

1. CORPORATE INFORMATION

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

In the opinion of the directors, Deson Development International Holdings Limited (“Deson”), a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited, is the Company’s ultimate holding company.

2. CORPORATE UPDATE

In the prior year, the Company and certain of its subsidiaries entered into a conditional debt restructuring and share subscription agreement (“DRA”) with Wonderland Development Limited, the former holding company of the Company, Deson and certain of the Group’s bank creditors. The DRA became unconditional on 10 August 2000. Three schemes of arrangement involving the Company and its two subsidiaries, Kenworth Engineering Limited (“Kenworth”) and Kenworth Group Limited (“Kenworth Group”) were set up under Section 166 of the Hong Kong Companies Ordinance (the “Schemes”), according to the terms of the restructuring proposal.

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.

The administrator of the Schemes (the “Scheme Administrator”) is in the process of assessing individual claims submitted and, where appropriate, the Scheme Administrator will, in writing, admit or reject such claims. If the proving creditors are dissatisfied with the decision of the Scheme Administrator in respect of the claims, he may refer such matter to the adjudicators who, in accordance with such procedures as the adjudicators may think fit, may reverse or vary the decision of the Scheme Administrator and such determinations by the adjudicators shall be final, conclusive and binding on the Group and the proving creditors. The above process is in progress and has not been completed as of date of approval of these financial statements.

In the opinion of directors, sufficient provision for scheme debts has been made and no additional provision is required.

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3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“HKSSAPs”)

The following recently-issued and revised HKSSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- HKSSAP 9 (Revised): “Events after the balance sheet date”
- HKSSAP 14 (Revised): “Leases”
- HKSSAP 18 (Revised): “Revenue”
- HKSSAP 26: “Segment reporting”
- HKSSAP 28: “Provisions, contingent liabilities and contingent assets”
- HKSSAP 29: “Intangible assets”
- HKSSAP 30: “Business combinations”
- HKSSAP 31: “Impairment of assets”
- HKSSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These HKSSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those HKSSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

HKSSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the HKSSAP. The revised HKSSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this HKSSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 27 to the financial statements.

HKSSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this HKSSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“HKSSAPs”) (Continued)

HKSSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof.

HKSSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The HKSSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

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 2002. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Revenue recognition

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

- (a) from construction contracts and other long term contract work performed, on the percentage of completion basis when the outcome of contracts can be reasonably foreseen and after making due allowances for contingencies. Provision is made for any foreseeable losses as soon as losses are anticipated by management;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) from the rendering of services, in the accounting period in which the services are rendered.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of assets 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 assets. 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency transactions 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 are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Provisions

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

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.

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 independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. SEGMENT INFORMATION

HKSSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of business segment as the primary segment.

No separate analysis of financial information by geographical segment is presented as over 90% of the Group revenue, results, assets and liabilities are derived from operations carried out in Hong Kong.

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

- (a) the building services (single-trade) segment is engaged in the provision of electrical and mechanical services, air-conditioning and ventilation engineering services, fire services and hydraulic services on a single-trade basis under which the Group is responsible for providing one specified type of building service in a project while other types of engineering services, if any, are handled by other subcontractors;
- (b) the packaged/design and build contracts segment provides a comprehensive range of building services and has substantially more scope for undertaking project coordination and design management to meet clients' basic concepts and requirements; and
- (c) the environmental engineering services segment relates to waste water handling, water treatment and sewage treatment services.

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5. SEGMENT INFORMATION (Continued)

Business segments

Group

	Building services (single-trade)		Packaged/ design and build contracts		Environmental engineering services		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	12,750	4,835	3,781	4,062	2,586	5,198	19,117	14,095
Other revenue	137	233	7	195	64	250	208	678
	<u>12,887</u>	<u>5,068</u>	<u>3,788</u>	<u>4,257</u>	<u>2,650</u>	<u>5,448</u>	<u>19,325</u>	<u>14,773</u>
Segment results	<u>(2,655)</u>	<u>2,179</u>	<u>(3,705)</u>	<u>(14,664)</u>	<u>(31)</u>	<u>(17,323)</u>	<u>(6,391)</u>	<u>(29,808)</u>
Interest income and unallocated gains							332	3,065
Unallocated expenses							<u>(4,450)</u>	<u>(3,161)</u>
Loss from operating activities							<u>(10,509)</u>	<u>(29,904)</u>
Finance costs							<u>(365)</u>	<u>63,664</u>
Profit/(loss) before tax							<u>(10,874)</u>	<u>33,760</u>
Tax							<u>-</u>	<u>-</u>
Profit/(loss) before minority interests							<u>(10,874)</u>	<u>33,760</u>
Minority interests							<u>14</u>	<u>5</u>
Net profit/(loss) attributable to shareholders							<u>(10,860)</u>	<u>33,765</u>

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5. SEGMENT INFORMATION (Continued)

Business segments (continued)

	Building services (single-trade)		Packaged/ design and build contracts		Environmental engineering services		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	5,575	2,948	639	1,761	235	365	6,449	5,074
Unallocated assets							16,010	14,234
Total assets							22,459	19,308
Segment liabilities	4,298	3,238	937	1,092	209	258	5,444	4,588
Unallocated liabilities							11,359	13,780
Total liabilities							16,803	18,368
Other segment information:								
Depreciation	85	75	-	-	-	-	85	75
Unallocated amounts							602	698
							687	773
Capital expenditure	14	299	-	-	-	-	14	299
Unallocated amounts							98	899
							112	1,198

NOTES TO FINANCIAL STATEMENTS

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6. TURNOVER, REVENUE AND GAINS

The Group's turnover represents an appropriate proportion of the contract revenue of construction contracts and the gross rental income from plant and machinery. An analysis of the Group's turnover and revenue is as follows:

	2002	2001
	HK\$'000	HK\$'000
Construction contracts	18,830	13,734
Rental income from plant and machinery	287	361
Turnover	19,117	14,095
Interest income	112	348
Service fee income	105	541
Waiver of bank loans	–	2,405
Other	323	449
Other revenue and gains	540	3,743

7. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
	HK\$'000	HK\$'000
Staff costs:		
Wages and salaries (including directors' remuneration – note 9)	12,129	4,402
Pension contributions	395	399
Less: Forfeited contributions	(282)	(9)
Net pension contributions*	113	390
	12,242	4,792
Auditors' remuneration	410	530
Depreciation	687	773
Minimum lease payments under operating leases on land and buildings	1,261	1,116
Loss on disposal of fixed assets	3	19

* As at 31 March 2002, there were no material forfeited contributions available to offset future employer's contributions to the provident fund scheme (2001: Nil).

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8. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on convertible notes	(198)	(119)
Interest on bank loans, overdrafts and other loans wholly repayable within five years	(167)	(82)
Waiver of interest accrued on bank loans, overdrafts and other loans wholly repayable within five years*	—	63,865
	<u> </u>	<u> </u>
Total finance costs	<u>(365)</u>	<u>63,664</u>

* 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 was 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	
	2002	2001
	HK\$'000	HK\$'000
Executive directors:		
Fees	—	—
Salaries, bonuses and allowances	2,803	121
	<u> </u>	<u> </u>
	2,803	121
	<u> </u>	<u> </u>
Independent non-executive directors:		
Fees	80	66
	<u> </u>	<u> </u>
Total directors' remuneration	<u>2,883</u>	<u>187</u>

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	9	18
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>10</u>	<u>18</u>

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

(b) Employees' emoluments

The five highest paid employees during the year include three (2001: Nil) directors, details of whose remuneration are set out in (a) above. Details of the emoluments of the remaining two (2001: five) non-director, highest paid employees are set out below:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salaries, other allowances and bonuses	1,171	858
Pension scheme contributions	123	64
	<u>1,294</u>	<u>922</u>

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	<u>2</u>	<u>5</u>

10. TAX

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

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\$7,083,000 (2001: HK\$545,364,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$10,860,000 (2001: net profit of HK\$33,765,000) and the weighted average number of 735,819,000 (2001: 465,355,000) shares in issue during the year.

The diluted loss per share for the year ended 31 March 2002 has not been disclosed, as the convertible notes and warrants outstanding during the year had an anti-dilutive effect on the basic loss per share for this year.

The calculation of diluted earnings per share in the prior year was based on the net profit attributable to shareholders for that year of HK\$33,884,000, which comprised 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 in the prior year. The weighted average number of shares used in the calculation was 503,581,000 shares, which comprised 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 in the prior year.

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13. FIXED ASSETS

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and workshop equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At beginning of year	854	1,798	1,630	370	4,652
Additions	–	98	14	–	112
Disposals	–	(9)	–	(179)	(188)
At 31 March 2002	854	1,887	1,644	191	4,576
Accumulated depreciation:					
At beginning of year	447	1,561	1,337	334	3,679
Provided during the year	407	195	61	24	687
Disposals	–	(8)	–	(170)	(178)
At 31 March 2002	854	1,748	1,398	188	4,188
Net book value:					
At 31 March 2002	–	139	246	3	388
At 31 March 2001	407	237	293	36	973

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14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	121,888	110,388
Due from subsidiaries	498,081	491,847
	619,969	602,235
Less: Provision for impairment	(591,555)	(588,799)
	28,414	13,436
Due to subsidiaries	(9,593)	(645)
	18,821	12,791

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		Principal activities
			2002	2001	
Kenworth Group Limited	British Virgin Islands/ Hong Kong	US\$2	100	100	Investment holding
Kenworth Engineering Limited	Hong Kong	HK\$24,274,140	100 *	100 *	Provision of electrical and mechanical engineering services

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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		Principal activities
			2002	2001	
KEL Employment Services Limited	Hong Kong	HK\$2	100 *	100 *	Provision of management and administrative services
Kingsly Corporation Limited	Hong Kong	HK\$2,340,000	70 *	100 *	Trading of construction materials
Synergy Asia Limited	Hong Kong	HK\$100,000	55 *	55 *	Dormant
Viable Investments Limited	British Virgin Islands	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 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.

* *Held indirectly through subsidiaries*

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15. CONSTRUCTION CONTRACTS

	2002	2001
	HK\$'000	HK\$'000
Gross amounts due from contract customers – <i>Note (a)</i>	1,353	2,804
Gross amounts due to contract customers – <i>Note (b)</i>	(3,014)	(2,117)
	<u>(1,661)</u>	<u>687</u>
Contract costs incurred plus recognised profits		
less recognised losses to date – <i>Note (c)</i>	2,390,498	2,741,269
Less: Progress billings received and receivable – <i>Note (c)</i>	(2,392,159)	(2,740,582)
	<u>(1,661)</u>	<u>687</u>

Notes:

- (a) At 31 March 2002, retentions held by customers for contract works included in trade receivables under current assets amounted to approximately HK\$905,000 (2001: HK\$946,000).
- (b) At 31 March 2002, there were no advances received from customers for contract works included in trade payables under current liabilities (2001: 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.

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16. TRADE RECEIVABLES

An aged analysis of trade receivables is as follows:

	2002			2001		
	Balance <i>HK\$'000</i>	Provision <i>HK\$'000</i>	Net balance <i>HK\$'000</i>	Balance <i>HK\$'000</i>	Provision <i>HK\$'000</i>	Net balance <i>HK\$'000</i>
Current to 90 days	2,465	–	2,465	863	–	863
91 – 180 days	179	(1)	178	14	–	14
181 – 360 days	1,153	(119)	1,034	4	–	4
Over 360 days	44,909	(44,909)	–	50,810	(50,736)	74
	<u>48,706</u>	<u>(45,029)</u>	<u>3,677</u>	<u>51,691</u>	<u>(50,736)</u>	<u>955</u>
Retention money receivable	<u>28,745</u>	<u>(27,840)</u>	<u>905</u>	<u>31,520</u>	<u>(30,574)</u>	<u>946</u>
Total	<u><u>77,451</u></u>	<u><u>(72,869)</u></u>	<u><u>4,582</u></u>	<u><u>83,211</u></u>	<u><u>(81,310)</u></u>	<u><u>1,901</u></u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. 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. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash and bank balances	9,319	13,207	102	62
Time deposits	5,500	–	–	–
	<u>14,819</u>	<u>13,207</u>	<u>102</u>	<u>62</u>
Less: Pledged time deposits:				
Pledged for bank overdraft facilities	(5,500)	–	–	–
Pledged cash and bank balances	–	(13,207)	–	(62)
	<u>–</u>	<u>(13,207)</u>	<u>–</u>	<u>(62)</u>
Cash and cash equivalents	<u>9,319</u>	<u>–</u>	<u>102</u>	<u>–</u>

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. The Debenture was released and discharged on 13 November 2001 upon the settlement of the Group’s bank borrowings by the Scheme Administrator under the Schemes.

18. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current to 90 days	<u>1,469</u>	<u>322</u>

19. PROVISION FOR SCHEME DEBTS

The Group made a scheme debt provision in the prior year. The Company’s directors have estimated and provided for the expected claims of the scheme debts on a case by case basis. The adoption of HKSSAP 28 has resulted in the reclassification of the provision as a separate line item on the balance sheets.

20. DUE TO THE IMMEDIATE HOLDING COMPANY

The amount was unsecured, interest-free and fully repaid during the year.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

21. CONVERTIBLE NOTES

	2002	2001
	HK\$'000	HK\$'000
At beginning of year	10,251	–
Issue of convertible notes	–	10,251
Arising on exercise of convertible notes (<i>Note 23(b)</i>)	(576)	–
	<u> </u>	<u> </u>
At 31 March	<u>9,675</u>	<u>10,251</u>

Under the Schemes as detailed in note 2 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 and 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.

22. DEFERRED TAX

The principal components of the Group’s net deferred tax asset not recognised in the financial statements are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	–	(40)
Tax losses available for future relief	79,536	75,121
	<u> </u>	<u> </u>
	<u>79,536</u>	<u>75,081</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.

As at 31 March 2002, the Company did not have any significant unprovided deferred tax (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2002

23. SHARE CAPITAL

Shares	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Authorised:		
1,800,000,000 shares of HK\$0.10 each	<u>180,000</u>	<u>180,000</u>
Issued and fully paid:		
862,251,459 (2001: 713,368,757) ordinary shares of HK\$0.10 each	<u>86,225</u>	<u>71,337</u>

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

	<i>Notes</i>	Number of shares	Amount <i>HK\$'000</i>
At beginning of year		713,368,757	71,337
Issue of new shares	<i>(a)</i>	143,081,399	14,308
Arising on exercise of convertible notes	<i>(b)</i>	5,765,189	576
Arising on exercise of warrants	<i>(c)</i>	<u>36,114</u>	<u>4</u>
At 31 March 2002		<u>862,251,459</u>	<u>86,225</u>

- (a) On 11 February 2002, the Company allotted and issued 143,081,399 new ordinary shares of HK\$0.10 each to Super Win Development Limited, a wholly-owned subsidiary of Deson, at a subscription price of HK\$0.10 per ordinary share. The market price of the Company's shares at the placing date is HK\$0.098 per ordinary share. The proceeds derived from the placing, before expenses, of approximately HK\$14,308,000 were used as general working capital of the Group.
- (b) During the year, the Company allotted and issued 5,765,189 new ordinary shares of HK\$0.10 each to convertible note holders upon the exercise of their conversion rights at HK\$0.10 per ordinary shares (note 21).
- (c) The subscription rights attaching to 36,114 warrants were exercised at the subscription price of HK\$0.10 per share, resulting in the issue of 36,114 new ordinary shares at HK\$0.10 each for a total cash consideration, before expenses, of HK\$3,611.

23. SHARE CAPITAL (Continued)

Share options

The Company operates a share option scheme, further details of which are set out under the heading “Share option scheme” in the Report of the Directors on page 18.

At 31 March 2002, no share options were outstanding under the option scheme and none of the Company’s directors and none of the Group’s employees were granted share options during the year.

Warrants

The Company issued 40 million warrants to its 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.

During the year, 36,114 warrants were exercised for 36,114 new ordinary shares of HK\$0.10 each at HK\$0.10 per share. At the balance sheet date, the Company had 39,963,886 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 39,963,886 additional shares of HK\$0.10 each.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

24. RESERVES

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1 April 2000	46,186	89,800	(766,847)	–	(630,861)
Share capital reduction	–	–	36,000	–	36,000
Capital reduction against share premium	(46,186)	–	46,186	–	–
Profit for the year	–	–	33,765	–	33,765
Arising from the effect of the Schemes	–	–	–	490,659	490,659
	<u>–</u>	<u>–</u>	<u>–</u>	<u>490,659</u>	<u>490,659</u>
At 31 March 2001 and 1 April 2001	–	89,800	(650,896)	490,659	(70,437)
Loss for the year	–	–	(10,860)	–	(10,860)
	<u>–</u>	<u>–</u>	<u>(10,860)</u>	<u>–</u>	<u>(10,860)</u>
At 31 March 2002	<u>–</u>	<u>89,800</u>	<u>(661,756)</u>	<u>490,659</u>	<u>(81,297)</u>
Reserves retained by:					
Company and subsidiaries					
At 31 March 2002	<u>–</u>	<u>89,800</u>	<u>(661,756)</u>	<u>490,659</u>	<u>(81,297)</u>
Company and subsidiaries					
At 31 March 2001	<u>–</u>	<u>89,800</u>	<u>(650,896)</u>	<u>490,659</u>	<u>(70,437)</u>
	<u>–</u>	<u>89,800</u>	<u>(650,896)</u>	<u>490,659</u>	<u>(70,437)</u>
Company					
At 1 April 2000	46,186	101,689	(200,076)	–	(52,201)
Share capital reduction	–	–	36,000	–	36,000
Capital reduction against share premium	(46,186)	–	46,186	–	–
Loss for the year	–	–	(545,364)	–	(545,364)
Arising from the effect of the Schemes	–	–	–	490,659	490,659
	<u>–</u>	<u>–</u>	<u>–</u>	<u>490,659</u>	<u>490,659</u>
At 31 March 2001 and 1 April 2001	–	101,689	(663,254)	490,659	(70,906)
Loss for the year	–	–	(7,083)	–	(7,083)
	<u>–</u>	<u>–</u>	<u>(7,083)</u>	<u>–</u>	<u>(7,083)</u>
At 31 March 2002	<u>–</u>	<u>101,689</u>	<u>(670,337)</u>	<u>490,659</u>	<u>(77,989)</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

24. RESERVES (Continued)

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 at the time of the Company's listing in 1997.

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 the reorganisation at the time of the Company's listing in 1997. 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 3 August 2000 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 changes 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 inclusion of the net liabilities discharged under the Schemes directly in the general reserve during the year ended 31 March 2001, instead of in the profit and loss account and hence in the accumulated losses account for that year, is more appropriate and fairer considering the financial effect of the Schemes as a whole.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Loss from operating activities	(10,509)	(29,904)
Waiver of bank loans	–	(2,405)
Interest income	(112)	(348)
Depreciation	687	773
Loss on disposal of fixed assets	3	19
Decrease/(increase) in gross amounts due from contract customers	1,451	(907)
Decrease/(increase) in trade receivables	(2,681)	1,913
Increase in other receivables	(894)	(114)
Increase in trade payables	1,147	43,873
Increase in retention money payable	328	1,351
Decrease in other payables and accruals	(1,623)	(7,464)
Increase in provision for scheme debts	–	1,047
Increase/(decrease) in gross amounts due to contract customers	897	(17,692)
Increase/(decrease) in amount due to the immediate holding company	(928)	928
Decrease in amounts due to related companies	–	(1,356)
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(12,234)</u>	<u>(10,286)</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

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

(b) Analysis of changes in financing

	Issued capital (including share premium account) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Minority interests HK\$'000
Balance at 1 April 2000	86,186	305,106	5,309	–
Cash inflow from financing, net	13,094	–	2,800	45
Settlement by subscription money	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)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2001 and 1 April 2001	71,337	–	–	40
Cash inflow from financing, net	14,312	–	–	702
Share of loss	–	–	–	(14)
Conversion of convertible notes (Note 23(b))	576	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2002	86,225	–	–	728
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

26. CONTINGENT LIABILITIES

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

	Company	
	2002	2001
	HK\$'000	HK\$'000
Guarantees given to a bank in connection with facilities granted to a subsidiary	8,000	–

As at 31 March 2002, the bank facilities granted to a subsidiary subject to guarantees given to a bank by the Company were utilised to the extent of approximately HK\$482,000.

27. COMMITMENTS

Certain office properties leased by the Group are under operating lease arrangements. Leases for properties are negotiated for term of two years.

As at 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Leases expiring:		
Within one year	144	637
In the second to fifth years, inclusive	132	–
	276	637

As at 31 March 2002, the Company did not have any significant capital commitments.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

28. RELATED PARTY TRANSACTIONS

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

		2002	2001
		HK\$'000	HK\$'000
Construction contracting income received from a fellow subsidiary	<i>(a)</i>	3,502	–
Service income received from a fellow subsidiary	<i>(b)</i>	–	541
Rental expense paid to a fellow subsidiary	<i>(c)</i>	580	338
Tender service fees paid to a fellow subsidiary	<i>(d)</i>	936	–
		<u> </u>	<u> </u>

- (a) The directors consider that the construction contracts were made according to conditions similar to those offered to the major customers of the Group.
- (b) The service income received from a fellow subsidiary was calculated on a basis determined through negotiation between the respective parties.
- (c) The rental expenses were based on rates approximate to those of the market at that time.
- (d) The tender service fees were based on the actual costs incurred.

29. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 May 2002.