 and is the administration manager of the Group. She has more than 23 years' experience in personnel and administration management.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2008, the interests and short positions of the directors in the share capital and share option of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Section 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

| | Number of shares held, capacity and nature of interest | | | |
|---|---|---|---|---|
| **Name of director** | **Directly beneficially owned** | **Through controlled corporation** | **Total** | **Percentage of the Company's issued share capital** |
| Mr. Tjia Boen Sien* | 41,494,400 | 226,250,000 | 267,744,400 | 46.74 |
| Mr. Wang Jing Ning | 12,839,600 | – | 12,839,600 | 2.24 |
| Mr. Wang Ke Duan | 268,960 | – | 268,960 | 0.05 |
| Mr. Siu Man Po | 180,000 | – | 180,000 | 0.03 |

* Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands and wholly-owned by Mr. Tjia Boen Sien, is beneficially interested in 226,250,000 ordinary shares of the Company.

The interests of the directors in the share options of the Company are separately disclosed in note 38 to the financial statements.

Save as disclosed above and note 38 to the financial statements, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 38 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the scheme and the share options issued under the scheme are included in note 38 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2008, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

| Name | Capacity and nature of interest | Number of ordinary shares held | Number of underlying shares (under equity derivatives of the Company) | Aggregate interest | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Sparta Assets *(Note 1)* | Beneficial owner | 226,250,000 | - | 226,250,000 | 39.50 |
| Mr. Tjia Boen Sien | Interests of controlled corporation | 226,250,000 | - | 226,250,000 | 39.50 |
| | Directly beneficially owned | 41,494,400 | - | 41,494,400 | 7.24 |
| Penta Investment Advisers Limited ("Penta") | Investment manager | 97,260,000 | 35,000,000 | 132,260,000 | 23.09 |
| Mr. John Zwaanstra *(Note 2)* | Interests of controlled corporation | 97,260,000 | 35,000,000 | 132,260,000 | 23.09 |
| Penta Japan Fund, Ltd. ("Penta Japan") | Interests of controlled corporation | 66,897,000 | 23,333,333 | 90,230,333 | 15.75 |
| Mr. Todd Zwaanstra *(Note 3)* | Trustee (other than a bare trustee) | 66,897,000 | 23,333,333 | 90,230,333 | 15.75 |
| Mercurius GP LLC ("Mercurius") *(Note 4)* | Founder of a discretionary trust | 66,897,000 | 23,333,333 | 90,230,333 | 15.75 |

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

*Note:*

1. Sparta Assets, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Tjia Boen Sien, is beneficially interested in 226,250,000 ordinary shares of the Company.

2. Mr. John Zwaanstra has declared the interest and derivative interest in the same shares in which Penta has declared the same interests as Penta is his controlled corporation.

3. Mr. Todd Zwaanstra has declared the interest and derivative interest in the same shares in which Penta Japan has declared the same interests pursuant to his capacity as trustee of the Mercurius Partners Trust and as Penta Japan is his controlled corporation.

4. Mercurius has declared the interest and derivative interest in the same shares in which Penta Japan has declared the same interests in its capacity as founder of Mercurius Partners Trust.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, at 31 March 2008, had registered an interest or short position in the shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company purchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them. The summary details of those transactions are as follows:

| **Month** | **Number of shares repurchased** | **Price per share** | | **Total price paid** |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | *HK$* | *HK$* | *HK$'000* |
| January 2008 | 500,000 | 0.34 | 0.335 | 170 |
| February 2008 | 245,000 | 0.34 | 0.335 | 83 |
| | 745,000 | | | 253 |

The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK$74,000 was transferred from retained profits to the capital redemption reserve. The premium of HK$179,000 paid on the repurchased shares and share repurchase expenses of HK$2,000 were charged against the share premium account.

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## CONNECTED AND DISCLOSEABLE TRANSACTIONS

### Connected transaction

On 25 September 2007, Grace Profit Investments Limited, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement with Ideal Choice Holdings Limited, a company wholly-owned by Mr. Tjia Boen Sien ("Mr. Tjia"), the Managing Director and Deputy Chairman and a substantial shareholder of the Company, for the disposal of it's entire interest in Fitness Concept Limited and related shareholder's loan, at a total consideration of HK$6,000,000. Upon completion of the agreement, Fitness Concept Limited and its' subsidiaries ceased to be subsidiaries of the Company. The transaction was completed on 30 September 2007.

Given that Mr. Tjia is the Managing Director and Deputy Chairman of the Company and has an approximately 45.79% equity interest in the Company at that time, Mr. Tjia is a connected person of the Company within the meaning of the Listing Rules. The transaction therefore constitutes a connected transaction of the Company. As each of the applicable percentage ratios of the transaction was more than 2.5% but less than 25% and the total consideration involved was less than HK$10,000,000, pursuant to Rule 14A.32 of the Listing Rules, the transaction was exempted from the independent shareholders' approval requirement and was only subject to the reporting and disclosure requirements of the Listing Rules. The transaction also constituted a discloseable transaction for the Company under the Listing Rules.

### Continuing connected transactions

On 19 March 2008, the Group has entered into two tenancy agreements with [illegible]健身中心有限公司 and Fitness Concept Limited, companies owned as to 99.4% and 100% respectively, by Mr. Tjia, the Managing Director and Deputy Chairman and a substantial shareholder of the Company, for the leasing of two properties of the Group at Sichuan, the PRC and Hong Kong, respectively. The two tenancy agreements are contracted for three years commencing 1 April 2008, and the monthly rent payable are RMB150,000 and HK$45,500 respectively.

Given that Mr. Tjia is the Managing Director and Deputy Chairman of the Company and has an approximately 46.75% equity interest in the Company at that time, Mr. Tjia is a connected person of the Company within the meaning of the Listing Rules. The transaction therefore constitutes a connected transaction of the Company. As each of the applicable percentage ratios of the transaction was more than 2.5% but less than 25% and the total consideration involved was less than HK$10,000,000, pursuant to Rule 14A.34 of the Listing Rules, the transaction was exempted from the independent shareholders' approval requirement and was only subject to the reporting and disclosure requirements of the Listing Rules. The transaction also constituted a discloseable transaction for the Company under the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## PARTICULARS OF PROPERTIES

The properties under development for sale of the Group are as follows:

| Location | Group's interest | Stage of completion | Expected completion date | Expected use | Gross floor area |
|---|---|---|---|---|---|
| 中國河南省開封市<br>西大街1號 | 100% | Removal and demolishment stage | Mid of 2011 | Residential/ commercial complex | The total gross floor area is 202,000 sq. m. |
| [illegible] | 60% | Design stage | Mid of 2011 | Residential | The total gross floor area is 220,796 sq. m. |
| Phase IV of Asian Villas City Square<br>Southern Area<br>Jinpen Industrial Development Zone<br>Haikou<br>Hainan Province<br>PRC | 100% | Construction stage | 1st quarter of 2009 | Residential/ commercial complex | The total gross floor area is 21,279 sq. m. |

## PARTICULARS OF PROPERTIES *(continued)*

The completed properties held for sale of the Group are as follows:

| Location | Group's interest | Tenure | Current use | Gross floor area |
|---|---|---|---|---|
| Phases II of Asian Villas<br>Jinpen Industrial<br>Development Zone<br>Xinhua District<br>Haikou<br>Hainan Province<br>PRC | 100% | The properties are held for a term of 70 years, commencing on 13 May 1998 and expiring on 12 May 2068 | Residential | The total gross floor area is 53,389 sq. m. |
| Villas and service apartment at Park View<br>Nos. 206,208,218,220,222,<br>228 & 238 Baise Road<br>Xuhui District<br>Shanghai<br>PRC | 100% | The properties are held for a term of 70 years, commencing on 18 February 1993 and expiring on 17 February 2063 | Residential | The total gross floor area is 56,174 sq. m. |
| Phase I and II and III of<br>Asian Villas City Square<br>Southern Area<br>Jinpen Industrial<br>Development Zone<br>Haikou<br>Hainan Province<br>PRC | 100% | The properties are held for a term of 70 years, commencing on 13 May 1998 and expiring on 12 May 2068 | Residential/ commercial complex | The total gross floor area is 99,354 sq. m. |

The investment properties of the Group are as follows:

| Location | Group's interest | Tenure | Current use | Gross floor area |
|---|---|---|---|---|
| 12 Haixiu Avenue<br>Meilan District<br>Haikou<br>Hainan Province<br>PRC | 100% | The properties are held for a term of 70 years, commencing on 15 September 2006 and expiring on 14 September 2076 | Commercial | The total gross floor area is 20,668 sq. m. |

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 March 2008.

## AUDITORS

Ernst & Young retire, and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

**Tjia Boen Sien**
*Managing Director and Deputy Chairman*

Hong Kong
23 July 2008

The Company is committed to a high standard of corporate governance practices in enhancing the confidence of shareholders, investors, employees, creditors and business partners and also the growth of its business. The Company's corporate governance practices are based on the principles (''Principles'') and the code provisions (''Code Provisions'') as set out in the Code on Corporate Governance Practices (''CG Code'') contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (''Stock Exchange'') (''Listing Rules''). The Company has complied with most of the Code Provisions save for the deviation from the Code Provision A4.1, details of which are explained below. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

**Summary of derivation of the CG Code:**

*Code Provision A4.1*

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation once every three years in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

## THE KEY CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Company acknowledges the important role of its Board of Directors (''Board'') in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations. The key corporate governance principles and practices of the Company are summarised as follows:

## THE BOARD

**Responsibilities**

The Company has a division of functions reserved to the Board and delegated to the management. The Board provides leadership and approves strategic policies and plans with a view to enhance shareholder interests while the day-to-day operations of the Company are delegated to the management. The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. The Company has arranged appropriate insurance cover in respect of legal actions against the Board.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Managing Director and the management to discharge its responsibilities.

**Composition**

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

The Board of the Company comprises the following directors:

**Executive Directors**

Mr. Wang Ke Duan *(Chairman)*
Mr. Tjia Boen Sien *(Managing Director and Deputy Chairman) (Chairman of Remuneration Committee)*
Mr. Wang Jing Ning *(Member of Remuneration Committee)*
Mr. Keung Kwok Cheung
Mr. Ong Chi King (resigned on 27 June 2008)

**Independent Non-Executive Directors**

Mr. Wong Shing Kay, Oliver (Chairman of Audit Committee and Member of Remuneration Committee)
Dr. Ho Chung Tai, Raymond (Member of Remuneration Committee and Audit Committee)
Mr. Siu Man Po (Member of Remuneration Committee and Audit Committee)

None of the members of the Board is related to one another.

During the year ended 31 March 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors will scrutinize the performance of the Company.

**Appointment and Succession Planning of Directors**

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors. Any Board member is entitled to recommend suitable candidate that meet the requirements of the Listing Rules for consideration by the Board. A Board meeting was held for the resignation of an executive director, Mr. Ong Chi King with unanimous approval by the Board on 27 June 2008.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. In accordance with the Company's Bye-Laws, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation once every three years. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

**Training for Directors**

Each newly appointed director receives comprehensive, formal induction to ensure that he/she has appropriate understanding of the business and his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

**Board Meetings**

Code Provision A1.1 stipulates that the Company should hold as least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year under review, five full board meetings were held. Details of the attendance of the Directors are as follows:–

| **Executive Directors** | **Directors' Attendance** |
|---|---|
| Mr. Wang Ke Duan *(Chairman)* | 2/5 |
| Mr. Tjia Boen Sien *(Managing Director and Deputy Chairman)* | 4/5 |
| Mr. Wang Jing Ning | 4/5 |
| Mr. Keung Kwok Cheung | 2/5 |
| Mr. Ong Chi King | 5/5 |
| **Independent Non-Executive Directors** | |
| Dr. Ho Chung Tai, Raymond | 5/5 |
| Mr. Wong Shing Kay, Oliver | 5/5 |
| Mr. Siu Man Po | 5/5 |

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate information are sent to all directors at least three days before each Board meeting or committee meeting to give an opportunity and sufficient time to include matters in the agenda. The Board is also obligated to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the executives whenever necessary.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection. Directors are entitled to have access to board papers and queries will be responded fully. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. Such director must abstain from voting and will not be counted as quorum.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Managing Director, who performs a similar role as a Chief Executive Officer, to ensure a balance of power and authority. The respective responsibilities of the Chairman and the Managing Director are clearly defined and set out in writing. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the management, the Chairman is also responsible for ensuring that the directors receive adequate information and appropriate briefing on issues arising at Board meetings.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Managing Director is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. The position of the Chairman is held by Mr. Wang Ke Duan while the position of the Managing Director is held by Mr. Tjia Boen Sien.

## BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

**Remuneration Committee**

Mr. Tjia Boen Sien, Mr. Wang Jing Ning, Dr. Ho Chung Tai, Raymond, Mr. Siu Man Po and Mr. Wong Shing Kay, Oliver are the members of the Remuneration Committee and Mr. Tjia Boen Sien is the chairman of the committee. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the executives after consultation with the Chairman/Managing Director and accessed to professional advice, at the Company's expense, when necessary. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the executives and other related matters. The Remuneration Committee met once during the year ended 31 March 2008 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the executives for the year under review.

Details of attendance record of members of the Remuneration Committee are set out below:

| **Name of member** | **Meeting attended** |
|---|---|
| Mr. Tjia Boen Sien *(Chairman of Remuneration Committee)* | 1/1 |
| Mr. Wang Jing Ning | 1/1 |
| Dr. Ho Chung Tai, Raymond | 1/1 |
| Mr. Siu Man Po | 1/1 |
| Mr. Wong Shing Kay, Oliver | 1/1 |

**Audit Committee**

The Audit Committee comprises the three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr. Wong Shing Kay, Oliver is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 March 2008 to review the financial results and reports, financial reporting and compliance procedures, effectiveness of internal control systems and the re-appointment of the external auditors. There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Sufficient resources is provided by the Company for the Audit Committee to perform its duties.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee held two meetings during the year under review. Details of the attendance of the Audit Committee Meetings are as follows:

| **Name of member** | **Members' Attendance** |
|---|---|
| Mr. Wong Shing Kay, Oliver *(Chairman of Audit Committee)* | 2/2 |
| Dr. Ho Chung Tai, Raymond | 2/2 |
| Mr. Siu Man Po | 2/2 |

## AUDITORS' REMUNERATION

For the year ended 31 March 2008, the Group had engaged the Group's external auditors, Ernst & Young, to provide the following services and their respective fees charged are set out as below:

Fees charged for the year ended 31 March 2008

| | *HK$* |
|---|---|
| Types of services | |
| Audit for the Group | 1,840,000 |
| Non-audit services – taxation services | 61,000 |
| Non-audit services – others | – |
| Total | 1,901,000 |

**Nomination Committee**

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure for agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting either to fill a casual vacancy or as an addition to the existing directors.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the ''Model Code'') as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2008.

The Company has adopted the same Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2008. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report'' on page 29 to page 30. Management of the Company is obligated to provide explanation and information to the Board to make informed assessment of relevant matters.

## INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control system of the Group. Internal control system policies and procedures are designed to identify and manage the risks that the Group may be exposed to, thereby providing reasonable assurance regarding the achievement of corporate objectives. Controls are monitored by periodic management review. Internal financial systems also allow the Board to monitor the Group's overall financial position, to protect the Group's assets and to mitigate against material financial misstatement or loss. Through the Audit Committee of the Company, the Board has conducted reviews of the effectiveness of the system of internal control of the Company and its subsidiaries in accordance with the Code provisions on internal control. The reviews cover material controls, including financial, operational and compliance controls and risk management functions.

## INVESTORS RELATIONS

The Company is committed to maintain an open and effective investors relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The corporate website of the Company has provided a communication platform via which the public and investor community can access to up-to-date information regarding the Group.

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such rights and procedures are included in all circulars to shareholders convening shareholders' meetings and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be counted by Hong Kong Branch Share Registrar, Tricor Tengis Limited and will be posted on the websites of the Company and of the Stock Exchange on the day the shareholders' meeting held. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

ERNST & YOUNG
安永

**To the shareholders of Deson Development International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Deson Development International Holdings Limited set out on pages 31 to 116, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**To the shareholders of Deson Development International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
23 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 5 | **599,787** | 396,334 |
| Cost of sales | | **(517,788)** | (336,386) |
| Gross profit | | **81,999** | 59,948 |
| Other income and gains | 5 | **29,771** | 9,801 |
| Fair value gain on investment properties | 15 | **–** | 27,880 |
| Fair value gain on available-for-sale investments, net (transfer from equity on disposal) | 21 | **–** | 8,970 |
| Administrative expenses | | **(64,784)** | (55,475) |
| Other operating expenses | | **(2,155)** | (4,349) |
| Finance costs | 7 | **(5,497)** | (3,322) |
| Share of profits and losses of: | | | |
| A jointly-controlled entity | | **(243)** | (3,090) |
| Associates | | **1,147** | 710 |
| **PROFIT BEFORE TAX** | 6 | **40,238** | 41,073 |
| Tax | 10 | **(18,671)** | (17,167) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | **21,567** | 23,906 |
| **DISCONTINUED OPERATION** | | | |
| Loss for the year from a discontinued operation | 12 | **(5,144)** | (17,271) |
| PROFIT FOR THE YEAR | | **16,423** | 6,635 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **16,893** | 7,684 |
| Minority interests | | **(470)** | (1,049) |
| | | **16,423** | 6,635 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 13 | | |
| Basic | | | |
| – For profit for the year | | **2.95 cents** | 1.44 cents |
| – For profit from continuing operations | | **3.85 cents** | 4.66 cents |
| Diluted | | | |
| – For profit for the year | | **2.95 cents** | 1.52 cents |
| – For profit from continuing operations | | **3.79 cents** | 4.56 cents |

# CONSOLIDATED BALANCE SHEET

31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **100,124** | 105,309 |
| Investment properties | 15 | **134,040** | 80,106 |
| Prepaid land lease payments | 16 | **5,857** | 13,012 |
| Interest in a jointly-controlled entity | 19 | **12,892** | 11,409 |
| Interests in associates | 20 | **8,192** | 7,900 |
| Available-for-sale investments | 21 | **–** | – |
| Financial assets at fair value through profit or loss | 22 | **2,234** | – |
| Amounts due from investees | 23 | **–** | 17,721 |
| Deferred tax asset | 35 | **–** | 262 |
| Total non-current assets | | **263,339** | 235,719 |
| CURRENT ASSETS | | | |
| Amounts due from associates | 20 | **23,620** | 24,563 |
| Amounts due from minority shareholders | 24 | **–** | 7 |
| Properties held for sale | 25 | **418,784** | 395,379 |
| Gross amount due from contract customers | 26 | **7,334** | 12,283 |
| Inventories | 27 | **2,604** | 8,537 |
| Accounts receivable | 28 | **56,850** | 68,544 |
| Prepayments, deposits and other receivables | 29 | **35,870** | 26,220 |
| Cash and cash equivalents | 30 | **31,087** | 53,159 |
| Pledged time deposits | 30 | **21,465** | 68,184 |
| Total current assets | | **597,614** | 656,876 |
| CURRENT LIABILITIES | | | |
| Gross amount due to contract customers | 26 | **35,564** | 29,104 |
| Accounts payable | 31 | **32,861** | 38,670 |
| Other payables and accruals | 32 | **129,679** | 175,060 |
| Amounts due to associates | 20 | **547** | 534 |
| Amounts due to minority shareholders | 24 | **17,360** | 11,824 |
| Amounts due to related companies | 33 | **23,813** | – |
| Tax payable | | **31,747** | 22,334 |
| Interest-bearing bank borrowings | 34 | **60,109** | 87,560 |
| Total current liabilities | | **331,680** | 365,086 |
| NET CURRENT ASSETS | | **265,934** | 291,790 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **529,273** | 527,509 |

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Convertible notes | *36* | **15,274** | 14,856 |
| Interest-bearing bank borrowings | *34* | **39,654** | 84,162 |
| Deferred tax liabilities | *35* | **14,247** | 11,749 |
| Total non-current liabilities | | **69,175** | 110,767 |
| Net assets | | **460,098** | 416,742 |
| EQUITY | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | *37* | **57,274** | 57,268 |
| Reserves | *39(a)* | **399,040** | 356,303 |
| Equity component of convertible notes | *36* | **1,259** | 1,259 |
| | | **457,573** | 414,830 |
| **Minority interests** | | **2,525** | 1,912 |
| Total equity | | **460,098** | 416,742 |

**Tjia Boen Sien**
*Director*

**Wang Jing Ning**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2008

| | | Attributable to equity holders of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Property revaluation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Equity component of convertible notes HK$'000 | Reserve funds HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2006 | | 49,668 | 96,671 | 15,262 | 29,890 | (9,121) | 9,362 | 3,162 | 11,476 | 799 | – | 3,260 | 163,678 | 374,107 | 2,275 | 376,382 |
| Exchange realignment | | – | – | – | – | – | – | 7,328 | – | – | – | – | – | 7,328 | 347 | 7,675 |
| Share of reserves of associates | | – | – | – | – | – | – | 340 | 359 | – | – | – | – | 699 | – | 699 |
| Release of revaluation reserve | | – | – | – | (1,049) | – | – | – | – | – | – | – | 1,049 | – | – | – |
| Changes in fair value of available-for-sale investments | 21 | – | – | – | – | – | – | – | (1,051) | – | – | – | – | (1,051) | – | (1,051) |
| Release upon disposal of available-for-sale investments | 21 | – | – | – | – | – | – | – | (8,970) | – | – | – | – | (8,970) | – | (8,970) |
| Total income and expense for the year recognised directly in equity | | – | – | – | (1,049) | – | – | 7,668 | (9,662) | – | – | – | 1,049 | (1,994) | 347 | (1,647) |
| Profit for the year | | – | – | – | – | – | – | – | – | – | – | – | 7,684 | 7,684 | (1,049) | 6,635 |
| Total income and expense for the year | | – | – | – | (1,049) | – | – | 7,668 | (9,662) | – | – | – | 8,733 | 5,690 | (702) | 4,988 |
| Acquisition of additional interests in subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | – | – | 620 | 620 |
| Dividends paid to minority shareholders | | – | – | – | – | – | – | – | – | – | – | – | – | – | (260) | (260) |
| Disposal of partial interest in a subsidiary | | – | – | – | – | – | – | – | – | – | – | – | – | – | (21) | (21) |
| Issue of shares | 37 | 6,500 | 23,600 | – | – | – | – | – | – | – | – | – | – | 30,100 | – | 30,100 |
| Exercise of share options | 37 | 1,100 | 2,693 | – | – | – | – | – | – | (733) | – | – | – | 3,060 | – | 3,060 |
| Share issue expenses | 37 | – | (401) | – | – | – | – | – | – | – | – | – | – | (401) | – | (401) |
| Equity-settled share option arrangements | 38 | – | – | – | – | – | – | – | – | 1,015 | – | – | – | 1,015 | – | 1,015 |
| Equity component of convertible notes | 36 | – | – | – | – | – | – | – | – | – | 1,259 | – | – | 1,259 | – | 1,259 |
| At 31 March 2007 | | 57,268 | 122,563* | 15,262* | 28,841* | (9,121)* | 9,362* | 10,830* | 1,814* | 1,081* | 1,259 | 3,260* | 172,411* | 414,830 | 1,912 | 416,742 |

| | | Attributable to equity holders of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Property revaluation reserve HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Equity component of convertible notes HK$'000 | Reserve funds HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2007 | | 57,268 | 122,563 | 15,262 | 28,841 | (9,121) | 9,362 | 10,830 | 1,814 | 1,081 | 1,259 | 3,260 | 172,411 | 414,830 | 1,912 | 416,742 |
| Exchange realignment | | – | – | – | – | – | – | 15,206 | – | – | – | – | – | 15,206 | 1,422 | 16,628 |
| Share of reserves of associates | | – | – | – | – | – | – | 508 | (564) | – | – | – | – | (56) | – | (56) |
| Revaluation surplus on leasehold buildings | 14 | – | – | – | 13,253 | – | – | – | – | – | – | – | – | 13,253 | – | 13,253 |
| Deferred tax on revaluation surplus on leasehold buildings | 35 | – | – | – | (2,876) | – | – | – | – | – | – | – | – | (2,876) | – | (2,876) |
| Reversal of deferred tax liability upon disposal of a leasehold building | 35 | – | – | – | 378 | – | – | – | – | – | – | – | – | 378 | – | 378 |
| Release upon disposal of a leasehold building | | – | – | – | (4,437) | – | – | – | – | – | – | – | 4,437 | – | – | – |
| Release of revaluation reserve | | – | – | – | (977) | – | – | – | – | – | – | – | 977 | – | – | – |
| Total income and expense for the year recognised directly in equity | | – | – | – | 5,341 | – | – | 15,714 | (564) | – | – | – | 5,414 | 25,905 | 1,422 | 27,327 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | – | – | 16,893 | 16,893 | (470) | 16,423 |
| Total income and expense for the year | | – | – | – | 5,341 | – | – | 15,714 | (564) | – | – | – | 22,307 | 42,798 | 952 | 43,750 |
| Dividends paid to minority shareholders | | – | – | – | – | – | – | – | – | – | – | – | – | – | (256) | (256) |
| Disposal of subsidiaries | 40 | – | – | – | – | – | – | (304) | – | – | – | – | – | (304) | (83) | (387) |
| Repurchase of shares | 37 | (74) | (179) | – | – | – | 74 | – | – | – | – | – | (74) | (253) | – | (253) |
| Exercise of share options | 37 | 80 | 258 | – | – | – | – | – | – | (66) | – | – | – | 272 | – | 272 |
| Share repurchase expenses | 37 | – | (2) | – | – | – | – | – | – | – | – | – | – | (2) | – | (2) |
| Share issue expenses | 37 | – | (147) | – | – | – | – | – | – | – | – | – | – | (147) | – | (147) |
| Share options expired during the year | 38 | – | – | – | – | – | – | – | – | (1,015) | – | – | 1,015 | – | – | – |
| Equity-settled share option arrangements | 38 | – | – | – | – | – | – | – | – | 379 | – | – | – | 379 | – | 379 |
| At 31 March 2008 | | 57,274 | 122,493* | 15,262* | 34,182* | (9,121)* | 9,436* | 26,240* | 1,250* | 379* | 1,259 | 3,260* | 195,659* | 457,573 | 2,525 | 460,098 |

* These reserve accounts comprise the consolidated reserves of HK$399,040,000 (2007: HK$356,303,000) in the consolidated balance sheet.

The contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor, pursuant to the Group reorganisation on 21 May 1997.

The capital reserve of the Group as at 1 April 2007 and 31 March 2008 comprised goodwill arising from the acquisition of subsidiaries prior to 1 April 2002 as detailed in note 17.

The reserve funds of the Group include statutory reserves required to be appropriated from the profit after tax of the Company's subsidiaries in Mainland China under laws and regulations of the People's Republic of China (the "PRC"). The amount of the appropriation is at the discretion of these subsidiaries' board of directors.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax: | | | |
| From continuing operations | | **40,238** | 41,073 |
| From a discontinued operation | 12 | **(5,152)** | (17,271) |
| Adjustments for: | | | |
| Finance costs | 7 | **5,557** | 5,733 |
| Share of profits and losses of: | | | |
| A jointly-controlled entity | | **243** | 3,090 |
| Associates | | **(1,147)** | (710) |
| Interest income | 5 | **(2,726)** | (3,761) |
| Fair value gain on investment properties | 15 | **–** | (27,880) |
| Fair value gain on available-for-sale investments, net | 21 | **–** | (8,970) |
| Dividend income from available-for-sale investments | 5 | **(6,810)** | (160) |
| Gain on disposal of partial interest in a subsidiary | 5 | **–** | (21) |
| Gain on disposal of subsidiaries | 40 | **(3,163)** | – |
| Equity-settled share option expense | 6 | **379** | 1,015 |
| Net gain on disposal of a leasehold building | 5,6 | **(12,819)** | – |
| Loss on disposal of items of property, plant and equipment | 6 | **234** | 255 |
| Depreciation | 6 | **6,515** | 6,660 |
| Recognition of prepaid land lease payments | 6 | **249** | 250 |
| Provision for inventories | 6 | **107** | 17 |
| Impairment of amount due from a jointly-controlled entity | 6 | **243** | 2,544 |
| Impairment of an available-for-sale investment | 6 | **2,400** | – |
| Impairment of amount due from an investee | 6 | **3,840** | – |
| Impairment of accounts receivable | 6 | **3,165** | 6,871 |
| Reversal of impairment of accounts receivable | 6 | **(5,407)** | (3,380) |
| Impairment of other receivables | 6 | **965** | 3,137 |
| Reversal of impairment of other receivables | 6 | **(3,933)** | (4,544) |
| | | **22,978** | 3,948 |
| Decrease/(increase) in completed properties held for sale | | **43,261** | (90,562) |
| Increase in properties under development for sale | | **(46,645)** | (65,997) |
| Decrease in gross amount due from contract customers | | **5,143** | 10,866 |
| Decrease/(increase) in inventories | | **(310)** | 120 |
| Decrease/(increase) in accounts receivable | | **11,980** | (11,952) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **(15,380)** | 27,577 |
| Increase/(decrease) in gross amount due to contract customers | | **6,460** | (3,749) |
| Decrease in accounts payable | | **(3,378)** | (23,012) |
| Increase/(decrease) in other payables and accruals | | **(34,378)** | 94,526 |
| Cash used in operations – page 37 | | **(10,269)** | (58,235) |

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| Cash used in operations – page 36 | | **(10,269)** | (58,235) |
| Interest paid | | **(5,139)** | (13,139) |
| Hong Kong profits tax refunded | | **–** | 1,043 |
| Overseas taxes paid | | **(12,983)** | (4,312) |
| Net cash outflow from operating activities | | **(28,391)** | (74,643) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **2,726** | 3,761 |
| Dividends received from available-for-sale investments | | **6,810** | 160 |
| Dividends received from associates | | **2,740** | 912 |
| Purchases of items of property, plant and equipment | | **(6,180)** | (34,077) |
| Additions of investment properties | | **(33,087)** | (36,066) |
| Increase in financial assets at fair value through profit or loss | | **(2,234)** | – |
| Proceeds from disposal of items of property, plant and equipment | | **27,179** | 356 |
| Proceeds from disposal of available-for-sale investments | | **–** | 15,123 |
| Disposal of subsidiaries | 40 | **921** | – |
| Advance to a jointly-controlled entity, net | | **(1,969)** | (5,352) |
| Capital injection to an associate | | **(2,020)** | – |
| Repayment from/(advances to) associates, net | | **1,098** | (5,306) |
| Repayment from/(advances to) investees | | **11,481** | (17,721) |
| Decrease in pledged time deposits | | **50,989** | 1,466 |
| Net cash inflow/(outflow) from investing activities | | **58,454** | (76,744) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repurchase of the Company's shares | 37 | **(253)** | – |
| Proceeds from issue of shares | 37 | **272** | 33,160 |
| Share repurchase expenses | 37 | **(2)** | – |
| Share issue expenses | 37 | **(147)** | (401) |
| New bank loans | | **62,100** | 116,610 |
| New convertible notes | 36 | **–** | 15,750 |
| Repayment of bank loans, trust receipt loans and other borrowings | | **(130,859)** | (31,772) |
| Advances from related companies | | **23,813** | – |
| Advances from minority shareholders, net | | **5,536** | 8,460 |
| Dividends paid to minority shareholders | | **(256)** | (260) |
| Net cash inflow/(outflow) from financing activities | | **(39,796)** | 141,547 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS – page 38 | | **(9,733)** | (9,840) |

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NET DECREASE IN CASH AND CASH EQUIVALENTS – page 37 | | **(9,733)** | (9,840) |
| Cash and cash equivalents at beginning of year | | **11,306** | 18,736 |
| Effect of foreign exchange rate changes, net | | **3,580** | 2,410 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **5,153** | 11,306 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | *30* | **31,087** | 53,159 |
| Bank overdrafts, secured | *34* | **(25,934)** | (41,853) |
| | | **5,153** | 11,306 |

31 March 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 18 | **357,679** | 361,998 |
| Deferred tax asset | 35 | **–** | 262 |
| Total non-current assets | | **357,679** | 362,260 |
| CURRENT ASSETS | | | |
| Prepayment | 29 | **23** | – |
| Cash and cash equivalents | 30 | **72** | 59 |
| | | **95** | 59 |
| CURRENT LIABILITIES | | | |
| Accruals | 32 | **786** | 800 |
| NET CURRENT LIABILITIES | | **(691)** | (741) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **356,988** | 361,519 |
| NON-CURRENT LIABILITIES | | | |
| Convertible notes | 36 | **15,274** | 14,856 |
| Net assets | | **341,714** | 346,663 |
| EQUITY | | | |
| Issued capital | 37 | **57,274** | 57,268 |
| Reserves | 39(b) | **283,181** | 288,136 |
| Equity component of convertible notes | 36 | **1,259** | 1,259 |
| Total equity | | **341,714** | 346,663 |

**Tjia Boen Sien**
*Director*

**Wang Jing Ning**
*Director*

## 1. CORPORATE INFORMATION

Deson Development International Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group was involved in the following activities:

- the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and Mainland China;
- property development and investment;
- trading of medical equipment, provision of related installation and maintenance services; and
- operation of fitness centres and trading of fitness equipment.

On 30 September 2007, the Group disposed of and discontinued its operation of fitness centres and trading of fitness equipment. Further details regarding the discontinued operation are set out in note 12 to the financial statements.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold buildings, investment properties and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2.1 BASIS OF PREPARATION *(continued)*

**Basis of consolidation** *(continued)*

The acquisition of interests in subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | *Capital Disclosures* |
| HKFRS 7 | *Financial Instruments: Disclosures* |
| HK(IFRIC)-Int 8 | *Scope of HKFRS 2* |
| HK(IFRIC)-Int 9 | *Reassessment of Embedded Derivatives* |
| HK(IFRIC)-Int 10 | *Interim Financial Reporting and Impairment* |
| HK(IFRIC)-Int 11 | *HKFRS 2 – Group and Treasury Share Transactions* |

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 47 to the financial statements.

(b) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has not changed the terms of such contracts, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 April 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

(f) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also address the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently does not have such transactions, the interpretation has had no impact on the Group.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 (Revised) | *Presentation of Financial Statements* [1] |
| HKAS 23 (Revised) | *Borrowing Costs* [1] |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* [4] |
| HKAS 32 and HKAS 1 Amendments | *Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1] |
| HKFRS 2 Amendments | *Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations* [1] |
| HKFRS 3 (Revised) | *Business Combinations* [4] |
| HKFRS 8 | *Operating Segments* [1] |
| HK(IFRIC)-Int 12 | *Service Concession Arrangements* [3] |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* [2] |
| HK(IFRIC)-Int 14 | *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [3] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2008
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2009

The revised HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

The amendments to HKAS 32 and HKAS 1 allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. As the Group currently has no such financial instruments, the amendments are unlikely to have any financial impact on the Group.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The amendments to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

The revised HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revised HKFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits* on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture’s registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Jointly-controlled entity**

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively.

**Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

*Goodwill on acquisitions for which the agreement date is on or after 1 January 2005*

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Goodwill** *(continued)*

*Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Goodwill previously eliminated against consolidated reserves*

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit becomes impaired.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax asset, financial assets, investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of non-financial assets** *(continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, 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 an item of property, plant and equipment, and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Property, plant and equipment and depreciation** *(continued)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis or the reducing balance basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold buildings | 2.5% on the straight-line basis |
| Leasehold improvements | Over the remaining lease terms |
| Furniture and fixtures | 15% on the reducing balance basis |
| Office equipment | 15% on the reducing balance basis |
| Tools and equipment | 15% on the reducing balance basis |
| Motor vehicles | 15% on the reducing balance basis |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investments and other financial assets** *(continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or is not classified in any of the other two categories above. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instrument classified as available for sale are not reversed through the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

Financial liabilities including accounts payable, other payables, amounts due to associates, amounts due to minority shareholders, amounts due to related companies and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

**Financial guarantee contracts**

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Convertible notes**

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

**Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Contracts for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**Properties held for sale**

Properties under development which are intended for sale are included in properties held for sale and are stated at the lower of cost and net realisable value, which is estimated by the directors based on the prevailing market conditions. Costs include all costs directly incurred in the properties under development, including development expenditure, borrowing costs and other direct costs.

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Income tax** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) from the rendering of services, when the services are rendered or on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above;

(d) from the sale of property interests, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(g) dividend income, when the shareholders' right to receive payment has been established.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Share-based payment transactions**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model, further details of which are given in note 38 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 April 2005 and to those granted on or after 1 April 2005.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Other employee benefits**

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., 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. The 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.

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies** *(continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Operating lease commitments-Group as lessor*

The Group has entered into commercial property leases. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

**Judgements** *(continued)*

*Land appreciation tax*

Under the Provisional Regulations on land appreciation tax (''LAT'') implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from the transfer of real estate properties in Mainland China with effect from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

The subsidiaries of the Group engaging in the property development business in Mainland China are subject to land appreciation taxes, which have been included in income tax. However, the implementation of these taxes varies amongst various Mainland China cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and provisions of land appreciation taxes in the period in which such determination is made.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*(i)* *Estimation of fair value of investment properties*

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

**Estimation uncertainty** *(continued)*

*(i) Estimation of fair value of investment properties (continued)*

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amount of investment properties at 31 March 2008 was HK$134,040,000 (2007: HK$80,106,000).

*(ii)* Estimates regarding the realisability of deferred tax assets

Estimating the amount for deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the ability to utilise tax benefits through future taxable profits. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place. While the current financial models indicate that the tax losses recognised can be utilised in the future, any changes in assumptions and estimates and in tax regulations can affect the recoverability of these deferred tax assets. Further details of the unrecognised tax losses of the Group are set out in note 35 to the financial statements.

*(iii)* Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

*(iv)* Impairment of accounts receivable

Impairment of accounts receivable is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

**Estimation uncertainty** *(continued)*

*(v)* Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice process and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete and slow-moving items. Management reassesses the estimation on each balance sheet date.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

*(vi)* Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether an impairment should be recognised in the income statement. At 31 March 2008, an impairment loss of HK$2,400,000 has been recognised for available-for-sale financial assets (2007: Nil). Further details of the Group's available-for-sale investments are set out in note 21 to the financial statements.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the construction business segment is engaged in construction contract works as a main contractor as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services;

(b) the property development and investment business segment is engaged in property development of residential and commercial properties and investment in hotel properties; and

(c) the "others" segment comprises, principally, trading of medical equipment and provision of related installation and maintenance services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments

The following tables present revenue, profits/(losses) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2008 and 2007.

| | Continuing operations | | | | | | | | Discontinued operation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Construction business | | Property development and investment business | | Others | | Total | | Operation of fitness centres and trading of fitness equipment business | | Consolidated | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | | | | | | | |
| Sales to external customers | **445,680** | 274,241 | **128,140** | 112,094 | **25,967** | 9,999 | **599,787** | 396,334 | **28,334** | 57,609 | **628,121** | 453,943 |
| Other income and gains | **13,698** | 2,460 | **6,163** | 3,036 | **391** | 380 | **20,252** | 5,876 | **1,026** | 777 | **21,278** | 6,653 |
| Total | **459,378** | 276,701 | **134,303** | 115,130 | **26,358** | 10,379 | **620,039** | 402,210 | **29,360** | 58,386 | **649,399** | 460,596 |
| **Segment results** | **5,204** | (10,283) | **40,141** | 51,586 | **(1,556)** | (2,994) | **43,789** | 38,309 | **(8,272)** | (14,877) | **35,517** | 23,432 |
| Interest income and dividend income | | | | | | | **9,519** | 3,904 | **17** | 17 | **9,536** | 3,921 |
| Fair value gain on available-for-sale investments, net | | | | | | | **–** | 8,970 | **–** | – | **–** | 8,970 |
| Impairment of an available-for-sale investment | | | | | | | **(2,400)** | – | **–** | – | **(2,400)** | – |
| Gain on disposal of partial interest in a subsidiary | | | | | | | **–** | 21 | **–** | – | **–** | 21 |
| Gain on disposal of subsidiaries | | | | | | | **–** | – | **3,163** | – | **3,163** | – |
| Unallocated expenses | | | | | | | **(6,077)** | (4,429) | **–** | – | **(6,077)** | (4,429) |
| Finance costs | | | | | | | **(5,497)** | (3,322) | **(60)** | (2,411) | **(5,557)** | (5,733) |
| Share of profits and losses of: | | | | | | | | | | | | |
| A jointly-controlled entity | **(243)** | (3,090) | **–** | – | **–** | – | **(243)** | (3,090) | **–** | – | **(243)** | (3,090) |
| Associates | **1,147** | 710 | **–** | – | **–** | – | **1,147** | 710 | **–** | – | **1,147** | 710 |
| Profit/(loss) before tax | | | | | | | **40,238** | 41,073 | **(5,152)** | (17,271) | **35,086** | 23,802 |
| Tax | | | | | | | **(18,671)** | (17,167) | **8** | – | **(18,663)** | (17,167) |
| Profit/(loss) for the year | | | | | | | **21,567** | 23,906 | **(5,144)** | (17,271) | **16,423** | 6,635 |

## 4. SEGMENT INFORMATION *(continued)*

### (a) Business segments *(continued)*

| | Continuing operations | | | | | | | | Discontinued operation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Construction business | | Property development and investment business | | Others | | Total | | Operation of fitness centres and trading of fitness equipment business | | Consolidated | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Assets and liabilities:** | | | | | | | | | | | | |
| Segment assets | **128,214** | 170,732 | **598,005** | 507,831 | **61,016** | 42,161 | **787,235** | 720,724 | **–** | 30,879 | **787,235** | 751,603 |
| Interest in a jointly-controlled entity | **12,892** | 11,409 | **–** | – | **–** | – | **12,892** | 11,409 | **–** | – | **12,892** | 11,409 |
| Interests in associates | **8,192** | 7,900 | **–** | – | **–** | – | **8,192** | 7,900 | **–** | – | **8,192** | 7,900 |
| Unallocated assets | | | | | | | | | | | **52,634** | 121,683 |
| Total assets | | | | | | | | | | | **860,953** | 892,595 |
| Segment liabilities | **(113,987)** | (88,276) | **(116,734)** | (117,591) | **(5,666)** | (4,008) | **(236,387)** | (209,875) | **–** | (26,986) | **(236,387)** | (236,861) |
| Unallocated liabilities | | | | | | | | | | | **(164,468)** | (238,992) |
| Total liabilities | | | | | | | | | | | **(400,855)** | (475,853) |
| **Other segment information:** | | | | | | | | | | | | |
| Depreciation | **2,077** | 2,118 | **469** | 481 | **2,512** | 1,107 | **5,058** | 3,706 | **1,457** | 2,954 | **6,515** | 6,660 |
| Recognition of prepaid land lease payments | **249** | 250 | **–** | – | **–** | – | **249** | 250 | **–** | – | **249** | 250 |
| Fair value gain of investment properties | **–** | – | **–** | (27,880) | **–** | – | **–** | (27,880) | **–** | – | **–** | (27,880) |
| Net gain on disposal of a leasehold building | **(12,819)** | – | **–** | – | **–** | – | **(12,819)** | – | **–** | – | **(12,819)** | – |
| Loss on disposal of items of property, plant and equipment | **156** | 16 | **–** | – | **–** | – | **156** | 16 | **78** | 239 | **234** | 255 |
| Impairment of amount due from a jointly-controlled entity | **243** | 2,544 | **–** | – | **–** | – | **243** | 2,544 | **–** | – | **243** | 2,544 |
| Impairment of amount due from an investee | **3,840** | – | **–** | – | **–** | – | **3,840** | – | **–** | – | **3,840** | – |
| Impairment of accounts receivable | **–** | – | **2,965** | 6,778 | **–** | – | **2,965** | 6,778 | **200** | 93 | **3,165** | 6,871 |
| Reversal of impairment of accounts receivable | **(128)** | (1,706) | **(5,279)** | (1,664) | **–** | (10) | **(5,407)** | (3,380) | **–** | – | **(5,407)** | (3,380) |
| Impairment of other receivables | **965** | 2,945 | **–** | – | **–** | – | **965** | 2,945 | **–** | 192 | **965** | 3,137 |
| Reversal of impairment of other receivables | **(3,933)** | (4,544) | **–** | – | **–** | – | **(3,933)** | (4,544) | **–** | – | **(3,933)** | (4,544) |
| Provision/(write-back of provision) for inventories | **–** | (6) | **–** | – | **107** | – | **107** | (6) | **–** | 23 | **107** | 17 |
| Capital expenditure | **220** | 113 | **51,132** | 58,959 | **3,204** | 37,908 | **54,556** | 96,980 | **1,185** | 3,363 | **55,741** | 100,343 |

## 4. SEGMENT INFORMATION *(continued)*

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2008 and 2007.

| | Hong Kong | | Mainland China | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **262,916** | 163,219 | **365,205** | 290,724 | **628,121** | 453,943 |
| Attributable to a discontinued operation | **(6,170)** | (15,554) | **(22,164)** | (42,055) | **(28,334)** | (57,609) |
| Revenue from continuing operations | **256,746** | 147,665 | **343,041** | 248,669 | **599,787** | 396,334 |
| **Other segment information:** | | | | | | |
| Segment assets | **127,007** | 188,030 | **733,946** | 704,565 | **860,953** | 892,595 |
| Capital expenditure | **1,248** | 8,947 | **54,493** | 91,396 | **55,741** | 100,343 |

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of gross revenue earned from construction works and the net amount of maintenance works invoiced, property development and investment business, trading of medical equipment, provision of related installation and maintenance services and an appropriate proportion of income from operation of fitness centres and trading of fitness equipment.

An analysis of revenue, other income and gains is as follows:

| | *Notes* | **2008** | 2007 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | | | |
| Income from construction contracting and related business | | **445,680** | 274,241 |
| Income from property development and investment business | | **128,140** | 112,094 |
| Income from trading of medical equipment, provision of related installation and maintenance services | | **25,967** | 9,999 |
| Attributable to continuing operations reported in the consolidated income statement | | **599,787** | 396,334 |
| Income from operation of fitness centres and trading of fitness equipment attributable to a discontinued operation | 12 | **28,334** | 57,609 |
| | | **628,121** | 453,943 |
| **Other income and gains** | | | |
| Bank interest income | | **1,626** | 2,566 |
| Other interest income | | **1,083** | 1,178 |
| Gross rental income | 6 | **1,686** | 2,930 |
| Dividend income from available-for-sale investments | | **6,810** | 160 |
| Gain on disposal of partial interest in a subsidiary | | **–** | 21 |
| Net gain on disposal of a leasehold building | 6 | **12,819** | – |
| Others | | **5,747** | 2,946 |
| Attributable to continuing operations reported in the consolidated income statement | | **29,771** | 9,801 |
| Other income and gains from operation of fitness centres and trading of fitness equipment attributable to a discontinued operation: | | | |
| Bank interest income | 12 | **17** | 17 |
| Others | 12 | **1,026** | 777 |
| | | **30,814** | 10,595 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting): #

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Cost of properties sold | | **84,146** | 72,891 |
| Cost of construction contracting | | **419,114** | 261,263 |
| Cost of inventories sold and services provided | | **22,488** | 21,055 |
| Auditors' remuneration | | **2,110** | 2,200 |
| Depreciation | 14 | **6,515** | 6,660 |
| Recognition of prepaid land lease payments | 16 | **249** | 250 |
| Minimum lease payments under operating leases on land and buildings | | **5,652** | 11,402 |
| Gain on disposal of a leasehold building | | **(19,836)** | – |
| Less: Derecognition of prepaid land lease payments | 16 | **7,017** | – |
| Net gain on disposal of a leasehold building | 5 | **(12,819)** | – |
| Loss on disposal of items of property, plant and equipment^ | | **234** | 255 |
| Gross rental income | 5 | **(1,686)** | (2,930) |
| Less: Outgoings | | **200** | 270 |
| Net rental income | | **(1,486)** | (2,660) |
| Employee benefits expense (including directors' emoluments – note 8): | | | |
| Wages and salaries | | **39,145** | 46,535 |
| Equity-settled share option expense | 38 | **379** | 1,015 |
| Pension schemes contributions * | | **1,107** | 1,313 |
| Less: Amount capitalised | | **(2,702)** | (2,989) |
| | | **37,929** | 45,874 |

## 6. PROFIT BEFORE TAX *(continued)*

The Group's profit before tax is arrived at after charging/(crediting): # *(continued)*

| | *Notes* | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Foreign exchange differences, net^ | | **839** | (230) |
| Provision for inventories | | **107** | 17 |
| Impairment of amount due from a jointly-controlled entity^ | | **243** | 2,544 |
| Impairment of an available-for-sale investment^ | | **2,400** | – |
| Impairment of amount due from an investee^ | | **3,840** | – |
| Impairment of accounts receivable^ | *28* | **3,165** | 6,871 |
| Reversal of impairment of accounts receivable^ | *28* | **(5,407)** | (3,380) |
| Impairment of other receivables^ | *29* | **965** | 3,137 |
| Reversal of impairment of other receivables^ | *29* | **(3,933)** | (4,544) |

* At 31 March 2008, there were no forfeited contributions available to the Group to reduce contributions to the pension schemes in future years (2007: Nil).

^ These amounts are included in "Other operating expenses" on the face of the consolidated income statement.

# The disclosures presented in this note include those amounts charge/credited in respect of the discontinued operation.

## 7. FINANCE COSTS

| | **Group** **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | **11,410** | 12,549 |
| Interest on convertible notes | **1,050** | 955 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **12,460** | 13,504 |
| Less: Interest capitalised on properties under development | **(6,903)** | (7,771) |
| | **5,557** | 5,733 |
| Attributable to continuing operations reported in the consolidated income statement | **5,497** | 3,322 |
| Attributable to a discontinued operation (note 12) | **60** | 2,411 |
| | **5,557** | 5,733 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Fees | **360** | 312 |
| Other emoluments: | | |
| Salaries and allowances | **4,075** | 4,171 |
| Equity-settled share option expense | **130** | – |
| Pension schemes contributions | **114** | 113 |
| | **4,319** | 4,284 |
| | **4,679** | 4,596 |

During the year, the directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 8. DIRECTORS' REMUNERATION *(continued)*

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | Fees<br>*HK$'000* | Equity-settled share option expense<br>*HK$'000* | Total remuneration<br>*HK$'000* |
|---|---|---|---|
| **2008** | | | |
| *Independent non-executive directors:* | | | |
| Dr. Ho Chung Tai, Raymond | **144** | **2** | **146** |
| Mr. Siu Man Po | **120** | **2** | **122** |
| Mr. Wong Shing Kay, Oliver | **96** | **–** | **96** |
| | **360** | **4** | **364** |
| 2007 | | | |
| *Independent non-executive directors:* | | | |
| Dr. Ho Chung Tai, Raymond | 120 | – | 120 |
| Mr. Siu Man Po | 96 | – | 96 |
| Mr. Wong Shing Kay, Oliver | 96 | – | 96 |
| | 312 | – | 312 |

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

## 8. DIRECTORS' REMUNERATION *(continued)*

### (b) Executive directors

| | Fees HK$'000 | Salaries and allowances HK$'000 | Equity-settled share option expense HK$'000 | Pension schemes contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| **2008** | | | | | |
| *Executive directors:* | | | | | |
| Mr. Wang Ke Duan | **–** | **540** | **–** | **–** | **540** |
| Mr. Tjia Boen Sien | **–** | **1,431** | **7** | **24** | **1,462** |
| Mr. Wang Jing Ning | **–** | **480** | **14** | **12** | **506** |
| Mr. Keung Kwok Cheung | **–** | **946** | **35** | **46** | **1,027** |
| Mr. Ong Chi King * | **–** | **678** | **70** | **32** | **780** |
| | **–** | **4,075** | **126** | **114** | **4,315** |
| 2007 | | | | | |
| *Executive directors:* | | | | | |
| Mr. Wang Ke Duan | – | 540 | – | – | 540 |
| Mr. Tjia Boen Sien | – | 1,561 | – | 24 | 1,585 |
| Mr. Wang Jing Ning | – | 480 | – | 12 | 492 |
| Mr. Keung Kwok Cheung | – | 927 | – | 45 | 972 |
| Mr. Ong Chi King * | – | 663 | – | 32 | 695 |
| | – | 4,171 | – | 113 | 4,284 |

* Mr. Ong Chi King resigned as an executive director on 27 June 2008.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **1,264** | 1,418 |
| Pension schemes contributions | **40** | 49 |
| | **1,304** | 1,467 |

The remuneration of these two (2007: two) non-director, highest paid employees for the year fell within the band of nil to HK$1,000,000.

## 10. TAX

No Hong Kong profits tax has been provided as the Group's subsidiaries either did not generate any assessable profits arising in Hong Kong during the year or have available tax losses brought forward from prior years to offset the assessable profits generated during the year (2007: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

LAT in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Current – Elsewhere | | |
| Charge for the year | **12,752** | 3,644 |
| Deferred (note 35) | **262** | 9,323 |
| LAT in Mainland China | **5,657** | 4,200 |
| Total tax charge for the year | **18,671** | 17,167 |

## 10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rates is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Profit before tax (including loss from a discontinued operation) | **35,086** | 23,802 |
| Tax at the statutory tax rate of 17.5% (2007: 17.5%) | **6,140** | 4,165 |
| Effect of different rates for companies operating in other jurisdictions | **8,110** | 4,317 |
| Profits and losses attributable to associates | **(201)** | (124) |
| Profits and losses attributable to a jointly-controlled entity | **43** | 541 |
| Income not subject to tax | **(5,686)** | (7,209) |
| Expenses not deductible for tax | **1,993** | 4,546 |
| Tax losses utilised from previous periods | **(446)** | (30) |
| Tax losses and temporary differences not recognised | **3,091** | 6,779 |
| LAT | **5,657** | 4,200 |
| Others | **(38)** | (18) |
| Tax charge at the Group's effective rate | **18,663** | 17,167 |
| Represented by: | | |
| Tax credit attributable to a discontinued operation (note 12) | **(8)** | – |
| Tax charge attributable to continuing operations reported in the consolidated income statement | **18,671** | 17,167 |
| | **18,663** | 17,167 |

The share of tax attributable to the jointly-controlled entity and associates amounting to HK$4,000 (2007: Nil) and HK$1,948,000 (2007: HK$377,000), respectively, are included in "Share of profits and losses of a jointly-controlled entity and associates" on the face of the consolidated income statement.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 March 2008 includes a loss of HK$5,198,000 (2007: HK$5,437,000) which has been dealt with in the financial statements of the Company (note 39(b)).

## 12. DISCONTINUED OPERATION

On 27 September 2007, the Company announced the decision of its board of directors to dispose of its entire interest in Fitness Concept Limited ("FCL") and its subsidiaries (the "Disposed Group"). The Disposed Group is engaged in the operation of fitness centres and trading of fitness equipment and is a separate business segment. The disposal of the Disposed Group was completed on 30 September 2007. As at 31 March 2008, no assets or liabilities of the Group were attributable to this discontinued operation.

The results of the Disposed Group for the year are presented below:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue, other income and gains (note 5) | **29,377** | 58,403 |
| Expenses | **(37,632)** | (73,263) |
| Finance costs (note 7) | **(60)** | (2,411) |
| Loss of the discontinued operation | **(8,315)** | (17,271) |
| Gain on disposal of the Disposed Group | **3,163** | – |
| Loss before tax from the discontinued operation | **(5,152)** | (17,271) |
| Tax (note 10) | **8** | – |
| Loss for the year from the discontinued operation | **(5,144)** | (17,271) |
| Attributable to: | | |
| Equity holders of the Company | **(5,127)** | (17,229) |
| Minority interests | **(17)** | (42) |
| | **(5,144)** | (17,271) |

The net cash flows incurred by the Disposed Group are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating activities | **(2,205)** | (7,549) |
| Investing activities | **(1,136)** | (1,838) |
| Financing activities | **2,753** | 11,603 |
| Net cash inflow/(outflow) | **(588)** | 2,216 |
| Loss per share: | | |
| Basic, from the discontinued operation | **(0.90 cent)** | (3.22 cents) |
| Diluted, from the discontinued operation | **(0.84 cent)** | (3.04 cents) |

## 12. DISCONTINUED OPERATION *(continued)*

The calculations of basic and diluted loss per share from the discontinued operation are based on:

| | **2008** | 2007 |
|---|---|---|
| Loss attributable to ordinary equity holders of the Company from the discontinued operation | **HK$5,127,000** | HK$17,229,000 |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **572,634,425** | 534,710,415 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | **608,331,739** | 567,771,603 |

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the share repurchase and exercise of share options during the year ended 31 March 2008.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

The calculations of basic and diluted earnings per share are based on:

| | 2008 | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation: | | |
| From continuing operations | **22,020** | 24,913 |
| From a discontinued operation | **(5,127)** | (17,229) |
| | **16,893** | 7,684 |
| Interest on convertible notes | **1,050** | 955 |
| Profit attributable to ordinary equity holders of the Company before interest on convertible notes | **17,943** | 8,639 |
| Attributable to: | | |
| Continuing operations | **23,070** | 25,868 |
| Discontinued operation | **(5,127)** | (17,229) |
| | **17,943** | 8,639 |

| | Number of shares | |
|---|---|---|
| | **2008** | 2007 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **572,634,425** | 534,710,415 |
| Effect of dilution-weighted average number of ordinary shares: | | |
| Share options | **697,314** | 266,667 |
| Convertible notes | **35,000,000** | 32,794,521 |
| | **608,331,739** | 567,771,603 |

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Leasehold buildings HK$'000 | Leasehold improve-ments HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Tools and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 March 2008** | | | | | | | |
| At 31 March 2007 and At 1 April 2007: | | | | | | | |
| Cost or valuation | 86,094 | 8,167 | 4,983 | 7,392 | 17,453 | 5,601 | 129,690 |
| Accumulated depreciation | (2,216) | (3,766) | (3,263) | (4,809) | (6,003) | (4,324) | (24,381) |
| Net carrying amount | 83,878 | 4,401 | 1,720 | 2,583 | 11,450 | 1,277 | 105,309 |
| At 1 April 2007, net of accumulated depreciation | 83,878 | 4,401 | 1,720 | 2,583 | 11,450 | 1,277 | 105,309 |
| Additions | 3,409 | 563 | 148 | 651 | 636 | 773 | 6,180 |
| Disposals | (7,343) | (49) | (154) | (31) | – | – | (7,577) |
| Disposal of subsidiaries (note 40) | – | (4,367) | – | (1,393) | (8,700) | (131) | (14,591) |
| Surplus on revaluation | 13,253 | – | – | – | – | – | 13,253 |
| Depreciation provided during the year | (3,362) | (691) | (278) | (616) | (1,246) | (322) | (6,515) |
| Exchange realignment | 3,293 | 145 | 87 | 21 | 463 | 56 | 4,065 |
| At 31 March 2008 | 93,128 | 2 | 1,523 | 1,215 | 2,603 | 1,653 | 100,124 |
| At 31 March 2008: | | | | | | | |
| Cost or valuation | 93,128 | 1,768 | 3,340 | 6,151 | 6,259 | 6,400 | 117,046 |
| Accumulated depreciation | – | (1,766) | (1,817) | (4,936) | (3,656) | (4,747) | (16,922) |
| Net carrying amount | 93,128 | 2 | 1,523 | 1,215 | 2,603 | 1,653 | 100,124 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | – | 1,768 | 3,340 | 6,151 | 6,259 | 6,400 | 23,918 |
| At valuation | 93,128 | – | – | – | – | – | 93,128 |
| | 93,128 | 1,768 | 3,340 | 6,151 | 6,259 | 6,400 | 117,046 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

| | Leasehold buildings HK$'000 | Leasehold improve-ments HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Tools and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 March 2007** | | | | | | | |
| At 1 April 2006: | | | | | | | |
| Cost or valuation | 45,398 | 7,716 | 4,016 | 6,863 | 11,453 | 5,376 | 80,822 |
| Accumulated depreciation | – | (2,202) | (3,064) | (4,138) | (4,289) | (3,978) | (17,671) |
| Net carrying amount | 45,398 | 5,514 | 952 | 2,725 | 7,164 | 1,398 | 63,151 |
| At 1 April 2006, net of accumulated depreciation | 45,398 | 5,514 | 952 | 2,725 | 7,164 | 1,398 | 63,151 |
| Additions | 40,696 | 57 | 962 | 466 | 5,797 | 139 | 48,117 |
| Disposals | – | (107) | – | (49) | (455) | – | (611) |
| Depreciation provided during the year | (2,216) | (1,556) | (198) | (674) | (1,712) | (304) | (6,660) |
| Exchange realignment | – | 493 | 4 | 115 | 656 | 44 | 1,312 |
| At 31 March 2007 | 83,878 | 4,401 | 1,720 | 2,583 | 11,450 | 1,277 | 105,309 |
| At 31 March 2007: | | | | | | | |
| Cost or valuation | 86,094 | 8,167 | 4,983 | 7,392 | 17,453 | 5,601 | 129,690 |
| Accumulated depreciation | (2,216) | (3,766) | (3,263) | (4,809) | (6,003) | (4,324) | (24,381) |
| Net carrying amount | 83,878 | 4,401 | 1,720 | 2,583 | 11,450 | 1,277 | 105,309 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | – | 8,167 | 4,983 | 7,392 | 17,453 | 5,601 | 43,596 |
| At valuation | 86,094 | – | – | – | – | – | 86,094 |
| | 86,094 | 8,167 | 4,983 | 7,392 | 17,453 | 5,601 | 129,690 |

The Group's leasehold buildings, except for certain properties located in Hong Kong and Mainland China with an aggregate carrying value of HK$8,323,000 as at 31 March 2008 (the "Properties"), were revalued individually at the balance sheet date by B.I. Appraisals Limited, independent professionally qualified valuers, at an aggregate open market value of HK$84,805,000 based on their existing use. In the opinion of the directors, the carrying value of the Properties approximated to their fair value as at 31 March 2008 with reference to recent market transactions. A revaluation surplus of HK$13,253,000 resulting from the revaluation has been credited to the property revaluation reserve.

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Details of the leasehold buildings are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Long term lease: | | |
| Mainland China | **45,405** | 33,466 |
| Medium term leases: | | |
| Hong Kong | **40,875** | 43,889 |
| Mainland China | **6,848** | 6,523 |
| | **93,128** | 83,878 |

Had the Group's leasehold buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$55,036,000 as at 31 March 2008 (2007: HK$53,817,000).

As at 31 March 2008, certain leasehold buildings of the Group with aggregate carrying amounts of HK$83,880,000 (2007: HK$77,356,000) were pledged to secure certain banking facilities granted to the Group (note 34).

As at 31 March 2007, certain leasehold buildings of the Group with an aggregate carrying value of HK$7,670,000 were leased to third parties under operating leases, further details of which are included in note 43(a) to the financial statements.

## 15. INVESTMENT PROPERTIES

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount at 1 April | **80,106** | – |
| Additions | **49,561** | 52,226 |
| Fair value adjustment | **–** | 27,880 |
| Exchange realignment | **4,373** | – |
| Carrying amount at 31 March | **134,040** | 80,106 |

The investment properties of the Group are held under long term leases and are situated in Mainland China.

## 15. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties were revalued on 31 March 2008 by B.I. Appraisals Limited, independent professionally qualified valuers, at HK$134,040,000 on an open market, existing use basis.

Subsequent to the balance sheet date, the investment properties were leased to an independent third party under an operating lease.

At 31 March 2008, the investment properties of the Group with a value of HK$134,040,000 (2007: Nil) were pledged to secure certain banking facilities granted to the Group (note 34).

Further particulars of the Group's investment properties are included on page 20.

## 16. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount at 1 April | **13,262** | 13,512 |
| Recognised during the year | **(249)** | (250) |
| Derecognised during the year | **(7,017)** | – |
| Carrying amount at 31 March | **5,996** | 13,262 |
| Current portion included in prepayments, deposits and other receivables | **(139)** | (250) |
| Non-current portion | **5,857** | 13,012 |

An analysis of the carrying amounts of prepaid land lease payments of the Group at the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Situated in Hong Kong and held under: | | |
| Medium term leases | **5,106** | 5,236 |
| Long term leases | **890** | 8,026 |
| | **5,996** | 13,262 |

At 31 March 2008, the leasehold land of the Group was pledged to secure certain banking facilities granted to the Group (note 34).

## 17. GOODWILL

| | Group HK$'000 |
|---|---|
| At 1 April 2006, 31 March 2007, 1 April 2007 and 31 March 2008: | |
| Cost | 4,000 |
| Accumulated impairment | (4,000) |
| Disposal of subsidiaries (note 40) | – |
| Net carrying amount | – |

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated capital reserve.

The amounts of goodwill remaining in consolidated capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, amounted to HK$9,121,000 as at 31 March 2008 and 2007.

As at 1 April 2005, Mega Fitness (Shanghai) Investments Limited was a 75%-owned subsidiary of the Company. Subsequently, the remaining 25% equity interest in Mega Fitness (Shanghai) Investments Limited with no carrying value was acquired by the Group at a cash consideration of HK$4,000,000, resulting in goodwill of HK$4,000,000. As the estimated recoverable amount arising from Mega Fitness (Shanghai) Investments Limited was of minimal amount, this resulted in an impairment loss of HK$4,000,000.

Mega Fitness (Shanghai) Investments Limited was disposed of by the Group during the year.

## 18. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **156,031** | 156,031 |
| Due from subsidiaries | **201,648** | 205,967 |
| | **357,679** | 361,998 |

The amounts advanced to the subsidiaries included in interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these balances approximate to their fair values.

## 18. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows:

| Name | Place of incorporation or registration/ operations | Nominal value of issued share/ registered capital | Class of shares held | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Beijing Chang De Architectural & Decoration Co., Ltd. (a) * | PRC/ Mainland China | RMB16,000,000 | (ii) | – | 60 | Decoration engineering |
| Deson Development Holdings Limited | British Virgin Islands/ Hong Kong | US$200 | Ordinary | 100 | – | Investment holding |
| Deson Development Limited | Hong Kong | HK$20,000,100<br>HK$20,000,000 | Class A<br>Class B (i) | – | 100 | Construction contracting and investment holding |
| Deson Industries Limited | British Virgin Islands/ Hong Kong | US$1 | Ordinary | – | 100 | Investment holding |
| Deson Property Development (Kaifeng) Co., Ltd. (b) * | PRC/ Mainland China | HK$50,000,000 | (ii) | – | 100 | Property development |
| Deson Ventures Limited | British Virgin Islands/ Hong Kong | US$1 | Ordinary | – | 100 | Investment holding |
| Hua Sheng International Real Estate Development (Shanghai) Co., Ltd. (b) * | PRC/ Mainland China | US$6,400,000 | (ii) | – | 100 | Property development |

## 18. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries: *(continued)*

| Name | Place of incorporation or registration/ operations | Nominal value of issued share/ registered capital | Class of shares held | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Kenworth Engineering Limited | Hong Kong | HK$54,374,140<br>HK$20,000,000 | Ordinary<br>Preference (iii) | – | 100 | Provision of electrical and mechanical engineering services |
| [illegible] (b) * | PRC/ Mainland China | HK$32,000,000 | (ii) | – | 60 | Property development |
| Medical Technologies Limited | Hong Kong | HK$10,000 | Ordinary | – | 100 | Trading of medical equipment |
| Super Sight Investments Inc. * | British Virgin Islands/ Mainland China | US$1 | Ordinary | – | 100 | Property development |
| [illegible] (a) * | PRC/ Mainland China | US$700,000 | (ii) | – | 100 | Decoration engineering |
| Wonderful Hope Limited * | British Virgin Islands/ Mainland China | US$1 | Ordinary | – | 100 | Property development |
| [illegible] (b) * | PRC/ Mainland China | RMB15,000,000 | (ii) | – | 100 | Holding of a fitness centre |
| [illegible] (b) * | PRC/ Mainland China | RMB10,000,000 | (ii) | – | 100 | Property investment |

(a) Registered as a Sino-foreign investment enterprise under PRC law
(b) Registered as wholly-foreign-owned enterprises under PRC law

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network

## 18. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries *(continued)*:

*Notes:*

(i) The holders of these non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK$100 trillion.

(ii) The issued or paid-up capital of these subsidiaries is not classified.

(iii) The holders of the preference shares have a cumulative preferential right to the company's profits at 10% of the nominal amount of share capital, but are not entitled to receive notice of or attend or vote at any meeting of members or any meeting of directors.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed 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.

## 19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Share of net liabilities | **(2,787)** | (2,544) |
| Due from a jointly-controlled entity | **18,466** | 16,497 |
| Impairment | **(2,787)** | (2,544) |
| | **15,679** | 13,953 |
| | **12,892** | 11,409 |

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment except for an amount of HK$7,178,000 (2007: HK$7,178,000) which bears interest at the prime rate in Hong Kong plus 1% per annum. The carrying amount of this balance approximates to its fair value.

## 19. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

Particulars of the jointly-controlled entity are as follows:

| Name | Place of registration and operations | Nominal value of issued ordinary share capital | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Kenworth-Watfield Joint Venture Limited | Hong Kong | HK$1,000,000 | 50 | 50 | 50 | Provision of electrical and mechanical engineering services |

The investment in jointly-controlled entity is held through a subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity extracted from its financial statements:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | **9,245** | 8,542 |
| Non-current assets | **19** | 31 |
| Current liabilities | **(12,051)** | (11,117) |
| Net liabilities | **(2,787)** | (2,544) |
| Share of the jointly-controlled entity's results: | | |
| Revenue | **1,586** | 2,339 |
| Total expenses | **(1,825)** | (5,429) |
| Tax | **(4)** | – |
| Loss after tax | **(243)** | (3,090) |

## 20. INTERESTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Share of net assets | **8,192** | 7,900 |
| Due from associates | **23,620** | 24,563 |
| Due to associates | **(547)** | (534) |

The balances with associates are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate to their fair values.

Particulars of the principal associates as at the balance sheet date are as follows:

| **Name** | **Particulars of issued shares held/ registered paid-up capital** | **Place of incorporation/ registration and operations** | **Percentage of ownership attributable to the Group** | **Principal activities** |
|---|---|---|---|---|
| Asia Construction Holdings Limited | Ordinary shares of HK$1 | Hong Kong | 49 | Investment holding |
| Deson Metals Company Limited * | Ordinary shares of HK$1 each | Hong Kong/ Mainland China | 40 | Trading of construction materials |
| Fortune On Engineering Limited * | Ordinary shares of HK$1 each | Hong Kong | 40 | Property development |
| Fuzhou Jiandi Concrete Co., Ltd. * (ii) | Registered capital of RMB15,000,000 (i) | PRC/ Mainland China | 40 | Manufacture of concrete products |
| Visonic Deson Limited * | Ordinary shares of HK$1 each | Hong Kong | 50 | Selling, distribution and marketing of home security and automation products |
| [illegible] * (ii) | Registered capital of RMB1,000,000 (i) | PRC/ Mainland China | 20 | Property management |

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network

## 20. INTERESTS IN ASSOCIATES *(continued)*

*Notes:*

(i) The issued or paid-up capital of these associates is not classified.

(ii) The remittance of dividends to the Group from these associate operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by these associates.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group's shareholding in the associates comprises equity shares held through subsidiaries of the Company.

The Group has discontinued the recognition of its share of losses of certain associates because it exceeded the Group's interests in these associates. The Group's aggregate unrecognised share of losses of these associates for the current year and cumulatively was HK$324,000 (2007: HK$101,000) and HK$844,000 (2007: HK$520,000), respectively.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Assets | **107,670** | 95,646 |
| Liabilities | **91,179** | 81,442 |
| Revenues | **139,955** | 127,922 |
| Profits/(losses) | **(643)** | 3,639 |

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted equity investments, at cost * | **2,400** | – |
| Impairment | **(2,400)** | – |
| | **–** | – |

* Represented unlisted equity investments, at cost, of HK$2,400,079 (2007: HK$79).

## 21. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

At 31 March 2007, the loss of the Group's available-for-sale investments recognised directly in equity amounted to HK$1,051,000, and a gain of HK$8,970,000 was released from equity and recognised in the income statement in that year.

The above investments in equity securities are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 March 2008, unlisted equity investments with a carrying amount of HK$78 (2007: HK$79) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Investment-linked deposits, at fair value | **2,234** | – |

The above balances at 31 March 2008 were designated as financial assets at fair value through profit or loss at the date of inception as these financial assets contained embedded derivatives. The fair values of the above investment-linked deposits are determined based on the published prices from the bank.

As at 31 March 2008, one of the above investment-linked deposits was pledged to secure certain banking facilities granted to the Group (note 34).

## 23. AMOUNTS DUE FROM INVESTEES

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Due from investees | **3,840** | 17,721 |
| Impairment | **(3,840)** | – |
| | **–** | 17,721 |

As at 31 March 2008, an impairment was recognised for an amount due from an investee with a carrying amount of HK$3,840,000 (before deducting the impairment loss) because this investee has been loss-making for some time.

The amounts due from investees are unsecured, interest-free and repayable on demand. In the opinion of the directors, these amounts are classified as non-current assets as the Group has no intention of demanding repayment in the near future. The carrying amounts of these balances approximate to their fair values.

## 24. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

The amounts due from/to minority shareholders are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate to their fair values.

## 25. PROPERTIES HELD FOR SALE

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Completed properties | **199,358** | 234,938 |
| Properties under development | **219,426** | 160,441 |
| | **418,784** | 395,379 |

Certain completed properties held for sale with an aggregate carrying value of HK$23,402,000 (2007: HK$21,244,000) were leased to third parties under operating leases, further details of which are included in note 43(a) to the financial statements. As at 31 March 2007, certain completed properties held for sale of the Group were pledged to secure certain banking facilities granted to the Group (note 34).

Further particulars of the Group's properties held of sale are included on page 19 to page 20.

## 26. CONSTRUCTION CONTRACTS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Gross amount due from contract customers | **7,334** | 12,283 |
| Gross amount due to contract customers | **(35,564)** | (29,104) |
| | **(28,230)** | (16,821) |
| Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date | **1,357,364** | 1,472,294 |
| Less: Progress billings | **(1,385,594)** | (1,489,115) |
| | **(28,230)** | (16,821) |

## 27. INVENTORIES

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Trading goods | **2,604** | 8,537 |

## 28. ACCOUNTS RECEIVABLE

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Accounts receivable | **74,664** | 119,440 |
| Impairment | **(22,443)** | (55,005) |
| | **52,221** | 64,435 |
| Retention monies receivable | **4,629** | 4,109 |
| | **56,850** | 68,544 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally 90 days for the sale of trading goods and 180 days for the sale of completed properties held for sale. For retention monies receivable in respect of construction works carried out by the Group, the due dates are usually one year after the completion of the construction works. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the balance sheet date, based on the invoice date and net of provision, is as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Current to 90 days | **25,636** | 43,844 |
| 91 to 180 days | **7,061** | 3,803 |
| 181 to 360 days | **5,797** | 2,975 |
| Over 360 days | **13,727** | 13,813 |
| | **52,221** | 64,435 |
| Retention monies receivable | **4,629** | 4,109 |
| Total | **56,850** | 68,544 |

## 28. ACCOUNTS RECEIVABLE *(continued)*

The movement in provision for impairment of accounts receivable are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| At 1 April | **55,005** | 51,761 |
| Impairment losses recognised (note 6) | **3,165** | 6,871 |
| Amount written off as uncollectible | **(16,928)** | (247) |
| Impairment losses reversed (note 6) | **(5,407)** | (3,380) |
| Disposal of subsidiaries (note 40) | **(13,698)** | – |
| Exchange realignment | **306** | – |
| At 31 March | **22,443** | 55,005 |

The individually impaired accounts receivable relate to customers that were in financial difficulties or in default in repayments and only a portion of the receivables was expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **30,020** | 46,209 |
| Less than 3 month past due | **7,731** | 3,344 |
| 3 to 6 months past due | **2,070** | 1,256 |
| More than 6 months past due | **12,400** | 13,626 |
| | **52,221** | 64,435 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Prepayments | **21,551** | 12,399 | **23** | – |
| Deposits | **2,071** | 2,850 | **–** | – |
| | **23,622** | 15,249 | **23** | – |
| Other receivables | **17,886** | 19,470 | **–** | – |
| Impairment | **(5,638)** | (8,499) | **–** | – |
| | **12,248** | 10,971 | **–** | – |
| | **35,870** | 26,220 | **23** | – |

Except for other receivables against which impairment has been made, the remaining assets are neither past due nor impaired. The financial assets included in the above net balances relate to receivables for which there was no recent history of default.

The movement in provision for impairment of other receivables are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| At 1 April | **8,499** | 9,906 |
| Impairment losses recognised (note 6) | **965** | 3,137 |
| Impairment losses reversed (note 6) | **(3,933)** | (4,544) |
| Disposal of subsidiaries (note 40) | **(192)** | – |
| Exchange realignment | **299** | – |
| At 31 March | **5,638** | 8,499 |

The above provision for impairment represented individual other receivables that relate to default in repayments and only a portion of these receivables was expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | *Note* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | | **31,087** | 53,159 | **72** | 59 |
| Time deposits | | **21,465** | 68,184 | **–** | – |
| | | **52,552** | 121,343 | **72** | 59 |
| Less: Pledged time deposits for banking facilities | *34* | **(21,465)** | (68,184) | **–** | – |
| Cash and cash equivalents | | **31,087** | 53,159 | **72** | 59 |

At the balance sheet date, the aggregate cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$26,015,000 (2007: HK$76,141,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

## 31. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Current to 90 days | **25,544** | 30,103 |
| 91 to 180 days | **2** | 168 |
| 181 to 360 days | **1,043** | 1,436 |
| Over 360 days | **6,272** | 6,963 |
| | **32,861** | 38,670 |

The accounts payable are non-interest-bearing and are normally settled on 30-day terms.

## 32. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Deposits received | **5,678** | 27,721 | **–** | – |
| Other payables | **31,484** | 54,526 | **–** | – |
| Accruals | **92,517** | 92,813 | **786** | 800 |
| | **129,679** | 175,060 | **786** | 800 |

Other payables are non-interest-bearing and repayable on demand.

## 33. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate to their fair values.

## 34. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| **Group** | **Contractual interest rate (%)** | **Maturity** | **HK$'000** | Contractual interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – secured | **7.74 to 10.94** | **March 2009** | **14,409** | 6.48 to 7.48 | March 2008 | 41,067 |
| Bank overdrafts – secured | **Prime rate + 0.5** | **On demand** | **25,934** | Prime rate + 0.5 | On demand | 41,853 |
| Trust receipt loans – secured | **Prime rate + 0.875** | **August 2008** | **19,766** | Prime rate + 0.875 | July 2007 | 4,640 |
| | | | **60,109** | | | 87,560 |
| **Non-current** | | | | | | |
| Bank loans – secured | **7.74 to 8.69** | **October 2015** | **39,654** | 6.48 to 7.48 | March 2011 | 84,162 |
| Convertible notes (note 36) | **4.00** | **April 2009** | **15,274** | 4.00 | April 2009 | 14,856 |
| | | | **54,928** | | | 99,018 |
| | | | **115,037** | | | 186,578 |

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| **Company** | **Contractual interest rate (%)** | **Maturity** | **HK$'000** | Contractual interest rate (%) | Maturity | HK$'000 |
| **Non-current** | | | | | | |
| Convertible notes (note 36) | **4.00** | **April 2009** | **15,274** | 4.00 | April 2009 | 14,856 |

## 34. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Analysed into: | | | | |
| Bank loans, overdrafts and trust receipt loans repayable: | | | | |
| Within one year or on demand | **60,109** | 87,560 | **–** | – |
| In the second year | **7,819** | 30,927 | **–** | – |
| In the third to fifth years, inclusive | **18,431** | 53,235 | **–** | – |
| Beyond five years | **13,404** | – | **–** | – |
| | **99,763** | 171,722 | **–** | – |
| Other borrowings repayable: | | | | |
| In the second year | **15,274** | – | **15,274** | – |
| In the third to fifth years, inclusive | **–** | 14,856 | **–** | 14,856 |
| | **115,037** | 186,578 | **15,274** | 14,856 |

The carrying amounts of these bank borrowings approximate to their fair values as at the balance sheet date. The fair value of bank and other borrowings has been calculated by discounting the expected future cash flows at the prevailing interest rates.

Except for the convertible notes with a carrying amount of HK$15,274,000 (2007: HK$14,856,000), these borrowings of the Group bear interest at floating interest rates.

The Group's banking facilities are secured by:

(i) the pledge of certain of the Group's leasehold buildings situated in Hong Kong and Mainland China of HK$83,880,000 (2007:HK$77,356,000) (note 14);

(ii) the pledge of the Group's leasehold land situated in Hong Kong of HK$5,996,000 (2007: HK$13,262,000) (note 16);

(iii) the pledge of the Group's time deposits of HK$21,465,000 (2007: HK$68,184,000) (note 30);

(iv) the pledge of the Group's investment properties situated in Mainland China of HK$134,040,000 (2007: Nil) (note 15); and

(v) the pledge of the Group's financial assets at fair value through profit or loss of HK$1,117,000 (2007: Nil) (note 22).

In addition, the above banking facilities are secured by corporate guarantees executed by the Company.

At 31 March 2007, the Group's banking facilities were also secured by the pledge of certain of the Group's completed properties held for sale of HK$50,471,000 (note 25).

## 35. DEFERRED TAX

The movements in deferred tax asset and liabilities during the year are as follows:

**Deferred tax asset**

| **Group** | **2008** **Losses available for offset against future taxable profits** ***HK$'000*** |
|---|---|
| At 1 April 2007 | **262** |
| Deferred tax charged to the income statement during the year (note 10) | **(262)** |
| Gross deferred tax asset at 31 March 2008 | **–** |

**Deferred tax liabilities**

| **Group** | | | **2008** |
|---|---|---|---|
| | **Accelerated tax depreciation** ***HK$'000*** | **Revaluation of properties** ***HK$'000*** | **Total** ***HK$'000*** |
| At 1 April 2007 | **239** | **11,510** | **11,749** |
| Deferred tax debited to equity during the year | **–** | **2,498** | **2,498** |
| Gross deferred tax liabilities at 31 March 2008 | **239** | **14,008** | **14,247** |
| Net deferred tax liabilities at 31 March 2008 | | | **14,247** |

**Deferred tax asset**

| Group | 2007 Losses available for offset against future taxable profits *HK$'000* |
|---|---|
| At 1 April 2006 | 413 |
| Deferred tax charged to the income statement during the year (note 10) | (151) |
| Gross deferred tax asset at 31 March 2007 | 262 |

## 35. DEFERRED TAX *(continued)*

**Deferred tax liabilities**

| Group | | | 2007 |
|---|---|---|---|
| | Accelerated tax depreciation *HK$'000* | Revaluation of properties *HK$'000* | Total *HK$'000* |
| At 1 April 2006 | 331 | 2,246 | 2,577 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | (92) | 9,264 | 9,172 |
| Gross deferred tax liabilities at 31 March 2007 | 239 | 11,510 | 11,749 |
| Net deferred tax liabilities at 31 March 2007 | | | 11,487 |

The Group has estimated tax losses arising in Hong Kong and Mainland China of HK$581,745,000 (2007: HK$563,074,000) and HK$15,362,000 (2007: HK$25,365,000), respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries with uncertain future operating profit streams.

At 31 March 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

**Deferred tax asset**

**Company**

| | **Losses available for offset against future taxable profits** *HK$'000* |
|---|---|
| At 1 April 2006, 31 March 2007 and 1 April 2007 | 262 |
| Deferred tax charged to the income statement during the year | (262) |
| Deferred tax asset at 31 March 2008 | – |

## 36. CONVERTIBLE NOTES

On 24 April 2006, the Company issued 4% convertible notes with a total nominal value of HK$15,750,000. There was no movement in the number of convertible notes during the year. These notes have a three-year term and were issued at par, giving total proceeds of HK$15,750,000. Interest is payable half-yearly in arrears at a nominal annual interest rate of 4%. These notes are convertible at any time from the first anniversary of the issue date to the thirtieth day prior to the maturity date, at the holder's option, into 35,000,000 ordinary shares of the Company at an initial conversion price of HK$0.45 per share.

The fair value of the liability component of the convertible notes was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option of 7% and is carried as a long term liability. The remainder of the proceeds was allocated to the conversion option that is recognised and included in shareholders' equity.

The convertible notes have been split as to the liability and equity components, as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Nominal value of convertible notes issued | **15,750** | 15,750 |
| Equity component | **(1,259)** | (1,259) |
| Liability component at the issuance date | **14,491** | 14,491 |
| Interest expense | **2,005** | 955 |
| Interest paid | **(1,222)** | (590) |
| Liability component at 31 March (note 34) | **15,274** | 14,856 |

## 37. SHARE CAPITAL

**Shares**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 1,500,000,000 (2007: 1,500,000,000) ordinary shares of HK$0.10 each | **150,000** | 150,000 |
| Issued and fully paid: | | |
| 572,738,017 (2007: 572,683,017) ordinary shares of HK$0.10 each | **57,274** | 57,268 |

## 37. SHARE CAPITAL *(continued)*

A summary of the transactions during the current and prior years with reference to the movements in the Company's issued ordinary share capital is as follows:

| | Notes | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2006 | | 496,683,017 | 49,668 | 96,671 | 146,339 |
| Issue of shares | *(i)* | 65,000,000 | 6,500 | 23,600 | 30,100 |
| Exercise of share options | *(ii)* | 11,000,000 | 1,100 | 2,693 | 3,793 |
| | | 572,683,017 | 57,268 | 122,964 | 180,232 |
| Share issue expenses | | – | – | (401) | (401) |
| At 31 March 2007 and 1 April 2007 | | 572,683,017 | 57,268 | 122,563 | 179,831 |
| Repurchase of shares | *(iii)* | (745,000) | (74) | (179) | (253) |
| Exercise of share options | *(iv)* | 800,000 | 80 | 258 | 338 |
| | | 572,738,017 | 57,274 | 122,642 | 179,916 |
| Share repurchase expenses | | – | – | (2) | (2) |
| Share issue expenses | | – | – | (147) | (147) |
| At 31 March 2008 | | 572,738,017 | 57,274 | 122,493 | 179,767 |

*Notes:*

(i) On 4 April 2006, Sparta Assets Limited (''Sparta Assets''), a company incorporated in the British Virgin Islands with limited liability, which holds approximately 43.29% of the Company's shares at that date, entered into a placing agreement with Penta Investment Advisers Limited (''Penta''), a company incorporated in the British Virgin Islands with limited liability. Pursuant to the placing agreement, Sparta Assets agreed to place 15,000,000 placing shares with Penta at a price of HK$0.34 per share. On the same day, Sparta Assets entered into a share subscription agreement with the Company pursuant to which, Sparta Assets conditionally agreed to subscribe for 15,000,000 subscription shares at the same price of HK$0.34 per share.

On 12 December 2006, the Company entered into a placing agreement with 3V Capital Limited (the ''Placing Agent''), a company incorporated in Hong Kong with limited liability. Pursuant to the placing agreement, the Placing Agent agreed to place 50,000,000 placing shares with Penta at a price of HK$0.50 per share.

(ii) 10,000,000 share options and 1,000,000 share options were exercised at exercise prices of HK$0.272 per share and HK$0.34 per share, respectively, for a total consideration, before expenses, of HK$3,060,000, together with a release of the share option reserve amounting to HK$733,000, which was credited to the share premium account.

## 37. SHARE CAPITAL *(continued)*

*Notes: (continued)*

(iii) During the year, the Company repurchased a total of 745,000 of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at prices ranging from HK$0.335 to HK$0.34 per share, for a total consideration, before expenses, of HK$253,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK$74,000 was transferred from retained profits to the capital redemption reserve. The premium of HK$179,000 paid for the repurchased shares and the share repurchase expenses of HK$2,000 were charged against the share premium account.

(iv) 800,000 share options were exercised at an exercise price of HK$0.34 per share (note 38), for a total consideration, before expenses, of HK$272,000, together with a release of the share option reserve amounting to HK$66,000, which was credited to the share premium account.

**Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 38 to the financial statements.

## 38. SHARE OPTION SCHEME

On 14 August 2002, the share option scheme of the Company adopted on 21 May 1997 ceased to operate and a new share option scheme (the "Scheme") was adopted on the same day to comply with the requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, the Company's shareholders and other employees of the Group. The Scheme became effective on 14 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company at the adoption date of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.

## 38. SHARE OPTION SCHEME *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

| | Number of share options | | | | | | | Price of the Company's shares*** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1 April 2007 | Granted during the year | Exercised during the year | Expired during the year | At 31 March 2008 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ per share | At grant date of options HK$ per share | Immediately before the exercise date HK$ per share | At exercise date of options HK$ per share |
| Directors | | | | | | | | | | | |
| Ho Chung Tai, Raymond | 400,000 | – | (400,000) | – | – | 4 March 2006 | 5 March 2006 to 4 March 2008 | 0.34 | 0.34 | 0.4 | 0.4 |
| | – | 150,000 | – | – | 150,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| Siu Man Po | 400,000 | – | (400,000) | – | – | 4 March 2006 | 5 March 2006 to 4 March 2008 | 0.34 | 0.34 | 0.4 | 0.4 |
| | – | 150,000 | – | – | 150,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| Tjia Boen Sien | – | 500,000 | – | – | 500,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| Wang Jing Ning | – | 1,000,000 | – | – | 1,000,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| Keung Kwok Keung | – | 2,500,000 | – | – | 2,500,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| Ong Chi King | – | 5,000,000 | – | – | 5,000,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| | 800,000 | 9,300,000 | (800,000) | – | 9,300,000 | | | | | | |
| Other employees, in aggregate | 10,450,000 | – | – | (10,450,000) | – | 23 December 2006 | 27 December 2006 to 26 December 2007 | 0.6 | 0.58 | – | – |
| | – | 17,900,000 | – | – | 17,900,000 | 29 January 2008 | 11 February 2008 to 10 February 2009 | 0.4 | 0.34 | – | – |
| | 10,450,000 | 17,900,000 | – | (10,450,000) | 17,900,000 | | | | | | |
| Total | 11,250,000 | 27,200,000 | (800,000) | (10,450,000) | 27,200,000 | | | | | | |

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing price immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

## 38. SHARE OPTION SCHEME *(continued)*

The fair value of the share options granted during the year was HK$379,000 (HK$0.014 each) (2007: HK$1,015,000 (HK$0.097 each)).

The fair value of equity-settled share options granted was estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 March 2008:

| | **2008** | 2007 |
|---|---|---|
| Dividend yield (%) | **0.00** | 0.00 |
| Expected volatility (%) | **23.00** | 42.00 |
| Historical volatility (%) | **23.00** | 42.00 |
| Risk-free interest rate (%) | **2.58** | 3.65 |
| Expected life of option (year) | **1.00** | 1.00 |
| Weighted average share price (HK$) | **0.34** | 0.58 |

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year, 10,450,000 share options (2007: Nil) expired and an amount of HK$1,015,000 (2007: Nil) was transferred from the share option reserve to retained profits in respect of these options.

At the balance sheet date, the Company had 27,200,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 27,200,000 additional ordinary shares of the Company, representing approximately 4.7 % of the Company's shares in issue as at the balance sheet date, and additional share capital of HK$2,720,000 and share premium of HK$8,160,000 (before issue expenses).

## 39. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

### (b) Company

| | Notes | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2006 | | 96,671 | 155,531 | 799 | 9,362 | 5,036 | 267,399 |
| Loss for the year | 11 | – | – | – | – | (5,437) | (5,437) |
| Issue of shares | 37 | 23,600 | – | – | – | – | 23,600 |
| Exercise of share options | 37 | 2,693 | – | (733) | – | – | 1,960 |
| Share issue expenses | 37 | (401) | – | – | – | – | (401) |
| Equity-settled share option arrangements | 38 | – | – | 1,015 | – | – | 1,015 |
| At 31 March 2007 and 1 April 2007 | | 122,563 | 155,531 | 1,081 | 9,362 | (401) | 288,136 |
| Loss for the year | 11 | – | – | – | – | (5,198) | (5,198) |
| Repurchase of shares | 37 | (179) | – | – | 74 | (74) | (179) |
| Exercise of share options | 37 | 258 | – | (66) | – | – | 192 |
| Share repurchase expenses | 37 | (2) | – | – | – | – | (2) |
| Share issue expenses | 37 | (147) | – | – | – | – | (147) |
| Share options expired during the year | 38 | – | – | (1,015) | – | 1,015 | – |
| Equity-settled share option arrangements | 38 | – | – | 379 | – | – | 379 |
| At 31 March 2008 | | 122,493 | 155,531 | 379 | 9,436 | (4,658) | 283,181 |

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 21 May 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a distribution may be made out of the contributed surplus provided that the Company will be able to pay its liabilities as they fall due and subsequent to the distribution, the aggregate amount of its total liabilities, issued share capital and share premium, is less than the realisable value of its assets.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 40. DISPOSAL OF SUBSIDIARIES

| | Notes | 2008 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 14 | 14,591 |
| Interests in associates | | (406) |
| Goodwill | 17 | – |
| Amounts due from associates | | 344 |
| Amounts due from minority shareholders | | 7 |
| Inventories | | 6,136 |
| Accounts receivable | | 16,333 |
| Provision for impairment of accounts receivable | 28 | (13,698) |
| Other receivables | | 10,167 |
| Provision for impairment of other receivables | 29 | (192) |
| Cash and bank balances | | 4,943 |
| Accounts payable | | (3,898) |
| Other payables and accruals | | (31,239) |
| Exchange fluctuation reserve | | (304) |
| Minority interests | | (83) |
| | | 2,701 |
| Legal fee incurred | | 136 |
| Gain on disposal of subsidiaries | | 3,163 |
| | | 6,000 |
| Satisfied by: | | |
| Cash | | 6,000 |

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2008 HK$'000 |
|---|---|
| Cash consideration | 6,000 |
| Cash and bank balances disposed of | (4,943) |
| | 1,057 |
| Less: Legal fee paid | (136) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | 921 |

## 41. NOTE TO THE CASH FLOW STATEMENT

**Major non-cash transaction**

During the year, the Group's investment in an investee increased by HK$2,400,000 by capitalising the amount advanced to that investee in the prior year.

## 42. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Guarantees given to banks in connection with banking facilities granted to subsidiaries | **–** | – | **159,110** | 255,610 |

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of HK$90,939,000 (2007: HK$151,442,000) were utilised by the subsidiaries as at 31 March 2008.

## 43. OPERATING LEASE ARRANGEMENTS

**(a) The Group as lessor**

The Group leases certain of its leasehold buildings (note 14) and certain of its completed properties held for sale (note 25) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,443** | 1,306 |
| In the second to fifth years, inclusive | **5,538** | 637 |
| | **8,981** | 1,943 |

## 43. OPERATING LEASE ARRANGEMENTS *(continued)*

### (b) The Group as lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years.

At 31 March 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **758** | 9,425 |
| In the second to fifth years, inclusive | **2,248** | 40,341 |
| After five years | **3,501** | 31,909 |
| | **6,507** | 81,675 |

The Company had no operating lease arrangements as at 31 March 2008 (2007: Nil).

## 44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) to the financial statements, the Group had the following capital commitments at the balance sheet date:

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Contracted, but not provided for, in respect of: | | |
| Renovation cost of investment properties | **–** | 11,007 |
| Authorised, but not contracted for, in respect of: | | |
| Renovation cost of investment properties | **–** | 17,410 |
| | **–** | 28,417 |

The Company had no material commitment as at 31 March 2008 (2007: Nil).

## 45. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Sale of properties to a director of the Company and his associates | *(i)* | **–** | 8,985 |
| Management fees received from associates | *(ii)* | **807** | 775 |
| Management fees received from a related company | *(ii)* | **120** | – |
| Interest income from a jointly-controlled entity | *(iii)* | **586** | 639 |
| Rental income from a related company | *(iv)* | **273** | – |

*Notes:*

(i) In the prior year, the Group sold three residential apartment units to Mr. Tjia Boen Sien, Mr. Tjia Wai Yip and Ms. Tse Hoi Ying. Mr. Tjia Boen Sien is a director and a substantial shareholder of the Company, and Mr. Tjia Wai Yip and Ms. Tse Hoi Ying are the son and daughter, respectively, of Mr. Tjia Boen Sien. The total consideration for these three residential apartment units was RMB8,896,000, which was referenced to the market value and was on normal commercial terms. These transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) The management fees were charged by reference to actual costs incurred for the services provided by the Group.

(iii) The interest income from a jointly-controlled entity was charged at the prime rate plus 1% per annum on an amount due from it of HK$7,178,000 (2007: HK$7,178,000).

(iv) The rental income was charged to FCL at HK$45,000 per month. Mr. Tjia Boen Sien is a director of and has beneficial interest in the Company and FCL while Mr. Keung Kwok Cheung and Mr. Ong Chi King are directors of the Company and FCL.

(b) Other transactions with related parties:

On 25 September 2007, the Group entered into a sales and purchase agreement with Ideal Choice Holdings Limited, a company wholly-owned by Mr. Tjia Boen Sien, the Managing Director and Deputy Chairman and a substantial shareholder of the Company, in relation to the disposal of 100% interest in FCL and the related shareholder's loan, at a total consideration of HK$6,000,000. FCL and its subsidiaries are principally engaged in operation of fitness centres and trading of fitness equipment business. The disposal was completed on 30 September 2007 and the sales proceeds were fully settled upon completion of the disposal. Details of this disposal of subsidiaries are included in note 40 to the financial statements.

## 45. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) Details of the Group's balances with its jointly-controlled entity and associates as at the balance sheet date are included in notes 19 and 20 to the financial statements, respectively;

(ii) Details of the Company's balances with its subsidiaries as at the balance sheet date are included in note 18 to the financial statements;

(iii) Details of the Group's balances with minority shareholders as at the balance sheet date are included in note 24 to the financial statements; and

(iv) Details of the Group's balances with related companies as at the balance sheet date are included in note 33 to the financial statements.

(d) Compensation of key management personnel of the Group:

The key management personnel of the Group are the directors of the Company. Details of their remuneration are disclosed in note 8 to the financial statements.

## 46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

**2008** **Group**

**Financial assets**

| | Financial assets at fair value through profit or loss *HK$'000* | Loans and receivables *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Amount due from a jointly-controlled entity (note 19) | – | 15,679 | 15,679 |
| Amounts due from associates (note 20) | – | 23,620 | 23,620 |
| Financial assets at fair value through profit or loss | 2,234 | – | 2,234 |
| Accounts receivable | – | 56,850 | 56,850 |
| Financial assets included in prepayments, deposits and other receivables (note 29) | – | 14,319 | 14,319 |
| Cash and cash equivalents | – | 31,087 | 31,087 |
| Pledged time deposits | – | 21,465 | 21,465 |
| | 2,234 | 163,020 | 165,254 |

## 46. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

**2008**

| **Financial liabilities** | **Group** |
|---|---|
| | **Financial liabilities at amortised cost** |
| | ***HK$'000*** |
| Amounts due to associates (note 20) | **547** |
| Amounts due to minority shareholders | **17,360** |
| Amounts due to related companies | **23,813** |
| Accounts payable | **32,861** |
| Financial liabilities included in other payables and accruals (note 32) | **31,484** |
| Interest-bearing bank borrowings | **99,763** |
| Convertible notes | **15,274** |
| | **221,102** |

**2007**

| **Financial assets** | **Group** |
|---|---|
| | Loans and receivables |
| | *HK$'000* |
| Amount due from a jointly-controlled entity (note 19) | 13,953 |
| Amounts due from associates (note 20) | 24,563 |
| Amounts due from investees | 17,721 |
| Amounts due from minority shareholders | 7 |
| Accounts receivable | 68,544 |
| Financial assets included in prepayments, deposits and other receivables (note 29) | 13,821 |
| Cash and cash equivalents | 53,159 |
| Pledged time deposits | 68,184 |
| | 259,952 |

## 46. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

**2007**

**Group**

**Financial liabilities**

| | Financial liabilities at amortised cost |
|---|---|
| | *HK$'000* |
| Amounts due to associates (note 20) | 534 |
| Amounts due to minority shareholders | 11,824 |
| Accounts payable | 38,670 |
| Financial liabilities included in other payables and accruals (note 32) | 54,526 |
| Interest-bearing bank borrowings | 171,722 |
| Convertible notes | 14,856 |
| | 292,132 |

**Financial assets**

**Company**

| | **Loans and receivables** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Amounts due from subsidiaries (note 18) | **201,648** | 205,967 |
| Cash and cash equivalents | **72** | 59 |
| | **201,720** | 206,026 |

**Financial liabilities**

| | **Financial liabilities at amortised cost** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Convertible notes | **15,274** | 14,856 |

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, convertible notes, available-for-sale investments, financial assets at fair value through profit or loss, cash and cash equivalents and pledged time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, accounts payable, balances with a jointly-controlled entity, associates, minority shareholders and related companies, deposits and other receivables, and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate in Hong Kong.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 34 to the financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank loans and overdrafts, cash and bank balances, and short-term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expense are charged to the consolidated income statement as incurred.

The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax and equity (through the impact on floating rate borrowings).

**Group**

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** *HK$'000* | **Increase/ (decrease) in equity** *HK$'000* |
|---|---|---|---|
| **2008** | | | |
| **Hong Kong dollar** | **100** | **(541)** | **(541)** |
| **Hong Kong dollar** | **(100)** | **541** | **541** |
| 2007 | | | |
| Hong Kong dollar | 100 | (463) | (463) |
| Hong Kong dollar | (100) | 463 | 463 |

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Foreign currency risk**

The monetary assets and transactions of several subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in RMB exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in exchange rate | Increase/ (decrease) in profit before tax | Increase/ (decrease) in equity |
|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* |
| **2008** | | | |
| **If Hong Kong dollar weakens against RMB** | **5** | **(4,895)** | **(4,895)** |
| **If Hong Kong dollar strengthens against RMB** | **(5)** | **4,895** | **4,895** |
| 2007 | | | |
| If Hong Kong dollar weakens against RMB | 5 | (4,957) | (4,957) |
| If Hong Kong dollar strengthens against RMB | (5) | 4,957 | 4,957 |

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise amount due from jointly-controlled entity, amounts due from associates, financial assets at fair value through profit or loss, other receivables and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 42 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and other receivables are disclosed in notes 28 and 29 to the financial statements, respectively.

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, convertible notes, and other interest-bearing borrowings. The Group's policy is to ensure the matching of maturity of its financial liabilities against its financial assets, and the maintenance of a current ratio, defined as current assets over current liabilities, at above one so as to enhance a stable liquidity.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

**Group**

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Over 5 years | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts due to associates (note 20) | 547 | – | – | – | – | 547 |
| Amounts due to minority shareholders | 17,360 | – | – | – | – | 17,360 |
| Amounts due to related companies | 23,813 | – | – | – | – | 23,813 |
| Accounts payable | – | 32,861 | – | – | – | 32,861 |
| Financial liabilities included in other payable and accruals (note 32) | 31,484 | – | – | – | – | 31,484 |
| Interest-bearing bank borrowings | 45,700 | 838 | 13,571 | 26,250 | 13,404 | 99,763 |
| Convertible notes | – | – | – | 15,750 | – | 15,750 |
| | 118,904 | 33,699 | 13,571 | 42,000 | 13,404 | 221,578 |

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Liquidity risk** *(continued)*

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Over 5 years | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts due to associates (note 20) | 534 | – | – | – | – | 534 |
| Amounts due to minority shareholders | 11,824 | – | – | – | – | 11,824 |
| Accounts payable | – | 38,670 | – | – | – | 38,670 |
| Financial liabilities included in other payable and accruals (note 32) | 54,526 | – | – | – | – | 54,526 |
| Interest-bearing bank borrowings | 46,493 | 10,901 | 30,166 | 84,162 | – | 171,722 |
| Convertible notes | – | – | – | 15,750 | – | 15,750 |
| | 113,377 | 49,571 | 30,166 | 99,912 | – | 293,026 |

The contracted undiscounted payments of the Company's financial liabilities in respect of the convertible notes amounted to HK$15,750,000 (2007: HK$15,750,000) and the maturity profile of these financial liabilities fell within the band of one to five years (2007: one to five years).

**Capital management**

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 31 March 2007.

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Capital management** *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes accounts payable, other payables and accruals, amounts due to associates, minority shareholders and related companies, and interest-bearing bank borrowings, less cash and cash equivalents. Capital includes convertible notes and equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Accounts payable | **32,861** | 38,670 |
| Other payables and accruals | **129,679** | 175,060 |
| Amounts due to associates | **547** | 534 |
| Amounts due to minority shareholders | **17,360** | 11,824 |
| Amounts due to related companies | **23,813** | – |
| Interest-bearing bank borrowings | **99,763** | 171,722 |
| Less: Cash and cash equivalents | **(31,087)** | (53,159) |
| Net debt | **272,936** | 344,651 |
| Convertible notes, the liability component | **15,274** | 14,856 |
| Equity attributable to equity holders of the Company | **457,573** | 414,830 |
| Total capital | **472,847** | 429,686 |
| Capital and net debt | **745,783** | 774,337 |
| Gearing ratio | **37%** | 45% |

## 48. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2008. In addition, the comparative income statement has been re-represented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 12).

## 49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 July 2008.