



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

1. CORPORATE INFORMATION

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

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

The Group had disposed partial interest in a subsidiary which then became an associate in prior year. The Group's trading and retailing of fitness, leisure and medical equipment and the provision of related installation and services are carried out by the associate in current year.

2. 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"



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

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

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 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The adoption of this new HKSSAP has had no effect on amounts reported in current year’s and in prior year’s financial statements.

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 33 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.

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. The adoption of HKSSAP 28 has resulted in the reclassification of the provision as a separate line item on the consolidated balance sheet.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

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

HKSSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this HKSSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The HKSSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

HKSSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The HKSSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of HKSSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the HKSSAP and Interpretation has resulted in a prior year adjustment, for the reasons detailed in note 4 to the financial statements. The required new additional disclosures are included in note 30 to the financial statements.

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.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets and investments, as further explained in the respective accounting policies below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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.

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 impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated balance sheet.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of HKSSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of HKSSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 April 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost or valuation 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Long term investments

Long term investments are investments in listed equity securities held for a strategic or long term purpose and are stated at cost less any impairment losses, assessed by the directors on an individual basis.

Where the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The gain or loss on disposal of long term investments recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the investments.

Short term investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Properties held for sale

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

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

Borrowing costs

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and other long term contract work, on the percentage of completion basis when the outcome of contracts can be reasonably foreseen, after making due allowances for contingencies. Provision is made for any foreseeable losses as soon as such losses are anticipated by management;
- (b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) from the rendering of services, in the accounting period in which the services are rendered;
- (d) from the sale of property interests, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (e) rental income, on a time proportion basis over the lease terms;
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (g) dividends, when the shareholders' right to receive payment has been established.

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.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Retirement benefits 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 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 to the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme *(continued)*

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension 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.

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.

4. PRIOR YEAR ADJUSTMENT

Due to the adoption of HKSSAP 30 and Interpretation 13, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, the Group has performed an assessment of the fair value of goodwill previously eliminated against consolidated reserves and has recognised impairment of such goodwill of HK\$67,541,000 as at 31 March 2001. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provision of HKSSAP 30.

This prior year adjustment has resulted in impairment of goodwill in the amounts of HK\$49,043,000 and HK\$18,498,000 arising on acquisition of subsidiaries and an associate, respectively, being charged to the consolidation profit and loss account for the year ended 31 March 2001; a consequential net decrease in the amount of retained earnings of HK\$21,015,000 and consequential increases in the amounts of contributed surplus and capital reserve of HK\$15,262,000 and HK\$5,753,000, respectively, previously reported in consolidated reserves as at 31 March 2001. This prior year adjustment has had no effect on the current year's results.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

5. SEGMENT INFORMATION

HKSSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the construction contracting segment is engaged in construction contract work as a main contractor as well as contracting intelligent building engineering and electrical and mechanical engineering services;
- (b) the property development and investment segment is engaged in development of residential properties and invests in prime office space for its rental income potential; and
- (c) the fitness and medical equipment segment is engaged in the trading of fitness, leisure and medical equipment and the provision of installation and contracting services and related businesses.

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Construction contracting		Property development and investment		Fitness and medical equipment		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	303,094	457,169	105,994	103,988	-	82,042	409,088	643,199
Other revenue	11,823	5,048	2,108	1,878	-	534	13,931	7,460
Total	<u>314,917</u>	<u>462,217</u>	<u>108,102</u>	<u>105,866</u>	<u>-</u>	<u>82,576</u>	<u>423,019</u>	<u>650,659</u>
Segment results	<u>(7,842)</u>	<u>3,577</u>	<u>16,373</u>	<u>8,938</u>	<u>-</u>	<u>1,762</u>	<u>8,531</u>	<u>14,277</u>
Interest income and dividend income							3,004	6,068
Unallocated expenses							(5,741)	(11,501)
Negative goodwill recognised as income							201	-
Gain on disposal of subsidiaries							-	4,929
Gain on deemed disposal of interest in a subsidiary							341	-
Loss on disposal of interest in a subsidiary							-	(647)
Gain/(loss) on disposal of an associate							40	(247)
Gain on deemed disposal of interest in an associate							1,222	-
Net unrealised holding loss on short term investments							-	(1,460)
Impairment of goodwill							-	(67,541)
Profit/(loss) from operating activities							7,598	(56,122)
Finance costs							(4,869)	(4,569)
Share of profits and losses of associates	1,288	738	(166)	-	-	(6)	1,122	732
Profit/(loss) before tax							3,851	(59,959)
Tax							(817)	5,106
Profit/(loss) before minority interests							3,034	(54,853)
Minority interests							4,770	719
Net profit/(loss) from ordinary activities attributable to shareholders							<u>7,804</u>	<u>(54,134)</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Construction contracting		Property development and investment		Fitness and medical equipment		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	175,073	208,156	314,577	202,402	-	-	489,650	410,558
Interests in associates	18,762	24,775	6	172	-	-	18,768	24,947
Unallocated assets							11,260	20,247
Bank overdrafts included in segment assets	32,555	29,766	-	-	-	-	32,555	29,766
Total assets							552,233	485,518
Segment liabilities	(153,097)	(153,163)	(39,458)	(17,405)	-	-	(192,555)	(170,568)
Unallocated liabilities							(40,643)	(7,976)
Bank overdrafts included in segment assets	(32,555)	(29,766)	-	-	-	-	(32,555)	(29,766)
Total liabilities							(265,753)	(208,310)
Other segment information:								
Depreciation	3,307	2,932	31	195	-	1,422	3,338	4,549
Unallocated amounts							20	12
							3,358	4,561
Impairment losses recognised in the profit and loss account	-	49,043	-	-	-	18,498	-	67,541
Other non-cash expenses	12,097	1	-	-	-	250	12,097	251
Capital expenditure	1,378	5,804	7,254	10,025	-	11,924	8,632	27,753
Unallocated amounts							45	36
							8,677	27,789



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	184,464	417,899	224,624	225,300	409,088	643,199
Segment results	(10,677)	2,031	19,208	12,246	8,531	14,277
Other segment information:						
Segment assets	145,933	196,429	373,745	259,323	519,678	455,752
Bank overdrafts included in segment assets	32,555	29,766	–	–	32,555	29,766
					552,233	485,518
Capital expenditure	1,091	7,127	7,586	20,662	8,677	27,789



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

6. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced and income from property development and investment.

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Turnover		
Construction contracting and related businesses	303,094	457,169
Income from property development and investment	105,994	103,988
Sales and installation of fitness, leisure and medical equipment and related businesses	–	82,042
	<u>409,088</u>	<u>643,199</u>
Other revenue and gains		
Interest income	2,829	6,068
Gross rental income	2,341	1,878
Management fees on construction projects	4,579	1,800
Management fee received from an associate	2,700	–
Dividend income from long term investments	175	–
Others	6,115	8,711
	<u>18,739</u>	<u>18,457</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group	
	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration	1,133	1,474
Depreciation	3,358	4,561
Minimum lease payments under operating leases		
on land and buildings	1,135	2,271
Loss/(gain) on disposal of fixed assets	200	(42)
Loss on disposal of interest in a subsidiary	–	647
Gain on disposal of subsidiaries	–	(4,929)
Gain on deemed disposal of interest in a subsidiary	(341)	–
Loss/(gain) on disposal of associates	(40)	247
Gain on deemed disposal of interest in an associate	(1,222)	–
Gain on disposal of short term investments	(1,311)	–
Gain on disposal of property interests	(668)	(6,948)
Negative goodwill recognised as income	(201)	–
Gross rental income	(2,341)	(1,878)
Less: Outgoings	99	94
Net rental income	<u>(2,242)</u>	<u>(1,784)</u>
Provision for foreseeable loss of a construction contract	6,850	–
Provision for doubtful debts	1,490	251
Provision for other receivables	3,757	–
Net unrealised holding loss on short term investments	–	1,460
Surplus on revaluation of land and buildings	–	(952)
Exchange gains, net	(201)	(685)
Staff costs:		
Wages and salaries (including directors' emoluments – see note 9)	20,381	43,179
Pension contributions	1,511	2,072
Less: Forfeited contributions #	(484)	(242)
Net pension contributions	<u>1,027</u>	<u>1,830</u>
	<u>21,408</u>	<u>45,009</u>

At 31 March 2002, there were no forfeited contributions available to the Group to reduce contributions to the pension scheme in future years (2001: Nil).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

8. FINANCE COSTS

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	5,653	6,229
Interest on convertible notes	166	–
Interest on finance leases	–	28
	<hr/>	<hr/>
Total finance costs	5,819	6,257
Interest capitalised	(950)	(1,688)
	<hr/>	<hr/>
	4,869	4,569
	<hr/> <hr/>	<hr/> <hr/>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	336	196
Basic salaries and allowances	5,070	5,149
	<hr/>	<hr/>
	5,406	5,345
	<hr/> <hr/>	<hr/> <hr/>

Directors' fees of HK\$240,000 (2001: HK\$196,000) were paid to the independent non-executive directors of the Company during the year.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

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

	Group	
	2002 Number of directors	2001 Number of directors
Nil – HK\$1,000,000	9	9
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>10</u>	<u>10</u>

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

During the year, 78,000,000 options were granted to directors in respect of their services rendered to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 19 to 21. No value in respect of the share options granted during the year has been charged to the profit and loss account.

(b) Employees' emoluments

The five highest paid employees during the year included three (2001: three) directors, the details of whose remuneration are set out in note 9(a) above. The details of the emoluments of the remaining two (2001: two) non-director, highest paid individuals are set out below.

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries and allowances	1,484	1,655
Contributions to pension scheme	83	72
	<u>1,567</u>	<u>1,727</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments *(continued)*

The emoluments of the above highest paid individuals fell within the band of Nil to HK\$1,000,000 in both years ended 31 March 2002 and 2001.

During the year, 3,000,000 share options were granted to one of the two non-director, highest paid employees in respect of his services rendered to the Group, further details of which are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on pages 19 to 21. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002	2001
	HK\$'000	HK\$'000
Provision for tax:		
Hong Kong	(354)	(225)
Elsewhere	(962)	(723)
	<u>(1,316)</u>	<u>(948)</u>
Over/(under) provision in prior years:		
Hong Kong	(31)	1,110
Elsewhere	736	5,074
	<u>705</u>	<u>6,184</u>
Share of tax attributable to associates	<u>(206)</u>	<u>(130)</u>
Tax credit/(charge) for the year	<u>(817)</u>	<u>5,106</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

11. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company was HK\$287,000 (2001: HK\$4,699,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$7,804,000 (2001: net loss of HK\$54,134,000 as restated) and the weighted average of 4,789,896,000 (2001: 4,832,683,000) shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the net profit attributable to the shareholders for the year of HK\$7,804,000 used in the basic earnings per share calculation. The weighted average number of shares used in the calculation is 4,817,747,000 shares, which includes the weighted average of 27,851,000 shares assumed to have been issued at no consideration on the deemed exercise of the options expiring on 22 January 2004, 21 February 2004 and 28 February 2004. The deemed exercise of full conversion right of the convertible notes in KEL Holdings Limited ("KEL"), a listed subsidiary of the Company, together with the options expiring on 22 April 2003 and 2 May 2003, had an anti-dilutive effect on the basic earnings per share and so has not been included in the diluted earnings per share calculation.

For the year ended 31 March 2001, the calculation of diluted loss per share was based on the net loss attributable to the shareholders for the year of HK\$54,194,000, which comprised the HK\$54,134,000 used in the basic earnings per share calculation and the decrease of HK\$60,000 in the sharing of profit of KEL, upon the deemed exercise of the full conversion right of the convertible notes in KEL. The weighted average number of shares used in the calculation was 4,832,683,000 shares. The share options and warrants that were outstanding in the prior year had an anti-dilutive effect on the basic loss per share and so have not been included in the diluted loss per share calculation.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

13. FIXED ASSETS

Group	Leasehold		Leasehold	Furniture	Office	Tools and	Motor	Total
	land and	land and						
	buildings	buildings	improve-	and	equipment	equipment	vehicles	
	situated in	situated	ments	fixtures				
	Hong Kong	outside						
	HK\$'000	Hong Kong	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost or valuation:								
At beginning of year	52,150	7,000	3,176	3,951	4,743	2,612	5,934	79,566
Additions	-	-	-	-	323	14	336	673
Disposals	-	-	(285)	(85)	(683)	-	(643)	(1,696)
At 31 March 2002	52,150	7,000	2,891	3,866	4,383	2,626	5,627	78,543
Accumulated depreciation:								
At beginning of year	-	-	1,637	1,984	2,704	1,631	3,901	11,857
Provided during the year	1,304	-	741	287	475	163	388	3,358
Disposals	-	-	(174)	(24)	(195)	-	(302)	(695)
At 31 March 2002	1,304	-	2,204	2,247	2,984	1,794	3,987	14,520
Net book value:								
At 31 March 2002	50,846	7,000	687	1,619	1,399	832	1,640	64,023
At 31 March 2001	52,150	7,000	1,539	1,967	2,039	981	2,033	67,709
Analysis of cost and valuation:								
At cost	-	-	2,891	3,866	4,383	2,626	5,627	19,393
At 2001 valuation	52,150	7,000	-	-	-	-	-	59,150
	52,150	7,000	2,891	3,866	4,383	2,626	5,627	78,543



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

13. FIXED ASSETS (continued)

The Group's land and buildings were revalued at 31 March 2001 by B.I. Appraisals Limited, independent professional qualified valuers, at an aggregate open market value of HK\$59,150,000, based on their existing use. Revaluation surpluses of HK\$6,080,000 and HK\$952,000 resulting from the above revaluation had been credited to the fixed asset revaluation reserve and the profit and loss account for 2001, respectively. No revaluation has been performed on the Group's land and buildings at 31 March 2002 as the directors considered that the fair value of these land and buildings had insignificant movement during the year.

Had these land and buildings not been revalued, their net book value at 31 March 2002 would have been HK\$49,899,000 (2001: HK\$51,120,000), being their cost of HK\$57,506,000 (2001: HK\$57,506,000) less accumulated depreciation of HK\$7,607,000 (2001: HK\$6,386,000), and the current year's depreciation charge would have been reduced by HK\$83,000 (2001: HK\$30,000).

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

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

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

Certain fixed assets situated in Hong Kong with an aggregate carrying value of HK\$47,921,000 (2001: HK\$21,150,000) were leased to third parties under operating leases, further summary details of which are included in note 33 to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

14. DEFERRED DEVELOPMENT COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	2,953	–
Additions during the year	753	2,953
At end of year	<u>3,706</u>	<u>2,953</u>

The deferred development costs represent expenditure incurred on a technology development project by Deson-IES Engineering Limited (“Deson-IES”), a wholly-owned subsidiary of the Company. Deson-IES and the City University of Hong Kong have jointly entered into a co-operation agreement with the Industry Department of the Government of the HKSAR on this project. The project is mainly focused on developing a LAN-based Intelligent Management System, which includes a web-based platform to integrate virtually unlimited sub-systems related to the building management system, office automation system and communication and network system. The project is expected to be completed by the end of July 2002.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	156,031	156,031
Due from subsidiaries	152,961	152,552
	<u>308,992</u>	<u>308,583</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK\$52,547,000 (2001: Nil) due from a subsidiary which is interest-bearing with interest charged at prevailing interest rates.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

15. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Asia Construction Holdings Limited	Hong Kong	HK\$2,000,000	Ordinary	–	55.0	Investment holding
Beijing Chang De Architectural & Decoration Co., Ltd. (iii)	PRC	RMB16,000,000	(iv)	–	60.0	Decoration engineering
Billion Hope Holdings Limited	Hong Kong	HK\$10,000	Ordinary	–	70.0	Construction contracting
Bless Honour Limited	Hong Kong/ PRC	HK\$2	Ordinary	–	100.0	Property investment
Deson Development Holdings Limited	British Virgin Islands/ Hong Kong	US\$200	Ordinary	100.0	–	Investment holding
Deson Development Limited	Hong Kong	HK\$100 HK\$20,000,000	Class A Class B (i)	–	100.0	Construction contracting and investment holding
Deson-IES Engineering Limited	Hong Kong	HK\$100,000	Ordinary	–	100.0	Research and development of a local area network-based intelligent management system
Deson Ventures Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100.0	Investment holding



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Foregrand Holdings Inc.	British Virgin Islands/ PRC	US\$1	Ordinary	-	100.0	Property investment
Hua Sheng International Real Estate Development (Shanghai) Co., Ltd (iii)	PRC	US\$6,400,000	(iv)	-	100.0	Property development
KEL Holdings Limited	Bermuda/ Hong Kong	HK\$86,225,146	Ordinary	-	55.6	Investment holding
Kenworth Engineering Limited	Hong Kong	HK\$4,274,140 HK\$20,000,000	Ordinary Preference (vi)	-	55.6	Provision of electrical and mechanical engineering services
LSY Asia Construction Limited	Hong Kong	HK\$10	Ordinary	-	33.0(ii)	Construction contracting
Ningbo Deson Real Estate Construction Co., Ltd. (iii)	PRC	RMB21,000,000	(iv)	-	100.0	Property investment
Penmark Limited	Hong Kong/ PRC	HK\$30	Ordinary	-	100.0	Property holding
Super Sight Investments Inc. (v)	British Virgin Islands/PRC	US\$1	Ordinary	-	100.0	Property development
Super Win Development Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	-	100.0	Investment holding
Wonderful Hope Limited	British Virgin Islands/PRC	US\$1	Ordinary	-	100.0	Property development



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

15. INTERESTS IN SUBSIDIARIES *(continued)*

- (i) These non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK\$100 trillion.
- (ii) LSY Asia Construction Limited is a subsidiary of a non wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.
- (iii) The remittance of dividends to the Group from these subsidiaries operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by the subsidiaries.
- (iv) The issued/paid-up capital of these subsidiaries is not classified.
- (v) The equity interest of the subsidiary is pledged to secure the Group's other borrowing.
- (vi) The holders of the preference shares have a cumulative preferential right to the company's profits at 10% of the nominal amount of share capital, but are not entitled to receiving notice of or attending or voting at any meeting of members or meeting of directors.

During the year, the Group acquired Genview Company Limited ("GCL"), Foregrand Holdings Inc., ("FHI") and Super Sight Investments Inc. ("Super Sight") from independent third parties. Further details of these acquisitions are set out in note 31(c) to the financial statements. GCL was disposed of before the year end.

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.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

16. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Share of net assets other than goodwill	7,484	9,362
Due from associates	11,679	17,359
Due to associates	(395)	(1,774)
	<u>18,768</u>	<u>24,947</u>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from an associate of HK\$9,200,000 (2001: HK\$12,968,000) which bears interest at prevailing market rates.

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

Name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
Deson Metals Company Limited	Corporate	Hong Kong/ PRC	Ordinary	40.0	Trading of construction materials
Fitness Concept Limited	Corporate	Hong Kong	Ordinary	44.1	Investment holding
Fitness Concept Leisure Supplies Limited	Corporate	Hong Kong	Ordinary	44.1	Trading and retailing of fitness and leisure equipment
Fuzhou Jiandi Concrete Co., Ltd. (ii)	Corporate	PRC	(i)	40.0	Manufacture of concrete products



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

16. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
Medical Technologies Limited	Corporate	Hong Kong	Ordinary	44.1	Trading of medical equipment
Visonic Deson Limited	Corporate	Hong Kong	Ordinary	50.0	Selling, distributing and marketing home security and automation products
W & D Joint Venture Limited	Corporate	Hong Kong	Ordinary	45.0	Construction contracting
上海美格菲健身中心有限公司(ii)	Corporate	PRC	(i)	33.1	Fitness centre operation

- (i) The issued/paid-up capital of these associates is not classified.
- (ii) The remittance of dividends to the Group from these associates operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by these associates.

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

17. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed investments in securities outside Hong Kong, at cost	<u>6,153</u>	<u>6,153</u>
Market value of listed investments at balance sheet date	<u>4,699</u>	<u>6,303</u>

18. PROPERTIES HELD FOR SALE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Completed properties held for sale	<u>92,856</u>	<u>64,421</u>
Properties under development for sale	<u>172,682</u>	<u>121,708</u>
	<u>265,538</u>	<u>186,129</u>

The carrying amount of completed properties held for sale carried at net realisable value included in the above is HK\$18,728,000 (2001: HK\$22,811,000). Certain completed properties held for sale with an aggregate carrying value of HK\$59,115,000 (2001: HK\$63,198,000) were leased to third parties under operating leases, further summary details of which are included in note 33 to the financial statements.

Certain completed properties held for sale and properties under development for sale are pledged to banks to secure banking facilities granted to the Group.

The Group acquired a piece of land located in Shanghai (the "Lung Hua Land") in the prior year. The Group intends to develop the Lung Hua Land into residential units. As at 31 March 2002, the total costs incurred on the development amounted to HK\$73,911,000 (2001: HK\$55,506,000). Pursuant to a supplementary agreement to the original land use rights agreement entered into between Hua Sheng International Real Estate Development (Shanghai) Co., Ltd, a subsidiary of the Group and the Shanghai Land Administration Bureau, 60% of the construction work needed to be completed by 31 December 2000. The Group has obtained approval from the government to commence construction work. In the opinion of the directors, the delay will not have a material impact on the Group's interest in the properties.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

19. CONSTRUCTION CONTRACTS

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Gross amount due from contract customers	(i)	27,557	31,707
Gross amount due to contract customers		<u>(64,967)</u>	<u>(39,960)</u>
		<u>(37,410)</u>	<u>(8,253)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	(ii)	3,168,946	3,401,052
Less: Progress billings	(ii)	<u>(3,206,356)</u>	<u>(3,409,305)</u>
		<u>(37,410)</u>	<u>(8,253)</u>

Notes:

- (i) At 31 March 2002, retentions held by customers for contract works included in accounts receivable under current assets amounted to approximately HK\$3,060,000 (2001: HK\$2,800,000).
- (ii) Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date include amounts of HK\$2,390,498,000 (2001: HK\$2,741,269,000), and progress billings include amounts of HK\$2,392,159,000 (2001: HK\$2,740,582,000), which are related to construction contracts which have either been terminated or which have ceased, or had insignificant activities during the year under KEL and its subsidiaries (the "KEL Group"). Since there are numerous disputes and claims between the KEL Group and its contract employers, suppliers, subcontractors and subcontractors' employees, the directors have not been able to negotiate and agree final completion accounts for these terminated, ceased or inactive construction contracts.
- (iii) At 31 March 2002, there were no advances received from customers for contract works included in accounts payable under current liabilities (2001: Nil).

20. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trading goods	<u>516</u>	<u>642</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

21. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable is as follows:

	Group					
	2002		Net	2001		Net
	Balance	Provisions	Balance	Balance	Provisions	Balance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 90 days	42,850	–	42,850	30,858	–	30,858
91 – 180 days	6,908	(1)	6,907	1,049	–	1,049
181 – 360 days	4,929	(119)	4,810	444	–	444
Over 360 days	49,478	(48,640)	838	75,843	(56,031)	19,812
	<u>104,165</u>	<u>(48,760)</u>	<u>55,405</u>	108,194	(56,031)	52,163
Retention money receivable	31,824	(28,764)	3,060	33,375	(30,575)	2,800
Total	<u>135,989</u>	<u>(77,524)</u>	<u>58,465</u>	<u>141,569</u>	<u>(86,606)</u>	<u>54,963</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.

22. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed investments in securities in Hong Kong, at market value	<u>–</u>	<u>1,370</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	49,023	29,486	30	191
Time deposits	43,500	49,948	–	–
Cash and cash equivalents	92,523	79,434	30	191
Less: Pledged time deposits:				
Pledged for long term bank loans	(5,100)	–	–	–
Pledged for bank overdraft facilities	(27,954)	(32,590)	–	–
	<u>59,469</u>	<u>46,844</u>	<u>30</u>	<u>191</u>

24. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	19,086	21,793
91 – 180 days	1,197	12,272
181 – 360 days	1,597	3,215
Over 360 days	7,604	5,572
	<u>29,484</u>	<u>42,852</u>

25. PROVISION FOR SCHEME DEBTS

The KEL Group has made a scheme debt provision in the prior year. The directors of the KEL Group 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 consolidated balance sheet.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts, secured	32,555	29,766
Bank loans, secured	43,423	7,356
Trust receipt loans, secured	33,716	33,721
Other loan, secured	36,944	–
	<u>146,638</u>	<u>70,843</u>
Bank overdrafts repayable on demand	<u>32,555</u>	<u>29,766</u>
Bank loan repayable:		
Within one year or on demand	13,923	7,356
In the second year	19,636	–
In the third to fifth years, inclusive	9,864	–
	<u>43,423</u>	<u>7,356</u>
Trust receipt loans repayable within one year	<u>33,716</u>	<u>33,721</u>
Other loan repayable:		
Within one year or on demand	9,236	–
In the second year	27,708	–
	<u>36,944</u>	<u>–</u>
	<u>146,638</u>	<u>70,843</u>
Portion due within one year classified as current liabilities	<u>(89,430)</u>	<u>(70,843)</u>
Long term portion	<u>57,208</u>	<u>–</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

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

- (a) The bank loans and the Group's banking facilities are secured by:
- (i) certain of the Group's completed properties held for sale situated in the PRC, which had an aggregate carrying value at the balance sheet date of HK\$40,386,000 (2001: Nil);
 - (ii) certain of the Group's properties under development situated in the PRC, which had an aggregate carrying value at the balance sheet date of HK\$73,911,000 (2001: Nil);
 - (iii) certain of the Group's land and buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$50,846,000 (2001: HK\$52,150,000); and
 - (iv) the pledge of certain of the Group's time deposits amounting to HK\$33,054,000 (2001: HK\$32,590,000).
- (b) The Group's other loan is secured by the shares of a subsidiary, which held properties under development for sale with an aggregate carrying value at the balance sheet date of approximately HK\$59,026,000, and bears interest at 4% per annum and is repayable by instalments commencing on 31 March 2003 and will be fully settled by 31 December 2003.

27. DEFERRED TAX

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Accelerated depreciation allowances	–	(40)
Tax losses available for future relief	79,536	78,244
	<u>79,536</u>	<u>78,204</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.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

27. DEFERRED TAX (continued)

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

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

As at 31 March 2002, the Company did not have any significant unprovided deferred tax.

28. CONVERTIBLE NOTES

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	10,251	–
Issue of convertible notes	–	10,251
Arising on exercise of convertible notes (note 31(b))	(576)	–
Repurchase during the year	(1,610)	–
At 31 March	<u>8,065</u>	<u>10,251</u>

In the prior year, the Company entered into a conditional debt restructuring and share subscription agreement ("DRA") with KEL and certain of its subsidiaries. The DRA became unconditional on 10 August 2000. Three schemes of arrangement involving KEL and its two subsidiaries, Kenworth Engineering Limited and Kenworth Group Limited were set up under Section 166 of the Hong Kong Companies Ordinance (collectively the "Schemes"), according to the terms of the restructuring proposal.

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

29. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Shares

	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.01 each	<u>150,000</u>	<u>150,000</u>
<i>Issued and fully paid:</i>		
4,791,612,750 (2001: 4,797,248,500) ordinary shares of HK\$0.01 each	<u>47,916</u>	<u>47,972</u>

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

	Number of ordinary shares	Amount HK\$'000
At beginning of year	4,797,248,500	47,972
Arising on exercise of share options (i)	18,500,000	185
Arising on exercise of warrants (ii)	4,250	–
Arising on repurchase of shares (iii)	<u>(24,140,000)</u>	<u>(241)</u>
At 31 March 2002	<u>4,791,612,750</u>	<u>47,916</u>

- (i) During the year, 18,500,000 share options were exercised at the subscription price of HK\$0.0384 per share resulting in the issue of 18,500,000 shares, for a total cash consideration, before expenses, of HK\$710,400.
- (ii) During the year, 4,250 shares were issued for cash at a subscription price of HK\$0.08 per share, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of HK\$340.
- (iii) During the year, the Company repurchased a total of 24,140,000 of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at prices ranging from HK\$0.023 to HK\$0.028 per share, for a total consideration, before expenses, of HK\$600,850. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$241,400 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium account (note 30).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

29. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS *(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 pages 19 to 21.

At the beginning of the year, there were outstanding share options of 43,000,000, of which 27,000,000 and 16,000,000 were granted to the directors and employees of the Group, respectively. 40,000,000 options are exercisable during the period from 23 April 2001 to 22 April 2003 at a subscription price of HK\$0.0384 each and 3,000,000 options are exercisable during the period from 3 May 2001 to 2 May 2003 at a subscription price of HK\$0.04032 each.

During the year, the Company granted a total of 78,000,000 share options and 197,000,000 share options to the directors and employees of the Group at HK\$1 per grant, respectively. The options are exercisable during periods ranging from 23 January 2002 to 28 February 2004. The subscription price per share payable upon the exercise of these options range from HK\$0.02864 to HK\$0.03088, subject to adjustment.

A total of 18,500,000 share options were exercised during the year at an exercise price of HK\$0.0384.

At the balance sheet date, the Company had 299,500,000 share options outstanding under the share option scheme, with exercise periods ranging from 23 April 2001 to 28 February 2004 and exercise prices ranging from HK\$0.02864 to HK\$0.04032. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 299,500,000 additional shares of HK\$0.01 each and proceeds of approximately HK\$9,075,000.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

29. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS *(continued)*

Warrants

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

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

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

During the year, warrants with aggregate gross issue proceeds of HK\$340 were exercised by the warrant holders to subscribe for 4,250 ordinary shares of the Company at a subscription price of HK\$0.080 per share.

All remaining unexercised warrants expired on 31 December 2001.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

30. RESERVES

Group	Share	Contributed	Fixed asset	Capital	Capital	Exchange	Retained	Total
	premium	surplus	revaluation	reserve	redemption	fluctuation	profits	
	account		reserve	reserve	reserve	reserve	reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	70,955	4,239	5,589	-	-	(324)	139,452	219,911
Arising on issue of new shares	29,176	-	-	-	-	-	-	29,176
Arising on exercise of share options	720	-	-	-	-	-	-	720
Arising on exercise of warrants	4,480	-	-	-	-	-	-	4,480
Arising on repurchase of shares	(1,428)	-	-	-	545	-	(545)	(1,428)
Share repurchase expense	(40)	-	-	-	-	-	-	(40)
Surplus on revaluation of land and buildings	-	-	6,080	-	-	-	-	6,080
Release upon disposal of land and buildings	-	-	(1,874)	-	-	-	1,874	-
Release upon disposal of subsidiaries	-	-	(3)	-	-	(170)	1,039	866
Release upon disposal of interest in a subsidiary	-	-	-	-	-	-	1,247	1,247
Goodwill arising on acquisition of subsidiaries	-	(4,239)	-	(231)	-	-	(56,501)	(60,971)
Capital reserve arising on acquisition of additional interests in subsidiaries	-	-	-	231	-	-	-	231
Prior year adjustment – note 4	-	15,262	-	5,753	-	-	46,526	67,541
Exchange realignments:								
Subsidiaries	-	-	-	-	-	680	-	680
Associates	-	-	-	-	-	(186)	-	(186)
Net loss for the year (as restated – note 4)	-	-	-	-	-	-	(54,134)	(54,134)
At 31 March 2001	<u>103,863</u>	<u>15,262</u>	<u>9,792</u>	<u>5,753</u>	<u>545</u>	<u>-</u>	<u>78,958</u>	<u>214,173</u>
Reserves retained by:								
Company and subsidiaries	103,863	15,262	9,792	5,753	545	1,291	66,798	203,304
Associates	-	-	-	-	-	(1,291)	12,160	10,869
	<u>103,863</u>	<u>15,262</u>	<u>9,792</u>	<u>5,753</u>	<u>545</u>	<u>-</u>	<u>78,958</u>	<u>214,173</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

30. RESERVES (continued)

Group	Share	Contributed	Fixed asset	Capital	Exchange	Retained	Total	
	premium	surplus	revaluation	redemption	fluctuation	profits		
	account		reserve	reserve	reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 March 2001 and 1 April 2001								
As previously reported	103,863	-	9,792	-	545	99,973	214,173	
Prior year adjustment – note 4	-	15,262	-	5,753	-	(21,015)	-	
As restated	103,863	15,262	9,792	5,753	545	78,958	214,173	
Transfer from retained profits	-	-	13,000	-	-	(13,000)	-	
Arising on exercise of share options	526	-	-	-	-	-	526	
Arising on repurchase of shares	(360)	-	-	-	241	(241)	(360)	
Share repurchase expenses	(14)	-	-	-	-	-	(14)	
Release upon disposal of an associate	-	-	-	-	-	320	320	
Release of goodwill upon disposal of an associate	-	-	-	-	-	1,035	1,035	
Exchange realignments of subsidiaries	-	-	-	-	-	(147)	(147)	
Net profit for the year	-	-	-	-	-	7,804	7,804	
At 31 March 2002	<u>104,015</u>	<u>15,262</u>	<u>22,792</u>	<u>5,753</u>	<u>786</u>	<u>173</u>	<u>74,556</u>	<u>223,337</u>
Reserves retained by:								
Company and subsidiaries	104,015	15,262	22,792	5,753	786	1,144	61,480	211,232
Associates	-	-	-	-	-	(971)	13,076	12,105
	<u>104,015</u>	<u>15,262</u>	<u>22,792</u>	<u>5,753</u>	<u>786</u>	<u>173</u>	<u>74,556</u>	<u>223,337</u>

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of HKSSAP 30 which permits goodwill and negative goodwill in respect of acquisitions of subsidiaries and associates which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries are HK\$13,380,000 and HK\$8,082,000, respectively, as at 1 April 2001 and 31 March 2002. The amount of goodwill is stated at its cost of HK\$80,921,000, less impairment of HK\$67,541,000.

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

30. RESERVES (continued)

Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	70,955	–	155,531	(3,723)	222,763
Arising on issue of new shares	29,176	–	–	–	29,176
Arising on exercise of share options	720	–	–	–	720
Arising on exercise of warrants	4,480	–	–	–	4,480
Arising on repurchase of shares	(1,428)	545	–	(545)	(1,428)
Share repurchase expenses	(40)	–	–	–	(40)
Net profit for the year	–	–	–	4,699	4,699
At 31 March 2001 and 1 April 2001	103,863	545	155,531	431	260,370
Arising on exercise of share options	526	–	–	–	526
Arising on repurchase of shares	(360)	241	–	(241)	(360)
Share repurchase expenses	(14)	–	–	–	(14)
Net profit for the year	–	–	–	287	287
At 31 March 2002	104,015	786	155,531	477	260,809

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



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2002	2001
	HK\$'000	HK\$'000 (Restated)
Profit/(loss) from operating activities	7,598	(56,122)
Interest income	(2,829)	(6,068)
Depreciation	3,358	4,561
Loss/(gain) on disposal of fixed assets	200	(42)
Impairment of goodwill arising on acquisitions of subsidiaries and an associate	–	67,541
Loss on disposal of interest in a subsidiary	–	647
Gain on disposal of subsidiaries	–	(4,929)
Gain on deemed disposal of interest in a subsidiary	(341)	–
Loss/(gain) on disposal of associates	(40)	247
Gain on deemed disposal of interest in an associate	(1,222)	–
Gain on disposal of short term investments	(1,311)	–
Gain on disposal of property interests	(668)	(6,948)
Negative goodwill recognised as income	(201)	–
Provision for foreseeable loss of a construction contract	6,850	–
Provision for doubtful debts	1,490	251
Provision for other receivables	3,757	–
Net unrealised holding loss on short term investments	–	1,460
Surplus on revaluation of land and buildings	–	(952)
Decrease in completed properties held for sale	86,062	38,253
Increase in properties under development for sale	(119,099)	(52,480)
Decrease/(increase) in gross amount due from contract customers	5,100	(10,471)
Decrease/(increase) in inventories	126	(1,002)
Decrease/(increase) in accounts receivable	(4,992)	49,638
Decrease in other receivables	4,819	8,610
Increase in gross amount due to contract customers	18,157	14,905
Decrease in accounts payable	(13,368)	(37,249)
Increase/(decrease) in other payables and accruals	(27,170)	8,825
Increase/(decrease) in trust receipt loans	(5)	16,226
Net cash inflow/(outflow) from operating activities	<u>(33,729)</u>	<u>34,901</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium) HK\$'000	Bank loans and other loans HK\$'000	Convertible notes HK\$'000	Finance lease payables HK\$'000	Minority interests HK\$'000
Balance at 1 April 2000	115,473	29,657	–	244	25,227
Net cash inflow/(outflow)					
from financing	36,362	(19,023)	–	(244)	(5,668)
Share of results for the year	–	–	–	–	(719)
Arising on acquisition of additional interests in subsidiaries	–	–	–	–	(1,765)
Arising on acquisition of subsidiaries	–	–	10,251	–	–
Arising on disposal of subsidiaries	–	(3,278)	–	–	(1,609)
Dividend paid to minority interests	–	–	–	–	(327)
Exchange realignments	–	–	–	–	(76)
Balance at 31 March 2001 and 1 April 2001	151,835	7,356	10,251	–	15,063
Net cash inflow/(outflow)					
from financing	96	73,011	(1,610)	–	5,555
Share of results for the year	–	–	–	–	(4,770)
Release on acquisition of additional interest in a subsidiary	–	–	–	–	(201)
Arising on deemed disposal of interest in a subsidiary	–	–	–	–	(341)
Arising on exercise of convertible notes	–	–	(576)	–	576
Dividend paid to minority interests	–	–	–	–	(800)
Exchange realignments	–	–	–	–	145
Balance at 31 March 2002	<u>151,931</u>	<u>80,367</u>	<u>8,065</u>	<u>–</u>	<u>15,227</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
Net assets acquired:		
Fixed assets	–	774
Properties held for sale	53,856	50,559
Gross amount due from contract customers	–	1,178
Accounts receivable	–	669
Other receivables	204	3,869
Pledged time deposits	–	16,634
Cash and bank balances	–	15
Gross amount due to contract customers	–	(5,618)
Other payables and accruals	(234)	(6,132)
Provision for scheme debts	–	(1,047)
Convertible notes	–	(10,251)
	53,826	50,650
Goodwill	–	60,971
	53,826	111,621
Satisfied by:		
Cash	38,889	111,621
Other receivables	14,937	–
	53,826	111,621

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
Cash consideration	(38,889)	(111,621)
Cash and bank balances acquired	–	15
Pledged time deposits acquired	–	16,634
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(38,889)	(94,972)



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries *(continued)*

On 11 July 2001, the Group acquired a 100% interest in FHI and GCL from an independent third party in consideration of the outstanding other receivable of HK\$14,937,000. FHI and GCL are engaged in property investment.

On 8 February 2002, the Group acquired a 100% interest in Super Sight from an independent third party for a cash consideration of HK\$38,889,000. Super Sight is principally engaged in property development.

The subsidiaries acquired during the year made no significant contribution to the Group in respect of cash flows, turnover and consolidated profit after tax and before minority interests for the year.

The subsidiaries acquired in the prior year utilised HK\$4,674,000 of the Group's net operating cash flows, received HK\$131,000 in respect of the net returns on investments and servicing of finance, did not pay any tax, contributed HK\$2,608,000 for investing activities, and contributed no amount in respect of financing activities.

The subsidiaries acquired in the prior year contributed HK\$7,772,000 to turnover and profit of HK\$2,956,000 to the consolidated loss after tax and before minority interests for the year ended 31 March 2001.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	–	12,045
Interests in associates	–	(63)
Properties held for sale	7,484	54,891
Prepaid tax	–	95
Inventories	–	6,708
Accounts receivable	–	20,671
Other receivables	30	3,392
Pledged time deposits	–	11,000
Cash and bank balances	–	3,355
Accounts payable	–	(9,290)
Deposits received and accrued expenses	–	(16,470)
Bank overdrafts, secured	–	(7,457)
Bank loans, secured	–	(1,232)
Trust receipt loans, secured	–	(10,467)
Other borrowings, unsecured	–	(2,046)
Release of fixed asset revaluation reserve	–	(3)
Release of exchange fluctuation reserve	–	(170)
Release of goodwill	–	1,039
Minority interests	–	(1,609)
	<u>7,514</u>	<u>64,389</u>
Gain on disposal of property interests	668	6,948
Gain on disposal of subsidiaries	–	4,929
Reclassified as interests in associates	–	(13,926)
	<u>8,182</u>	<u>62,340</u>
Satisfied by:		
Cash	2,483	61,840
Other receivables	5,699	500
	<u>8,182</u>	<u>62,340</u>



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Disposal of subsidiaries *(continued)*

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
Cash consideration	2,483	61,840
Cash and bank balances disposed of	–	(3,355)
Pledged time deposits	–	(11,000)
Bank overdrafts disposed of	–	7,457
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>2,483</u>	<u>54,942</u>

The subsidiary disposed of during the year made no significant contribution to the Group in respect of cash flows, turnover and consolidated profit after tax and before minority interests for the year.

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

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

(e) Major non-cash transactions

During the year, the Group acquired two property holding companies from a debtor as settlement for other receivables of HK\$14,937,000.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

32. CONTINGENT LIABILITIES

Guarantees

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees of banking facilities granted to:				
Subsidiaries	–	–	215,700	190,200
Associates	31,300	43,887	17,300	26,700
A third party	1,045	–	–	–
	<u>32,345</u>	<u>43,887</u>	<u>233,000</u>	<u>216,900</u>
Guarantee of repayment of other loan granted to a subsidiary	–	–	36,945	–
	<u>32,345</u>	<u>43,887</u>	<u>269,945</u>	<u>216,900</u>

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of HK\$100,478,000 (2001: HK\$82,102,000) had been utilised by the subsidiaries as at 31 March 2002.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its fixed assets (note 13 to the financial statements) and certain of its completed properties held for sale (note 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

33. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one year	2,755	2,138
In the second to fifth years, inclusive	1,848	1,101
	<u>4,603</u>	<u>3,239</u>

(b) As lessee

Certain office properties leased by the Group are under operating lease arrangements, with leases negotiated for terms ranging from one to nine years.

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

	2002	2001
	HK\$'000	HK\$'000
		(Restated)
Within one year	806	1,254
In the second to fifth years, inclusive	2,310	1,588
After five years	321	748
	<u>3,437</u>	<u>3,590</u>

HKSSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. HKSSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

The Company had no operating lease arrangements as at 31 March 2002 (2001: Nil).



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

34. COMMITMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Capital commitments contracted for	<u>2,326</u>	<u>8,644</u>

The Company had no material commitments as at 31 March 2002 (2001: Nil).

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 10 July 2002, the directors announced that the Company proposed an issue of bonus warrants (the "Bonus Warrants") to the shareholders on the basis of one Bonus Warrant for every five shares of HK\$0.01 each held. Each Bonus Warrant entitles the warrant holder to subscribe for one new share of the Company at an initial subscription price of HK\$0.033 each at any time between the date of issue of the warrants (expected to be around 15 August 2002) and 14 August 2004, both days inclusive. Based on 4,791,612,750 shares in issue as at the date of this report, and assuming no further shares are issued or repurchased before the date for determination of entitlements to the Bonus Warrants, warrants carrying aggregate subscription rights of HK\$31,624,644.15 will be issued by the Company. The Bonus Warrants are subject to the shareholders approval in the coming Annual General Meeting on 14 August 2002.



NOTES TO THE FINANCIAL STATEMENTS

31 March 2002

36. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Subcontracting income received from a minority shareholder of a subsidiary	(1)	4,493	106,887
Management fee income received from an associate	(2)	2,700	–
Interest income from an associate	(3)	763	–
Rental income from an associate	(4)	273	–
		<u> </u>	<u> </u>

Notes:

- (1) The subcontracting income received from the minority shareholder of a subsidiary was determined in accordance with the architect's certificate after the deduction of a margin to cover expenses incurred by the minority shareholder. The balance owing from the minority shareholder at 31 March 2001, in respect of this subcontracting income, amounted to HK\$10,294,000 and had been included in accounts receivable as at 31 March 2001. This balance was fully settled in the current year.
- (2) The management fee was charged by reference to costs incurred for services provided by the Group.
- (3) The interest income relate to advances to the associate, details of which are set out in note 16 to the financial statements.
- (4) The rental income was calculated by reference to open market rentals.

37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised HKSSAPs 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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 July 2002.