

FOREWORDS

I have pleasure to present to the Shareholders the Group's annual report for the year ended 31 March 2001.

RESULTS

The Group's turnover for the year was HK\$14,095,000. This represented a decrease of 51.98% as compared to that of last year. The net profit attributable to shareholders amounted to approximately HK\$33,765,000 (2000: loss of HK\$110,574,000). Basic earnings per share is approximately HK7.26 cents. The Group's total assets increased from HK\$13,900,000 in 2000 to HK\$19,308,000 in 2001 whereas total liabilities decreased from HK\$604,761,000 in 2000 to HK\$18,368,000 in 2001.

CORPORATE RESTRUCTURING

During the year, the Group successfully completed its debt restructuring exercise and subscription of new shares by Deson Development International Holdings Limited ("Deson") which involved the followings:

(a) Debt restructuring and share subscription agreement

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

- (I) a subscription for 400 million new shares in the Company by a wholly-owned subsidiary of Deson (the "Subscription");
- (II) three schemes of arrangement involving the Company and its two subsidiaries, Kenworth Engineering Limited ("Kenworth") and Kenworth Group Limited ("Kenworth Group") under Section 166 of the Hong Kong Companies Ordinance (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 the Company (the "KEL Capital Reorganisation");

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- (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 issued share capital of Kenworth from HK\$127,400,000 to HK\$1,592,500 (the "Kenworth Capital Reduction"); and
- (VI) a convertible note issue to the scheme creditors (the "Note Issue").

The Subscription, the KEL Capital Reorganisation, the Warrant Issue and the Note Issue were approved at a special general meeting of the Company 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 Deson became the Company's ultimate holding company. On 25 August 2000, the Kenworth Capital Reduction was confirmed by the Court.

(b) The Schemes

Under the Schemes, for every HK\$10,000 of scheme debt, the Company, Kenworth and Kenworth Group, as appropriate, agreed to make a cash payment to the scheme creditor in the amount of HK\$312.50 and the Company agreed to issue to such scheme creditor 5,000 new shares of HK\$0.10 each of the Company and convertible notes in the principal amount of HK\$187.50. On 3 August 2000, the Schemes became effective upon the registration of the court order sanctioning the Schemes with the Registrar of Companies in Hong Kong.

BUSINESS REVIEW

During the year under review, most of the efforts of the Group were put to complete the debt restructuring exercise and uplifting of all 11 licences held under the List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Works Bureau of The Government of the Hong Kong Special Administrative Region (the "Licences"). The turnover of the year represented outstanding contracts on hand and accordingly, segmental information is not discussed.

PROSPECTS

The Group had been in financial difficulty and undergone debt restructuring since last two years and the Group's operation was significantly affected with most of the projects being terminated or innovated. This uncertainty already faded out upon the completion of the Schemes of the Company and two of its subsidiaries on 10 August 2000. The Group can now concentrate its resources on turning around its operations.

One of the Group's principal objectives was to reactivate the Licences which was voluntarily suspended by the Group in 1998. Subsequent to the balance sheet date, in May 2001, all the Licences were reactivated.

Following its success in debt restructuring and reactivating the Licences, the Group has been submitting tenders for electrical and mechanical (E&M) engineering and maintenance projects in both private and public sectors. Several contracts with total contract sums over HK\$10 million have been awarded recently. In addition, the Group will explore the E&M engineering business in the PRC construction market with the assistance of Deson which has extensive connections in the PRC construction industry. Besides, Deson is developing its business in the design, supply and installation of intelligent building engineering services systems which require a high level of technicality in E&M engineering. The Group could participate actively in such business development so as to achieve a synergical effect.

The board of directors ("Directors") will seek every opportunity to re-establish the high reputation and status of the Group which it possessed in the E&M engineering industry before. With the Group's strong foundation and long established expertise in the E&M engineering business and the support by Deson, the Directors believe that the Group could turn around into sound operation in the shortest period of time.

LIQUIDITY AND CAPITAL RESOURCES

During the year, the Group successfully completed its debt restructuring exercise, which significantly improved the Group's liquidity position. As at 31 March 2001, the Group had total assets of HK\$19,308,000, and current liabilities, long term liabilities and shareholders' equity of HK\$8,117,000, HK\$10,251,000 and HK\$900,000 respectively.

The Group maintained a healthy working capital during the year, with net current assets of HK\$10,218,000 as at 31 March 2001. The Group's gearing ratio at the year end was 91.93%, which was calculated based on the long term borrowings of HK\$10,251,000 and long term capital of HK\$11,151,000.

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EMPLOYEE SCHEMES

As at 31 March 2001, the Group had 54 employees, 2 of whom were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the Directors. Apart from pension funds and double pay, discretionary bonuses are linked to individual performance as recognition of and reward for value creation.

AUDIT COMMITTEE

The Company established an audit committee comprising two independent non-executive directors of the Company on 10 August 2000. The written terms of reference, which set out the authority and duties of the audit committee, were also approved by the directors on the same day.

ACKNOWLEDGEMENT

On behalf of the Directors, I would like to express my heartfelt thanks to our Shareholders for their continued support and to our staff for their hard work. We will carry on dedicating our efforts towards the Group's long-term development.

Tjia Boen Sien

Managing Director and Deputy Chairman

Hong Kong

19 July 2001