

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

1. GENERAL

The Company is a limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Lucky Year Finance Limited, an international business company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal operating subsidiaries, associates and jointly-controlled entities are set out in notes 14, 15 and 16, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to the effective dates of acquisition or disposal as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on acquisition of an interest in an associate or a jointly-controlled entity, representing the excess or shortfall, respectively, of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets of the associate or the jointly-controlled entity at the date of acquisition, is dealt with in the same manner as goodwill.

On disposal of a subsidiary, an associate or a jointly-controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with an associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any impairment losses recognised.

Joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Jointly-controlled entities are joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest.

The Group's interests in jointly-controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly-controlled entities. The Group's share of post-acquisition results of jointly-controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

The Company's investments in jointly-controlled entities are stated at cost, as reduced by any impairment losses recognised. Results of jointly-controlled entities are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation on leasehold improvements is calculated to write off the cost of the leasehold improvements over their expected useful lives or the unexpired duration of the leases, whichever is the shorter.

Depreciation is provided to write off the cost of property, plant and equipment, other than leasehold improvements, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired terms of the leases
Buildings	2% to 5%
Plant and machinery	10% to 30%
Motor vehicles	20% to 30%
Furniture, fixtures and equipment	20% to 33.3%

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Permanent export quota entitlements

Permanent export quota entitlements purchased from outside parties are stated at cost less amortisation. The cost of purchased quota entitlements is amortised on the straight-line method over a period of three to eight years by equal monthly instalments.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities *(Continued)*

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair values, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sales.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred and revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

When it is probable that total costs of a contract will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, or when each asset has been separately negotiated, or when the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Hire purchase contracts**

Under a hire purchase contract, all the risks and rewards of ownership of the asset are substantially transferred to the Group. Assets held under hire purchase contracts are capitalised at their fair values at the dates of inception of the contracts. The corresponding instalments payable, net of interest charges, are shown as obligations of the Group on the balance sheet. The interest charges, or finance costs, which represent the difference between the gross instalments payable and the original principal amount under a hire purchase contract at the date of inception of the contract, are charged to the income statement over the period of the contract at an approximately constant rate.

Convertible guaranteed bonds

Convertible guaranteed bonds are stated at cost, adjusted for the accretion of premiums on redemption on the straight-line method over the terms of the bonds.

Cash equivalents

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 advances.

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:

- (i) income from sale of consumer goods is recognised when the goods are delivered and title has passed;
- (ii) income from sale of completed properties is recognised when a legally binding sale and purchase contract is signed. Income from the pre-sale of properties under development is recognised over the course of development by reference to the proportion of development costs incurred up to the balance sheet date to total estimated development costs to completion;
- (iii) income from construction contracts is recognised on the basis of the percentage of completion, and determined by reference to the value of the construction work performed;

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

- (iv) rental income from land and buildings held for use under operating leases is accounted for on the straight-line basis over the respective terms of the leases;
- (v) interest income is recognised on a time basis by reference to the principal outstanding and at the interest rates applicable; and
- (vi) dividend income is recognised when the shareholders' rights to receive payments are established.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, namely assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as expenses in the period in which they are incurred.

Operating leases

Rental expenses under operating leases are charged to the income statement on the straight-line basis over the duration of the respective leases.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting year from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Retirement benefit scheme contributions

The retirement benefit scheme contributions charged to the income statement represent the amount of contributions payable by the Group under defined contribution retirement benefit schemes and defined contribution mandatory provident fund schemes.

3. TURNOVER

	2001	2000
	HK\$'000	HK\$'000
Building construction, foundation and piling construction	212,477	657,648
Sales of consumer goods and provision of maintenance services	924,244	843,732
Sales of properties	-	33,552
Property rental	-	13,606
Others	8,500	9,476
	1,145,221	1,558,014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

4. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation:		
Owned assets	16,903	31,434
Assets held under hire purchase contracts	2,114	7,311
	19,017	38,745
Less: Amount capitalised in contract costs	917	3,573
	18,100	35,172
Staff costs (including directors' emoluments)	139,728	184,133
Less: Amount capitalised in contract costs	12,642	47,564
	127,086	136,569
Amortisation of permanent export quota entitlements	2,659	2,672
Auditors' remuneration	1,617	2,626
Deficit arising from revaluation of investment properties	100	2,305
Loss on disposals of property, plant and equipment	254	207
Operating lease rentals paid for land and buildings	3,744	5,751
Loss on disposals of investments in securities	2,653	–
Unrealised loss on investments in securities	3,562	–
and after crediting:		
Accretion of discount on acquisition of debt securities	4,048	2,795
Bank interest income	4,238	3,710
Bond interest income	1,933	1,134
Debt securities interest income	2,039	1,064
Other interest income	1,206	–
Net rental income	850	10,883

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

5. FINANCE COSTS

	2001	2000
	HK\$'000	<i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	22,181	50,733
Bank borrowings not wholly repayable within five years	488	2,464
Convertible guaranteed bonds	-	10,248
Other borrowings wholly repayable within five years	30	142
Hire purchase contracts	585	1,974
	<hr/>	<hr/>
Total interest expenses	23,284	65,561
Accretion of premium on redemption of convertible guaranteed bonds	-	3,782
Amortisation of bond issue expenses	-	1,565
	<hr/>	<hr/>
Total borrowing costs	23,284	70,908
	<hr/>	<hr/>
Less: Interest capitalised under property development projects	-	16,348
Other borrowing costs capitalised under property development projects	-	2,136
	<hr/>	<hr/>
Total borrowing costs capitalised	-	18,484
	<hr/>	<hr/>
Net borrowing costs	23,284	52,424
	<hr/>	<hr/>

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Information regarding directors' emoluments

	2001	2000
	HK\$'000	<i>HK\$'000</i>
The emoluments paid to directors of the Company during the year are as follows:		
Directors' fees	100	50
Salaries	3,188	3,080
Bonuses paid and payable	2,000	2,000
Retirement benefit scheme contributions	72	113
	<hr/>	<hr/>
	5,360	5,243
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(i) Information regarding directors' emoluments (Continued)

Included in the above were the following payments to independent non-executive directors:

	2001 HK\$'000	2000 HK\$'000
Directors' fees	<u>100</u>	<u>50</u>

The emoluments of directors fall within the following bands:

	Number of directors	
	2001	2000
Nil	3	5
HK\$1 to HK\$1,000,000	3	1
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	-	1
	<u>8</u>	<u>8</u>

(ii) Information regarding employees' emoluments

The five highest paid individuals of the Group during the year include three (2000: Two) directors. The emoluments of the remaining two (2000: Three) highest paid individuals, who are not directors, are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries	2,129	3,690
Bonuses paid and payable	2,750	2,308
Retirement benefit scheme contributions	171	191
	<u>5,050</u>	<u>6,189</u>

The emoluments of these two (2000: Three) individuals fall within the following bands:

	Number of employees	
	2001	2000
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,500,001 to HK\$3,000,000	-	1
HK\$3,000,001 to HK\$3,500,000	1	-
	<u>2</u>	<u>3</u>

For the year ended 31st March, 2001

7. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group operates defined contribution mandatory provident fund schemes (the “MPF Schemes”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate. The MPF Schemes became effective on 1st December, 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds. The Group’s employer contributions vest fully with the employees when contributed into the MPF Schemes 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 MPF Schemes.

As an alternative, certain subsidiaries of the Company also operated defined contribution provident fund schemes (the “Provident Funds”) under the Occupational Retirement Schemes Ordinance for those employees who are eligible to participate. The Provident Funds operated in a similar way to the MPF Schemes, except that when an employee left the Provident Funds prior to his/her interest in the Group’s employer contributions being vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

	2001 HK\$'000	2000 HK\$'000
Contributions to the Group’s MPF Schemes	623	–
Contributions to the Group’s Provident Funds	2,562	6,328
Less: Forfeited contributions	278	1,143
	2,284	5,185
Contributions charged to the income statement	2,907	5,185

At 31st March, 2001, the forfeited contributions, arising from employees leaving the schemes and which are available to reduce the contributions payable by the Group in the future, amounted to approximately HK\$87,000 (2000: HK\$180,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

8. TAXATION (CHARGE)/CREDIT

	2001	2000
	HK\$'000	HK\$'000
The (charge)/credit for the year comprises:		
Hong Kong profits tax		
Current year	(3,251)	(4,392)
Overprovisions in prior years	1,021	84,734
	(2,230)	80,342
Overseas taxation	(26)	(137)
Deferred taxation (note 26)	-	(1,244)
	(2,256)	78,961
Share of taxation of associates	(3,893)	(2,376)
Share of taxation of jointly-controlled entities	(27)	(39)
	(6,176)	76,546

Hong Kong Profits Tax is calculated at 16% (2000: 16%) on the estimated assessable profits of the year.

During the year ended 31st March, 2000, tax provisions amounting to approximately HK\$84,010,000 were written back upon confirmation that the profit arising from disposal of an investment property in earlier years by a former subsidiary was non-taxable.

Overseas taxation is provided on the profits of overseas subsidiaries in accordance with the tax laws of the countries in which the subsidiaries operate.

9. NET (LOSS)/PROFIT FOR THE YEAR

The Group's net (loss)/profit for the year includes a profit of approximately HK\$204,385,000 (2000: HK\$21,711,000) which has been dealt with in the financial statements of the Company.

For the year ended 31st March, 2001

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net loss for the year of approximately HK\$105,028,000 (2000: net profit of HK\$8,942,000) and on 551,368,153 shares (2000: weighted average number of 551,341,439 shares) in issue during the year.

No diluted loss per share for the year ended 31st March, 2001 is presented as the exercise of the Company's warrants and the outstanding options and convertible guaranteed bonds of the associates of the Group would only serve to reduce the loss per share.

The calculation of diluted earnings per share for the year ended 31st March, 2000 was based on the following data:

	<i>HK\$'000</i>
Net profit for the year ended 31st March, 2000 and earnings for the purpose of calculating basic earnings per share	8,942
Adjustment to the share of results of associates based on dilution of their loss per share	<u>(103)</u>
Earnings for the purpose of calculating diluted earnings per share	<u>8,839</u>
Weighted average number of shares in issue during the year ended 31st March, 2000 for the purpose of calculating basic earnings per share	551,341,439
Effect of dilutive potential shares in respect of warrants	<u>5,098,998</u>
Weighted average number of shares in issue during the year ended 31st March, 2000 for the purpose of calculating diluted earnings per share	<u>556,440,437</u>
Diluted earnings per share	<u>1.59 cents</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

11. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Leasehold		Leasehold	Plant and	Motor	Furniture,	Total				
	land and buildings							improvements	machinery	vehicles	fixtures and
	Hong Kong	Overseas									equipment
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000					
COST											
At 1st April, 2000	93,737	64,696	12,136	288,865	9,340	27,305	496,079				
Currency realignment	-	1,555	138	361	25	87	2,166				
Acquired on acquisition of a subsidiary	-	-	-	-	-	146	146				
Eliminated on disposals of subsidiaries	(16,003)	-	(741)	(252,510)	(3,725)	(8,966)	(281,945)				
Additions	-	279	94	6,602	591	2,774	10,340				
Disposals	-	(61)	-	(1,079)	(406)	(437)	(1,983)				
At 31st March, 2001	77,734	66,469	11,627	42,239	5,825	20,909	224,803				
DEPRECIATION											
At 1st April, 2000	8,338	12,744	9,279	109,794	5,718	17,037	162,910				
Currency realignment	-	176	88	250	15	60	589				
Acquired on acquisition of a subsidiary	-	-	-	-	-	22	22				
Eliminated on disposals of subsidiaries	(1,129)	-	(641)	(92,531)	(2,549)	(5,623)	(102,473)				
Eliminated on disposals	-	-	-	(481)	(402)	(360)	(1,243)				
Provided for the year	1,644	1,866	1,261	9,440	1,223	3,583	19,017				
At 31st March, 2001	8,853	14,786	9,987	26,472	4,005	14,719	78,822				
NET BOOK VALUES											
At 31st March, 2001	68,881	51,683	1,640	15,767	1,820	6,190	145,981				
At 31st March, 2000	85,399	51,952	2,857	179,071	3,622	10,268	333,169				

The net book values of leasehold land and buildings shown above comprise:

	Leasehold land and buildings	
	2001 HK\$'000	2000 HK\$'000
In Hong Kong held under medium term leases	68,881	85,399
Outside Hong Kong held under medium term leases	51,683	51,952
	120,564	137,351

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Included in the net book value of property, plant and equipment of the Group at 31st March, 2001 is an amount of approximately HK\$176,000 (2000: HK\$58,477,000) in respect of assets held under hire purchase contracts.

THE COMPANY

	Furniture, fixtures and equipment <i>HK\$'000</i>
COST	
At 1st April, 2000	86
Disposals	(6)
	80
At 31st March, 2001	
DEPRECIATION	
At 1st April, 2000	71
Eliminated on disposals	(2)
Provided for the year	4
	73
At 31st March, 2001	
NET BOOK VALUES	
At 31st March, 2001	7
At 31st March, 2000	15

12. INVESTMENT PROPERTIES

	THE GROUP	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
VALUATION		
Balance at the beginning of the year	1,800	1,187,060
Transfer from property, plant and equipment	-	4,105
Eliminated upon a subsidiary becoming an associate	-	(1,187,060)
Deficit arising from revaluation	(100)	(2,305)
	1,700	1,800
Balance at the end of the year		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

12. INVESTMENT PROPERTIES (Continued)

The Group's investment properties at 31st March, 2001, which comprise land and buildings situated in Hong Kong under medium term leases, were revalued on an open market value basis by Chesterton Petty Limited, a firm of international property consultants. The revaluation resulted in a deficit of approximately HK\$100,000 (2000: HK\$2,305,000) which has been charged to the income statement.

13. PROPERTIES UNDER DEVELOPMENT

	THE GROUP
	2000
	<i>HK\$'000</i>
Balance at the beginning of the year	1,132,028
Additions	240,465
Transfer to properties held for sale	(144,696)
Eliminated upon a subsidiary becoming an associate	<u>(1,227,797)</u>
Balance at the end of the year	<u>–</u>

Additions to properties under development for the year ended 31st March, 2000 included interest expenses and other borrowing costs of approximately HK\$16,972,000 incurred and capitalised.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed shares, at cost	–	19,304
Unlisted shares, at cost	<u>125,192</u>	<u>169,681</u>
	125,192	188,985
Amounts due from subsidiaries	<u>151,405</u>	<u>70,435</u>
	<u>276,597</u>	<u>259,420</u>

The listed shares at 31st March, 2000 comprised shares of Kin Wing Chinney Holdings Limited (“Kin Wing”, now known as “ehealthcareasia Limited”) which are listed on the Stock Exchange. Kin Wing was disposed of by the Company during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

14. INTERESTS IN SUBSIDIARIES (Continued)

2000
HK\$'000

Market value of the listed shares at 31st March, 2000 representing
208,202,000 shares of Kin Wing at a closing price of HK\$1.03 each 214,448

Details of the Company's principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital **	Proportion of nominal value of issued shares/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Chinney Contractors Company Limited	British Virgin Islands	US\$10,000	77.11	-	Investment holding
Dongguan Chinney Garments Limited *	The People's Republic of China ("PRC")	HK\$22,000,000	-	100.00	Garment manufacture
Dongguan Marigold Industry City Developing Co., Ltd. *	PRC	HK\$50,000,000 ***	-	100.00	Property holding and development
Gateway Group Holdings Limited	British Virgin Islands	US\$2,500,000	100.00	-	Investment holding
GatewayTrade and Development Company, Limited	Hong Kong	HK\$9,000,000	-	100.00	Garment trading
Jackson Mercantile Trading Company Limited *	Hong Kong	HK\$2,000 and HK\$5,000,000 non-voting deferred shares	-	100.00	Wholesaling of electrical home appliances
J.L. Chinney (Holdings) Company Limited *	British Virgin Islands	US\$1,250,000	100.00	-	Investment holding
J.L. Group Company Limited *	Hong Kong	HK\$8,000,000	-	100.00	Garment trading
J.L. Investment Company Limited *	Hong Kong	HK\$10,000	-	100.00	Property and investment holding
J.L. (Overseas) Company Limited *	British Virgin Islands	US\$50,000	-	100.00	Sourcing agent for garments

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

14. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary shares/ registered capital **	Proportion of nominal value of issued shares/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Maron Trading Limited	British Virgin Islands	US\$1	-	100.00	Garment trading
Multi-Way Trading Limited	Hong Kong	HK\$5,000,000	-	100.00	Garment trading
New Luck Assets Limited	British Virgin Islands	US\$10,000	86.05	-	Investment holding
PT. Prefash Wears Cemerlang *	Republic of Indonesia	US\$500,000	-	100.00	Garment manufacture and trading
Royal Treasure Limited	Hong Kong	HK\$2	100.00	-	Property holding and letting
Westco Chinney Limited *	Hong Kong	HK\$3,000,000	-	100.00	Sale and installation of air-conditioners

* *These companies were not audited by Deloitte Touche Tohmatsu.*

** *All are ordinary shares/registered capital unless otherwise stated.*

*** *This company is a co-operative joint venture enterprise. Pursuant to an agreement entered into with the joint venture partner, the Group is:*

- *obliged to contribute 100% of the registered capital of the company*
- *entitled to 85% of the profit but has to bear all of the losses of the company*
- *entitled to 100% of the residual net assets of the company upon winding up*

All the subsidiaries operate in their respective place of incorporation/establishment.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

15. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares, at cost	-	-	556,064	616,634
Unlisted shares, at cost	-	-	-	5
	-	-	556,064	616,639
Share of net assets	791,212	934,462	-	-
Amount due from an associate	-	426	-	-
	791,212	934,888	556,064	616,639

The listed shares at 31st March, 2001 comprise shares of Chinney Alliance and Hon Kwok which are both listed on the Stock Exchange.

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Market values of the listed shares at 31st March are:				
797,447,982 (2000: 675,117,982) shares of Chinney Alliance at a closing price of HK\$0.042 (2000: HK\$0.199) each	33,493	134,349	-	-
632,284,758 (2000: 614,096,758) shares of Hon Kwok at a closing price of HK\$0.28 (2000: HK\$0.60 each)	177,040	368,458	177,040	368,458
35,520,000 shares of Management Investment & Technology (Holdings) Limited at a closing price of HK\$1.04 each	-	36,941	-	36,941
82,840,000 shares of Shun Cheong Holdings Limited at a closing price of HK\$0.88 each	-	72,899	-	72,899
	210,533	612,647	177,040	478,298

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

15. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's principal associates at 31st March, 2001 are as follows:

Name of associate	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued shares held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Chinney Alliance Group Limited ("Chinney Alliance")*	Bermuda/ Hong Kong	Ordinary	-	28.94	Trading and manufacture of industrial products, property and investment holding
Hon Kwok Land Investment Company, Limited ("Hon Kwok")*	Hong Kong	Ordinary	47.39	-	Property development, property investment and investment holding
Kin Wing Chinney (BVI) Limited ("Kin Wing BVI")	British Virgin Islands/ Hong Kong	Ordinary	-	38.56	Foundation piling, ground engineering, building construction and investment holding

* These companies were not audited by Deloitte Touche Tohmatsu.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or form a substantial portion of the net assets of the Group.

Extracts from the financial statements of Chinney Alliance, Hon Kwok and Kin Wing BVI, the three major associates of the Company, are set out in note 42.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	8,340	3,994

As at 31st March, 2001, the Group had 50% equity interest in the issued share capital of SGA Holdings Limited, an investment holding company incorporated in the British Virgin Islands, with its subsidiaries engaged in garment trading activities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

17. PERMANENT EXPORT QUOTA ENTITLEMENTS

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1st April, 1999	17,642
Additions	<u>2,195</u>
At 31st March, 2000	19,837
Currency realignment	<u>114</u>
At 31st March, 2001	<u>19,951</u>
AMORTISATION	
At 1st April, 1999	8,855
Provided for the year	<u>2,672</u>
At 31st March, 2000	11,527
Currency realignment	71
Provided for the year	<u>2,659</u>
At 31st March, 2001	<u>14,257</u>
NET BOOK VALUES	
At 31st March, 2001	<u>5,694</u>
At 31st March, 2000	<u>8,310</u>

The permanent export quota entitlements held by the Group are principally for shipments to the United States of America.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

18. INVESTMENTS IN SECURITIES

	Held-to-maturity securities		Investment securities		Other investments		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
Equity securities:								
Listed-shares	-	-	-	-	2,232	-	2,232	-
Unlisted – shares	-	-	2	2	-	-	2	2
– capital contribution (note (i))	-	-	-	2,802	-	-	-	2,802
	<u>-</u>	<u>-</u>	<u>2</u>	<u>2,804</u>	<u>2,232</u>	<u>-</u>	<u>2,234</u>	<u>2,804</u>
Debt securities:								
Listed (note (ii))	-	24,216	-	-	51,151	-	51,151	24,216
Unlisted (note (iii))	-	30,810	-	-	-	-	-	30,810
	<u>-</u>	<u>55,026</u>	<u>-</u>	<u>-</u>	<u>51,151</u>	<u>-</u>	<u>51,151</u>	<u>55,026</u>
Total:								
Listed – Hong Kong	-	-	-	-	2,232	-	2,232	-
– Hong Kong and outside Hong Kong dually	-	13,965	-	-	-	-	-	13,965
– outside Hong Kong	-	10,251	-	-	51,151	-	51,151	10,251
Unlisted	-	30,810	2	2,804	-	-	2	33,614
	<u>-</u>	<u>55,026</u>	<u>2</u>	<u>2,804</u>	<u>53,383</u>	<u>-</u>	<u>53,385</u>	<u>57,830</u>
Market value of listed securities	<u>-</u>	<u>24,837</u>	<u>-</u>	<u>-</u>	<u>53,383</u>	<u>-</u>	<u>53,383</u>	<u>24,837</u>
Carrying amount analysed for reporting purposes as:								
Current	-	19,425	-	-	53,383	-	53,383	19,425
Non-current	-	35,601	2	2,804	-	-	2	38,405
	<u>-</u>	<u>55,026</u>	<u>2</u>	<u>2,804</u>	<u>53,383</u>	<u>-</u>	<u>53,385</u>	<u>57,830</u>
THE COMPANY								
Debt securities:								
Listed, outside Hong Kong (note (ii))	-	-	-	-	51,151	-	51,151	-
Market value of listed securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,151</u>	<u>-</u>	<u>51,151</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

18. INVESTMENTS IN SECURITIES (Continued)

Notes:

- (i) The capital contribution represented a 25% equity interest in the registered capital of Gansu Longhai Chinney Construction Engineering Co., Ltd., a company which is established in the PRC. The investee company was not treated as an associate because, in the opinion of the directors, the Group was not in a position to exercise significant influence in the making of commercial or financial policy decisions of the investee company.
- (ii) The amounts represent 5.30% (2000: 4.875% and 5.30%) convertible guaranteed bonds issued by a wholly-owned subsidiary of Hon Kwok, an associate of the Group. Subsequent to the balance sheet date, the bonds are repurchased by Hon Kwok and details of which are set out in note 40(a).
- (iii) The amounts represent interest-bearing credit linked notes issued by a bank.

19. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	79,083	56,230
Work in progress	29,749	39,376
Finished goods	18,539	41,883
	<u>127,371</u>	<u>137,489</u>

Raw materials of approximately HK\$599,000 (2000: HK\$6,406,000) and finished goods of approximately HK\$1,972,000 (2000: HK\$1,510,000) were carried at net realisable value. Work in progress was carried at cost in both years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

20. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Contracts in progress at the balance sheet date comprised:		
Contract costs incurred	56,884	3,067,463
Add: Recognised profits less recognised losses	6,459	432,522
	63,343	3,499,985
Less: Progress billings	61,549	3,423,784
	1,794	76,201
Represented by:		
Amounts due from customers shown under current assets	2,754	104,537
Amounts due to customers shown under current liabilities	(960)	(28,336)
	1,794	76,201

Included in contract costs incurred are depreciation of approximately HK\$917,000 (2000: HK\$3,573,000). No hiring charges for plant and machinery are included in contract costs incurred in the current year (2000: HK\$3,377,000). No interest expenses were capitalised in either year.

21. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of HK\$87,479,000 (2000: HK\$208,643,000). The ageing analysis of trade debtors is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Current to 30 days	59,405	145,677
31 to 60 days	16,066	31,081
61 to 90 days	5,000	5,355
Over 90 days	7,008	26,530
Total	87,479	208,643

The Group allows an average credit period of 30 days to its trade customers.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

22. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK\$42,531,000 (2000: HK\$132,165,000). The ageing analysis of trade creditors is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Current to 30 days	32,899	104,345
31 to 60 days	6,759	13,565
61 to 90 days	896	5,530
Over 90 days	1,977	8,725
	<hr/>	<hr/>
Total	42,531	132,165
	<hr/> <hr/>	<hr/> <hr/>

23. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	THE GROUP	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
The obligations under hire purchase contracts are payable as follows:		
Amount due within one year and shown under current liabilities	39	12,528
	<hr/>	<hr/>
Due after one year but within two years	43	6,834
Due after two years but within five years	95	7,534
	<hr/>	<hr/>
Amount due after one year	138	14,368
	<hr/>	<hr/>
Total	177	26,896
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

24. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured bank loans and overdrafts due within one year or on demand	85,035	190,841	-	28,235
Secured bank loans and overdrafts due within a period of:				
Less than one year or on demand	74,330	238,681	24,200	150,069
More than one year but not exceeding two years	1,752	2,943	-	-
More than two years but not exceeding five years	4,304	9,364	-	-
After five years	630	1,482	-	-
	81,016	252,470	24,200	150,069
Total bank borrowings	166,051	443,311	24,200	178,304
Less: Amount due within one year or on demand and shown under current liabilities	159,365	429,522	24,200	178,304
Amount due after one year	6,686	13,789	-	-

The secured bank loans and overdrafts of the Group are secured by the following assets of the Group:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Inventories	99,063	100,567
Trade debtors	23,071	34,771
Amount due from an associate	2,818	-
Property interests	18,687	33,220
	143,639	168,558

The secured bank loans and overdrafts of the Company are secured by shares in certain associates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

25. CONVERTIBLE GUARANTEED BONDS

	THE GROUP
	2000
	<i>HK\$'000</i>
Balance at the beginning of the year	831,113
Reclassification of amounts attributable to bonds acquired by a Group company in prior year	14,726
Accretion of premium on redemption, net	3,782
Eliminated upon a subsidiary becoming an associate	<u>(849,621)</u>
Balance at the end of the year	<u><u>–</u></u>

26. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at the beginning of the year	10,508	9,764
Charge for the year (note 8)	–	1,244
Eliminated upon a subsidiary becoming an associate	–	(500)
Eliminated upon disposals of subsidiaries	(10,360)	–
Balance at the end of the year	<u>148</u>	<u>10,508</u>

At the balance sheet date, the major components of the net deferred taxation liabilities provided for in the financial statements are analysed as follows:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect on timing differences attributable to:		
Excess of tax allowances over depreciation	148	10,885
Tax losses	–	(336)
Others	–	(41)
Net deferred taxation liabilities provided	<u>148</u>	<u>10,508</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

26. DEFERRED TAXATION (Continued)

Deferred taxation has not been provided on the deficit arising on revaluation of investment properties as the gain or loss arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

At the balance sheet date, the major components of the net deferred taxation assets not recognised in the financial statements are analysed as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect on timing differences attributable to:				
Excess of tax allowances over depreciation	64	13,390	-	-
Tax losses	(11,630)	(16,637)	(9,537)	(8,844)
Others	(627)	(912)	-	-
Net deferred taxation assets not recognised	<u>(12,193)</u>	<u>(4,159)</u>	<u>(9,537)</u>	<u>(8,844)</u>

No provision for deferred taxation has been made on timing differences attributable to the excess of tax allowances over depreciation as the potential deferred taxation liability is not expected to be reversed in the foreseeable future after taking into consideration for the Group's medium term financial plans and projections.

A deferred taxation asset is not recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be crystallised in the foreseeable future.

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be demanded to repay within twelve months from the balance sheet date.

For the year ended 31st March, 2001

28. SHARE CAPITAL AND WARRANTS

Shares

Ordinary shares of HK\$0.25 each:

	Number of shares		Amount	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Authorised:				
At the beginning and the end of the year	1,000,000,000	1,000,000,000	250,000	250,000
Issued and fully paid:				
At the beginning of the year	551,368,153	551,333,692	137,842	137,833
Exercise of warrant subscription rights	-	34,461	-	9
At the end of the year	551,368,153	551,368,153	137,842	137,842

Warrants

On 15th October, 1999, a bonus issue of 110,266,738 warrants on the basis of one warrant for every five shares of the Company held on 15th October, 1999 was approved by the shareholders of the Company. The warrants were exercisable at any time from 23rd October, 1999 to 23rd October, 2000, both days inclusive, at an initial subscription price of HK\$0.48 per share (subject to adjustment).

During the year ended 31st March, 2000, the Company received subscription monies amounting to HK\$16,541 converting 34,461 warrants into 34,461 new shares of HK\$0.25 each of the Company.

No warrants were exercised during the year and 110,232,277 non-exercised warrants expired on 24th October, 2000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

29. RESERVES

	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Capital/ (goodwill) reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1st April, 1999	267,561	775	(41,126)	(115,100)	877,700	989,810
Premium arising on issue of shares	8	-	-	-	-	8
Goodwill arising on acquisitions of subsidiaries	-	-	-	(416)	-	(416)
Released on disposals of subsidiaries	-	-	(66)	(842)	-	(908)
Goodwill released on deemed disposals of interests in associates	-	-	-	10,310	-	10,310
Share of reserves of associates attributable to the Group	-	(19)	22	(5,121)	19	(5,099)
Goodwill released on deemed disposal of a subsidiary	-	-	-	5,295	-	5,295
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	-	(3,520)	-	-	(3,520)
Goodwill arising on acquisitions of associates	-	-	-	(14)	-	(14)
Goodwill arising on acquisition of a jointly-controlled entity	-	-	-	(9,467)	-	(9,467)
Net profit for the year	-	-	-	-	8,942	8,942
At 31st March, 2000	<u>267,569</u>	<u>756</u>	<u>(44,690)</u>	<u>(115,355)</u>	<u>886,661</u>	<u>994,941</u>
Attributable to:						
The Company and subsidiaries	267,569	-	(2,238)	(102,871)	533,067	695,527
Associates	-	756	(42,452)	(12,484)	349,677	295,497
Jointly-controlled entities	-	-	-	-	3,917	3,917
At 31st March, 2000	<u>267,569</u>	<u>756</u>	<u>(44,690)</u>	<u>(115,355)</u>	<u>886,661</u>	<u>994,941</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

29. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Capital/ (goodwill) reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP (Continued)						
At 1st April, 2000	267,569	756	(44,690)	(115,355)	886,661	994,941
Released on disposals of associates	-	(756)	609	30,459	-	30,312
Released on disposals of subsidiaries	-	-	-	(732)	-	(732)
Capital reserve arising on acquisitions of subsidiaries	-	-	-	485	-	485
Capital reserve arising on acquisitions of associates	-	-	-	19,438	-	19,438
Goodwill arising on additional investment in a subsidiary	-	-	-	(415)	-	(415)
Share of reserves of associates attributable to the Group	-	-	(4,354)	6,167	-	1,813
Exchange differences arising on translation of financial statements denominated in foreign currencies	-	-	2,890	-	-	2,890
Impairment loss on goodwill arising from subsidiaries acquired in prior years	-	-	-	45,285	-	45,285
Net loss for the year	-	-	-	-	(105,028)	(105,028)
At 31st March, 2001	<u>267,569</u>	<u>-</u>	<u>(45,545)</u>	<u>(14,668)</u>	<u>781,633</u>	<u>988,989</u>
Attributable to:						
The Company and subsidiaries	267,569	-	652	(6,188)	656,904	918,937
Associates	-	-	(46,197)	(8,480)	116,466	61,789
Jointly-controlled entities	-	-	-	-	8,263	8,263
At 31st March, 2001	<u>267,569</u>	<u>-</u>	<u>(45,545)</u>	<u>(14,668)</u>	<u>781,633</u>	<u>988,989</u>
THE COMPANY						
At 1st April, 1999	267,561	-	-	-	265,082	532,643
Premium arising on issue of shares	8	-	-	-	-	8
Net profit for the year	-	-	-	-	21,711	21,711
At 31st March, 2000	267,569	-	-	-	286,793	554,362
Net profit for the year	-	-	-	-	204,385	204,385
At 31st March, 2001	<u>267,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>491,178</u>	<u>758,747</u>

In addition to the retained profits of the Company which are distributable to shareholders, the share premium account of the Company can be applied under the Companies Ordinance to pay up bonus shares issuable to shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

30. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK\$'000	HK\$'000
Loss before taxation	(98,034)	(37,956)
Share of results of associates and jointly-controlled entities	191,384	(6,089)
Interest income	(9,416)	(8,988)
Interest expenses	23,284	49,213
Depreciation	18,100	35,172
Amortisation of permanent export quota entitlements	2,659	2,672
Accretion of discount on acquisition of debt securities	(4,048)	(2,795)
Loss on disposals of property, plant and equipment	254	207
(Gain)/loss on disposals of subsidiaries	(94,878)	3,382
Loss on deemed disposal of a subsidiary	-	62,542
Gain on disposals of associates	(1,017)	-
Unrealised loss on investments in securities	3,562	-
Impairment loss on goodwill arising from subsidiaries acquired in prior years	45,285	-
Gain on deemed disposals of interests in associates	-	(7,402)
Loss on disposals of investments in securities	2,653	-
Deficit arising from revaluation of investment properties	100	2,305
Accretion of premium on redemption of convertible guaranteed bonds	-	2,012
Amortisation of bond issue expenses	-	1,199
Decrease/(increase) in inventories	14,172	(40,926)
Decrease in properties held for sale	-	32,743
Increase in amounts due from customers for contract work	(798)	(37,516)
Increase in retention monies receivable	(4,090)	(1,793)
Decrease/(increase) in debtors and prepayments	23,776	(15,757)
(Decrease)/increase in creditors and accrued charges	(54,804)	53,325
Increase in amounts due to customers for contract work	15,312	6,640
Exchange differences	1,119	(362)
	74,575	91,828
Net cash inflow from operating activities	74,575	91,828

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

31. PURCHASES OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	124	135
Inventories	4,054	152
Debtors and prepayments	1,902	1,301
Amounts due from associates	7,453	–
Bank balances and cash	3,298	5
Creditors and accrued charges	(8,891)	(1,554)
Amounts due to associates	(6,399)	–
Taxation payable	(133)	–
Minority interests	(220)	(450)
	1,188	(411)
(Capital reserve)/goodwill arising on acquisition attributable to the Group	(485)	416
Consideration given	703	5
Discharged by:		
Cash	703	5

Analysis of net inflow of cash and cash equivalents in connection with the purchases of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration paid	(703)	(5)
Bank balances and cash acquired	3,298	5
	2,595	–

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flows or operating results.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

32. DISPOSALS OF SUBSIDIARIES

	2001	2000
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	179,472	180
Interests in associates	6	–
Investments in securities	2,802	–
Retention monies receivable after one year	12,538	–
Amounts due from customers for contract work	103,498	–
Debtors and prepayments	115,784	891
Retention monies receivable within one year	52,481	–
Taxation recoverable	543	35
Bank balances and cash	2,419	2,654
Creditors and accrued charges	(129,947)	(2,668)
Amounts due to customers for contract work	(42,688)	–
Obligations under hire purchase contracts		
– due within one year	(10,044)	–
Amounts due to associates	(7)	–
Taxation payable	–	(24)
Deferred taxation	(10,360)	–
Bank loans – due within one year	(30,220)	–
Bank overdrafts	(35,573)	–
Obligations under hire purchase contracts		
– due after one year	(12,691)	–
Bank loans – due after one year	(5,191)	–
Capital reserve attributable to the Group	(732)	(842)
Capital reserve attributable to minority interests	–	10
Exchange reserve attributable to the Group	–	(66)
Minority interests	(81,313)	8,355
	110,777	8,525
Transaction costs incurred in disposals of subsidiaries	2,547	–
Gain/(loss) on disposals	94,878	(3,382)
	208,202	5,143
Satisfied by:		
Cash consideration	208,202	4,723
Investments in securities	–	420
	208,202	5,143

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31st March, 2001

32. DISPOSALS OF SUBSIDIARIES *(Continued)*

Analysis of net cash inflow of cash and cash equivalents in respect of the disposals of subsidiaries:

	2001	2000
	HK\$'000	HK\$'000
Cash consideration	208,202	4,723
Transaction costs incurred in disposals of subsidiaries	(2,547)	–
Bank overdrafts disposed of	35,573	–
Bank balances and cash disposed of	(2,419)	(2,654)
	<u>238,809</u>	<u>2,069</u>

The subsidiaries disposed of during the year contributed approximately HK\$16,295,000 of the Group's net operating cash flows, paid approximately HK\$2,159,000 in respect of net returns on investments and servicing of finance, received approximately HK\$2,069,000 in respect of taxation, utilised approximately HK\$3,992,000 for investing activities, utilised approximately HK\$7,289,000 in respect of financing activities and contributed profit of approximately HK\$2,599,000 to the Group's loss before taxation in the current year.

The subsidiaries disposed of during the year ended 31st March, 2000 did not contribute significantly to the Group's cash flows or operating results.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

33. DEEMED DISPOSAL OF A SUBSIDIARY

As a result of Hon Kwok's placement of 185,000,000 new shares in July, 1999, Hon Kwok became an associate of the Group. The deemed disposal of Hon Kwok as a subsidiary had the following effects on the Group's net assets.

	2000 HK\$'000
Net assets disposed of:	
Property, plant and equipment	5,814
Investment properties	1,187,060
Properties under development	1,227,797
Interests in jointly-controlled entities	208,436
Deferred expenditure	5,476
Properties held for sale	551,113
Debtors and prepayments	62,434
Taxation recoverable	329
Bank balances and cash	281,358
Creditors and accrued charges	(110,328)
Taxation payable	(281)
Bank borrowings	(1,057,376)
Convertible guaranteed bonds	(849,621)
Deferred taxation	(500)
Amounts due to minority shareholders of subsidiaries	(36,102)
Capital reserve attributable to the Group	5,295
Minority interests	(666,418)
	<u>814,486</u>
Loss on deemed disposal of a subsidiary	(62,542)
Transferred to interests in associates	(751,944)
	<u><u>-</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

33. DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

Analysis of net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary:

	2000 HK\$'000
Bank balances and cash disposed of	<u>(281,358)</u>

The subsidiaries disposed of during the year ended 31st March, 2000 contributed approximately HK\$48,858,000 of the Group's net operating cash flows, paid approximately HK\$44,922,000 in respect of net returns on investments and servicing of finance, paid approximately HK\$747,000 in respect of taxation, utilised approximately HK\$196,515,000 for investing activities, contributed approximately HK\$298,783,000 in respect of financing activities and incurred a loss of approximately HK\$23,576,000 to the Group's loss before taxation in that year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank borrowings HK\$'000	Convertible guaranteed bonds HK\$'000	Obligations under hire purchase contracts HK\$'000	Minority interests HK\$'000	Amounts due to minority shareholders of a subsidiary HK\$'000
At 1st April, 1999	405,394	1,057,333	831,113	16,507	715,706	36,102
Issue of shares	17	-	-	-	-	-
New bank borrowings raised	-	1,310,530	-	-	-	-
Repayments during the year	-	(961,195)	-	(14,256)	-	-
Accretion of premium on redemption of convertible guaranteed bonds	-	-	3,782	-	-	-
Reclassification of amounts attributable to bonds acquired by a Group company in prior year	-	-	14,726	-	-	-
Attributable to deemed disposal of a subsidiary	-	(1,057,376)	(849,621)	-	(666,418)	(36,102)
Inception of hire purchase contract	-	-	-	117	-	-
Funds raised from sale and lease back arrangements	-	-	-	24,528	-	-
Disposals of subsidiaries	-	-	-	-	8,355	-
Acquisitions of subsidiaries	-	-	-	-	450	-
Share of results attributable to minority interests	-	-	-	-	29,648	-
Share of reserves attributable to minority interests	-	-	-	-	(7,524)	-
At 31st March, 2000	405,411	349,292	-	26,896	80,217	-
Currency realignment	-	384	-	-	-	-
New bank borrowings raised	-	742,905	-	-	-	-
Repayments during the year	-	(909,882)	-	(4,200)	-	-
Advances from minority shareholders of a subsidiary	-	-	-	-	-	20,125
Capital contributions from minority shareholders of subsidiaries	-	-	-	-	318	-
Inception of hire purchase contract	-	-	-	216	-	-
Disposals of subsidiaries	-	(35,411)	-	(22,735)	(81,313)	-
Acquisitions of subsidiaries	-	-	-	-	220	-
Share of results attributable to minority interests	-	-	-	-	818	-
Share of reserves attributable to minority interests	-	-	-	-	1,528	-
At 31st March, 2001	405,411	147,288	-	177	1,788	20,125

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

35. ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash	104,185	58,271
Bank overdrafts	(18,763)	(94,019)
	<u>85,422</u>	<u>(35,748)</u>

36. CONTINGENT LIABILITIES

(a)	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Extent of general banking facilities guaranteed by the Group/Company which were utilised at the balance sheet date by:				
– subsidiaries	–	–	19,410	14,143
– an associate	–	1,188	–	–
Bills discounted with recourse	7,198	23,321	–	–
	<u>7,198</u>	<u>24,509</u>	<u>19,410</u>	<u>14,143</u>

(b) Certain subsidiaries of Kin Wing BVI were involved in legal proceedings or claims against them in the ordinary course of their respective business activities. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK\$5,023,000 as at 31st March, 2001 (2000: HK\$5,100,000). The directors of Kin Wing BVI consider that, after taking into account of the legal advice obtained, these proceedings and claims were made without valid grounds and, accordingly, no provision for any potential liabilities is considered necessary.

(c) On 20th April, 1996, a writ was filed against a wholly-owned subsidiary of Hon Kwok, Joint Peace Investment Limited (“Joint Peace”), regarding an alleged disparity between the pavement and the ground floor level of the building at 18-22 Percival Street, junction of Jaffe Road, Causeway Bay, Hong Kong. The amount claimed, excluding minor construction and related costs, was either HK\$41,000,000 or HK\$69,300,000, representing the claim for loss of rental income or loss of interest on the purchase price, over a period of 12 months. A defence to contest this claim was filed on 22nd July, 1996.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

36. CONTINGENT LIABILITIES (Continued)

On 2nd December, 1997, the plaintiff of this claim was allowed to amend the Writ of Summons and the Statement of Claim dated 20th April, 1996. Under advice by its solicitors, an Amended Defence in respect thereof was filed by Joint Peace on 30th December, 1997. On the same date, a Request for Further and Better Particulars of the amended Statement of Claim has been sent by Joint Peace's solicitors to the plaintiff's solicitors.

Following consultation with Hon Kwok's legal advisers, the directors of Hon Kwok have formed the view that the amended claim was unlikely to succeed and were therefore of the opinion that no provision regarding this claim is necessary. There has been no further progress in respect of the claim up to the date of this annual report.

37. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the following annual commitments payable under non-cancellable operating leases for land and buildings:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
In respect of operating leases expiring:		
Within one year	1,577	1,581
In the second to fifth year inclusive	166	802
	<u>1,743</u>	<u>2,383</u>

The Company had no operating lease commitments at the balance sheet date.

At 31st March, 2001, a jointly-controlled entity had annual commitments payable under non-cancellable operating leases for land and buildings expiring within one year and in the second to fifth year inclusive amounting to approximately HK\$126,000 (2000: HK\$249,000) and HK\$448,000 (2000: HK\$249,000), respectively. The Group's share of these operating lease commitments amounted to approximately HK\$63,000 (2000: HK\$125,000) and HK\$224,000 (2000: HK\$125,000), respectively.

38. CAPITAL COMMITMENTS

At 31st March, 2001, the Group had capital commitments contracted but not provided for in respect of expenditure on acquisition of property, plant and equipment amounting to approximately HK\$252,000. The Company had no capital commitments as at that date.

The Company and the Group had no capital commitments as at 31st March, 2000.

For the year ended 31st March, 2001

39. FINANCIAL COMMITMENTS

At 31st March, 2001, the Group had entered into forward exchange contract commitments amounting to approximately HK\$13,188,000. The Company had no financial commitments as at that date.

The Company and the Group had no financial commitments as at 31st March, 2000.

40. POST BALANCE SHEET EVENTS

- (a) Pursuant to the conditional subscription agreements dated 21st March, 2001 (the "Subscription Agreements") between the Company and other subscribers with Hon Kwok and Hon Kwok Land Treasury II Limited (the "Issuer"), a wholly-owned subsidiary of Hon Kwok, the Company and other subscribers agreed to subscribe for an aggregate principal sum of HK\$300 million of the 10% convertible guaranteed bonds due April, 2003 (the "C Bonds") to be issued by the Issuer and guaranteed by Hon Kwok. Of which, the Company subscribed for a principal sum of HK\$141 million of the C Bonds.

Upon fulfilment of all the conditions of the Subscription Agreements, an aggregate principal sum of HK\$300 million of the C Bonds were issued and allotted to the subscribers of the C Bonds on 18th April, 2001, including HK\$141 million to the Company. The subscription monies of HK\$141 million were satisfied by the repurchase by Hon Kwok of the Company's holding of a principal sum of US\$5,625,000 of the 5.30% convertible guaranteed bonds due July, 2001 issued by a subsidiary of Hon Kwok valued at approximately HK\$51 million and cash payment of approximately HK\$90 million.

- (b) On 26th March, 2001, New Luck Assets Limited ("New Luck"), a 86.05% owned subsidiary of the Company entered into a conditional sale and purchase agreement with ehealthcareasia Limited pursuant to which New Luck agreed to acquire a 50% interest in Kin Wing BVI for a cash consideration of HK\$88 million. The transaction was completed on 8th May, 2001. Upon completion, the Company holds an effective interest of 81.58% in the share capital of Kin Wing BVI which is accounted for as a subsidiary. John William Crawford is a non-executive director of and has a beneficial interest in ehealthcareasia Limited.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

41. RELATED PARTY TRANSACTIONS

- (a) Set out below are the significant transactions between the Group and other related parties during the year:

	2001	2000
	HK\$'000	HK\$'000
Construction work carried out for an associate	22,535	124,070
Legal and professional fees paid to a solicitors' firm in which a director has a beneficial interest	-	584
Interest received from a jointly-controlled entity	798	3,080
Management fee income received from associates	8,500	6,000

In the opinion of the directors, the construction work for the associate was carried out at prices determined on the cost plus a percentage mark-up basis, and the other transactions were carried out at market prices or at market rates.

- (b) The sale of a 21.39% equity interest in Shun Cheong Holdings Limited (the "Shun Cheong Shares") and a 20% equity interest in Management Investment & Technology (Holdings) Limited (the "MIT Shares") by the Company to Chinney Alliance, for an aggregate cash consideration of approximately HK\$111.8 million was completed during the year. The consideration was negotiated between the parties on an arm's length basis and being the respective average closing prices of the Shun Cheong Shares and the MIT Shares as quoted on the Stock Exchange for the last ten trading days prior to the date of the conditional sale and purchase agreement entered into between the Company and Chinney Alliance on 11th March, 2000.
- (c) The amounts due from/to subsidiaries and associates are unsecured, non-interest bearing and are repayable on demand in both years.

The amounts due from/to jointly-controlled entities are unsecured, bear interest at the prevailing market rates and are repayable on demand in both years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATES

The following information is extracted from the most recent published audited financial statements of the Group's major associates:

(a) Chinney Alliance Group Limited

**Consolidated income statement
For the year ended 31st December, 2000**

	2000 HK\$'000	1999 <i>HK\$'000</i>
Turnover	<u>614,189</u>	<u>812,603</u>
Operating loss	(18,795)	(238,177)
Share of results of associates	<u>2,374</u>	<u>3,106</u>
Loss before taxation	(16,421)	(235,071)
Taxation	<u>(5,411)</u>	<u>(665)</u>
Loss before minority interests	(21,832)	(235,736)
Minority interests	<u>(720)</u>	<u>(585)</u>
Net loss attributable to shareholders	<u>(22,552)</u>	<u>(236,321)</u>

**Consolidated balance sheet
At 31st December, 2000**

	2000 HK\$'000	1999 <i>HK\$'000</i>
Fixed assets	42,970	27,612
Interests in associates	53,877	–
Long term investments	43,443	22,510
Other non-current assets	1,220	1,278
Current assets	448,837	553,255
Current liabilities	(243,271)	(187,163)
Non-current liabilities	(49,020)	(69,890)
Minority interests	<u>(1,503)</u>	<u>(1,446)</u>
Net assets	<u>296,553</u>	<u>346,156</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATES (Continued)

(b) Hon Kwok Land Investment Company, Limited

Consolidated income statement For the year ended 31st March, 2001

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>322,491</u>	<u>166,050</u>
Operating loss	(323,266)	(50,660)
Share of results of jointly-controlled entities	<u>(72,176)</u>	<u>19,251</u>
Loss before taxation	(395,442)	(31,409)
Taxation (charge)/credit	<u>(1,339)</u>	<u>82,110</u>
(Loss)/profit before minority interests	(396,781)	50,701
Minority interests	<u>(320)</u>	<u>(375)</u>
Net (loss)/profit attributable to shareholders	<u>(397,101)</u>	<u>50,326</u>

Consolidated balance sheet At 31st March, 2001

	2001 HK\$'000	2000 HK\$'000
Fixed assets	7,198	8,556
Properties under development	957,674	1,108,036
Investment properties	888,150	1,150,300
Deferred expenditure	782	3,912
Interests in jointly-controlled entities	33,385	274,205
Interests in associates	14,857	16,630
Long term investments	-	20,629
Current assets	1,006,855	1,163,339
Current liabilities	(1,001,425)	(834,886)
Non-current liabilities	(612,168)	(1,238,982)
Minority interests	<u>(3,050)</u>	<u>(2,730)</u>
Net assets	<u>1,292,258</u>	<u>1,669,009</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

42. EXTRACTS FROM THE FINANCIAL STATEMENTS OF THE GROUP'S MAJOR ASSOCIATES (Continued)

(c) Kin Wing Chinney (BVI) Limited

**Consolidated income statement
For the year ended 31st March, 2001**

	2001 HK\$'000	2000 HK\$'000
Turnover	884,090	686,436
Profit before taxation	2,029	77,994
Taxation	(3,416)	(844)
Net (loss)/profit attributable to shareholders	(1,387)	77,150

**Consolidated balance sheet
At 31st March, 2001**

	2001 HK\$'000	2000 HK\$'000
Property, plant and equipment	221,923	181,653
Interests in associates	5	6
Interest in a jointly-controlled entity	5	–
Investments in securities	2,802	2,802
Retention monies receivable after one year	17,858	15,650
Loan receivable – due after one year	988	–
Current assets	298,922	283,198
Current liabilities	(323,486)	(263,711)
Non-current liabilities	(34,986)	(30,234)
Net assets	184,031	189,364

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

43. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by principal activity is as follows:

	Turnover		Contribution to profit from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Building construction, foundation and piling construction*	212,477	657,648	4,838	13,947
Garment manufacture and trading	813,706	752,613	58,214	61,395
Wholesaling of electrical appliances and provision of maintenance services	110,538	91,119	1,396	1,633
Property development and investment	–	47,158	–	(2,055)
Others	8,500	9,476	1,576	(8,019)
	1,145,221	1,558,014	66,024	66,901

An analysis of the Group's turnover and contribution to profit from operations by geographical location of the Group's customers is as follows:

	Turnover		Contribution to profit from operations	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	378,331	860,642	10,315	12,822
North America	386,574	315,424	29,664	26,399
Europe	351,686	347,539	23,589	22,650
Others	28,630	34,409	2,456	5,030
	1,145,221	1,558,014	66,024	66,901

* The results of the construction division were accounted for as subsidiaries up to the effective date of disposal of a 50% interest in June, 2000 and as associates thereafter.