1. CORPORATE INFORMATION

During the year, the Group was involved in the provision of electrical and mechanical engineering services and the leasing of construction machinery and equipment.

In the opinion of the directors, Wonderland Development Limited ("Wonderland") was the ultimate holding company of the Company until 10 August 2000. Wonderland is a company incorporated in the British Virgin Islands with limited liability. On 10 August 2000, upon the completion of the share subscription by Super Win Development Limited ("Super Win"), a wholly-owned subsidiary of Deson Development International Holdings Limited ("Deson"), a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited, as further detailed in note 2 below, Deson became the Company's ultimate holding company.

2. CORPORATE UPDATE

(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, 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 (the "Restructuring Proposal"), involved, inter alia, the following:

(i) a subscription for 400 million new shares in the Company by a wholly-owned subsidiary of Deson for a cash consideration for HK$40 million (the "Subscription"), representing approximately 56.1% of the enlarged issued share capital of the Company;

(ii) three schemes of arrangement involving the Company (the "KEL Scheme") and its two subsidiaries, Kenworth Engineering Limited ("Kenworth") (the "Kenworth Scheme") and Kenworth Group Limited ("Kenworth Group") 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 the Company (the "KEL Capital Reorganisation"), further details of which are set out in note 24(a) to the financial statements;

(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"), further details of which are set out in note 24(d) to the financial statements;

2. CORPORATE UPDATE (Continued)

(a) Debt restructuring and share subscription agreement (Continued)

(v) a reduction of the 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"), details of which are included in note 22 to the financial statements.

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. The notes, bearing interest at a rate of 2% per annum, are convertible into new shares of the Company at a conversion price of HK$0.10 per share at any time up to the third anniversary of the issue date. The settlement of any and all of the debts due to the scheme creditors under the Schemes would constitute a full discharge and satisfaction of such debts. Any creditors who may have initiated legal proceedings (including any winding-up petition) against the Group in connection with such debts were to pursue the termination of such proceedings.

On 29 June 2000, the Schemes were approved by the requisite majority of creditors at the respective creditors' meetings of the Company, Kenworth and the Kenworth Group and were conditionally sanctioned by the court on 11 July 2000, subject to the satisfaction of the conditions precedent, as set out in the Schemes, which were subsequently waived or satisfied on or before 3 August 2000. On 3 August 2000 (the "Effective Date"), the Schemes became effective upon the registration of the court order sanctioning the Schemes with the Registrar of Companies in Hong Kong. On 16 August 2000, the Company issued approximately 273 million new shares of HK$0.10 each to the administrator of the Schemes (the "Scheme Administrator") pending their distribution to the scheme creditors upon the implementation of the Schemes.

3. BASIS OF PRESENTATION

During the year, the Group underwent the Schemes and capital restructuring, pursuant to which the Group has restructured all of its borrowings, issued further shares for cash and secured contingent financial support from Deson. Pursuant to the DRA, Deson has undertaken to procure that the 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 Company, Kenworth and Kenworth Group (as further detailed in note 27 to the financial statements) to be settled under the Schemes are not met by the available cash of the Group after completion of the DRA, Deson will procure that sufficient cash be made available to the Company to meet such contingent liabilities. The directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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.

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 up to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is a company, not being a subsidiary, 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 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, less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

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 forseen, after making due allowances for contingencies. Provision is made for any foreseeable losses as soon as such losses are anticipated by management;

(b) rental income, on the straight-line basis over the respective periods of the lease;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) on the rendering of services, in the accounting period in which the services are rendered.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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.

The carrying amounts of fixed assets are reviewed periodically in order to assess whether their recoverable amounts have declined below their carrying amounts. Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their estimated recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the fixed asset, including its residual value on disposal. Reductions of recoverable amounts are charged to the profit and loss account as incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and office equipment	20%
Plant, machinery and workshop equipment	20%
Motor vehicles	20%

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which take a substantial period of time to get ready for their 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 borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Operating 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 or credited to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

Foreign currency transactions during the year are recorded at the applicable rates of exchange ruling at the transaction dates. 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. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provident fund scheme

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 an 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 employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the Scheme.

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.

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.

5. TURNOVER AND REVENUE

The Group's turnover represents an appropriate proportion of the contract revenue of construction contracts, and the gross rental income from plant and machinery, after elimination of all significant intercompany transactions. An analysis of its Group's turnover and revenue is as follows:

	2001	2000
	HK$'000	*HK$'000*
Construction contracts	**13,734**	28,653
Rental income from plant and machinery	**361**	349
Rental income from land and buildings	**–**	351
Turnover	**14,095**	29,353
Interest income	**348**	333
Service fee income	**541**	–
Waiver of bank loans	**2,405**	–
Other	**449**	649
Other revenue	**3,743**	982
Total revenue	**17,838**	30,335

6. PROVISION FOR SETTLEMENT OF PERFORMANCE BONDS

After the DRA became unconditional on 10 August 2000, the Group negotiated an arrangement (the "Arrangement") with UDL Holdings Limited, the Company's former ultimate holding company, and its subsidiaries (the "UDL Group") and a surety to settle liabilities under indemnities given by the Group and the UDL Group for performance bonds executed by the surety on their behalf. Under the Arrangement, the Group has admitted to an amount of HK$56 million claimed by the surety and such amount was submitted by the surety to the Scheme Administrator. Accordingly, the Group accrued for the agreed claim amount of HK$56 million in the year ended 31 March 2000.

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2001	2000
	HK$'000	HK$'000
Staff costs:		
Wages and salaries (including directors' remuneration – note 9)	4,402	13,569
Pension contributions	399	314
Less: Forfeited contributions	(9)	(74)
Net pension contributions*	390	240
	4,792	13,809
Auditors' remuneration	530	580
Depreciation	773	960
Operating lease rentals in respect of land and buildings	1,116	723
Loss on disposal of fixed assets	19	186
Fixed assets written off	–	206
Interest income from banks	(348)	(333)
Rental income from plant and machinery	(361)	(349)
Rental income from land and buildings, net of outgoings	–	(351)

* *As at 31 March 2001, there were no material forfeited contributions available to offset future employer's contributions to the provident fund scheme (2000: Nil).*

8. FINANCE COSTS

	2001	2000
	HK$'000	HK$'000
Interest on convertible notes	(119)	–
Interest on bank loans, overdrafts and other loans wholly repayable within five years	(82)	(40,900)
Waiver of interest accrued on bank loans, overdrafts and other loans wholly repayable within five years*	63,865	–
Total finance costs	63,664	(40,900)

* *Pursuant to the terms of the DRA, any interest charged by the banks on the bank borrowings of the Company and its participating subsidiaries since 4 September 1998 will be waived upon the completion of the Restructuring Proposal.*

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Executive directors:		
Fees	**–**	–
Salaries, bonuses and allowances	**121**	1,200
	121	1,200
Independent non-executive directors:		
Fees	**66**	80
Total directors' remuneration	**187**	1,280

The remuneration of all of the directors for the year fell within the Nil – HK$1,000,000 band.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid employees during the year did not include any director (2000: included one director), details of whose remuneration are set out above. The details of the emoluments of the five (2000: four) non-director, highest paid employees are set out below:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Basic salaries, other allowances and bonuses	**858**	2,719
Pension scheme contributions	**64**	59
	922	2,778

The remuneration of the non-director, highest paid employees fell within the Nil – HK$1,000,000 band.

10. TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Provision for the year – outside Hong Kong	**–**	89

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the current and prior years.

Taxes on the prior year's profits assessable outside Hong Kong have been calculated at the applicable rates of tax on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

11. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year dealt with in the financial statements of the Company is approximately HK$545,364,000 (2000: HK$1,631,000). The Group had no share of the aggregate loss retained by the associate for the year (2000: Nil).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK$33,765,000 (2000: net loss of HK$110,574,000) and the weighted average number of 465,355,000 (2000: 40,000,000) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2001 is based on the net profit attributable to shareholders for the year of HK$33,884,000, which comprises the HK$33,765,000 used in the basic earnings per share calculation and the HK$119,000 interest expense on the convertible notes assumed to be saved on the deemed exercise of all convertible notes outstanding during the year. The weighted average number of shares used in the calculation is 503,581,000 shares, which comprises the 465,355,000 shares used in the basic earnings per share calculation and the weighted average of 38,226,000 shares assumed to have been issued at no consideration on the deemed exercise of all convertible notes outstanding during the year.

The diluted loss per share for the year ended 31 March 2000 has not been shown as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for that year.

13. FIXED ASSETS

Group

	Leasehold improvements	Furniture, fixtures and office equipment	Plant, machinery and workshop equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At beginning of year	–	1,775	1,331	551	3,657
Additions	876	23	299	–	1,198
Disposals	(22)	–	–	(181)	(203)
At 31 March 2001	854	1,798	1,630	370	4,652
Accumulated depreciation:					
At beginning of year	–	1,317	1,327	428	3,072
Provided during the year	454	244	10	65	773
Disposals	(7)	–	–	(159)	(166)
At 31 March 2001	447	1,561	1,337	334	3,679
Net book value:					
At 31 March 2001	407	237	293	36	973
At 31 March 2000	–	458	4	123	585

14. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$'000	2000 HK$'000
Unlisted shares, at cost	**110,388**	101,889
Due from subsidiaries	**491,847**	90,092
	602,235	191,981
Less: Provisions for permanent diminutions in values	**(588,799)**	(191,981)
	13,436	–
Due to subsidiaries	**(645)**	(1,382)
	12,791	(1,382)

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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

Name	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2001	2000	Principal activities
Kenworth Group Limited (Formerly known as UDL Kenworth Group Limited)	British Virgin Islands/ Hong Kong	US$2	**100**	100	Investment holding
Kenworth Engineering Limited (Formerly known as UDL Kenworth Engineering Limited)	Hong Kong	HK$10,093,000	**100 ***	100 *	Provision of electrical and mechanical engineering services
Heraldic Fortune Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Percentage of equity attributable to the Company 2001	2000	Principal activities
KEL Employment Services Limited	Hong Kong	HK$2	**100 ***	100 *	Provision of management and administrative services
Synergy Asia Limited	Hong Kong	HK$100,000	**55 ***	–	Dormant
Viable Investments Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

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

* *Held indirectly through subsidiaries*

15. INTEREST IN AN ASSOCIATE

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net liabilities	**–**	(101)	**–**	–
Due from an associate	**–**	101	**–**	101
	–	–	**–**	101
Less: Provision for diminution in value	**–**	–	**–**	(101)
	–	–	**–**	–

The associate was disposed of during the year. The amount due from an associate was unsecured, interest-free and had no fixed terms of repayment.

16. CONSTRUCTION CONTRACTS

	2001	2000
	HK$'000	*HK$'000*
Gross amounts due from contract customers – *Note (a)*	**2,804**	1,897
Gross amounts due to contract customers – *Note (b)*	**(2,117)**	(26,322)
	687	(24,425)
Contract costs incurred plus recognised profits less recognised losses to date – *Note (c)*	**2,741,269**	2,714,980
Less: Progress billings received and receivable – *Note (c)*	**(2,740,582)**	(2,739,405)
	687	(24,425)

Notes:

(a) At 31 March 2001, retentions held by customers for contract works included in trade receivables under current assets amounted to approximately HK$946,000 (2000: HK$790,000).

(b) At 31 March 2001, there were no advances received from customers for contract works included in trade payables under current liabilities (2000: Nil).

(c) These amounts are mainly related to construction contracts which have either been terminated, or which have ceased, or had insignificant activities during the year. Since there are numerous disputes and claims between the 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. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	2001			2000		
			Net			Net
	Balance	**Provision**	**balance**	Balance	Provision	balance
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Current to 90 days	**863**	**–**	**863**	3,335	(1,148)	2,187
91 – 180 days	**14**	**–**	**14**	63	(35)	28
181 – 360 days	**4**	**–**	**4**	4,392	(4,342)	50
Over 360 days	**50,810**	**(50,736)**	**74**	52,416	(51,657)	759
	51,691	**(50,736)**	**955**	60,206	(57,182)	3,024
Retention money receivable	**31,520**	**(30,574)**	**946**	33,297	(32,507)	790
Total	**83,211**	**(81,310)**	**1,901**	93,503	(89,689)	3,814

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

18. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2001	2000
	HK$'000	*HK$'000*
Current to 90 days	**322**	1,482
Over 360 days	**–**	89,433
	322	90,915

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group		Company	
		2001	2000	**2001**	2000
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans and overdrafts, secured	20	**1,292**	320,653	**–**	–
Other loans, secured *(note (a))*		**–**	4,318	**–**	–
Other loans, unsecured *(note (b))*		**–**	991	**–**	991
		1,292	325,962	**–**	991

Notes:

(a) The prior year's secured other loans were secured by the proceeds receivable from certain construction contracts, and bore interest at 2% above the Hong Kong prime rate per annum. During the year, an amount of HK$2,722,000 was capitalised against part of the subscription monies payable to the Company in respect of the Subscription, as detailed in note 2(a)(i) to the financial statements. The remaining balance of HK$1,596,000 was repaid from the proceeds of construction contracts received.

(b) The prior year's unsecured other loans, bore interest at 2% above the Hong Kong prime rate per annum. The entire amount was capitalised against part of the subscription monies payable to the Company in respect of the Subscription, as detailed in note 2(a)(i) to the financial statements.

20. BANK LOANS AND OVERDRAFTS, SECURED

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank overdrafts	**–**	15,547
Bank loans	**–**	116,740
Trust receipt loans	**1,292**	188,366
	1,292	320,653

On 4 September 1998, the Group executed a guarantee and debenture (the "Debenture") over all of its assets and undertaking, subject to the existing security arrangements, in favour of the security trustee in return for a formal standstill arrangement amongst the participating bankers. Although the formal standstill arrangement lapsed during the year ended 31 March 1999, the bankers participating in the Debenture are still entitled to the benefit arising from the Debenture executed by the Group. Pursuant to the DRA, the Debenture will be released and discharged upon the settlement of the Group's bank borrowings by the Scheme Administrator under the Schemes.

21. DUE TO IMMEDIATE HOLDING COMPANY

The amount is unsecured, interest-free and has no fixed terms of repayment.

22. CONVERTIBLE NOTES

Under the Schemes as detailed in note 2(b) to the financial statements, for every HK$10,000 of Scheme debt, the Company issued convertible 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 the Company 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.

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	**75,121**	93,442
	75,081	93,442

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.

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

24. SHARE CAPITAL

	2001	2000
	HK$'000	*HK$'000*
Shares		
Authorised:		
1,800,000,000 (2000: 800,000,000) shares of HK$0.10 each	**180,000**	80,000
Issued and fully paid:		
713,368,757 (2000: 400,000,000) ordinary shares of HK$0.10 each	**71,337**	40,000

24. SHARE CAPITAL (Continued)

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

	Notes	**Number of shares**	**Amount** *HK$'000*
At beginning of year		400,000,000	40,000
Capital reduction	(a)(i)	–	(36,000)
Consolidation of shares	(a)(iv)	(360,000,000)	–
Issue of shares	(b)	400,000,000	40,000
Issue of shares to the Scheme Administrator	(c)	273,368,757	27,337
At 31 March 2001		713,368,757	71,337

Notes:

(a) The KEL Capital Reorganisation, which was approved at a special general meeting of the Company held on 19 July 2000, became effective on 3 August 2000 and involved the following principal steps:

(i) the reduction of the issued share capital of the Company from HK$40,000,000 to HK$4,000,000 by cancelling its paid-up capital to the extent of HK$0.09 in respect of each of the existing shares in issue (the credit arising from such reduction amounted to HK$36,000,000);

(ii) the reduction of the nominal amount of each of the authorised, but unissued existing shares from HK$0.10 to HK$0.01 by subdividing each existing share of HK$0.10 into 10 shares of HK$0.01 each;

(iii) the reduction of the share premium account of the Company by an amount of HK$46,186,182;

(iv) the consolidation of every 10 shares of HK$0.01 each in the capital of the Company following the reduction and subdivision detailed in (i) and (ii) above into one new share of HK$0.10 each; and

(v) the increase of the authorised share capital of the Company to HK$180,000,000 by the creation of an additional 1,000,000,000 new shares of HK$0.10 each.

The credit arising from the reduction of the issued capital and the share premium account, amounting to approximately HK$82.2 million, was applied to set off part of the accumulated losses of the Company.

24. SHARE CAPITAL (Continued)

(b) On 10 August 2000, the Company issued 400 million new shares of HK$0.10 each to a wholly-owned subsidiary of Deson at a price of HK$0.10 per share pursuant to the Subscription under the DRA. The proceeds from the Subscription have been applied for implementing the Restructuring Proposal, financing existing engineering contracts of the Group, funding cash payments to the Group's creditors under the Schemes and using as working capital of the Group. These purposes were detailed in the Company's circular to shareholders dated 26 June 2000.

(c) On 16 August 2000, the Company issued approximately 273 million new shares of HK$0.10 each to the Scheme Administrator pending distribution to the scheme creditors upon the implementation of the Schemes.

(d) The Warrant Issue involved the issue of 40 million warrants to the shareholders on the basis of one warrant for every new share of HK$0.10 each then held by the existing shareholders prior to the completion of the DRA. Each warrant carries subscription rights to subscribe for one new share at a subscription price of HK$0.10 per share. The warrants are exercisable during the one-year period between 3 August 2001 and 2 August 2002.

Share options

On 4 April 1997, the Company approved a share option scheme (the "Option Scheme") under which the directors of the Company may, at their discretion, invite any employee or executive director of the Group to take up share options, at a cash consideration of HK$1 per grant, to subscribe for shares in the Company at any time during the 10 years from the date of approval of the Option Scheme. The option subscription price will be 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 of Hong Kong Limited for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares. The maximum number of shares on which share options may be granted may not exceed 10% of the Company's share capital in issue from time to time.

Details of movements in the number of share options during the year were as follows:

			Number of share options ('000)		
Date of grant	**Subscription price**	**Note**	**At 1 April 2000**	**Lapsed during the year**	**At 31 March 2001**
22 August 1997	HK$0.80	(a)	20,000	(20,000) *	–

Note:

(a) Exercisable during the period from 20 March 1998 to 19 September 2000

* *The share options lapsed upon the resignation of the grantee during the year.*

25. RESERVES

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	General reserve HK$'000	Total HK$'000
Group					
At 1 April 1999	46,186	89,800	(656,273)	–	(520,287)
Loss for the year	–	–	(110,574)	–	(110,574)
At 31 March 2000 and 1 April 2000	46,186	89,800	(766,847)	–	(630,861)
Share capital reduction *(note 24(a)(i))*	–	–	36,000	–	36,000
Capital reduction against share premium *(note 24(a)(iii))*	(46,186)	–	46,186	–	–
Profit for the year	–	–	33,765	–	33,765
Arising from the effect of the Schemes	–	–	–	490,659	490,659
At 31 March 2001	–	89,800	(650,896)	490,659	(70,437)
Reserves retained by:					
Company and subsidiaries	46,186	89,800	(766,746)	–	(630,760)
Associate	–	–	(101)	–	(101)
At 31 March 2000	46,186	89,800	(766,847)	–	(630,861)
Reserves retained by:					
Company and subsidiaries at 31 March 2001	–	89,800	(650,896)	490,659	(70,437)

25. RESERVES (Continued)

	Share premium account	Contributed surplus	Accumulated losses	General reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Company					
At 1 April 1999	46,186	101,689	(198,445)	–	(50,570)
Loss for the year	–	–	(1,631)	–	(1,631)
At 31 March 2000 and 1 April 2000	46,186	101,689	(200,076)	–	(52,201)
Share capital reduction *(note 24(a)(i))*	–	–	36,000	–	36,000
Capital reduction against share premium *(note 24(a)(iii))*	(46,186)	–	46,186	–	–
Loss for the year	–	–	(545,364)	–	(545,364)
Arising from the effect of the Schemes	–	–	–	490,659	490,659
At 31 March 2001	**–**	**101,689**	**(663,254)**	**490,659**	**(70,906)**

The contributed surplus of the Group represents the difference between the nominal value of the Company's share capital issued as consideration in exchange for the nominal value of the issued share capital of the subsidiaries acquired.

The contributed surplus of the Company represents the difference between the nominal value of the Company's share capital issued in exchange for the aggregate net asset value of the subsidiaries acquired at the date of reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders of the Company under certain circumstances which the Company cannot currently meet.

The general reserve of the Group and the Company represents the total discharged liabilities of the Company as at the Effective Date pursuant to the Schemes.

The directors acknowledge the provisions and requirements of HKSA statement 2.01 "Framework for the preparation and presentation of financial statements" and statement 2.102 "Net profit or loss for the period, fundamental errors and change in accounting policies" (the "Accounting Standards") in respect of the treatment of the credit arising on the settlement of the Group's net liabilities discharged through the Schemes. However, having considered, inter alia, the substance of the entire debt and capital restructuring exercise, the legal and practical effects of the Schemes, the time span required for the completion and termination of the Schemes and the requirements of the Accounting Standards, the directors consider that the current accounting treatment is more appropriate and fairer considering the financial effect of the Schemes as a whole.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	Group	
	2001	2000
	HK$'000	*HK$'000*
Loss from operating activities	**(29,904)**	(69,585)
Provision for settlement of performance bonds	**–**	56,000
Waiver of bank loans	**(2,405)**	–
Interest income	**(348)**	(333)
Depreciation	**773**	960
Loss on disposal of fixed assets	**19**	186
Fixed assets written off	**–**	206
Decrease/(increase) in gross amounts due from contract customers	**(907)**	2,580
Decrease in trade receivables	**1,913**	14,255
Decrease/(increase) in prepayments, deposits and other receivables	**(114)**	2,704
Increase in trade payables	**43,873**	6,022
Increase/(decrease) in retention money payable	**1,351**	(1,802)
Decrease in other payables, deposits received and accruals	**(6,417)**	(1,019)
Decrease in gross amounts due to contract customers	**(17,692)**	(8,800)
Increase in amount due to immediate holding company	**928**	–
Decrease in amounts due to related companies	**(1,356)**	(1,625)
Net cash outflow from operating activities	**(10,286)**	(251)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing

	Share capital (including share premium)	Bank loans	Other loans	Minority interests
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 1999	86,186	342,080	3,349	–
Cash inflow/(outflow) from financing, net	–	(36,974)	1,960	–
Balance at 31 March 2000 and 1 April 2000	86,186	305,106	5,309	–
Cash inflow/(outflow) from financing, net	13,094	–	2,800	45
Settlement by subscription money *(note 26(c)(i))*	26,906	–	(8,109)	–
Capital reduction	(82,186)	–	–	–
Effect of the Schemes	27,337	(302,701)	–	–
Waiver of bank loans	–	(2,405)	–	–
Share of loss	–	–	–	(5)
Balance at 31 March 2001	71,337	–	–	40

(c) Major non-cash transactions

(i) Pursuant to the DRA as further described in note 2, Super Win, a wholly-owned subsidiary of Deson, subscribed for 400 million new shares in the Company for a consideration of HK$40 million which was accounted for and settled as follows:

(1) other loans of HK$8,109,000 outstanding on 10 August 2000 were capitalised as part of the subscription monies payable to the Company (note 19 (a)(b));

(2) an amount of HK$18,797,000 was paid directly to the Scheme Administrator on 10 August 2000; and

(3) the balance of HK$13,094,000 was paid to the Company on 10 August 2000.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Major non-cash transactions (continued)

(ii) Pursuant to the Schemes, during the year the Company issued new shares and convertible notes to the Scheme Administrator, and Super Win made direct payments to the Scheme Administrator in full satisfaction and discharge of the preferential and non-preferential scheme debts as follows:

	2001
	HK$'000
Liabilities discharged:	
Trade payables	**(134,466)**
Retention money payable	**(24,394)**
Other payables, deposits received and accruals	**(71,288)**
Provision for settlement of performance bonds	**(56,000)**
Gross amounts due to contract customers	**(6,513)**
Bank overdrafts	**(15,547)**
Bank loans	**(114,335)**
Trust receipt loan	**(188,366)**
	(610,909)
Represented by:	
General reserve	**490,659**
Shares issued	**27,337**
Convertible notes issued	**10,251**
Direct payment by Super Win to the Scheme Administrator as part of subscription monies *(note 26 (c)(i))*	**18,797**
Waiver of interest	**63,865**
	610,909

27. CONTINGENT LIABILITIES

(a) As at 31 March 2001, Kenworth 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 Scheme Administrator 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. During the current year, an agreement was reached between Kenworth and the Company under which the Company agreed to discharge the liabilities of Kenworth under the Scheme for the allotment of certain redeemable cumulative preference shares by Kenworth. 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.

(b) 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.

During the year, Kenworth underwent a scheme of arrangement which is further detailed in note 2 to 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 Scheme will be bound by the terms of the Scheme. Those who do not submit their claims under the Scheme 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 they consider it is not probable that any material loss will be suffered by Kenworth, and therefore no provision in respect thereof has been made in these financial statements.

28. COMMITMENTS

The annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings are:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Leases expiring:		
Within one year	**637**	–

As at 31 March 2001, the Company did not have any significant capital commitments.

29. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	2001	2000
	HK$'000	*HK$'000*
Service income received from a fellow subsidiary	**541**	–
Rental expense paid to a fellow subsidiary	**338**	–
Rental income received and receivable from related companies	**–**	348

The above transactions arose in the ordinary course of the Group's business and, in the case of rental income and expenses, were based on rates approximate to those of the market at that time, and for service income, on the basis determined through negotiation between the respective parties.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2001.