



31 March 2001

### 1. CORPORATE INFORMATION

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

- the construction business, as a main contractor, as well as contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and elsewhere in the People's Republic of China ("PRC"),
- property development and investment; and
- the trading and retailing of fitness, leisure and medical equipment and the provision of related installation and services.

### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

#### **Basis of presentation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 the remeasurement of certain fixed assets and investments, as further explained in the respective accounting policies below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

#### **Goodwill or capital reserves**

Goodwill or capital reserves arising on the consolidation of subsidiaries and the acquisition of associates represents the excess/shortfall of the purchase considerations paid for the subsidiaries/associates over/below the fair values ascribed to the underlying net tangible assets acquired, and is eliminated against/credited to reserves, respectively, in the year of acquisition.

Upon the disposal of such subsidiaries or associates, the relevant portion of the attributable goodwill/capital reserves previously eliminated against/credited to reserves is charged/credited to the profit and loss account in arriving at the gain or loss on disposal.



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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

#### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. 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.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation.

The cost of an asset 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 the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 a fixed asset, the expenditure is capitalised as an additional cost of that asset.

In respect of fixed assets which are stated at valuation, the surplus or deficit on revaluation is taken to the fixed assets revaluation reserve. If this reserve, on an individual asset basis, is insufficient to cover a deficit, then the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. A subsequent surplus on revaluation is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On the disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.



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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Fixed assets and depreciation** *(continued)*

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

Leasehold land	Over the remaining lease terms
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

#### **Long term investments**

Long term investments are listed equity securities held for strategic reasons and are stated at cost less provisions for impairments in values which are considered to be other than temporary, as determined by the directors.

#### **Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

#### **Short term investments**

Short term investments are investments in listed equity securities not held for any identified long term purposes. Listed investments are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.



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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Construction contracts**

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

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.

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

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Properties held for sale**

Properties under development which are intended for sale are included in properties held for sale and stated at the lower of cost and net realisable value, which is estimated by the directors based on 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 prevailing market prices on an individual property basis.

#### **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) construction and other long term contract work performed, on the percentage of completion basis when the outcome of contracts can be reasonably foreseen, after making due allowances for contingencies. Provision is made for any foreseeable losses as soon as such losses are anticipated by management;



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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Revenue recognition** *(continued)*

- (b) 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) rendering of services, in the accounting period in which the services are rendered;
- (d) 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 the straight-line basis over the respective periods of the leases;
- (f) dividends, when the shareholders' right to receive payment is established; and
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation rate for the period is based on the weighted average of the attributable costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

#### **Pension costs**

The Group operates defined contribution retirement benefits schemes under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employers contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.



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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Foreign currency transactions during the year are recorded at the applicable rates of exchange ruling at the transaction dates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and associates denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange fluctuation reserve.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.



## NOTES TO THE FINANCIAL STATEMENTS

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### 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### 3. TURNOVER AND REVENUE

Turnover represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced; income from property development and investment; and the net invoiced value of goods sold, after allowance for goods returned and trade discounts. An analysis of turnover and revenue is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Construction contracting and related business	457,169	351,835
Income from property development and investment	103,988	8,000
Sales and installation of fitness, leisure and medical equipment and related business	82,042	66,269
Turnover	643,199	426,104
Interest income	6,068	2,961
Net rental income	1,878	989
Gain on disposal of subsidiaries	4,929	–
Others	5,582	2,856
	18,457	6,806
Turnover and revenue	661,656	432,910



## NOTES TO THE FINANCIAL STATEMENTS

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### 4. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Deficit/(surplus) on revaluation of land and buildings	<b>(952)</b>	952
Gain on disposal of property interests	<b>(6,948)</b>	(90)
Exchange gains, net	<b>(685)</b>	(2,226)
Loss/(gain) on disposal of fixed assets	<b>(42)</b>	9
Net unrealised holding loss/(gain) on short term investments	<b>1,460</b>	(1,261)
Auditors' remuneration	<b>1,474</b>	927
Depreciation:		
Owned fixed assets	<b>4,561</b>	3,060
Leased fixed assets	–	95
Provision for doubtful debts	<b>251</b>	1,701
Provision for completed properties for sale	–	1,626
Write off of deferred pre-operating expenses	–	545
Operating lease rentals on land and buildings	<b>2,271</b>	2,070
Loss on disposal of interest in a subsidiary	<b>647</b>	–
Loss on disposal of associates	<b>247</b>	–
Staff costs:		
Wages and salaries (including directors' emoluments see note 6)	<b>43,179</b>	32,530
Pension contributions	<b>2,072</b>	1,910
Less: Forfeited contributions #	<b>(242)</b>	(25)
Net pension contributions	<b>1,830</b>	1,885
	<b>45,009</b>	34,415

# At 31 March 2001, there were no forfeited contributions available to the Group to reduce contributions to the pension scheme in future years (2000: Nil).





## NOTES TO THE FINANCIAL STATEMENTS

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### 5. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	6,229	5,846
Interest on finance leases	28	22
	<hr/>	<hr/>
Total finance costs	6,257	5,868
Interest capitalised	(1,688)	(459)
	<hr/>	<hr/>
	<u>4,569</u>	<u>5,409</u>

### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

Directors' emoluments disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	196	240
Basic salaries and allowances	5,149	4,908
	<hr/>	<hr/>
	<u>5,345</u>	<u>5,148</u>

Directors' fees of HK\$196,000 (2000: HK\$240,000) were paid to the independent non-executive directors of the Company.



## NOTES TO THE FINANCIAL STATEMENTS

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### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

#### (a) Directors' emoluments *(continued)*

The remuneration of the directors fell within the following bands:

	Group	
	2001	2000
	Number of directors	Number of directors
Nil – HK\$1,000,000	9	9
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>10</u>	<u>10</u>

There were no arrangements under which a director waived or agreed to waive any emoluments.

During the financial year, options to acquire shares in the Company were granted to certain directors as set out in note 25. In the absence of a readily available market value for these options, the directors are unable to determine the value of the benefits in kind arising from the granting of these options and accordingly, no amount attributable thereto is included in the above remuneration.

#### (b) Employees' emoluments

The five highest paid employees during the year included three (2000: Four) directors, the details of whose remuneration are set out in note 6(a) above. The details of the emoluments of the remaining two (2000: One) non-director, highest paid individuals are set out below.

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries and allowances	1,655	809
Contributions to pension scheme	72	29
	<u>1,727</u>	<u>838</u>

The emoluments of the above highest paid individuals fell within the band of Nil to HK\$1,000,000 in both the years ended 31 March 2001 and 2000.



## NOTES TO THE FINANCIAL STATEMENTS

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### 7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Provision for tax:		
Hong Kong	(225)	(905)
Outside Hong Kong	(723)	(509)
	<u>(948)</u>	<u>(1,414)</u>
Overprovision in prior years:		
Hong Kong	1,110	–
Outside Hong Kong	5,074	–
	<u>6,184</u>	–
Share of tax attributable to associates	<u>(130)</u>	<u>(445)</u>
Tax credit/(charge) for the year	<u><u>5,106</u></u>	<u><u>(1,859)</u></u>

### 8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$4,699,000 (2000: loss of HK\$4,019,000).



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### 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$13,407,000 (2000: HK\$13,948,000) and the weighted average of 4,832,683,000 (2000: 3,950,495,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to the shareholders for the year of HK\$13,347,000 (2000: HK\$13,948,000), which comprises the HK\$13,407,000 used in the basic earnings per share calculation and the decrease of HK\$60,000 in the sharing of profit of the Company's listed subsidiary, KEL Holdings Limited ("KEL"), upon the deemed exercise of the full conversion right of the convertible notes in KEL. The weighted average number of shares used in the calculation is 4,841,611,000 (2000: 4,044,558,000) shares, which includes the weighted average of 8,928,000 (2000: 94,063,000) shares assumed to have been issued at no consideration on the deemed exercise of the options expiring on 1 April 2002, 22 April 2003 and 2 May 2003. The warrants that were outstanding during the year had an anti-dilutive effect on the basic earnings per share and so have not been included in the diluted earnings per share calculation.



## NOTES TO THE FINANCIAL STATEMENTS

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### 10. FIXED ASSETS

Group	Leasehold		Leasehold	Furniture	Office	Tools and	Motor	Total
	land and	land and						
	buildings	buildings	improvements	and	equipment	equipment	vehicles	
	situated in	situated		fixtures				
	Hong Kong	outside	Hong Kong					
	HK\$'000	Hong Kong	improvements	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost or valuation:								
At beginning of year	52,900	10,530	2,469	7,180	4,541	964	5,563	84,147
Additions	-	-	4,666	3,127	6,719	324	-	14,836
Disposals	(9,400)	-	(184)	-	(120)	(9)	(180)	(9,893)
Arising on acquisition								
of subsidiaries	-	-	352	-	1,790	1,331	550	4,023
Arising on disposal of subsidiaries	-	(650)	(4,131)	(6,356)	(8,188)	-	-	(19,325)
Surplus/(deficit) on revaluation	8,650	(2,880)	-	-	-	-	-	5,770
Exchange realignments	-	-	4	-	1	2	1	8
At 31 March 2001	52,150	7,000	3,176	3,951	4,743	2,612	5,934	79,566
Accumulated depreciation:								
At beginning of year	-	-	965	6,239	2,289	195	3,169	12,857
Provided during the year	1,088	174	1,050	569	1,135	109	436	4,561
Disposals	-	-	(28)	-	(81)	(1)	(160)	(270)
Arising on acquisition of subsidiaries	-	-	59	-	1,406	1,328	456	3,249
Arising on disposal of subsidiaries	-	-	(411)	(4,824)	(2,045)	-	-	(7,280)
Surplus/(deficit) on revaluation	(1,088)	(174)	-	-	-	-	-	(1,262)
Exchange realignments	-	-	2	-	-	-	-	2
At 31 March 2001	-	-	1,637	1,984	2,704	1,631	3,901	11,857
Net book value:								
At 31 March 2001	52,150	7,000	1,539	1,967	2,039	981	2,033	67,709
At 31 March 2000	52,900	10,530	1,504	941	2,252	769	2,394	71,290
Analysis of cost and valuation:								
At cost	-	-	3,176	3,951	4,743	2,612	5,934	20,416
At 2001 valuation	52,150	7,000	-	-	-	-	-	59,150
	52,150	7,000	3,176	3,951	4,743	2,612	5,934	79,566



## NOTES TO THE FINANCIAL STATEMENTS

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### 10. FIXED ASSETS (continued)

At 31 March 2001, there were no fixed assets held under finance leases. At 31 March 2000, the net book values of assets held under finance leases included in the total amount of fixed assets amounted to HK\$415,000. The depreciation charge for prior year in respect of such assets amounted to HK\$95,000.

The Group's land and buildings were revalued at 31 March 2001 by B.I. Appraisals Limited, independent professional qualified valuers, at an aggregate open market value of HK\$59,150,000 (2000: HK\$63,430,000), based on their existing use. Revaluation surpluses of HK\$6,080,000 (2000: deficit of HK\$3,712,000) and HK\$952,000 (2000: deficit of HK\$952,000 charged to profit and loss account) resulting from the above revaluation have been credited to the fixed assets revaluation reserve and the profit and loss account, respectively.

Had these land and buildings not been revalued, their net book value at 31 March 2001 would have been HK\$51,120,000 (2000: HK\$60,528,000), being their cost of HK\$57,506,000 (2000: HK\$67,559,000) less accumulated depreciation of HK\$6,386,000 (2000: HK\$7,031,000), and the current year's depreciation charge would have been reduced by HK\$30,000 (2000: HK\$214,000).

The land and buildings at valuation included above are held under the following lease terms:

	<b>Hong Kong</b>	<b>Outside</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>Hong Kong</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leases	28,000	–	28,000
Medium term leases	24,150	7,000	31,150
	<u>52,150</u>	<u>7,000</u>	<u>59,150</u>

Certain land and buildings of the Group are pledged to banks to secure banking facilities granted to the Group.



## NOTES TO THE FINANCIAL STATEMENTS

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### 11. DEFERRED DEVELOPMENT COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Additions during the year and balance at year end	<u>2,953</u>	<u>–</u>

The deferred development costs represent expenditure incurred on a technology development project by Deson-IES Engineering Limited ("Deson-IES"), a subsidiary of the Company. Deson-IES and the City University of Hong Kong have jointly entered into a co-operation agreement with the Industry Department of the Government of the HKSAR on this project. The project is mainly focused on developing a LAN-based Intelligent Management System, which includes a web-based platform to integrate virtually unlimited sub-systems related to building management system, office automation system and communication and network system.

### 12. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	156,031	156,031
Due from subsidiaries	<u>152,552</u>	<u>111,495</u>
	<u>308,583</u>	<u>267,526</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 12. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ operations	Issued/ registered capital	Class of shares held	Equity interest held by the		Principal activities
				Company	Group	
Deson Development Holdings Limited	British Virgin Islands/ Hong Kong	US\$200	Ordinary	100%	100%	Investment holding
Deson Development Limited	Hong Kong	HK\$100 HK\$20,000,000	Class A Class B *	–	100%	Construction contracting and investment holding
Deson Ventures Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100%	Investment holding
Super Win Development Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100%	Investment holding
Asia Construction Holdings Limited	Hong Kong	HK\$2,000,000	Ordinary	–	55%	Investment holding
LSY Asia Construction Limited	Hong Kong	HK\$10	Ordinary	–	33%	Construction contracting
Billion Hope Holdings Limited	Hong Kong	HK\$10,000	Ordinary	–	70%	Construction contracting
Bless Honour Limited	Hong Kong/ Peoples' Republic of China	HK\$2	Ordinary	–	100%	Property investment
Penmark Limited	Hong Kong/ People's Republic of China	HK\$30	Ordinary	–	100%	Property holding





## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 12. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Issued/ registered capital	Class of shares held	Equity interest held by the		Principal activities
				Company	Group	
Wonderful Hope Limited	British Virgin Islands/ People's Republic of China	US\$1	Ordinary	–	100%	Property development
Beijing Chang De Architectural & Decoration Co., Ltd.***	People's Republic of China	RMB16,000,000	**	–	60%	Decoration engineering
Ningbo Deson Real Estate Construction Co., Ltd.***	People's Republic of China	RMB21,000,000	**	–	100%	Property investment
Hua Sheng International Real Estate Development (Shanghai) Co., Ltd	People's Republic of China	US\$6,400,000	**	–	100%	Property development
KEL Holdings Limited	Bermuda/ Hong Kong	HK\$71,337,000	Ordinary	–	56.1%	Investment holding
Kenworth Engineering Limited (formerly known as UDL Kenworth Engineering Limited)	Hong Kong	HK\$10,093,000	Ordinary	–	56.1%	Provision of electrical and mechanical engineering services

\* 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.

\*\* The issued/paid-up capital of these subsidiaries is not classified.

\*\*\* The remittance of dividends to the Group from these subsidiaries operating outside Hong Kong is subject to the availability of foreign currency generated and retained by the subsidiaries.

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.



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

On 26 April 2000, the Company entered into a conditional debt restructuring and share subscription agreement ("DRA") with KEL and certain of its subsidiaries (collectively the "KEL Group"), Wonderland Development Limited ("Wonderland"), the former holding company of the KEL Group, and certain of the KEL Group's bank creditors. The principal terms of the restructuring proposal, which included the proposed schemes of arrangement, involved, inter alia, the following:

- (i) a subscription for 400 million new shares in KEL by Super Win Development Limited, a wholly-owned subsidiary of the Company, for a cash consideration of HK\$40 million (the "Subscription"), representing approximately 56.1% of the enlarged issued share capital of KEL;
- (ii) three schemes of arrangement involving KEL and its two subsidiaries, Kenworth Engineering Limited ("Kenworth") and Kenworth Group Limited under Section 166 of the Hong Kong Companies Ordinance (collectively the "Schemes");
- (iii) a reduction, subdivision and consolidation of the share capital, a reduction of the share premium account and an increase in the authorised share capital of KEL (the "KEL Capital Reorganisation");
- (iv) an issue of 40 million warrants to the shareholders on the basis of one warrant for every new share then held by the existing shareholders prior to the completion of the DRA (the "Warrant Issue");
- (v) a reduction of the issued share capital of Kenworth from HK\$127,400,000 to HK\$1,592,500; and
- (vi) a convertible note issue to the scheme creditors, see note 24 for further details (the "Note Issue").

The Subscription, the KEL Capital Reorganisation, the Warrant Issue and the Note Issue were approved at a special general meeting of KEL held on 19 July 2000. On 3 August 2000, the KEL Capital Reorganisation became effective. On 10 August 2000, the Subscription and the Warrant Issue were completed, the DRA became unconditional and the Company became KEL's ultimate holding company after the subscription for 400 million new shares in KEL for a cash consideration of HK\$40 million.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 13. INTERESTS IN ASSOCIATES

	<b>2001</b>	<b>Group</b> 2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets other than goodwill	<b>9,002</b>	11,399
Due from associates	<b>17,719</b>	1,273
Due to an associate	<b>(1,774)</b>	–
	<b><u>24,947</u></b>	<b><u>12,672</u></b>

The balances due from associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$12,968,000 (2000: Nil) which bears interest at the prevailing market rate. The balance due to an associate is unsecured, interest-free and has no fixed terms of repayment.

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

Company name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of capital held by the Group	Principal activities
W & D Joint Venture Limited contracting	Corporate	Hong Kong	Ordinary	45%	Construction
Deson Metals Company Limited	Corporate	Hong Kong	Ordinary	40%	Trading of construction materials
Fuzhou Jiandi Concrete Co., Ltd.**	Corporate	People's Republic of China	*	40%	Manufacture of concrete products
Fitness Concept Limited	Corporate	Hong Kong	Ordinary	49%	Investment holding



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 13. INTERESTS IN ASSOCIATES (continued)

Company name	Business structure	Place of incorporation or registration/operations	Class of shares held	Percentage of capital held by the Group	Principal activities
Fitness Concept Leisure Supplies Limited	Corporate	Hong Kong	Ordinary	49%	Trading and retailing of fitness and leisure equipment
Medical Technologies Limited	Corporate	Hong Kong	Ordinary	49%	Trading of medical equipment
上海美格菲健身中心有限公司**	Corporate	People's Republic of China	*	36.75%	Fitness centre operation

\* The issued/paid up capital of these associates is not classified.

\*\* The remittance of dividends to the Group from these associates operating outside Hong Kong is subject to the availability of foreign currency 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.

### 14. LONG TERM INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed investments in securities outside Hong Kong, at cost	<u>6,153</u>	<u>—</u>
Market value of listed investments at balance sheet date	<u>6,303</u>	<u>—</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 15. PROPERTIES HELD FOR SALE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Completed properties held for sale	64,421	117,970
Properties under development for sale	121,708	57,740
	<u>186,129</u>	<u>175,710</u>

The carrying amount of completed properties held for sale carried at net realisable value included in the above is HK\$22,811,000 (2000: HK\$22,800,000).

- (i) In prior years, only those properties expected to be realised within twelve months of the balance sheet date were included in current assets. In the opinion of directors, in order to better reflect the operations of the Group, properties under development which are expected to be realised in the normal course of the Group's property development cycle are now included in current assets. As a result, properties under development in the 31 March 2000 comparative balance sheet in the aggregate amount of HK\$57,740,000 which were grouped under non-current assets as at 31 March 2000 have been reclassified as properties under development for sale under current assets.
- (ii) The Group has acquired a piece of land located in Shanghai (the "Lung Hua Land") in the current year. The Group intends to develop the Lung Hua Land into residential units. As at 31 March 2001, total costs incurred on the proposed development amounted to HK\$55,506,000. Pursuant to a supplementary agreement to the original land use rights agreement entered into between Hua Sheng International Real Estate Development (Shanghai) Co., Ltd, a subsidiary of the Group and the Shanghai Land Administration Bureau, 60% of the construction work needed to be completed by 31 December 2000. The Group has obtained approval from the government to commence foundation work and is in the process of obtaining an extension of the completion date of the project.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 16. CONSTRUCTION CONTRACTS

		Group	
		2001	2000
	Note	HK\$'000	HK\$'000
Gross amounts due from contract customers	(i)	31,707	18,370
Gross amounts due to contract customers		<u>(39,960)</u>	<u>(19,437)</u>
		<u>(8,253)</u>	<u>(1,067)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	(ii)	3,401,052	396,885
Less: Progress billings	(ii)	<u>(3,409,305)</u>	<u>(397,952)</u>
		<u>(8,253)</u>	<u>(1,067)</u>

- (i) The amount of retentions held by customers for contract works included in accounts receivable under current assets is HK\$2,800,000 (2000: Nil).
- (ii) Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date include amounts of HK\$2,741,269,000 (2000: Nil), and progress billings include amounts of HK\$2,740,582,000, which are related to construction contracts which have been terminated, ceased or had insignificant activities during the year under the KEL Group. Because there are numerous disputes and claims between the KEL Group and its contract employers, suppliers, subcontractors and subcontractors' employees, the directors have not been able to negotiate and agree final completion accounts for these terminated, ceased or inactive construction contracts.

### 17. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trading goods	<u>642</u>	<u>6,348</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 18. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

	Group					
	2001			2000		
	Balance	Provisions	Net	Balance	Provisions	Net
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	30,858	–	30,858	39,921	–	39,921
91 180 days	1,049	–	1,049	2,089	(5)	2,084
181 360 days	444	–	444	11,502	(2,221)	9,281
Over 360 days	75,843	(56,031)	19,812	86,746	(13,178)	73,568
	<b>108,194</b>	<b>(56,031)</b>	<b>52,163</b>	140,258	(15,404)	124,854
Retention money receivable	33,375	(30,575)	2,800	–	–	–
Total	<b>141,569</b>	<b>(86,606)</b>	<b>54,963</b>	140,258	(15,404)	124,854

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

### 19. SHORT TERM INVESTMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Listed investments in securities in Hong Kong, at market value	<b>1,370</b>	2,830

### 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	29,486	41,353	191	2,536
Time deposits	17,358	7,841	–	–
Cash and cash equivalents	<b>46,844</b>	49,194	<b>191</b>	2,536



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 21. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 90 days	21,793	40,491
91 180 days	12,272	1,354
181 360 days	3,215	22,462
Over 360 days	5,572	25,084
	<u>42,852</u>	<u>89,391</u>

### 22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts, secured	29,766	9,893
Bank loans, secured	7,356	27,674
Trust receipt loans, secured	33,721	27,962
Other borrowings, unsecured	–	1,983
Finance lease payables	–	244
	<u>70,843</u>	<u>67,756</u>
Portion due within one year classified as current liabilities	<u>(70,843)</u>	<u>(65,773)</u>
Long term portion	<u>–</u>	<u>1,983</u>

The bank loans and the Group's banking facilities are secured by:

- the Group's time deposits of HK\$32,590,000 (2000: HK\$20,617,000);
- certain land and buildings of the Group; and
- proceeds received and receivable from a contract.





## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 23. DEFERRED TAX

The principal components of the Group's deferred tax assets/(liabilities) not provided for in these financial statements are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(40)	–
Tax losses available for future relief	78,244	–
	<u>78,204</u>	<u>–</u>

The benefit of any future tax relief, which may arise from past losses incurred by a subsidiary, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit thereof until it is assured beyond reasonable doubt.

The revaluation of the Group's land and buildings does not constitute a timing difference and, consequently, the amount of tax thereon has not been quantified.

No provision has been made for taxes which would arise on the remittance to Hong Kong of the retained profits of overseas companies, as it is not anticipated that these amounts will be remitted in the near future.

As at 31 March 2001, the Company did not have any significant unprovided deferred tax.

### 24. CONVERTIBLE NOTES

Under the Schemes as detailed in note 12 to the financial statements, for every HK\$10,000 of its Scheme debt, KEL, a subsidiary of the Group, issued convertible notes (the "Notes") in the principal amount of HK\$187.50 to the Scheme creditor on 30 August 2000. The Notes bear interest at a rate of 2% per annum, are convertible into new shares of KEL at a conversion price of HK\$0.10 per share (the "Conversion Price") at any time up to 1 September 2003, being the third anniversary of the date of the issue. The Conversion Price is subject to certain adjustments as defined in the note instrument.

KEL has granted each noteholder a put option to require the Company to purchase or procure a third party to purchase the Notes from the noteholder at a price equal to the aggregate amount of principal outstanding on the Notes plus accrued interest. The put option is exercisable only once, upon service of notice in writing on a date not earlier than the thirtieth day and not later than the fifteenth day preceding the second anniversary of the issue date of the Notes.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 25. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

#### Shares

	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.01 each	<u>150,000</u>	<u>150,000</u>
<i>Issued and fully paid:</i>		
4,797,248,500 (2000: 4,451,788,000) ordinary shares of HK\$0.01 each	<u>47,972</u>	<u>44,518</u>

Movements in the issued share capital of the Company during the year were as follows:

	Number of ordinary shares	Amount HK\$'000
At beginning of year	4,451,788,000	44,518
Issue of new shares (i)	300,000,000	3,000
Arising on exercise of share options (ii)	40,000,000	400
Arising on exercise of warrants (iii)	59,920,500	599
Arising on redemption of shares (iv)	<u>(54,460,000)</u>	<u>(545)</u>
At 31 March 2001	<u>4,797,248,500</u>	<u>47,972</u>

- (i) On 7 April 2000, the Company allotted and issued 300,000,000 new ordinary shares of HK\$0.01 each to Kingsway SW Securities Limited, at a subscription price of HK\$0.11 per ordinary share. The net proceeds derived from the placing of approximately HK\$32,176,000 were used as general working capital of the Group.
- (ii) During the year, 40,000,000 share options were exercised at the subscription price of HK\$0.028 per share resulting in the issue of 40,000,000 shares, for a total cash consideration, before expenses, of HK\$1,120,000.



31 March 2001

### 25. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS *(continued)*

#### Shares *(continued)*

- (iii) During the year, 57,124,000 and 2,796,500 shares were issued for cash at a subscription price of HK\$0.085 and HK\$0.08 per share, respectively, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$5,079,260.
- (iv) During the year, the Company repurchased a total of 54,460,000 of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at prices ranging from HK\$0.024 to HK\$0.082 per share, for a total consideration, before expenses, of HK\$1,972,800. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium account (note 26).

#### Share options

On 21 May 1997, the Company approved a share option scheme (the "Option Scheme") under which the board of directors of the Company may, at their discretion, grant options to any executive director or employee of the Group at any time during the ten years from the date when the Option Scheme was approved. According to the Option Scheme, the subscription price will be at a price determined by the directors and will be the higher of a price being not less than 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant or the nominal value of the Company's shares. The maximum number of shares on which options may be granted may not exceed 10% of the ordinary share capital of the Company in issue from time to time. The Option Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 10 June 1997.

#### Share options expiring on 1 April 2002

At the beginning of the year, there were outstanding share options of 40,000,000, of which 28,000,000 and 12,000,000 were granted to the directors and employees of the Group, respectively. The options are exercisable during the period from 2 April 2000 to 1 April 2002 at a subscription price of HK\$0.028 each.

During the year, all the share options were exercised to subscribe for the Company's shares for a total cash consideration, before expenses, of HK\$1,120,000.



31 March 2001

### 25. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS *(continued)*

#### **Share options** *(continued)*

Share options expiring on 22 April 2003

On 23 October 2000, the Company granted 27,000,000 share options and 13,000,000 share options to the directors and employees of the Group at HK\$1 per grant respectively. The options are exercisable during the period from 23 April 2001 to 22 April 2003 at a subscription price of HK\$0.0384 each.

None of these options was exercised during the year.

As at 31 March 2001, the outstanding share options had an aggregate subscription value of HK\$1,536,000. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 40,000,000 additional shares.

Share options expiring on 2 May 2003

On 3 November 2000, the Company granted 3,000,000 share options to an employee of the Group at HK\$1 per grant. The options are exercisable during the period from 3 May 2001 to 2 May 2003 at a subscription price of HK\$0.04032.

None of these options was exercised during the year.

As at 31 March 2001, the outstanding share options had an aggregate subscription value of HK\$120,960. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 3,000,000 additional shares.

#### **Warrants**

Pursuant to a resolution passed at the special general meeting of the Company on 24 January 2000, the Company issued warrants to the shareholders on the basis of one warrant for every five shares held as at 24 January 2000. The warrants entitle the warrant holders to subscribe for 87,197,500 ordinary shares of HK\$0.10 each at a subscription price of HK\$0.85 per share (subject to adjustment) up to an aggregate amount of HK\$74,117,875 at any time on or before 31 December 2001.

Pursuant to the share subdivision and adjustment of the nominal value of the Company's shares on 20 March 2000, the subscription price of the warrants was adjusted from HK\$0.85 per share to HK\$0.085 per share in accordance with the terms of the Company's warrant instrument.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 25. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS (continued)

#### Warrants (continued)

On 10 April 2000, the subscription price of the warrants was adjusted from HK\$0.085 to HK\$0.080 per share.

During the year, warrants with aggregate gross issue proceeds of HK\$5,079,260 were exercised by the warrant holders to subscribe for 2,796,500 and 57,124,000 ordinary shares of the Company at a subscription price of HK\$0.080 and HK\$0.085 per share, respectively.

The exercise in full of the outstanding warrants at the balance sheet date would, under the present capital structure of the Company, result in the issue of 800,387,625 new ordinary shares with gross issue proceeds of HK\$64,031,010. Any unexercised warrants will expire on 31 December 2001.

### 26. RESERVES

#### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed assets revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	51,442	19,500	9,301	4,149	-	(629)	125,504	209,267
Arising on issue of new shares	12,311	-	-	-	-	-	-	12,311
Arising on exercise of share options	2,784	-	-	-	-	-	-	2,784
Arising on exercise of warrants	4,418	-	-	-	-	-	-	4,418
Deficit on revaluation	-	-	(3,712)	-	-	-	-	(3,712)
Goodwill arising on acquisition of subsidiaries	-	(14,362)	-	(4,135)	-	-	-	(18,497)
Goodwill arising on acquisition of additional interests in subsidiaries	-	(899)	-	(14)	-	-	-	(913)
Exchange realignments:								
Subsidiaries	-	-	-	-	-	274	-	274
Associates	-	-	-	-	-	31	-	31
Net profit for the year	-	-	-	-	-	-	13,948	13,948
At 31 March 2000	70,955	4,239	5,589	-	-	(324)	139,452	219,911



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 26. RESERVES (continued)

#### Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Fixed assets revaluation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	70,955	4,239	5,589	-	-	611	137,898	219,292
Associates	-	-	-	-	-	(935)	1,554	619
	<u>70,955</u>	<u>4,239</u>	<u>5,589</u>	<u>-</u>	<u>-</u>	<u>(324)</u>	<u>139,452</u>	<u>219,911</u>
At 31 March 2000 and 1 April 2000	70,955	4,239	5,589	-	-	(324)	139,452	219,911
Arising on issue of new shares	29,176	-	-	-	-	-	-	29,176
Arising on exercise of share options	720	-	-	-	-	-	-	720
Arising on exercise of warrants	4,480	-	-	-	-	-	-	4,480
Arising on repurchase of shares	(1,468)	-	-	-	545	-	(545)	(1,468)
Surplus on revaluation of land and buildings	-	-	6,080	-	-	-	-	6,080
Release upon disposal of land and buildings	-	-	(1,874)	-	-	-	1,874	-
Release upon disposal of subsidiaries	-	-	(3)	-	-	(170)	1,039	866
Release upon disposal of interest in a subsidiary	-	-	-	-	-	-	1,247	1,247
Goodwill arising on acquisition of subsidiaries	-	(4,239)	-	(231)	-	-	(56,501)	(60,971)
Capital reserve arising on acquisition of additional interests in subsidiaries	-	-	-	231	-	-	-	231
Exchange realignments:								
Subsidiaries	-	-	-	-	-	680	-	680
Associates	-	-	-	-	-	(186)	-	(186)
Net profit for the year	-	-	-	-	-	-	13,407	13,407
At 31 March 2001	<u>103,863</u>	<u>-</u>	<u>9,792</u>	<u>-</u>	<u>545</u>	<u>-</u>	<u>99,973</u>	<u>214,173</u>
Reserves retained by:								
Company and subsidiaries	103,863	-	9,792	-	545	1,291	87,813	203,304
Associates	-	-	-	-	-	(1,291)	12,160	10,869
	<u>103,863</u>	<u>-</u>	<u>9,792</u>	<u>-</u>	<u>545</u>	<u>-</u>	<u>99,973</u>	<u>214,173</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 26. RESERVES (continued)

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, pursuant to the Group's reorganisation on 21 May 1997.

#### Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 1999	51,442	–	155,531	296	207,269
Arising on issue of new shares	12,311	–	–	–	12,311
Arising on exercise of share options	2,784	–	–	–	2,784
Arising on exercise of warrants	4,418	–	–	–	4,418
Net loss for the year	–	–	–	(4,019)	(4,019)
At 31 March 2000 and 1 April 2000	70,955	–	155,531	(3,723)	222,763
Arising on issue of new shares	29,176	–	–	–	29,176
Arising on exercise of share options	720	–	–	–	720
Arising on exercise of warrants	4,480	–	–	–	4,480
Arising on repurchase of shares	(1,468)	545	–	(545)	(1,468)
Net profit for the year	–	–	–	4,699	4,699
At 31 March 2001	<u>103,863</u>	<u>545</u>	<u>155,531</u>	<u>431</u>	<u>260,370</u>

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation on 21 May 1997, over the nominal value of the Company's shares issued in exchange. 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, as well as the issued share capital and premium is less than the realisable value of its assets.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	11,419	15,161
Interest income	(6,068)	(2,961)
Depreciation	4,561	3,155
Net unrealised holding loss/(gain) on short term investments	1,460	(1,261)
Gain on disposal of property interests	(6,948)	(90)
Gain on disposal of subsidiaries	(4,929)	–
Loss on disposal of interest in a subsidiary	647	–
Loss on disposal of associates	247	–
Deficit/(surplus) on revaluation of land and buildings	(952)	952
Provision for completed properties for sale	–	1,626
Loss/(gain) on disposal of fixed assets, net	(42)	9
Decrease/(increase) in gross amounts due from contract customers	(10,471)	3,457
Decrease/(increase) in completed properties held for sale	38,253	(404)
Increase in properties under development for sale	(52,480)	(25,193)
Increase in inventories	(1,002)	(1,998)
Decrease/(increase) in accounts receivable	49,889	(35,815)
Decrease/(increase) in prepayments, sundry debtors and deposits	8,610	(2,680)
Increase in short term investments	–	(596)
Increase in gross amounts due to contract customers	14,905	14
Increase/(decrease) in accounts payable	(37,249)	17,941
Increase in deposits received and accrued expenses	8,825	24,079
Increase in trust receipt loans	16,226	4,499
Net cash inflow/(outflow) from operating activities	<u>34,901</u>	<u>(105)</u>





## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Analysis of changes in financing during the year

	Share capital and premium account HK\$'000	Bank loans and other borrowings HK\$'000	Finance lease payables HK\$'000	Due to/ (from) associates, net HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	87,371	15,701	-	(98,263)	20,044
Net cash inflow/(outflow)					
from financing	28,102	8,500	(244)	(211)	7,318
Share of results for the year	-	-	-	-	(182)
Arising on acquisition					
of subsidiaries	-	5,456	46	-	-
Inception of finance lease	-	-	442	-	-
Arising on acquisition					
of additional					
interests in subsidiaries	-	-	-	-	(881)
Arising on acquisition					
of subsidiaries					
from an associate	-	-	-	97,201	-
Dividend paid to					
minority interests	-	-	-	-	(1,102)
Exchange realignments	-	-	-	-	30
Balance at 31 March 2000 and 1 April 2000	115,473	29,657	244	(1,273)	25,227
Net cash inflow/(outflow)					
from financing	36,362	(19,023)	(244)	1,279	(5,668)
Share of results for the year	-	-	-	-	(719)
Arising on acquisition of					
additional interests					
in subsidiaries	-	-	-	-	(1,765)
Arising on disposal					
of subsidiaries	-	(3,278)	-	(17,188)	(1,609)
Arising on disposal					
of associates	-	-	-	1,237	-
Dividend paid to					
minority interests	-	-	-	-	(327)
Exchange realignments	-	-	-	-	(76)
Balance at 31 March 2001	<u>151,835</u>	<u>7,356</u>	<u>-</u>	<u>(15,945)</u>	<u>15,063</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Fixed assets	774	9,121
Interests in associates	–	(1,052)
Properties held for sale	50,559	97,478
Gross amounts due from contract customers	1,178	–
Inventories	–	3,985
Accounts receivable	669	7,089
Prepayments, sundry debtors and deposits	3,869	736
Pledged time deposits	16,634	–
Cash and bank balances	15	1,190
Gross amounts due to contract customers	(5,618)	–
Deposits received and accrued expenses	(7,179)	(15,329)
Bank overdrafts	–	(3,767)
Tax payable	–	(1,355)
Interest-bearing bank and other borrowings	–	(5,456)
Trust receipt loans	–	(13,000)
Finance lease payables	–	(46)
Convertible notes	(10,251)	–
	<u>50,650</u>	79,594
Goodwill	60,971	18,497
	<u>111,621</u>	<u>98,091</u>
Satisfied by:		
Cash	111,621	2,000
Amount due from an associate	–	96,091
	<u>111,621</u>	<u>98,091</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (c) Acquisition of subsidiaries *(continued)*

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Cash consideration	<b>(111,621)</b>	(2,000)
Cash and bank balances acquired	<b>15</b>	1,190
Bank overdrafts acquired	<b>—</b>	(3,767)
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<b><u>(111,606)</u></b>	<b><u>(4,577)</u></b>

The subsidiaries acquired during the year utilised HK\$4,674,000 (2000: HK\$8,027,000) of the Group's net operating cash flows, received HK\$131,000 (2000: HK\$2,116,000) in respect of the net returns on investments and servicing of finance, did not pay any tax (2000: paid HK\$130,000), contributed HK\$2,608,000 (2000: utilised HK\$1,433,000) for investing activities, and contributed no amount in respect of financing activities (2000: contributed HK\$8,251,000).

The subsidiaries acquired in the current year contributed HK\$7,772,000 (2000: HK\$66,269,000) to turnover and HK\$2,956,000 (2000: HK\$7,466,000) to the consolidated profit after tax and before minority interests for the year ended 31 March 2001.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (d) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	12,045	–
Interests in associates	(63)	–
Investment properties	–	8,960
Properties held for sale	54,891	–
Prepaid tax	95	–
Inventories	6,708	–
Accounts receivable	20,671	–
Prepayments, sundry debtors and deposits	3,392	64
Pledged time deposits	11,000	–
Cash and bank balances	3,355	4
Accounts payable	(9,290)	–
Deposits received and accrued expenses	(16,470)	(424)
Tax payable	–	(694)
Bank overdrafts, secured	(7,457)	–
Bank loans, secured	(1,232)	–
Trust receipt loans, secured	(10,467)	–
Other borrowings, unsecured	(2,046)	–
Release of fixed assets revaluation reserve	(3)	–
Release of exchange fluctuation reserve	(170)	–
Release of goodwill	1,039	–
Minority interests	(1,609)	–
	<u>64,389</u>	<u>7,910</u>
Gain on disposal of property interests	6,948	90
Gain on disposal of subsidiaries	4,929	–
Reclassified as interests in associates	(13,926)	–
	<u>62,340</u>	<u>8,000</u>
Satisfied by:		
Cash	61,840	8,000
Other receivable	500	–
	<u>62,340</u>	<u>8,000</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (d) Disposal of subsidiaries (continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	61,840	8,000
Cash and bank balances disposed of	(3,355)	(4)
Bank overdraft, secured disposed of	7,457	–
	<u>65,942</u>	<u>7,996</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>65,942</u>	<u>7,996</u>

The subsidiaries disposed of during the year contributed HK\$7,601,000 of the Group's net operating cash flows, utilised HK\$2,322,000 in respect of the net returns on investments and servicing of finance, paid tax of HK\$347,000, utilised HK\$2,725,000 for investing activities, and utilised HK\$4,623,000 in respect of financing activities.

The subsidiaries disposed of in the current year contributed HK\$82,042,000 to turnover and HK\$2,446,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2001.

The subsidiaries disposed of in the prior year did not have any material effect on the cash flows of the Group for the year ended 31 March 2000.

The subsidiaries disposed of in the prior year did not have any material effect on the turnover and consolidated profit after tax for the year ended 31 March 2000.

### 28. CONTINGENT LIABILITIES

#### (a) Guarantees

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees of banking facilities granted to: Subsidiaries and associates	<u>43,887</u>	<u>3,343</u>	<u>216,900</u>	<u>203,800</u>



31 March 2001

### 28. CONTINGENT LIABILITIES *(continued)*

(a) Guarantees *(continued)*

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of HK\$82,102,000 (2000: HK\$52,277,000) had been utilised by the subsidiaries as at 31 March 2001.

- (b) As at 31 March 2001, Kenworth Engineering Limited ("Kenworth"), a subsidiary of KEL, had received a claim of approximately HK\$341 million from a contract employer for the alleged breach of a subcontract, which alleged breach Kenworth has not admitted. Kenworth commenced legal proceedings subsequent to the year end against this contract employer for the outstanding contract sum in respect of the completed work and the losses it considers it incurred and to be due to it from the wrongful termination of the subcontract. The administrator of the schemes is awaiting the decision of the Court or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, will await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded to the contract employer, is still subject to the terms and conditions of the Scheme. The directors consider that, given the nature of the claim under dispute, it is not possible to estimate the eventual outcome of the claim with reasonable certainty at this stage. On the basis that the directors consider that Kenworth has valid defences against the claim and believe that it is not probable that any material loss will be suffered by Kenworth, no provision has been made in these financial statements.

Pursuant to the DRA as detailed in note 12, the Company has undertaken to procure that the KEL Group be granted credit facilities of up to HK\$50 million. In addition to this credit facility amount, to the extent that any contingent liabilities of the KEL Group to be settled under the Schemes are not met by the available cash of the KEL Group after completion of the DRA, the Company will procure that sufficient cash be made available to the KEL Group to meet such contingent liabilities.

- (c) On 20 December 2000, the Beijing Civil Court made a judgement in relation to a contractual claim between Kenworth and an outside Hong Kong contract employer. According to the judgement, Kenworth has to pay an indemnity of HK\$13,100,000 to the contract employer. Kenworth has appealed against such judgement. The court hearing for the appeal has not been set as at the date of approval of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 28. CONTINGENT LIABILITIES (continued)

During the year, Kenworth underwent a scheme of arrangement which is further detailed in note 12 of the financial statements. Foreign creditors, that is, creditors to whom debts are owed under contracts governed by the laws of jurisdictions other than Hong Kong, are also bound by the Schemes. Those foreign creditors who submit their claims under the Schemes will be bound by the terms of the Schemes. Those who do not submit their claims under the Schemes will in any case be unable to enforce any foreign judgement in Hong Kong. The foreign creditors can only attempt to enforce the foreign judgement in other jurisdictions where the assets of Kenworth are situated. In light of legal advice received, the directors consider that the foreign judgement cannot be enforced in Hong Kong and that Kenworth has no material assets situated in jurisdictions other than Hong Kong, accordingly, and therefore they consider it is not probable that any material loss will be suffered by Kenworth, no provision in respect thereof has been made in these financial statements.

### 29. COMMITMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Capital commitments contracted for	<u>8,644</u>	<u>17,699</u>
Commitments payable in the next year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	871	557
In the second to fifth years, inclusive	–	606
After five years	<u>383</u>	<u>357</u>
	<u>1,254</u>	<u>1,520</u>

The Company had no material commitments as at 31 March 2001 (2000: Nil).



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2001

### 30. RELATED PARTY TRANSACTIONS

Listed below are the material related party transactions that occurred during the year:

		Group	
		2001	2000
	Notes	HK\$'000	HK\$'000
Subcontracting income received from a minority shareholder of a subsidiary	(1)	106,887	73,232
Acquisition of subsidiaries from an associate	(2)	—	97,478
		<u>          </u>	<u>          </u>

Notes:

- (1) The subcontracting income received from the minority shareholder of a subsidiary was determined in accordance with the architect's certificate after deduction of a margin to cover expenses incurred by minority shareholders. The balance owing from the minority shareholder at 31 March 2001, in respect of this subcontracting income, amounted to HK\$10,294,000 (2000: HK\$18,801,000) and has been included in accounts receivable in the balance sheet. The amount was fully settled before the date of this report.
- (2) The consideration was determined in accordance with the value of the shareholders' loans as recorded in the subsidiaries acquired.

### 31. COMPARATIVE AMOUNTS

As further explained in note 15 to the financial statements, in the prior year, only those properties expected to be realised within twelve months of the balance sheet date were included in current assets. In the opinion of directors, in order to better reflect the operations of the Group, properties under development which are expected to be realised in the normal course of the Group's property development cycle are now included in current assets. As a result, properties under development in the 31 March 2000 comparative balance sheet in the aggregate amount of HK\$57,740,000 which were grouped under non-current assets as at 31 March 2000 have been reclassified as properties under development for sale under current assets.

### 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2001.