

1. CORPORATE INFORMATION

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

- (a) the provision of electrical and mechanical engineering services, and
- (b) property holding and investment.

Upon completion of the transactions as detailed in note 34 to the financial statements, the Group ceased to be engaged in the provision of electrical and mechanical engineering services. The principal activities of the Group and its associates have changed to:

- (a) distribution, supply and installation of piped natural gas; and
- (b) property holding and investment.

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 (the “Stock Exchange”), is the Company’s ultimate holding company.

2. CORPORATE UPDATE

In prior years, the Company and certain of its subsidiaries entered into a debt restructuring and share subscription agreement (the “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 established 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 single cash payment to the scheme creditor in the amount of HK\$312.50 and the Company agreed to issue to the 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 convertible notes would bear interest at a rate of 2% per annum and would be 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. For the Schemes of the Company and Kenworth Group, all admitted creditors have been paid their entitlements in full in accordance with terms of the Schemes and the creditors were notified that the Schemes of the Company and Kenworth Group had been terminated on 13 November 2002. The convertible notes expired on 1 September 2003 at which date they were redeemed by the Company. The settlement arrangement for the portion of payment that would have been paid by way of convertible notes to the remaining creditors as at 1 September 2003 under the Kenworth Scheme would be determined when their claims are admitted. 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 had initiated legal proceedings (including any winding-up petition) against the Group in connection with such debts were to pursue the termination of such proceedings.

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2. CORPORATE UPDATE (CONTINUED)

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, they 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. Such determinations by the adjudicators are final, conclusive and binding on the Group and the proving creditors.

During the year, the Group paid an additional deposit of HK\$2,614,000 to the Scheme Administrator, who had also since made distributions to certain admitted creditors of the Kenworth Scheme. As at 31 March 2004, the deposit of HK\$2,614,000 was kept by the Scheme Administrator and the balance has been included in other receivables in the financial statements.

The Scheme Administrator is still in the process of assessing the remaining claims and this process has not been completed as at the date of approval of these financial statements.

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

3. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“HKSSAP”)

HKSSAP 12 (Revised): “Income taxes” is effective for the first time for the current year’s financial statements. HKSSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The HKSSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

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 2004. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies (Continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in the jointly-controlled entity 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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 foreseeable losses as soon as they are anticipated by management;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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 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.

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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. 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%

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.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all direct costs attributable to such properties. Net realisable value is determined by reference to the estimated sales proceeds in the ordinary course of business less any estimated costs to be incurred on disposal.

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 qualifying assets, which necessarily 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss accounts of the overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such annual leave earned during the year by the employees and carried forward.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

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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

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 the 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 greater scope for undertaking project co-ordination and design management to meet clients' basic concepts and requirements;
- (c) the environmental engineering services segment comprises the provision of waste water handling, water treatment and sewage treatment services; and
- (d) the property holding and investment segment comprises the Group's rental income from the leasing of properties held for sale.

During the year, the Group entered into an agreement to dispose of certain subsidiaries of the Group. Accordingly, the business segments (a), (b) and (c) above will be discontinued after year end upon completion of the transactions. Details of the discontinuing operations have been disclosed in note 7 to the financial statements.

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

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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	Discontinuing operations									
	Property holding and investment		Building services (single-trade)		Packaged / design and build contracts		Environmental engineering services		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:										
Sales to external customers	-	-	10,107	18,713	26,433	9,060	1,703	3,363	38,243	31,136
Other revenue	1,351	-	2	-	6	-	1	-	1,360	-
	<u>1,351</u>	<u>-</u>	<u>10,109</u>	<u>18,713</u>	<u>26,439</u>	<u>9,060</u>	<u>1,704</u>	<u>3,363</u>	<u>39,603</u>	<u>31,136</u>
Segment results	<u>904</u>	<u>-</u>	<u>(2,014)</u>	<u>(4,682)</u>	<u>(7,190)</u>	<u>(3,731)</u>	<u>(553)</u>	<u>(1,104)</u>	<u>(8,853)</u>	<u>(9,517)</u>
Interest income and unallocated gains									64	161
Write-back of provision for doubtful debts	-	-	461	3,086	1,772	-	-	-	2,233	3,086
Unallocated expenses									<u>(1,925)</u>	<u>(2,323)</u>
Loss from operating activities									<u>(8,481)</u>	<u>(8,593)</u>
Finance costs									<u>(518)</u>	<u>(212)</u>
Share of loss of a jointly-controlled entity	-	-	-	-	-	-	(25)	-	<u>(25)</u>	<u>-</u>
Loss before tax									<u>(9,024)</u>	<u>(8,805)</u>
Tax									<u>(135)</u>	<u>-</u>
Loss before minority interests									<u>(9,159)</u>	<u>(8,805)</u>
Minority interests									<u>27</u>	<u>45</u>
Net loss from ordinary activities attributable to shareholders									<u><u>(9,132)</u></u>	<u><u>(8,760)</u></u>

NOTES TO FINANCIAL STATEMENTS

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5. SEGMENT INFORMATION (Continued)

(a) Business segments (continued)

Group	Discontinuing operations									
	Property holding and investment		Building services (single-trade)		Packaged / design and build contracts		Environmental engineering services		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	46,752	-	4,528	6,046	4,492	1,407	1,492	1,307	57,264	8,760
Interests in a jointly- controlled entity	-	-	-	-	-	-	556	-	556	-
Unallocated assets									10,401	8,514
Bank overdrafts included in segment assets	-	-	1,013	-	2,648	-	171	-	3,832	-
Total assets									72,053	17,274
Segment liabilities	8,940	-	3,097	5,872	6,446	1,873	659	275	19,142	8,020
Unallocated liabilities									15,737	12,400
Bank overdrafts included in segment assets	-	-	1,013	-	2,648	-	171	-	3,832	-
Total liabilities									38,711	20,420
Other segment information:										
Depreciation	-	-	66	67	-	-	-	-	66	67
Unallocated amounts									59	96
									125	163
Capital expenditure	-	-	11	8	-	-	-	-	11	8
Unallocated amounts									26	134
									37	142

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5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue, and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>38,243</u>	31,136	–	–	<u>38,243</u>	31,136
Other segment information:						
Segment assets	<u>21,469</u>	17,274	<u>46,752</u>	–	<u>68,221</u>	17,274
Bank overdrafts included in segment assets	<u>3,832</u>	–	–	–	<u>3,832</u>	–
					<u>72,053</u>	<u>17,274</u>
Capital expenditure	<u>37</u>	142	–	–	<u>37</u>	142

6. TURNOVER, OTHER REVENUE AND GAINS

The Group's turnover represents an appropriate proportion of the contract revenue of construction contracts. An analysis of the Group's turnover, other revenue and gains is as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Construction contracts	<u>38,243</u>	<u>31,136</u>
Other revenue and gains		
Interest income	62	109
Gain on disposal of fixed assets	2	–
Rental income from properties held for sale	1,351	–
Other	<u>9</u>	<u>52</u>
	<u>1,424</u>	<u>161</u>

NOTES TO FINANCIAL STATEMENTS

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7. DISCONTINUING OPERATIONS

On 18 February 2004, the Group entered into an agreement to dispose of its entire 100% equity interest in Kenworth Group and its related shareholder's loan to Deson for a consideration of HK\$7,000,000. Upon completion of the disposal of Kenworth Group, the Group will discontinue its business in the provision of electrical and mechanical engineering services, which includes building services, packaged/design and build contracts and environmental engineering services. The transaction was completed on 30 April 2004.

The turnover, other revenue, expenses and results of the discontinuing operations for the two years ended 31 March 2004 are as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	38,243	31,136
Cost of sales	(35,246)	(27,757)
Gross profit	2,997	3,379
Other revenue and gains	73	156
Administrative expenses	(12,799)	(12,884)
Write-back of provision for doubtful debts	2,233	3,086
LOSS FROM OPERATING ACTIVITIES	(7,496)	(6,263)
Finance costs	(182)	(19)
Share of loss of a jointly-controlled entity	(25)	–
LOSS BEFORE MINORITY INTERESTS	(7,703)	(6,282)
Minority interests	27	45
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	(7,676)	(6,237)

The net cash flows from the discontinuing operations are as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating	(4,202)	(6,662)
Investing	(1,016)	349
Financing	79	(694)
	(5,139)	(7,007)

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7. DISCONTINUING OPERATIONS (Continued)

The carrying amounts of the total assets and liabilities, including balances with group companies, relating to the discontinuing operations are as follows:

	2004	2003
	HK\$'000	HK\$'000
Total assets	31,723	17,091
Total liabilities	(527,374)	(504,855)
Minority interests	(274)	(683)
Net liabilities of subsidiaries disposed of	(495,925)	(488,447)
Balances with group companies	497,257	495,376

8. LOSS FROM OPERATING ACTIVITIES

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

	2004	2003
	HK\$'000	HK\$'000
Staff costs (including directors' remuneration (<i>note 10</i>)):		
Wages and salaries	7,518	9,519
Pension scheme contributions	180	228
Less: Forfeited contributions	–	(223)
Net pension scheme contributions*	180	5
	7,698	9,524
Auditors' remuneration	440	400
Depreciation	125	163
Minimum lease payments under operating leases for land and buildings	418	783
Gain on disposal of fixed assets	(2)	(4)

* As at 31 March 2004, there were no forfeited contributions available to offset future employer contributions to the pension scheme (2003: Nil).

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9. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on convertible notes	81	194
Interest on bank loans and overdrafts:		
wholly repayable within five years	182	18
wholly repayable after five years	255	–
	<u>518</u>	<u>212</u>

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

- (a) Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Executive directors:		
Fees	–	–
Salaries, allowances and benefits in kind	1,603	1,603
Pension scheme contributions	12	12
	<u>1,615</u>	<u>1,615</u>
Independent non-executive directors:		
Fees	60	60
	<u>1,675</u>	<u>1,675</u>

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

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	<u>8</u>	<u>8</u>

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

10. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(b) Employees' remuneration

The five highest paid employees during the year include three (2003: three) directors, details of whose remuneration are set out in (a) above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees are as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,095	1,035
Pension scheme contributions	24	37
	<u>1,119</u>	<u>1,072</u>

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

11. TAX

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

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	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current year provision – elsewhere	<u>135</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2004

11. TAX (Continued)

A reconciliation of the tax credit applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rate) to the effective rates, are as follows:

Group	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(9,024)</u>		<u>(8,805)</u>	
Tax at the domestic rates applicable to profits/losses in the countries concerned	(1,481)	16.4	(1,409)	16.0
Income not subject to tax	(83)	0.9	(209)	2.4
Expenses not deductible for tax	122	(1.3)	–	–
Unrecognised tax losses	<u>1,577</u>	<u>(17.5)</u>	<u>1,618</u>	<u>(18.4)</u>
Tax charge at the Group's effective rate	<u>135</u>	<u>(1.5)</u>	<u>–</u>	<u>–</u>

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$2,517,000 (2003: HK\$30,403,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$9,132,000 (2003: HK\$8,760,000) and the weighted average number of 1,440,382,000 (2003: 862,268,000) shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2004 and 2003 have not been disclosed, as the convertible notes expired during the year and the amount outstanding in the prior year had anti-dilutive effects on the basic loss per share for both years.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

14. 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	582	1,934	1,652	43	4,211
Additions	3	24	10	–	37
Disposals	–	(125)	(6)	–	(131)
At 31 March 2004	585	1,833	1,656	43	4,117
Accumulated depreciation:					
At beginning of year	573	1,766	1,462	43	3,844
Provided during the year	9	50	66	–	125
Disposals	–	(125)	(6)	–	(131)
At 31 March 2004	582	1,691	1,522	43	3,838
Net book value:					
At 31 March 2004	3	142	134	–	279
At 31 March 2003	9	168	190	–	367

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	475	–
Due from a jointly-controlled entity	81	–
	556	–

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed term of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Continued)

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Kenworth-Watfield Joint Venture Limited	Corporate	Hong Kong	50	50	50	Provision of electrical and mechanical engineering services

The jointly-controlled entity is held through a subsidiary.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	118,655	112,891
Due from subsidiaries	548,698	506,583
Due to subsidiaries	(19,067)	(11,167)
	<u>648,286</u>	<u>608,307</u>
Less: Provision for impairment	(619,474)	(619,474)
	<u><u>28,812</u></u>	<u><u>(11,167)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

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

Name	Place of incorporation/ operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Kenworth Group Limited	British Virgin Islands/ Hong Kong	US\$3	100	100	Investment holding
Kenworth Engineering Limited	Hong Kong	Ordinary shares HK\$5,374,140 Preference shares HK\$20,000,000	100 *	100 *	Provision of electrical and mechanical engineering services
Kingsly Corporation Limited	Hong Kong	HK\$2,340,000	70 *	70 *	Trading of construction material
Bless Honour Limited #	Hong Kong/ Mainland China	HK\$2	100 *	–	Property holding and investment

* *Held indirectly through subsidiaries*

Acquired during the year

During the year, the Group acquired certain subsidiaries from Deson, the ultimate holding company of the Company. Further details of this acquisition are included in notes 30 and 33 to the financial statements.

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.

17. DUE FROM/(TO) GROUP COMPANIES

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

NOTES TO FINANCIAL STATEMENTS

31 March 2004

18. CONSTRUCTION CONTRACTS

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Gross amount due from contract customers	(i)	750	1,003
Gross amount due to contract customers	(ii)	(4,947)	(6,480)
		(4,197)	(5,477)
Contract costs incurred plus recognised profits less recognised losses to date	(iii)	993,935	964,690
Less: Progress billings received and receivable	(iii)	(998,132)	(970,167)
		(4,197)	(5,477)

Notes:

- (i) At 31 March 2004, retentions held by customers for contract works included in trade receivables under current assets amounted to HK\$947,000 (2003: HK\$807,000).
- (ii) At 31 March 2004, there were no advance received from customers for contract works included in trade payables under current liabilities (2003: Nil).
- (iii) 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 the final completion accounts for these terminated, ceased or inactive construction contracts.

19. PROPERTIES HELD FOR SALE

	2004 HK\$'000	2003 <i>HK\$'000</i>
Properties held for sale	46,569	–

The properties held for sale are leased to third parties under operating leases, further details of which are included in note 32(a) to the financial statements.

The Group's properties held for sale are pledged to secure bank loans granted to the Group (note 24).

19. PROPERTIES HELD FOR SALE (Continued)

Details of the properties held for sale of the Company are as follows:

Location	Tenure	Use
The 24th, 27th-28th floors and 19 car park spaces at Zhongda Square, 989 Dongfang Road, Lujiazhui, Pudong District, Shanghai, People's Republic of China	The property has a term of 45 years, commencing on 8 September 1998 and expiring on 21 December 2043	Office/commercial

20. TRADE RECEIVABLES

An aged analysis of trade receivables as at the balance sheet date is as follows:

Group	2004			2003		
	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	4,132	–	4,132	4,631	–	4,631
91 to 180 days	439	–	439	904	(74)	830
181 to 360 days	177	–	177	237	(6)	231
Over 360 days	38,702	(38,452)	250	39,968	(39,933)	35
	43,450	(38,452)	4,998	45,740	(40,013)	5,727
Retention money receivable	26,620	(25,673)	947	26,768	(25,961)	807
Total	70,070	(64,125)	5,945	72,508	(65,974)	6,534

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

21. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash and bank balances	1,051	2,242	28	32
Time deposits	5,283	5,122	—	—
	6,334	7,364	28	32
Less: Time deposits pledged for bank credit facilities	(5,283)	(5,122)	—	—
Cash and cash equivalents	1,051	2,242	28	32

22. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current to 90 days	3,736	1,149

23. PROVISION FOR SCHEME DEBTS

The Group had made a scheme debt provision in prior years. The Company's directors have estimated and provided for the expected claims of the scheme debts on a case-by-case basis.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank overdrafts, secured	3,832	–
Bank loans, secured	8,117	–
Trust receipt loans, secured	261	–
	<u>12,210</u>	<u>–</u>
Bank overdrafts repayable on demand	<u>3,832</u>	–
Bank loans repayable:		
Within one year or on demand	685	–
In the second year	721	–
In the third to fifth years, inclusive	2,405	–
Beyond five years	4,306	–
	<u>8,117</u>	<u>–</u>
Trust receipt loans repayable within one year	<u>261</u>	–
	<u>12,210</u>	–
Portion classified as current liabilities	<u>(4,778)</u>	–
Long term portion	<u>7,432</u>	<u>–</u>

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

- (i) the Group's properties held for sale situated in Mainland China, which had an aggregate carrying value at the balance sheet date of HK\$46,569,000 (2003: Nil); and
- (ii) the pledge of the Group's time deposits amounting to HK\$5,283,000 (2003: HK\$5,122,000).

NOTES TO FINANCIAL STATEMENTS

31 March 2004

25. CONVERTIBLE NOTES

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	9,675	9,675
Exercise of convertible notes	(29)	–
Redemption of convertible notes	(9,646)	–
	<hr/>	<hr/>
At 31 March	–	9,675
	<hr/> <hr/>	<hr/> <hr/>

Under the Schemes, as further 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 creditors on 30 August 2000. The notes bore interest at a rate of 2% per annum and would be 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 was subject to certain adjustments as defined in the note instrument.

Upon maturity of the convertible notes on 1 September 2003, the Company repaid the principal amount outstanding to the convertible note holders.

26. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK\$89,346,000 (2003: HK\$87,721,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

27. SHARE CAPITAL

	2004	2003
	HK\$'000	HK\$'000
Shares		
Authorised:		
2,571,428,571 (2003: 1,800,000,000) shares at HK\$0.07 (2003: HK\$0.10) each	180,000	180,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
1,519,715,736 (2003: 862,277,659) ordinary shares of HK\$0.07 (2003: HK\$0.10) each	106,380	86,228
	<hr/> <hr/>	<hr/> <hr/>

27. SHARE CAPITAL (Continued)

Details of the movements in the authorised share capital were as follows:

	<i>Notes</i>	Number of shares	Amount HK\$'000
At 1 April 2002 and 1 April 2003		1,800,000,000	180,000
Capital reduction	<i>(ii)</i>	–	(54,000)
Increase in authorised capital	<i>(iii)</i>	771,428,571	54,000
At 31 March 2004		<u>2,571,428,571</u>	<u>180,000</u>

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

	<i>Notes</i>	Number of shares	Amount HK\$'000
At 1 April 2002		862,251,459	86,225
Exercise of warrants		26,200	3
At 31 March 2003 and 1 April 2003		862,277,659	86,228
Capital reduction	<i>(i)</i>	–	(25,868)
Issue of new shares	<i>30</i>	657,142,857	46,000
Exercise of convertible notes	<i>(iv)</i>	295,220	20
At 31 March 2004		<u>1,519,715,736</u>	<u>106,380</u>

- (i) Pursuant to certain special resolutions passed at a special general meeting of the Company held on 12 May 2003 and board resolutions passed on the same date, a capital reorganisation was implemented on 13 May 2003. The nominal value of each issued ordinary share of the Company was reduced from HK\$0.10 to HK\$0.07 by the cancellation of HK\$0.03 of the paid-up capital (the “Capital Reduction”), and the credit arising from the Capital Reduction of approximately HK\$25,868,000 was applied to set off against the accumulated losses of the Company.
- (ii) Upon the Capital Reduction becoming effective on 12 May 2003, the authorised share capital of the Company was reduced to HK\$126,000,000, comprising 1,800,000,000 shares of HK\$0.07 each.
- (iii) On the same date, the authorised share capital of the Company was increased to HK\$180,000,000 by the creation of 771,428,571 new shares of HK\$0.07 each.
- (iv) The conversion rights attaching to HK\$29,522 convertible notes were exercised at the conversion price of HK\$0.10 per share, resulting in the issuance of 295,220 new ordinary shares of HK\$0.07 each. Share premium of HK\$8,857 has been included in the share premium account.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

27. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option scheme are included in note 28 to the financial statements.

At 31 March 2004, no share option was outstanding under the share option scheme and none of the Company's directors or the Group's employees were granted share options during the year.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Option Scheme include full-time employees (including executive directors) of the Group. The Option Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares for the time being issued and are issuable under the Option Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than three years from the date of the offer of the share options or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion and will be the higher of a price being not less than 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the offer date, and the nominal value of the shares of the Company.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17.

At 31 March 2004, no share option was outstanding under the Option Scheme and none of the Company's directors or the Group's employees were granted share options during the year.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

29. 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 2002	–	89,800	(661,756)	490,659	(81,297)
Net loss for the year	–	–	(8,760)	–	(8,760)
At 31 March 2003 and 1 April 2003	–	89,800	(670,516)	490,659	(90,057)
Exercise of convertible notes	9	–	–	–	9
Capital reduction	–	–	25,868	–	25,868
Transfer to accumulated losses	–	–	490,659	(490,659)	–
Net loss for the year	–	–	(9,132)	–	(9,132)
At 31 March 2004	9	89,800	(163,121)	–	(73,312)
Reserves retained by:					
Company and subsidiaries	9	89,800	(163,096)	–	(73,287)
A jointly-controlled entity	–	–	(25)	–	(25)
At 31 March 2004	9	89,800	(163,121)	–	(73,312)
Company and subsidiaries at 31 March 2003	–	89,800	(670,516)	490,659	(90,057)
Company					
At 1 April 2002	–	101,689	(670,337)	490,659	(77,989)
Net loss for the year	–	–	(30,403)	–	(30,403)
At 31 March 2003 and 1 April 2003	–	101,689	(700,740)	490,659	(108,392)
Exercise of convertible notes	9	–	–	–	9
Capital reduction	–	–	25,868	–	25,868
Transfer to accumulated losses	–	–	490,659	(490,659)	–
Net loss for the year	–	–	(2,517)	–	(2,517)
At 31 March 2004	9	101,689	(186,730)	–	(85,032)

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

29. RESERVES (Continued)

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. During the year, the directors decided to transfer the general reserve to the accumulated losses of the Company as this would provide a fairer presentation of the reserves of the Company and of the Group as at the balance sheet date.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Due from a fellow subsidiary	372	–
Properties held for sale	46,569	–
Other receivables	112	–
Cash and bank balances	105	–
Other payables and accruals	(587)	–
Tax payable	(12)	–
	<u>46,559</u>	<u>–</u>
Satisfied by:		
Issue of shares	46,000	–
Cash	559	–
	<u>46,559</u>	<u>–</u>

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

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	(559)	–
Cash and bank balances acquired	105	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(454)	–
	<hr/> <hr/>	<hr/> <hr/>

On 14 May 2003, the Group acquired a 100% interest in certain subsidiaries from Deson, the ultimate holding company of the Company. Further details of the transaction are included in note 33 to the financial statements. The purchase consideration of HK\$46,000,000 for the acquisition was satisfied by way of issuing 657,142,857 shares of the Company.

31. CONTINGENT LIABILITIES

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

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	16,500	8,000
	<hr/> <hr/>	<hr/> <hr/>

As at 31 March 2004, the bank facilities granted to subsidiaries subject to the guarantees given to banks by the Company have been utilised to the amount of HK\$12,939,000 (2003: Nil).

31. CONTINGENT LIABILITIES (Continued)

- (b) In October 2000, Kenworth received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of the Scheme and the process commenced in August 2002 upon the appointment of the arbitrator. As at the date of these financial statements, a security deposit of HK\$5 million has been paid by the Group to the arbitrator and the amount has been included as other receivables in the financial statements. Both Kenworth and the main contractor are in the process of submitting information to the arbitrator for assessment. The Scheme Administrator is required to await the arbitrator's decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes, as further detailed in note 2 to the financial statements.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. The Scheme Administrator is in the process of examining the grounds for the claim and the outcome of the assessment cannot be determined at this stage.

Pursuant to an agreement dated 18 October 2000 entered into between Kenworth and the Company, the Company agreed to discharge the liabilities of Kenworth under the Schemes by the allotment of certain redeemable cumulative preference shares by Kenworth.

The Group appointed an independent chartered surveyor to estimate its potential exposure under the above two claims in 2003. According to the report of the surveyor, the maximum exposure of the above claims amounted to HK\$70 million. The directors consider that the Group has valid defences against the claim and based on existing evidence believe that it is not probable that any material loss will be suffered by the Group. In addition, as the arbitration proceedings are at a preliminary stage, it is not currently possible to estimate the eventual outcome of the claims but the directors currently consider that no provision needs to be made in the financial statements.

32. COMMITMENTS

(a) As lessor

The Group leases its properties held for sale (note 19) 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.

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,205	–
In the second to fifth years, inclusive	970	–
	<u>2,175</u>	<u>–</u>

(b) As lessee

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

As at 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	140	132
In the second to fifth years, inclusive	129	–
	<u>269</u>	<u>132</u>

As at 31 March 2004, the Company had no significant operating lease or capital commitments except as disclosed in note 34 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

33. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with Deson and its subsidiaries during the year which also constitute connected transactions as defined in the Listing Rules:

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction contracting income received from fellow subsidiaries	<i>(i)</i>	6,422	7,808
Rental expense paid to a fellow subsidiary	<i>(ii)</i>	–	580
Acquisition of subsidiaries from the ultimate holding company	<i>(iii)</i>	<u>46,000</u>	<u>–</u>

Notes:

- (i) The directors consider that the construction contracts were entered into according to conditions similar to those offered to the major customers of the Group.
- (ii) The rental expense was based on rates approximating those of the market at the time the initial lease was entered into. The rental expense was waived by the fellow subsidiary in the current year.
- (iii) During the year, the Group acquired certain subsidiaries from the ultimate holding company of the Company for HK\$46,000,000. The consideration was determined with reference to the open market value of the properties held by these subsidiaries. Further details of the transaction are included in note 30 and in the “Connected transactions” section of the Report of the Directors on pages 17 and 18.

34. POST BALANCE SHEET EVENTS

1. On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua Resources Investment Limited (“Xin Hua”) and its related shareholders’ loans (the “Xin Hua Acquisition”) for HK\$29,500,000. The consideration for the Xin Hua Acquisition was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.

The Xin Hua Acquisition constituted a major transaction for the Company under the Listing Rules. Mr. Mo Shikang, a director of Xin Hua, was appointed as an executive director of the Company upon completion of the Xin Hua Acquisition, hence, the Xin Hua Acquisition also constituted a connected transaction for the Group under the Listing Rules. The Xin Hua Acquisition was approved by the shareholders of Company at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

2. On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited (“Penmark”) and its related shareholders’ loan (the “Penmark Acquisition”) at a consideration of HK\$7,500,000. The consideration was satisfied by issuing 75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

The Penmark Acquisition constituted a disclosable transaction for the Company under the Listing Rules. As Deson is a controlling shareholder of the Company having a shareholding interest of approximately 74.8% in the Company, the Penmark Acquisition also constituted a connected transaction for the Company under the Listing Rules. The transaction was approved by the independent shareholders of the Company at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

3. On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group and its shareholder’s loan (the “Kenworth Disposal”) for HK\$7,000,000 to Deson. The consideration was paid by Deson in cash and gave rise to a gain on disposal currently estimated at approximately HK\$6 million.

The Kenworth Disposal has been aggregated with the Subscription (defined below) and as a result, the Subscription and the Kenworth Disposal constituted major transactions for the Company under the Listing Rules. As Deson is a controlling shareholder of the Company having a shareholding interest of 74.8% in the Company, the Subscription and the Kenworth Disposal also constituted connected transactions for the Company under the Listing Rules. The Subscription and the Kenworth Disposal were approved by the independent shareholders of the Company at a special general meeting on 16 April 2004 and were completed on 30 April 2004.

34. POST BALANCE SHEET EVENTS (Continued)

4. On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each. The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the placing agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

The issuance of the placing shares and the option shares was approved by shareholders of the Company on 16 April 2004. On 30 April 2004, 400,000,000 shares of the Company were issued at HK\$0.10 each to the placees resulting in cash inflows of HK\$40,000,000 before expenses.

5. On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited (“Super Win”), the immediate holding company of the Company. The Company will issue 325,000,000 new shares (the “Subscription Shares”) to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000 (the “Subscription”). Pursuant to the subscription agreement, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

The Subscription has been aggregated with the Kenworth Disposal and as a result, the Subscription and the Kenworth Disposal constituted major transactions for the Group under the Listing Rules. The Subscription and the Kenworth Disposal were approved by the independent shareholders of the Company at a special general meeting on 16 April 2004. The transactions were completed on 30 April 2004.

NOTES TO FINANCIAL STATEMENTS

31 March 2004

34. POST BALANCE SHEET EVENTS (Continued)

A summary of the pro forma statements of unaudited combined assets and liabilities of the Group based on the audited consolidated balance sheet of the Group as at 31 March 2004 is presented below:

	The Group's audited consolidated net assets 31 March 2004 HK\$'000	Adjustments HK\$'000					Summary of proforma combined net assets HK\$'000
		(i)	(ii)	(iii)	(iv)	(v)	
NON-CURRENT ASSETS	835	(835)	7,506	29,500			37,006
CURRENT ASSETS	71,218	(12,683)			72,500		131,035
CURRENT LIABILITIES	(31,279)	18,912	(6)			(1,900)	(14,273)
NET CURRENT ASSETS	39,939						116,762
TOTAL ASSETS LESS CURRENT LIABILITIES	40,774						153,768
NON-CURRENT LIABILITIES	(7,432)						(7,432)
MINORITY INTERESTS	(274)	274					–
NET ASSETS	33,068						146,336

NOTES TO FINANCIAL STATEMENTS

31 March 2004

34. POST BALANCE SHEET EVENTS (Continued)

Notes:

- (i) The amounts represent the disposal of certain subsidiaries of the Group to Deson for HK\$7,000,000.
- (ii) The amounts represent the acquisition of a subsidiary from Deson for HK\$7,500,000.
- (iii) The amount represents the acquisition of 49% equity interest in an associate for HK\$29,500,000.
- (iv) The amount represents the placing and Subscription of 400,000,000 shares and 325,000,000 shares of the Company at HK\$0.10 each.
- (v) The amount represents the estimated expenses for all the above post balance sheet events.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 June 2004.